Rentokil Initial

ANNUAL REPORT 2007

BUSINESS OVERVIEW

TEXTILES AND WASHROOM SERVICES

27.2% Group Revenue

GEOGRAPHICAL SPREAD

36.7% France
13.7% UK
12.5% Netherlands
11.3% Germany
11.3% Belgium
14.5% Other

ACTIVITIES

64% Textiles
36% Washroom

£603.0m
2007 REVENUE
1.3%
% CHANGE
9,682
EMPLOYEES

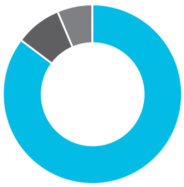
The Textile and Washroom Services division comprises the washroom, linen hire, garment rental, and floorcare activities in the UK and continental Europe. It provides services to customers in a diverse range of industries from manufacturing to retail and from banking to hospitality.

Initial

FACILITIES SERVICES

26.4% Group Revenue

GEOGRAPHICAL SPREAD



85.3% UK
8.5% Spain
6.2% Other

ACTIVITIES

64.3% Cleaning
10.2% Catering
10.7% Hospital
8.9% Speciality Hygiene
1.9% Medical
4.0% Other

£585.7m
2007 REVENUE
12.8%
% CHANGE
44,915
EMPLOYEES

The Facilities Services division comprise a number of businesses including Cleaning, Catering, Hospital Services, Specialist Hygiene Services and Medical Services.

Initial

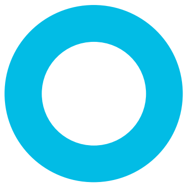
PEST CONTROL

14.0% Group Revenue

GEOGRAPHICAL SPREAD

32.2% USA
21.0% UK
7.5% Germany
7.0% Netherlands
5.2% France
27.1% Other

ACTIVITIES



100% Pest Control

£310.4m
2007 REVENUE
11.5%
% CHANGE
5,364
EMPLOYEES

Rentokil Pest Control seeks to be the finest provider of pest control services in all major international markets. It aims to satisfy the needs of both commercial and residential customers who seek protection from health and financial risks and the reassurance that comes from dealing with the industry's finest service provider. The division has leading market positions in the UK, continental Europe and North America.

Rentokil

All numbers at 2006 average exchange rates and based on management divisional analysis

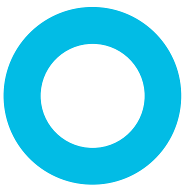
AMBIUS

5.1% Group Revenue

GEOGRAPHICAL SPREAD

- 57.5% US
- 10.3% UK
- 8.1% Netherlands
- 6.1% Sweden
- 4.8% Belgium
- 13.2% Other

ACTIVITIES



100% Tropical Plants

£112.4m
2007 REVENUE

6.2%
% CHANGE

2,161
EMPLOYEES

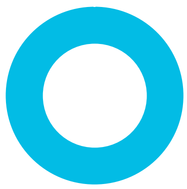
The Ambius division (formerly referred to as Tropical Plants) provides interior landscaping, design installation and maintenance services in North America, the UK and continental Europe.

ambius

CITY LINK

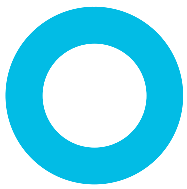
18.8% Group Revenue

GEOGRAPHICAL SPREAD



100% UK

ACTIVITIES



100% Parcels Delivery

£417.1m
2007 REVENUE

95.5%
% CHANGE

7,703
EMPLOYEES

Under the name City Link, the division is a leading overnight parcel delivery service operating in the UK. In December 2006, it acquired Target Express and the business is now believed to be the joint number one player in the market.

City Link

ASIA PACIFIC

7.1% Group Revenue

GEOGRAPHICAL SPREAD

- 44.9% Australia
- 10.8% New Zealand
- 10.2% Malaysia
- 9.3% Singapore
- 7.9% Hong Kong
- 4.8% Indonesia
- 4.1% South Korea
- 8.0% Other

ACTIVITIES

- 40.9% Pest
- 6.1% Plants
- 46.7% Washroom
- 3.5% Security
- 2.8% Other

£158.3m
2007 REVENUE

55.0%
% CHANGE

7,280
EMPLOYEES

Asia Pacific covers all the group's activities in the region, principally washroom services, pest control and tropical plants.

*Excludes share of associate in Japan

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A report from the Directors on the strategic, financial and operational performance of the business.

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Visit the Rentokil Initial online Annual Report at the above address.

FINANCIAL HIGHLIGHTS 2007

	2007 £m	Increase/ (decrease) %	2006 £m
Revenue	**2,203.4**	19.5	1,843.2
Operating profit before amortisation of intangible assets[1]	**251.1**	6.6	235.6
Operating profit	**211.9**	(1.2)	214.5
Profit before income tax and amortisation of intangible assets (PBTA)[1]	**181.2**	(2.8)	186.5
Profit before income tax	**142.0**	(14.1)	165.4
Free cash flow	**102.1**	(20.6)	128.6
Basic earnings per share – continuing operations	**6.06p**	(15.8)	7.20p
Dividends paid and proposed per share	**7.38p**	–	7.38p

[1] All references to intangible assets exclude computer software and development costs.

DEAR SHAREHOLDERS,

Despite satisfactory performances delivered by five of our six divisions, the unexpected and unacceptable fourth quarter performance from City Link, our parcels business, has marred the progress made by the rest of the group during 2007. Looking forward, the trends City Link experienced at the end of 2007 appear to be continuing and point to a difficult year ahead for the business. Our full year outcome for 2008 will be heavily dependent on how quickly we are able to return City Link to profitability over the coming months.

This situation is all the more disappointing given that at the half year the group appeared to have reached an inflection point in terms of profit. Having delivered a first half performance in line with expectation and with profit expected to move strongly ahead in the second half, the board was confident in the group's ability to deliver ongoing improvements. Indeed, operating profit from all our divisions with the exception of City Link moved ahead in the second half as a result of improved performances.

The issues experienced at City Link are specific to that business and they do not impact trading elsewhere in the group. Whilst the full details of what happened at City Link are documented in the business review, in summary we tried to do too much too quickly with the integration of the enlarged business and as a result, account management and service was compromised in the short-term. Since December we have undertaken a detailed analysis to understand what went wrong. It is now clear that a number of factors combined to cause a rapid deterioration in the fourth quarter.

As it had done in 2006, City Link's performance tracked budget until the end of the third quarter and regular business reviews and forecasts gave us no cause for concern. Clearly we have to improve greatly the visibility we have on future expected performance. We have taken action to address recent problems and have changed the leadership of City Link. We have also decided to pause the depot integration programme and are putting in place a recovery plan to ensure that we can continue to provide exemplary levels of service for our customers.

MORE THAN A NEW SHIRT

In Belgium the company's new state-of-the-art laundry processing plant in Lokeren entered operation on time and on budget in 2007. It features an environmentally friendly water treatment installation that re-uses up to 50% of pumped water; uses automatically measured amounts of biodegradable detergents in energy-saving automatic washing systems; and uses natural gas as the sole energy source for the complex. This modern facility is ideally located to maximise route efficiency and is expected to improve divisional profits by £0.7 million per annum from 2008.

City Link's problems have inevitably detracted from the progress achieved elsewhere and it would be a great disservice to the other divisions were we not to acknowledge their performance here. We are pleased to report that our Textiles and Washroom Services, Pest Control, Asia Pacific, Facilities Services and Ambius divisions all made progress against plan in 2007. Their priorities during the year were to generate growth in revenue and customer retention, improve sales and marketing effectiveness and exploit the power of our brands. Efficiency and productivity improvements were a focus during 2007 and all divisions were tasked with driving sales and service improvements, taking cost out of the business where appropriate and improving processes. In addition, within these businesses work undertaken during the year on integrating acquisitions made in 2006 began to deliver synergy benefits.

We announced our 2007 results to the stock market at the end of February. The situation at City Link and its implications for 2008 profitability caused our share price to fall 23% on the day; our earlier trading statement in December had already caused a 22% fall in the share price. It was clear to us that radical action was required if we are to create better value for shareholders.

We were therefore delighted to be able to announce on 20 March that we are appointing Dr John McAdam as Chairman, Alan Brown as Chief Executive and Andy Ransom as Executive Director, Corporate Development. Together with Andrew Macfarlane, Chief Financial Officer, and other members of the senior management, they will form a new leadership team for the group. Doug Flynn, Chief Executive, resigned with immediate effect. Brian McGowan, the Chairman, had already announced his intention to step down no later than the annual general meeting and also resigned on 19 March. Brian has been Director for 11 years and Chairman for four. We thank him for his commitment to the group.

John, Alan and Andy were respectively CEO, Finance Director and Executive Vice President, Mergers & Acquisitions, General Counsel and Company Secretary at ICI. Their track records speak for themselves. We are in no doubt that their proven skills, in particular the operational and strategic rigour which they applied so successfully to the remarkable turnaround at ICI will be brought to bear, alongside those of the existing Rentokil Initial team, on the many and complex issues facing the group.

Alan Brown will take up his position as Chief Executive on 1 April 2008 and Andy Ransom will become an executive director and join the board with effect from 1 May 2008. Subject to approval by shareholders, Dr John McAdam will join the board as Chairman immediately after the company's annual general meeting on 14 May 2008. Until the annual general meeting, Peter Long, the Senior Independent Director, will fulfil the duties of Chairman.

Earlier this year we made two new senior non executive director appointments and were pleased to welcome Richard Burrows and William Rucker to the board in 2008. Richard is the Governor of the Bank of Ireland and is a former joint CEO of Pernod Ricard. William is the Chief Executive of Lazard, London and is also Deputy Chief Executive of Lazard's European Investment Banking business and a Deputy Chairman of the worldwide firm.

During 2007 Ian Harley stood down from the board but keeps an association with the group by chairing the UK pension fund trustee company. Ian has been a board member for the past eight years and was due to retire at the company's AGM in May. The board thanks Ian for his contribution over that time.

As we look ahead into 2008, our priorities are clear. We must:

1. RETURN CITY LINK TO PROFIT AND THEN PROFIT GROWTH
2. BUILD ON THE MOMENTUM THAT WE HAVE NOW ESTABLISHED ACROSS THE REST OF OUR BUSINESSES AND DRIVE OPERATIONAL EXCELLENCE
3. CREATE VALUE FOR SHAREHOLDERS BY IMPROVING PERFORMANCE

Our company has seen significant changes in management over the past two years and great demands have been put on all our people. We have more than our share of outstanding talent and it is this talent, commitment and dedication that will ensure a strong future for Rentokil Initial, despite the current challenges. Throughout the group our employees have shown a full appreciation of the need to change and improve upon our service delivery and to restore the company's performance. We thank them all for their hard work and enthusiasm.

With the recent board appointments and the existing talent in the group, we now have a team in place which we are convinced has the right combination of skills to lead Rentokil Initial forward over the next few years.

Yours faithfully,

PETER LONG, ON BEHALF OF THE BOARD OF RENTOKIL INITIAL PLC
27 MARCH 2008

BOARD REVIEW

This report discusses the progress we have continued to make with most of the business on the demanding journey back to sustainable growth. It also examines the extremely disappointing fourth quarter performance from City Link, our parcels delivery business, which has overshadowed the otherwise solid performance of the group as a whole. Over the following pages we look at how far we have come in our journey, assess the improvements made, the areas that remain difficult and our priorities for 2008.

OUR STRATEGY

Our goal is to create a group whose businesses are capable of sustainable profitable growth and thereby deliver value for our shareholders. This requires strong brands and our ambition is to be the brand of choice in every market that we serve and to be the trusted provider of services for our commercial and residential customers. We aim to be recognised as a leading international business, with a deserved reputation for outstanding customer service. Our group strategic objectives are to restart revenue growth, reshape the portfolio and to improve efficiency and productivity.

BUILDING ON THE MOMENTUM

2005 was focused on developing a detailed plan to redirect and re-energise Rentokil Initial and restore it to growth. During the last two years our objectives have focused on restarting revenue growth, reshaping the portfolio and improving efficiency and productivity. In 2007 we have continued to implement this plan, based on a number of key themes which are unchanged from 2006:

- Fixing deep seated operational problems in businesses such as UK Washroom and UK Pest Control;
- Improving the profitability of all of our businesses by driving revenue and seeking productivity and process improvements;
- Making acquisitions and disposals to reshape our portfolio of businesses; making acquisitions to build on strong market positions and selling businesses with either weaker positions or limited prospects for growth which are clearly worth more to others;
- Developing a more customer-focused outward-looking and dynamic culture – putting our customers and service excellence at the heart of everything we do; and
- Developing and retaining a talented and committed management team.

In general in all of our divisions apart from City Link we are in line with where we set out to be at this stage. At City Link we are now faced with a significant shortfall in performance for 2008 and possibly beyond. This is discussed later in this review.

OUR CHALLENGES

The principal risks and uncertainties relating to our strategy are summarised below. While some of these risks remain just that, others are now manifesting themselves, as noted overleaf:

- Our single most important risk is that we will not deliver improvements to the group in line with shareholders' expectations. We warned the market in December 2007 that performance in City Link would fall short of our expectations and warned again that City Link may not trade better than breakeven in 2008 when we announced our preliminary results in February 2008. The first statement resulted in a 22% fall in the share price and the second, a further fall of 23%. This has been highly damaging to short-term value creation.
- Disruption in the businesses undergoing extensive organisational change. This risk is occurring at City Link but elsewhere in the group continues to be managed effectively.
- Ensuring acquisitions are integrated properly and meet their investment case. City Link's poor performance is attributable to poor acquisition integration.
- Resolving the challenges in the Textiles and Washroom Services division in some of its continental European markets.
- Retaining the management team across the group as a whole.

The decline in City Link's performance was substantial and unexpected, for reasons that are explained elsewhere in this review and in the Review of Performance. It has had a significant impact on our achievements in 2007 and on our outlook and prospects for 2008. However, before talking about City Link specifically, we would like to review the progress we have made in 2007 to fix our operational problems, reshape the business portfolio and improve profitability.

PEST CONTROL
ORGANIC GROWTH

5.7% 2007
1.1% 2006

ASIA PACIFIC
ORGANIC GROWTH

12.0% 2007
5.7% 2006

WHAT WE ACHIEVED IN 2007

FIXING OPERATIONAL PROBLEMS

In Pest Control our operational focus in 2007 has been on improving sales, customer service (thereby benefiting contract retention) and productivity. We have had notable success, improving the organic growth rate from 1.1% in 2006 to 5.7% in 2007. Steps to improve low-season productivity in North America are underway and there is more to achieve in the UK following the reorganisation at the start of 2007.

In Textiles and Washroom Services an important operational focus has been on the UK business. In the UK, we separated the washroom, linen and garment operations and closed the linen and garments activities in 2006. During 2007 we consolidated our washroom facilities into 20 branches and improved the efficiency of our processing. As a result, we have now created an infrastructure which should enable us to be a low cost operator in the marketplace. Away from the UK the focus of operational improvements has been in sales effectiveness in a tough, price competitive market. We have also worked to improve operational efficiency because we are typically unable to pass through cost increases to our customers. We are therefore reliant on annual productivity improvements to protect the bottom line.

LEADING THE WAY

Following the acquisition of Ambigest in July 2007, Rentokil became the clear leader in the Spanish pest control market. The combination of a warm climate and a significant tourist industry makes pest control of vital importance in the country. Every new hotel or apartment complex is a potential new customer as tourists continue to demand higher hygiene standards. During the year Rentokil in America acquired Presto-X, a significant regional pest control company, which operates from 21 branches within the central states covering major cities including Denver, Dallas and Chicago. Both acquisitions expand our geographic footprint, build density in core regions and improve returns in the growing pest control market.

OLYMPIC DREAM

In 2007 the company entered the fast growing Chinese pest control market through the acquisition of Rentokil Taiming. The business, while still small, is already profitable. It owns proprietary and highly effective fogging technology and, following technical evaluation, the company is seeking product registration around the world. It will provide the company with a unique selling proposition. Rentokil Taiming has been recommended as one of the 'preferred suppliers' for both pest control services and product to the 2008 Beijing Olympics.

In Facilities Services our largest business is Cleaning in the UK, which operates in a highly price-competitive market. We have made improvements to the way in which we manage our smaller customer accounts and have an effective approach to daytime cleaning. These initiatives are improving productivity and will help offset margin pressure. In Catering and Hospital Services we have been shedding unprofitable contracts and improving procurement to drive down food costs.

In Asia Pacific our operational focus has been on improving sales effectiveness to drive organic growth (12.0% in 2007 compared with 5.7% in 2006), whilst improving customer service to boost retention.

With the exception of City Link we have made good progress in improving our operations this year but there remains more to do. Continued focus on sales and service excellence will enable us to improve the group's organic growth rate and defend or improve margins in our more price-competitive businesses.

IMPROVING PROFITABILITY

We entered 2007 expecting to make good progress in Pest Control, Parcel Delivery and Asia Pacific while knowing that market conditions in continental Europe would continue to impact Textiles and Washroom Services. Our expectation was that profit for the year would be in line with 2006, but that there would be some regression in the first quarter of 2007, due to a number of factors including the declining trends in Textiles and Washroom Services, still apparent as we exited 2006.

ADJUSTED PROFIT BEFORE INCOME TAX 2007

5.7%

IMPROVEMENT ON 2006

Our first quarter results were in line with our expectations – adjusted operating profit from continuing operations was down 4.3% at £53.9 million and adjusted profit before income tax was down 23.2% at £35.5 million. As anticipated, profit was affected by the restructuring underway in UK Pest Control and UK Washroom, seasonally weak trading in North America Pest Control and trading in our European Textiles and Washroom business.

The second and third quarters developed in line with our plans, with the regression in adjusted profit before income tax reduced to 4.3% in the second quarter and up 21.1% in the third quarter, a continuation of positive quarterly trends. The third quarter results were flattered by interest received on the sale proceeds from Electronic Security, but even without these would have been some 5.7% ahead of the prior year. At this stage it seemed the group had reached an inflection point and we expected that in 2008 profit before tax and amortisation would show mid to high single-digit growth over 2007, again after excluding the interest benefit from the sale of Electronic Security (estimated at the time to be around £15 million in the second half of 2007 and £30 million for the whole of 2008).

FLYING HIGH

Initial Facilities Services is the UK's largest commercial cleaning company and the acquisition of Lancaster Cleaning Company in 2007 strengthened its presence in the London metropolitan area, accessing its blue chip customer base. Lancaster's pride of the City is the landmark building "the Gherkin", also known as Swiss Re or simply 30 St Mary Axe and was awarded the prestigious RIBA award for Building of the Year in 2004. Lancaster has been providing cleaning services to this iconic building since 2003 for 260 days a year so there's no time to admire the panoramic view from the famous 40th floor restaurant!

In each of the first three quarterly trading statements in 2007, we commented that business-to-consumer trading in City Link was a little softer than expected, although this was offset by stronger business-to-business trading but that overall the division was performing in line with budget. As we entered quarter four, City Link's performance began to fall short of budget and in December we issued a trading statement saying that poor business-to-consumer trading in the run up to Christmas meant that City Link's profit would be up to £10 million short of expectations and that this would have a similar impact on overall group profitability. This announcement had a severe and adverse impact on the share price which fell 22% on the day of the announcement, reducing the group's market capitalisation by some £588 million.

An investigation into the causes of the profit shortfall revealed that:

- The trading downturn was not just driven by a shortfall in market related business-to-consumer volumes;
- The foundation for the integration of City Link, its franchises and Target Express (acquired at the end of 2006) had not been solid enough to cope with the degree and scale of changes that were being implemented. This had resulted in an adverse impact on account management, service and new business generation and, as a consequence;
- City Link's profitability in 2008 was and remains unclear with the risk that the business may not trade better than breakeven in 2008.

CITY LINK ACTION PLAN

- NEW MANAGEMENT TEAM
- REVIEW OF THE DEPOT INTEGRATION PROGRAMME
- IMPROVE CUSTOMER SERVICE
- STRENGTHEN ACCOUNT MANAGEMENT
- RESTRUCTURING OF THE SALES TEAM

Actions have been taken to improve the situation, including the appointment of a new management team, a pause in and review of the depot integration programme, a programme to improve customer service and strengthen account management where required and a restructuring of the sales team, already generating a strong new business pipeline.

Further details of the problems at City Link and the actions that have been taken to address them are set out in the Review of Performance contained within the Business Review.

City Link's performance is clearly unacceptable and we are working urgently to address the issues. With hindsight, it is now clear that the problem which we had originally diagnosed as a shortfall in business-to-consumer trading was, in fact, a shortfall in the legacy City Link operations. We had misinterpreted the shortfall as a market issue rather than an internal issue linked to the way in which the acquired franchisees were being integrated into the City Link business.

Although the rest of the group traded in line with our expectations for the fourth quarter and continued the positive trends seen during the earlier part of the year, guidance that City Link might not trade better than breakeven in 2008 has had a further adverse impact on the share price when announced in February 2008. The share price fell by a further 23% on the day of the results, reducing the group's market capitalisation by £445 million. In total, the fall in market capitalisation since the first warning in December and since the announcement of our full year results is £1.2 billion which exceeds the value of the City Link business as a whole. City Link's performance has clearly damaged the market's confidence in the group and increased its view of the risk inherent in the balance of the portfolio.

The board considered, as a matter of urgency, the steps that could be taken to create value for shareholders and this has led to the appointment of a new Chairman, Chief Executive and Corporate Development Director announced on 20 March 2008, as reported in the letter from the board. In the meantime, the guidance that we have given for 2008 is that adjusted profit before income tax is expected to be significantly lower than 2007 and will be heavily dependent on the performance of City Link. That said, we expect our divisions apart from City Link to produce modest growth in 2008.

RESHAPING THE BUSINESS PORTFOLIO

Acquisition and disposal activity continued in 2007. As in prior years we have sold businesses where we had weaker strategic positions or where businesses had maximised their value-creating activities for the group. We have also sought to buy businesses to strengthen market positions and to access growth.

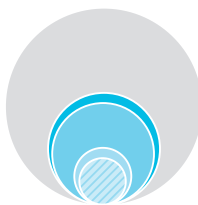
Our principal disposal was the sale of the Initial Electronic Security division which raised £596.8 million. We sold this business because our markets offered limited organic growth prospects and we lacked the scale to compete effectively on an international basis. The division was sold to United Technologies Inc of the United States which viewed the acquisition as a strategic purchase for its Chubb business.

During 2007 we spent £201 million on acquisitions. The largest expenditure was in Asia Pacific (£74.5 million). The principal acquisitions were in the Pest Control market in Australia where we have now built a leading market position. Strategically, we are seeking to expand our operations in Asia as there is the potential for higher organic growth rates than are available in the Western economies. £42.3 million was spent in Pest Control in North America and in continental Europe. These markets are fragmented and offer attractive growth rates. Part of the expenditure was in Spain where we have now built a number one market position. In City Link we spent £17.4 million acquiring most of the remaining franchisees, substantially completing the programme which commenced in 2005. In Facilities Services we spent £38.9 million largely on the acquisition of a London-based cleaning business to strengthen our position in the key UK office cleaning market. Finally, we spent £21.9 million in Textiles and Washroom Services to improve our market positions in the Nordics.

RAISED SALE OF INITIAL ELECTRONIC SECURITY

£596.8m

SPENDING ON ACQUISITIONS 2007



£74.5m // ASIA PACIFIC
£42.3m // PEST CONTROL
£17.4m // CITY LINK
£39.0m // FACILITIES SERVICES
£22.0m // TEXTILES AND WASHROOM

SPENDING TO IMPROVE STRATEGIC POSITIONS

£671.0m

In 2008 we expect to sharply reduce the scale of our acquisition activity and focus on deriving benefit from purchases that we have already made. Since 2005 we have sold three divisions – residential conferences in the UK (Style), Manned Guarding and Electronic Security together with some smaller activities, realising total net proceeds of £1,064.8 million. We have spent £671.0 million to improve strategic positions, the bulk of which has been spent on the City Link business (acquiring the franchisees and Target Express), and in Pest Control where we have significantly increased our scale in the fragmented North American market and deepened our positions in continental Europe. We have also expanded the scale of our operations in Asia which now represent 5.7% of reported group revenues (5.8% in 2004). Disposal proceeds have exceeded the cost of acquisitions by £393.8 million and the balance has been used to reduce debt.

HOW WE MEASURE ACHIEVEMENT

The board uses a number of key performance indicators (KPIs) to judge progress towards strategic objectives. The board believes that in a complex company such as Rentokil Initial output measures, such as portfolio development, revenue and profit growth are the most relevant way of demonstrating to internal management and to shareholders progress on important issues such as customer satisfaction, service levels, staff satisfaction and innovation. The commentary on performance against KPIs at group and divisional level can be found in the Review of Performance contained within the Business Review.

CITY LINK CUSTOMER ACCOUNTS

25,000

For businesses with recurring revenue (i.e. virtually all of our companies apart from City Link) KPIs relating to the development of our contract portfolio are important, some because they are an inherent measure of the level of service we are providing to our customers and others because they are indicators of market strength. The contract portfolio represents the annualised value of our customer contracts and is a leading indicator of performance. We refer to the increase in the contract portfolio as “net gain” which is made up of a number of component KPIs. “New business wins” shows us how successful our sales activities are. “Customer retention” indicates how satisfied our customers are with the service we provide. Changes in the “as used” portion of contracts show variation in the amount of business existing customers give us under their contracts and the impact of price movements: as such they can often be an early indicator of market trends. For example, in some of the European Textiles businesses, a general decline in the “as used” portion of garment contracts (i.e. the actual number of garments we process for customers) is a reflection of the shift in manufacturing jobs to lower cost countries. For non-portfolio businesses such as City Link, the equivalent KPIs are numbers of consignments handled and revenue per consignment. Our problems with City Link’s trading in the fourth quarter have caused us to re-evaluate our KPIs for this business. New KPIs will be introduced to monitor our new business pipeline more effectively, and to help us better understand trading patterns in our 25,000 customer accounts.

CITY LINK – PROJECT PAN

City Link moves half a million packages per day but the challenge of its couriers' lives is delivering to homes. Finding effective ways to avert problems over failed or delayed deliveries has been City Link's mission over the last several years. A new improvement is the company's "pre-advice notification" system, or Project Pan Initiative, which keeps customers informed as to the status of their delivery via their own choice of medium such as text messages or emails. The system sends out notifications to customers stating that an order has been collected and dispatched and asks them to confirm that they will be able to take delivery of the consignment the next day. If unable to, customers can reply requesting automatic rescheduling to the recipient's choice of dates or even shift the delivery location.

Other business and divisional KPIs include growth in total and organic revenue and net margin, as a way to judge the success of performance and productivity and improvement initiatives; improving efficiency in a sustained way is fundamental to first stabilising and then expanding margin. Our business and divisional profit KPI is operating profit (before amortisation of intangible assets). In 2007 we reported operating profit both before and after one-off items, referring to the latter as adjusted operating profit. We believe that to look at underlying trends we need to strip out these items, as they principally relate to one time restructuring/rationalisation projects.

Our activities have the capacity to generate significant cash flow, although growth in revenues is likely to be to the detriment of working capital performance and spend on capital equipment for rental to customers. We therefore monitor divisional operating cash flow and days sales outstanding (which measures the amount of working capital tied up in trade receivables). For the overall group, we look at all these KPIs plus some which are only relevant to the group as a whole – free cash flow (which measures our ability to invest in our businesses and to pay dividends) and profit before income tax and amortisation of intangible assets (PBTA). As with operating profit, in 2007 we have used adjusted profit before income tax (adjusted PBTA), which also excludes one-off items.

WHAT WE EXPECT TO ACHIEVE IN 2008

In 2008, we have three priorities:

- To return City Link to profit and then profit growth.
- To build on the momentum that we have now established across the rest of our businesses and drive operational excellence.
- To create value for shareholders by improving performance.

In Pest Control we expect to return the UK business to profit growth following the restructuring activity in 2007 and the improvements in sales and revenue growth seen at the end of the year. In continental Europe, we expect to continue our drive for strong organic growth and will continue to make some bolt-on acquisitions to improve market positions. In North America, we will continue our work to improve out-of-season productivity and hence overall margin.

In Textiles and Washroom Services physical restructuring of the UK business is now complete and our focus is on rebuilding revenue, portfolio and growing profit. Margins are some way below their potential and we expect to grow them during 2008 and 2009. In continental Europe, the market continues to be very price competitive and we will be looking at our supply chain and logistics with a view to improving efficiency and reducing costs.

In Facilities Services margins remain low and the pricing environment is highly competitive. We will continue to deploy our "RAPID" approach to the management of small to medium size cleaning contracts and daytime "Smart Clean" initiative to protect margins.

In Asia Pacific we will continue to make acquisitions in pest control to improve our market positions. We will, however, slow the pace of some acquisitions to avoid overstretching management so that we can derive the full benefits from companies that we have already bought.

In City Link we have paused and will review the depot integration programme. Our immediate focus is on rebuilding the sales pipeline and further strengthening customer service as key measures to restore the financial health of the business. Thereafter, we will resume cautiously depot integrations, the bulk of which will now occur in 2009.

Overall, the board expects 2008 to deliver a modest increase in profits for our businesses other than City Link. As already explained, City Link itself may not trade better than breakeven but we do not at present have good visibility for this business and it may be a number of months before we have a better view of 2008's trading and City Link's potential for 2009. Consequently, the group's profit in 2008 may be significantly lower than that in 2007, but the final result will be heavily dependent on City Link.

Our dividend policy is unchanged; we will continue to take a cautious approach to dividend growth until the recovery of the business is well established. The board is recommending an unchanged dividend for 2007. The board is well aware of the importance of the dividend to many shareholders and hopes to be in a position to maintain it for 2008. However, our ability to do so will be dependent on, in particular, our view of 2009 and the speed with which City Link's trading can be improved.

SUMMARY

The board's goal is to create a group capable of sustained profit growth. In 2007 we have had success in improving the performance of all of our divisions apart from City Link. However, City Link's performance in the final quarter of 2007 was unacceptable, as is its outlook for 2008. The impact of City Link on the group's share price has been significant and our clear priority for 2008 is to improve the performance of that business. However, we must also ensure that we maintain and enhance further the progress that has been made in the rest of the group. Under the leadership of the new senior team we will concentrate in 2008 on operational excellence and the improvement of performance.

To conclude, we asked a lot from our people in 2007 and they are proud of what we have achieved. They are as disappointed as the board about the performance of City Link and, as a group, we are determined to improve our performance in 2008.

BUSINESS REVIEW

This review of performance takes a close look at each of our business areas – Textiles and Washroom Services, Pest Control, Ambius, City Link, Facilities Services and Asia Pacific. In each case we report on market conditions, record our progress against key performance indicators, discuss the most important developments in 2007 and preview our plans for 2008.

BASIS OF PREPARATION

In all cases, references to operating profit are for continuing businesses before amortisation of intangible assets (other than computer software and development costs). References to adjusted operating profit and adjusted profit before income tax (adjusted PBTA) also exclude items of a one-off nature, totalling a net cost of £28.4 million (2006: £22.6 million) that have impacted the results for the period. They relate to the group's restructuring programme and consist of consultancy, redundancy and reorganisation costs net of the profit on sale of certain properties in the UK washroom business. They 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. All references to intangible assets exclude computer software and development costs. This commentary reflects the management divisional structure and not the statutory segmental information (see note 1c). All comparisons are at constant 2006 full year average exchange rates.

Full year revenue of £2,216.7 million was 20.3% higher than 2006 with all segments increasing their revenue. Group organic growth was 3.0% with all businesses except City Link reporting positive outcomes for the year. Excluding City Link, group organic growth was 3.8% compared with 2.7% in 2006. The contract portfolio expanded by £119.2 million or 8.4%. New business wins contributed £173.9 million, acquisitions/disposals £72.7 million and net additions/reductions £49.6 million whilst terminations were £177.0 million. The group's overall customer retention rate was 87.5% compared to 88.4% for 2006.

Adjusted operating profit rose by 8.8% over the year to £280.8 million with gains delivered by City Link as a result of acquisitions, Asia Pacific, Facilities Services and Ambius. Full year profits in Pest Control and Textiles and Washroom were flat, held back in each case by the performance of their UK businesses, which remain the subject of turnaround initiatives. In both cases, however, these businesses improved quarter on quarter.

Adjusted profit before income tax of £211.4 million represented a 1.1% increase on last year as second half profit growth offset the decline in first half profit at this level. Net margin was 9.5% for the year as a whole, compared with 11.3% last year. Although full year margins were lower than 2006, the trend has been improving quarter-by-quarter. Statutory profit before income tax from continuing operations was £142 million (2006: £165.4 million). The Business and Financial Review have been prepared in accordance with the reporting statement "Operating and Financial Review".

THE SHAPE OF THE GROUP

Rentokil Initial

Rentokil

> Pest Control

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Initial

> Textiles and Washroom Services

> Facilities Services

PAGE 22 – 24

ambius

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City Link

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ASIA PACIFIC

PAGE 39

KEY PERFORMANCE INDICATORS

	£m	Change vs 2006
Revenue	2,216.7	+ 20.3%
Organic revenue		+ 3.0%
Operating profit	252.4	+ 7.1%
Adjusted operating profit	280.8	+ 8.8%
Net adjusted margin	12.7%	+ 1.3%
Contract portfolio gain	119.2	-22.0%
New business wins	173.9	+ 2.9%

	£m	Change vs 2006
Net additions/reductions	49.6	+ 16.4%
Acquisitions	72.7	-17.8%
Terminations	(177.0)	+ 20.3%
Retention rate	87.5%	-0.9%
Operating cash flow	188.1	-10.8%
Free cash flow	102.1	-20.6%
PBTA	183.0	-1.9%
Adjusted PBTA	211.4	+ 1.1%


Initial

TEXTILES AND WASHROOM SERVICES

27.2% Group Revenue 2007

PRINCIPAL ACTIVITIES:
Workwear rental
Flat linen rental
Washroom equipment and consumables
Floor mats

PRINCIPAL GEOGRAPHIES:
France
UK
Netherlands
Germany
Belgium

OUR OBJECTIVE:
To become Europe's leading textiles and washroom operator, driving value through operational efficiencies and organic sales growth

STRATEGIC PRIORITIES :
- Operational efficiency improvements (processing, route logistics, supply chain)
- Organic sales growth in continuing tough markets (cross selling, range selling, new accounts)
- Opportunity to participate in value-enhancing consolidation of European textiles and washroom markets

FACILITIES SERVICES

26.4 % Group Revenue 2007

PRINCIPAL ACTIVITIES:
Cleaning
Catering
Hospital services
Speciality Hygiene
Medical

PRINCIPAL GEOGRAPHIES:
UK
Spain
Netherlands

OUR OBJECTIVE:
To become the UK's leading cleaning and facilities services company exploiting high quality client list to drive specialist and bundled cleaning and support services

STRATEGIC PRIORITIES :
- Drive organic sales in core cleaning disciplines
- Single minded focus on cost and productivity
- Optimise non-cleaning service offering

TEXTILES AND WASHROOM SERVICES

MARKET CONDITIONS

The market dynamics have varied more in 2007 than in previous years based principally on the performance of local economies. The industrial base, especially large manufacturers, have continued to steadily downsize. Small to medium size enterprises remain strong. Energy, labour, general regulation and environmentally related costs continue to apply cost pressure across all markets. This drives an increasing need for innovation and operational efficiencies for which larger players in the markets and international operators are better placed.

KEY PERFORMANCE INDICATORS

	£m	Change vs 2006
Revenue	603.0	+ 1.3%
Organic revenue		+ 2.3%
Operating profit	105.9	+ 15.0%
Adjusted operating profit	108.0	-0.4%
Net adjusted margin	17.9%	-0.3%
Contract portfolio gain	4.7	-50.5%
New business wins	54.6	+ 2.2%
Net additions/reductions	14.8	+ 33.3%
Acquisitions/disposals	(7.5)	–
Terminations	(57.2)	+ 1.1%
Retention rate	90.0%	+ 0.1%

2007 REVIEW

Although adjusted operating profit was broadly flat compared with 2006, the Textiles and Washroom Services division performed significantly better in 2007. The business was stabilised and returned to year-on-year profit growth after the first quarter. This represents a considerable improvement on 2006 when the division posted an 18.7% decline in adjusted operating profit on flat revenue. Revenue growth was 1.3% of which, organic growth was 2.3%.

Following a year of flat revenue in 2006 efforts were focused on restoring the division to sales growth in 2007 and the business has achieved some steady portfolio gains throughout the period in continental Europe. 2007 operating profit was down on 2006 in the first half of the year but showed modest growth in the second.

The UK business, which accounts for 12% of divisional revenue, has remained the most challenged part of the division, undergoing a major re-engineering programme during the year. Following the closure of its loss-making linen and garment activities in 2006, and wipers business in the second half of 2007, the infrastructure of the washroom business has been completely changed. This was a necessary step in the plan to return this important part of the business to growth.

Although they remain challenging, the market and economic conditions experienced in continental Europe during 2006 eased slightly with customer garment volumes improving modestly. Pricing is competitive and we expect it to remain so in 2008.

During the year we completed a management restructuring of the continental European business, creating a new role of Operations Director and merging the former 19-country national structure into seven regions. This move is improving efficiency and will also help us to develop and manage a number of international accounts.

VISIBLY HIGHER MARGINS

The Initial Textiles division hires, cleans and returns 900,000 pieces of garments per week. Increasingly, customer requirements are changing to include specialist items such as high visibility protective equipment, smart reception wear and cold room clothing. The specialist clothing ranges are able to command higher margins. The division recently signed an exclusive agreement to supply employees of the French national railway, SNCF, with high visibility personal protective equipment until June 2011. The first phase will roll out in September 2008 for a minimum of 12,000 staff at 180 sites.

The biggest turnaround programme during 2007 centred on the UK washroom business which underwent major infrastructure changes. In the fourth quarter we announced the closure of our plants at Bradford and Chorley allowing us to complete the transfer of roller-towel and mats processing to three new modern sites in Reading, Birmingham and Glasgow by the end of January 2008, and exit the wipers business. The development of these three new laundry plants and a significant number of new service centres were major achievements as we exited the year. The physical infrastructure changes to this business are now complete. Despite the reorganisation, the UK business was able to reduce the rate of washroom portfolio attrition during the year. The overall effect has been a deceleration in the rate of decline of performance ending with Q4 profit level with prior year. For the full year, profits were £3.3 million lower than last year, but we enter 2008 with a restructured business positioned for future development.

In France, the industrial sector of the textiles business has seen a steady trend of customer development during the year and as a result the business exited the year with a number of important contract wins. The revised organisational structure put in place during 2006 has restored greater profit and loss accountability within the business, which is the largest contributor to profit in the division. The washroom business has seen consistent portfolio growth throughout the year. This can be attributed to a combination of some creative client solutions and also the impact of the sale of the CWS business to Elis. On the strength of its return to profit and revenue growth (up by £8.0 million and 3.8% respectively over 2006) the business was taken off the turnaround list during the year.

During the period, the Netherlands business returned to profit and revenue growth, posting full year increases of £2.0 million and 2.1% respectively. This is a result of a new management team introduced earlier in the year, a smaller but more effective sales team and an improving contract portfolio position.

In last year's report we announced plans to exit our loss-making hospital services business in Germany. We secured a successful exit from the business in the fourth quarter of the year. This led to a 6.9% decline in revenue compared to the prior year, but has assisted profit which is up £0.8 million in the year.

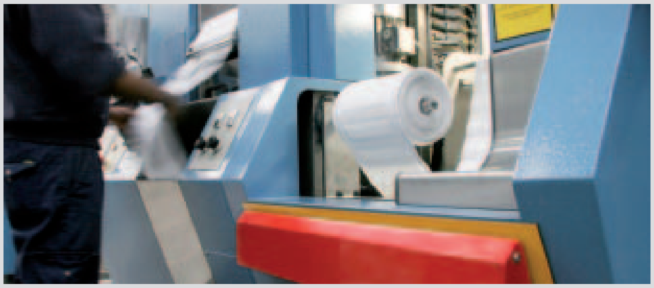
Revenue increased in the division's business in Belgium by 3.2% over last year but higher costs associated with the settling down of the new plant at Lokeren resulted in a decline in adjusted operating profit in the second half, which held full year profits growth to £0.2 million.

All of the division's smaller continental European businesses recorded higher revenue in 2007 and, in general, higher profits. The change from a country to a regional management structure will help reduce overheads in these businesses in 2008. Some small acquisitions have been undertaken during the year in Poland and Sweden to build scale.

A number of capital investment programmes continued in continental Europe in 2007. The developments in Amstetten in Austria, Lokeren in Belgium and Brie-Comte Robert in France were all completed to budget and on time. A new plant for Prague in the Czech Republic continues in development and is due to open on schedule in the autumn of 2008. The total investment associated with these projects

SMARTER PROCESSING STRUCTURE

During 2007 the UK Washroom business made significant progress by improving its infrastructure and operations. In particular, it opened three new processing plants in Reading, Birmingham and Glasgow, while closing its former plants in Bradford and Chorley. The new facilities are ideally located close to major customer footprints and feature the state-of-the-art auto-roll and other processing facilities. The new equipment achieves water recycling of up to 90% and reduces chemicals usage by a third, thus reducing cost and environment impact.



is estimated to be £21.0 million, of which £17.5 million was spent in 2006 and 2007 with the balance to follow in 2008.

Restructuring and other one-off costs in the division were a net £2.1 million (2006: £16.3 million), because costs were offset by the profit on sale of surplus UK washroom property of £10.7 million. Costs were incurred in plant closure in Belgium, the closure of the wipers business in the UK, UK branch closures and management reorganisation and redundancy. The division continues to explore opportunities to improve procurement and supply chain efficiency, but it is not yet clear whether this will result in restructuring or other one-off costs being incurred in 2008.

2008 PREVIEW

2007 was an important year for the division. It was the year that marked the cessation of a declining trend and a return to portfolio growth.

During the year we structured the division in such a way as to reduce overall costs and overhead of the business. We also improved efficiency and processes. Looking forward the divisional team is focusing on a number of potentially powerful initiatives that will help protect the business in future years. The regional structures in particular create significant opportunities for improvements in customer service and cost reductions in processing, service and management activities. Market research commissioned by us in 2007 has also given the business some useful insights into future development opportunities.

The restructuring programme in the UK will be completed early in 2008. At this time the business will be fully operational from its final 20 locations and will have modern, efficient processing plants incorporating the latest technology. In addition the centralised back office facilities will be running at full strength.

In France we expect the positive trends in portfolio development towards the end of 2007 to continue in 2008. Our aim throughout the coming year is to continue to develop the profitability of the French business. A number of initiatives designed to improve productivity, particularly in the washroom business, will be implemented. We are also aiming to improve sales productivity and continue to develop range selling in order to increase the number of products taken by each customer. Elsewhere in continental Europe cost recovery is a high priority. We will be seeking to maximise the benefits associated with the investment in the new processing capacity in Belgium, France, Austria, the Czech Republic and will build upon acquisitions made, especially in Sweden and Poland.

FACILITIES SERVICES

MARKET CONDITIONS

Market conditions remained difficult throughout 2007 and our competitors continued with aggressive pricing strategies. Towards the end of 2007 there was a significant downturn in conditions in the UK retail sector, where we have a strong presence. However this can also create opportunities. Anti-smoking legislation in the UK affected the Leisure Industry.

FLYING SQUAD

Airports are busy places requiring smooth operation throughout daily and seasonal fluctuations in demand. Initial Air Services, part of Initial Facilities Services, is a long-established partner at Manchester Airport. During the most recent round of re-tendering it was successful in gaining the business as sole cleaning contractor until 2010. This will represent an unbroken tenure of some 24 years. In 2007 it also won a £1.1 million a year cleaning and support services contract with the Peel Airport Group to service Liverpool John Lennon, Robin Hood Doncaster and Durham Tees Valley Airports.

KEY PERFORMANCE INDICATORS

	£m	Change vs 2006
Revenue	585.7	+12.8%
Organic revenue		+3.9%
Operating profit	38.7	+41.2%
Adjusted operating profit	38.9	+24.7%
Net adjusted margin	6.6%	+0.6%
Contract portfolio gain	47.0	-25.3%
New business wins	43.7	-27.2%
Net additions/reductions	15.7	-5.4%
Acquisitions	44.9	+156.6%
Terminations	(57.3)	-84.2%
Retention rate	86.2%	-4.9%

2007 REVIEW

Initial Facilities Services delivered a good performance in 2007, increasing revenue by 12.8% and adjusted operating profit by 24.7%. The Netherlands cleaning business was sold in the third quarter. Excluding acquisitions and disposals, revenue grew organically by 3.9%. The focus on expanding group services into existing customers, an activity in which this division takes the lead, is also beginning to show rewards.

In the UK, Cleaning revenue increased by 22.1% to £318.8 million (2006: £261 million), largely as a result of increased contract turnover and portfolio growth coming from the acquisitions of InSitu and Lancaster. Adjusted operating profit from Cleaning was £2.3 million higher than in 2006 due principally to higher volumes and acquisitions. Margins remain under pressure and management remains focused on cost and productivity. We are implementing a number of service initiatives including the "SmartClean" daytime cleaning concept; RAPID customer account management – an industry first in remote management of cleaning contracts; and streamlining our operating structure to offset price pressure. Annualised customer retention rates fell in the second half largely as a result of one major loss and a 25% reduction in contract scope by our largest customer.

During the year, revenues in the catering service business declined to £59.7 million following our decision to exit a number of unprofitable schools contracts. Contract wins effective from Q4 will offset much of this revenue loss and at better margins. The catering business is now profitable (it made a loss of £0.8 million in 2006) due to both the above factors and the success of procurement initiatives on food purchasing and distribution.

Hospital Services, which provides cleaning, catering and porterage services to NHS hospitals in the UK and independent healthcare sector, recorded revenue up 10.5% at £62.8 million and profit up 33.8%. Focus has been on improving efficiency generally and addressing a number of unprofitable contracts.

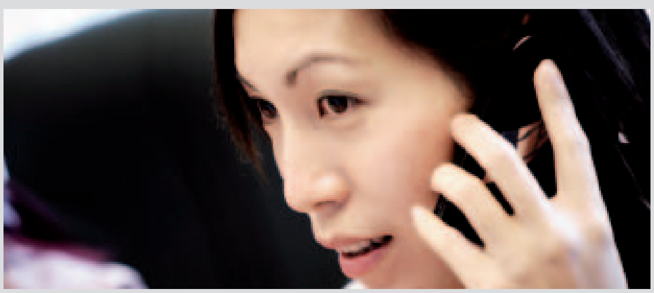
Our specialist hygiene businesses increased revenues by 26% to £52.0 million and profit by £1.1 million, largely as a result of the acquisition of Technivap in France in January 2007.

Improved profitability in Catering and Hygiene Services offset the continued margin pressure in UK Cleaning to give a divisional margin of 6.6% for 2007, compared with 6.0% for the prior year.

In UK Cleaning, market conditions during 2008 are expected to remain unchanged on 2007 with pressure on margins continuing, particularly in the retail sector. We continue to roll out service initiatives across the business to add value

SMARTER CLEANING

Countering the highly competitive commercial environment in the UK facilities services market, Initial has introduced efficiency initiatives including SMART cleaning, a day time cleaning concept, and RAPID Customer Account Management, an industry first in the remote management of cleaning contracts. Initial has led the market with its deployment of daytime cleaning; innovating to match day-time cleaning needs including battery and cordless powered cleaning machines and escalator cleaning machinery which cleans without having to switch off the escalators. Cleaner premises, cost reduction and customer benefit. That's smarter cleaning.




Rentokil

PEST CONTROL

14.0 % Group Revenue 2007

PRINCIPAL ACTIVITIES:
Pest control for commercial, industrial and residential customers

PRINCIPAL GEOGRAPHIES:
UK
USA
Germany
Netherlands
France

OUR OBJECTIVE:
To create the world's finest and most profitable specialist pest control company, establishing leadership positions in mostly fragmented markets

STRATEGIC PRIORITIES :
- Organic growth through improved retention and new sales
- Ensure strong and sustainable platform through service and operational excellence
- Return UK to profit growth

AMBIUS

5.1% Group Revenue 2007

PRINCIPAL ACTIVITIES:
Design and installation of indoor plant displays

PRINCIPAL GEOGRAPHIES:
UK
USA
Netherlands
France
Sweden
Belgium

OUR OBJECTIVE:
To leverage existing positions to become the premier creator of workplace ambience products and service

STRATEGIC PRIORITIES :
- Organic growth through new sales and sales productivity
- Focus on increasing operating profit margins
- Use Ambius brand to increase revenue per customer through product/service extensions
- Turnaround UK

and differentiate ourselves from competitors. Retention and new business will be a key focus for 2008. In Catering the focus for growth is on the business and industry segment but returns on education contracts are improving. In Hospital Services we will continue to focus on growth opportunities outside the NHS.

2008 PREVIEW

In UK Cleaning, market conditions during 2008 are expected to remain unchanged on 2007 with pressure on margins continuing, particularly in the retail sector. We continue to roll out service initiatives across the business to add value and differentiate ourselves from competitors. Retention and new business will be a key focus for 2008. In Catering the focus for growth is on the business and industry segment but returns on education contracts are improving. In Hospital Services we will continue to focus on growth opportunities outside the NHS.

PEST CONTROL

MARKET CONDITIONS

Market conditions during 2007 have not changed significantly on 2006 with overall market growth still perceived to be approximately 1.5 times GDP. The slowdown in retail markets has not impacted appreciably demand for pest control services. Across Europe, the UK and North America competition remains fragmented – a combination of small local operators competing for small and medium sized enterprises (SMEs) and large integrated competitors competing for major retailers, multiples and processing facilities.

KEY PERFORMANCE INDICATORS

	£m	Change vs 2006
Revenue	310.4	+ 11.5%
Organic revenue		+5.7%
Operating profit	65.4	+ 6.5%
Adjusted operating profit	66.1	-3.1%
Net adjusted margin	21.3%	-3.2%
Contract portfolio gain	33.4	-37.3%
New business wins	35.1	+ 12.5%
Net additions/reductions	9.3	+ 34.8%
Acquisitions	22.2	-52.9%
Terminations	(33.2)	+4.1%
Retention rate	84.5%	+4.3%

2007 REVIEW

Overall, 2007 was a year of strong performance in Pest Control with results accelerating as anticipated in the last three months of the year. Fourth quarter adjusted operating profit increased by 15.6% on revenue up 15.7% year-on-year. The major drivers of improvement in Q4 were the tighter management of off-season productivity in North America, contributions from Presto-X in line with the acquisition business case and strong growth, both organic and acquired, in Europe. Full year revenue increased by 11.5% and adjusted operating profit was down 3.1% on 2006. However, had it not been for the impact of the inclusion of a full first quarter of seasonal losses in the US business acquired on 1 March 2006, profit would have shown an improvement year on year. In addition, comparisons with 2006 reflect the transfer of R&D costs previously borne centrally to the division which took place at the end of 2006 and which amounted to some £3.0 million per annum. Divisional margin performance improved as the year progressed, beginning the year 9.5 percentage points down on Q1 2006 and closing at the same levels as Q4 2006.

WEAPONS OF MOTH DESTRUCTION

Global warming, more international travel, demand for higher modern living standards, fewer collections of household waste… there are many reasons given for the increase in demand for pest control services around the world. In 2007, Rentokil UK saw increases in the number of call outs for services to remove or prevent bed bugs, moths and rodents, while termites, a pest traditionally associated with warmer climates, appear to be moving across Europe. Rentokil's unrivalled international expertise means that it can share expertise and develop the right services to best support its customers.

The new Rentokil.com website was successfully rolled out to Rentokil branded businesses representing 91% of divisional revenue. By December we were experiencing a fourfold increase in the number of visitors to the site over the previous year and web-based enquiries are now higher than enquiries sourced from the Yellow Pages in both the UK and Spain.

During 2007 we launched new residential propositions in the UK, Belgium, Ireland and Portugal and, whilst outside North America the overall contribution from these customers is still small, we believe we now have the makings of a residential service offering which will make a useful contribution in the medium term.

Divisional spend on acquisitions in the year was £42.3 million. The major acquisitions were Presto-X in North America and a further six in Spain including Ambigest, which together made Rentokil Spain's leading pest control operation.

Continental Europe continued to build on the progress delivered in 2005 and 2006 and demonstrated a strong performance throughout the year. Revenue grew by 10% driving profit growth of £2.9 million. Overall organic growth was 5.7% and was particularly good in the important markets of Spain (10.6%), Italy (7.6%), Ireland (9.3%) and the Netherlands (7.3%). In addition, good progress was made in gaining market share through acquisitions in Spain, Italy, Germany and France. During the year we also took our first step into the Baltic States, entering Estonia through the acquisition of two small businesses.

During the year we completed the extensive reorganisation of our UK pest control business. Its new management team has focused on growing the business by driving sales and improving customer retention through higher quality service delivery. Against 2006, Q4 revenue grew by 5.8% (against a decline of 9.6% in Q1). Retention levels strengthened further during the quarter to an annualised rate of 81.8% and the contract portfolio has now grown by 2.5% since the beginning of 2007. Q4 profit, however, still lagged 2006 by £0.6 million as the business adjusted to its new operating model, but represents a significant improvement on the £1.2 million decline posted in Q1. Returning this business to profit growth in 2008 is a priority for the Pest Control division.

North America recovered from a weak start to finish strongly. The cool weather and a late start to the season adversely impacted profit in the first half, but actions to improve J C Ehrlich's off-season productivity in Q4 have been partly responsible for improving profit by 12.0% on like-for-like revenue up by 6.2% on 2006. Although still early days since acquisition, Presto-X is delivering to expectations and we are confident that we have acquired a high-quality business that expands our national footprint in the United States into an additional 16 states. This is a continuation of our strategy to build market share through regional anchors delivering both residential and commercial pest control.

Copesan, a US organisation of independent pest control companies has recently taken steps to exclude JC Ehrlich and Presto-X from membership. This matter is under negotiation but represents a small risk to the division's US revenue base in the short term.

CUSTOMERS DEPEND UPON RENTOKIL

As part of the reorganisation of the UK pest control business, Rentokil launched a dedicated "high dependency" service team focused on the "zero tolerance" needs of customers in the food and pharmaceutical industry. This specialist team is delivering great results. According to Steve Edwards, Director of Operational Standards for Trading Law and Technical of Tesco, the UK's leading food retailer, "Providing an effective barrier against pests is of vital importance to us in order to meet the expectations of our customers and the new Rentokil team has set the highest performance standards and provides a professional risk management reporting process."

The recent indications of economic slowdown have not yet impacted demand for pest control services and at this stage we anticipate largely unchanged market conditions for 2008. We will continue to focus on growing organically through improved sales and marketing capability, better and more integrated systems and high levels of customer service.

2008 PREVIEW

The recent indications of economic slowdown have not yet impacted demand for pest control services and at this stage we anticipate largely unchanged market conditions for 2008. We will continue to focus on growing organically through improved sales and marketing capability, better and more integrated systems and high levels of customer service.
In the UK we will be working hard to turn our revenue growth into profitable growth by focusing on key measures of service and sales productivity and by growing our share in the SME segment of our commercial customer base.
In Europe we will continue to grow both organically and through acquisition, reaping the benefits of our investment in sales, marketing and systems in 2007 and extracting value from our 2007 acquisitions. In North America we are hopeful of an earlier start to the season than in 2007. We will also continue our strategy of growth by acquisitions of smaller regional players.

AMBIUS

MARKET CONDITIONS

The overall market for tropical plants has historically grown in excess of GDP. The main markets of operation are at different stages of development with the US and the Netherlands more developed than the UK. All markets are highly fragmented with a large number of small operators, although the larger companies have a competitive advantage in terms of route density. Ambius currently has approximately 60,000 plus customers over 13 countries.

KEY PERFORMANCE INDICATORS

	£m	Change vs 2006
Revenue	112.4	+ 6.2%
Organic revenue		+ 1.5%
Operating profit	9.1	+ 23.0%
Adjusted operating profit	9.1	-13.8%
Net adjusted margin	8.1%	+ 0.5%
Contract portfolio gain	1.8	-53.8%
New business wins	7.6	-10.6%
Net additions/reductions	3.5	+ 6.1%
Acquisitions	1.7	-43.3%
Terminations	(11.0)	+ 0.9%
Retention rate	87.5%	+ 0.4%

2007 REVIEW

2007 was a significant year for the business. All 11 European countries in which we operate were rebranded to Ambius and North America will follow in the first quarter of 2008.

Ambius' total revenue of £112.4 million for the full year represented an increase of 6.2% over 2006, generating adjusted operating profit of £9.1 million, an increase of

MORE THAN A NEW NAME

The introduction of a new, global brand name – Ambius – for the former Tropical Plants division began and was rolled out successfully across 11 countries in 2007. However, the launch was much more than simply the introduction of a new name. Central to the roll out was the development of a new colleague and customer focused culture, and the introduction of new services such as ambient scenting, artwork and fresh fruit delivery. The service extensions offer the opportunity to create deeper customer relationships and boost organic growth.

13.8% over prior year. Operating margin increased from 7.6% in 2006 to 8.1%, despite the £1.0 million of rebranding costs charged against operating costs.

The North American business, the division's largest operation and representing 57% of 2007 revenues, continued to build on the solid progress achieved in 2006. This business is the only player in the market able to offer a national service to large, multi-site organisations. Revenue grew by 6.4% during the period, a result of a 2.0% increase in contract portfolio and a 10% increase in job sales. A combination of strict control on costs and record sales of higher-margin Christmas items generated a growth in profit of 17.3%.

With the exception of the UK, Europe delivered excellent performance growing revenue by 9.9% leading to profit improvement of 68.8%. Revenue and profit in the UK declined 5.6% and 29.2% respectively year on year but the new management team recruited in 2007 is making progress in addressing performance issues in this market. Quarterly revenue trends are now improving, although this has yet to show through to profits.

During the course of 2007, Ambius made a number of acquisitions for a consideration of £3.1 million. In addition, it has expanded its product and service offerings to include ambient scenting, art sales and rentals, fresh fruit baskets delivery and online order and delivery of fresh cut flowers in selected markets.

The business has some exposure to economic downturn in the US which could affect plant sales and customer retention in affected segments (e.g. financial institutions). However, despite weakened consumer confidence towards the end of 2007, Ambius produced record sales in the approach to Christmas. We are seeing less evidence of economic pressure in Europe. Brand extension services across the business will aim to offset any downturn in trading.

2008 PREVIEW

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RECORD CHRISTMAS

Who puts up your Christmas tree? In North America Ambius installed over 5,500 Christmas trees in 2007. That's more trees, tinsel, lights and decorations than ever before. Whether customers prefer traditional or contemporary display, our designers work in partnership with customers to create their ideal specification, the business designs, installs, removes and stores. Of course, Ambius does more in the winter holiday season. Seasonal displays as well as Valentine's Day and Easter are all created. As the only national provider in North America, Ambius can create services for multiple location organisations, but with the flexibility to individualise locally.

CITY LINK

18.8% Group Revenue 2007

PRINCIPAL ACTIVITIES:
Premium express delivery of parcels

PRINCIPAL GEOGRAPHIES:
UK

OUR OBJECTIVE:
To become the UK's leading timed, next-day premium parcel delivery company with scale and operational control to maximise leadership position

STRATEGIC PRIORITIES :
- Restore business to profitability
- Transition from franchise plus hub and trunker to end-to-end operator
- Delivery of Target Express integration benefits
- Drive top line

CITY LINK

MARKET CONDITIONS

The UK market saw growth above GDP in 2007. The overall express parcels delivery sector continues to consolidate. City Link's purchase of Target Express and the purchase of ANC by Fedex at a similar time are illustrative of this trend. The gradual industry decline in revenue per consignment has continued however within our own business this decline was somewhat further than expected.

KEY PERFORMANCE INDICATORS

	£m	Change vs 2006
Revenue	417.1	+ 95.5%
Organic revenue		-5.2%
Operating profit	19.4	-44.3%
Adjusted operating profit	44.8	+ 24.1%
Net adjusted margin	10.7%	-6.2%
No. of consignments (m)	51.8	+4.4%
Revenue per consignment (£)	8.24	-2.3%

2007 REVIEW

Revenue from City Link increased by 95.5% during 2007 delivering a 24.1% increase in adjusted operating profit before tax, reflecting the impact of the acquisitions of the former City Link franchises and Target Express business. Network turnover grew only by a modest 1.9% during the year, depressed as a result of poor volumes in the fourth quarter when the expected surge of volumes in the approach to Christmas did not occur.

Until October, City Link's performance tracked budget month-by-month and the business exited the third quarter with network growth up 4.7%. However, in December we issued a trading statement stating that fourth quarter profits were likely to be up to £10 million below our expectations as a result of a further volume decline in the business-to-consumer segment in the ten weeks before Christmas. We attributed this slowdown to weaker consumer spending in a challenging retail environment.

Since then we have conducted a detailed analysis into the trends in City Link's revenue base. We have concluded that although there was an impact from downtrading in the business to consumer segment of the business, this played only a part in a downturn that can essentially be attributed to the fact that the integration programme tried to do too much too quickly without establishing a sound base. This had the effect of impacting service. In addition, some of the actions we undertook, most notably with the former City Link franchises, were in the wrong direction.

The fourth quarter profit shortfall anticipated at the time of the December trading statement can be explained as follows. Revenues during the period fell well short of expectation as a result of down trading by existing customers, a modest increase in customer attrition and the fact that this lost revenue was not replaced by sales generated from new business. In addition, the UK parcels industry has over the years experienced a gradual decline in revenue per consignment (RPC) – our measure of average price. Historically, this has not had a detrimental effect on City Link profits because strong volume growth and the benefits from operational leverage on our fixed cost base have offset price erosion. However, in 2007 City Link's network RPC fell somewhat further than expected and this combination of lower volumes at cheaper RPC is the principal reason for the Q4 profit shortfall. This was further compounded by the

SMARTER DRIVING

City Link has introduced a new HGV fleet of vehicles with the latest Euro 5 engines which produce even lower CO2 emissions whilst continuing to be highly efficient operationally. In addition, City Link is trialling electric vehicles in its West London depot and aims to introduce at least 20 such vehicles into the low emission zones around the Capital. City Link has introduced Driver Assessors who train its HGV drivers to drive more efficiently, leading to more fuel-efficient driving techniques which include effective gear changing.

fact that City Link carried excess cost in the fourth quarter in anticipation of the pre-Christmas surge in volumes which failed to materialise.

The business's foundation for integration was not solid enough to cope with the degree of changes being put through the combined networks and the depot integration programme had a temporary negative impact on service levels, most notably around the time of the introduction of cage handling into the Target Express network and the integration pilot in the late summer. As a result we have lost some customers, unsettled others causing them to down trade with us and issued an increased number of service credits as compensation for poor service. These service credits exacerbated the fall in RPC. A hiatus in sales management during the first half of the year also led to an inadequate new business pipeline.

In addition to the mid-year service issues described above, poor account management of the small to mid-size ex-franchise customers may be the principal reason for the lost business highlighted above. The move from a local to more centralised account management system unsettled customers who had formed strong relationships with former franchisees, most of whom left the business post acquisition. In addition, as we moved to integrate depots, relevant management positions were not appointed quickly enough to take effective ownership of their additional new customer base.

The issues outlined above became apparent very suddenly and with no obvious warning and have seriously impacted the financial performance of City Link. The business tracked budget until the beginning of October and was actually forecasting an above-budget full year out-turn until August. Despite regular reviews and updates, nothing untoward came to light or was expected. The underlying issues were masked by increased volumes of business from our continuing customers. When that trend reversed in the fourth quarter this, combined with poor new business generation, caused a sudden and marked effect on revenue and profit.

We have taken immediate action to address these issues. Petar Cvetkovic, the former CEO of Target Express, replaced Michael Cooke as Managing Director on 18 February 2008 with a clear focus on restoring the profitability of the business. In order to ensure continuity of customer service we have taken the decision to pause the depot rationalisation programme until such time as our systems, processes and account management have been improved. We will however continue with Phase One of the integration, the roll out of mechanical handling equipment and handheld consignment scanners, as they are delivering service and operational benefits within the depots.

Other actions undertaken since December include the roll-out of a new account management structure which aims to build direct relationships between customers and their local depots. The account management team is being further strengthened by new appointments and CRM training programmes for both new and existing managers, are currently underway.

A new senior leadership team is in place within City Link's sales and marketing operation and has created a stronger pipeline of new business prospects than in 2007, converting several into new customers within the last eight weeks. Recruitment for field sales is on-going.

CUSTOMER SERVICE FOCUS

City Link is committed to offering "Best in Class" customer service and reliability rates continue to exceed 98%. Armando Sanchez, Operations Director at ebuyer.com, one of City Link's major customers, said: "We have been exceptionally pleased with the performance of City Link. We're a fast growing business and City Link has continued to deliver great service. Their ability to cope with the volume increase has been impressive."

ASIA PACIFIC

7.1% Group Revenue 2007

PRINCIPAL ACTIVITIES:

Textiles and Washroom Services
Pest control
Tropical plants
Facilities services

PRINCIPAL GEOGRAPHIES:

Australia
New Zealand
Malaysia
Indonesia
South Korea
Singapore
Hong Kong

OUR OBJECTIVE:

To build and capitalise upon market leading positions in core group businesses in the world's fastest growing markets.

STRATEGIC PRIORITIES :

- Drive organic growth ahead of market
- Deepen pest control market positions
- Secure acquisition synergy benefits in Washroom (Australia and South East Asia)

The mid-year service issues experienced at the time of the depot closure pilot and the change to cage handling in the Target Express network have been resolved. The operation of the hubs, their sort times and last trunk arrivals is on plan. The roll-out of hand-held, real-time proof of delivery equipment is resulting in faster, better and more transparent service information, and improved depot scanners are ensuring end-to-end visibility and control. A project is nearing completion to allow online updating of autogazetteers on customer sites which will help ensure that timed deliveries are not delayed by incorrect labelling and routing.

Although we have made tangible progress in addressing the problems that have been discovered since the trading downturn at the end of last year, it is clear that there is much to do to restore the enlarged City Link business back to its former profitability.

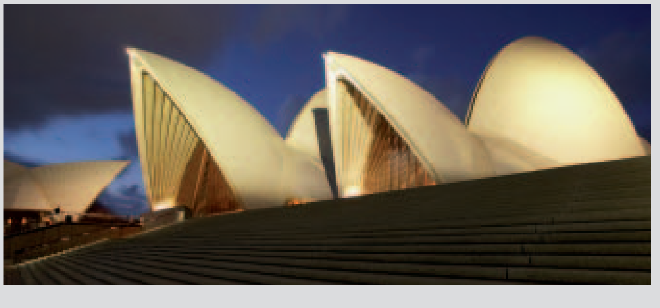
The challenging conditions experienced in the fourth quarter have continued into this year in terms of revenue, RPC and, to an extent, cost. As this is a trend business, improvements will take time to come through and profit for 2008 will therefore depend on the speed with which we can reverse these trends. In January 2008 City Link was loss-making and its adjusted operating profit was £4.0 million lower than January 2007. It is possible that the business may not trade better than breakeven levels in 2008.

For the five years up to 2006, City Link and Target Express businesses were the UK's leading and fastest growing overnight parcels delivery businesses, consistently outpacing market growth. Their positioning, service profiles and geographies represented a tight fit and the economies of putting the two businesses together looked compelling. Our problem has been in execution of the plan. Despite the business's unacceptable short-term financial performance, the new management team is highly motivated to achieve its original financial goals and potential. Our priorities for 2008 will be on delivering strong account management for customers, improving customer facing systems and processes and ensuring that our information systems provide greater visibility and control.

City Link has incurred one-off integration costs of £25.4 million in 2007 (2006: £1.3 million). The largest component of this, £16.3 million, is a provision for the costs of exiting the surplus leasehold depots. The remaining non-property integration costs are estimated at around £5.0 million. Our estimate of the eventual synergies from the integration remains unchanged at not less than £15 million per annum. However, the timing of these benefits and integration costs is dependent on the branch integration timetable. This is under review.

2008 PREVIEW

City Link's trading in the first weeks of the year remains poor and the trends seen in the fourth quarter appear to be continuing. As this is a trend business, improvements will take time to come through and profit for 2008 will therefore depend on the speed with which we can reverse these trends. In January City Link was loss-making and its adjusted operating profit was £4.0 million lower than in January 2007. As a result, it is possible that the business may not trade better than at breakeven levels in 2008.



GROWTH IN AUSTRALIA

Our pest control business in Australia was transformed in 2007. A number of acquisitions and organic growth meant that it exited the year 150% bigger than it began. The largest acquisition – Campbell Brothers – not only added scale and geographic reach to the business, but also extended the service offering into the residential market. Australia has a major termite control market, previously not targeted. Given Rentokil's unmatched global expertise in this area, the business is set for success.

ASIA PACIFIC

MARKET CONDITIONS

The markets for all services remained favourable in 2007 reflecting the general growth in the economies in the Asia Pacific region as well as an increased focus on health and hygiene standards.

KEY PERFORMANCE INDICATORS

	£m	Change vs 2006
Revenue	158.3	+ 55.0%
Organic revenue		+ 12.0%
Operating profit	31.0	+ 53.5%
Adjusted operating profit	31.0	+ 31.4%
Net adjusted margin	19.6%	-3.5%
Contract portfolio gain	30.2	+ 37.3%
New business wins	29.6	+ 142.6%
Net additions/reductions	3.6	+ 16.1%
Acquisitions	11.4	-40.3%
Terminations	(14.4)	+ 16.1%
Retention rate	86.0%	+ 1.3%

2007 REVIEW

Asia Pacific achieved strong double-digit growth in 2007 with revenue up 55% at £158.3 million and adjusted profits up 31.4% at £31 million. Organic revenue growth was 12.0% compared with 5.7% for 2006. The division's contract portfolio grew by 29.3%, 18.2% excluding acquisitions. The strongest revenue and profit growth came from Rentokil Pest Control.

Rentokil Pest Control continued to demonstrate strong performance and achieved triple-digit growth in revenue and profit, boosted by the Hong Kong Government pest control contract and strong organic growth and acquisitions in Australia, New Zealand, Malaysia, Singapore, Thailand and China. The financial and commercial performance of Rentokil Taiming (China) and Rentokil Ding Sharn (Taiwan) have been particularly encouraging. Pest Control revenue was £64.8 million (2006: £31.5 million).

Initial Washroom Services ended the year well ahead of 2006, achieving double-digit growth in revenue and profit in its key markets of Australia, Singapore, Malaysia, Indonesia and Hong Kong. Washroom revenue (excluding our associate in Japan) was £74 million (2006: £61.7 million).

Ambius tropical plants in Australia demonstrated solid progress with both revenue and profit more than double last year as a result of strong organic growth and acquisition activity during the year.

During the year we continued our strategy of building stronger market positions to expand our footprint, investing £74.5 million on acquisitions. The largest transaction was Campbell Brothers, an Australian pest control business. Other notable acquisitions included Taiming Pest Control in China, One-Stop Fumigation and Pesterminator in Singapore: and a number of tropical plants businesses in Australia. In addition, we made new market entry acquisitions in India, Brunei and Vietnam.

2008 PREVIEW

In 2008 we continue to expect growth ahead of the western economies. Approximately two-thirds of the division's profits are currently sourced in Australia, where we continue to see opportunities to improve the performance of our business. However, growth in North Asia and South East Asia is running well ahead of Australia and over time the balance of the division's businesses will shift towards Asia.

SUCCESS ON THE STREETS

In 2007, the Asia Pacific division was awarded one of the world's largest pest control contracts by the Government of Hong Kong. This is expected to generate revenues in excess of £20 million over the two-year contract period. Critical to its success was the ability to recruit and train 1,200 pest controllers in just six weeks. The team rose to the challenge brilliantly.

FINANCIAL REVIEW

CENTRAL COSTS

	Fourth quarter			Full year		
£ million	**2007**	2006	change	**2007**	2006	change
At 2006 constant exchange rates						
Central costs	**0.1**	(9.6)	101.0%	**(28.5)**	(19.5)	(46.2%)
One-off items	**–**	2.6	–	**–**	(9.2)	–
Central costs before one-off items	**0.1**	(7.0)	101.4%	**(28.5)**	(28.7)	(0.7%)

Central costs for the quarter were £7.1 million below the same quarter last year, mainly as a result of the partial reversal of 2006 and 2007 LTIP charges, the reassessment of bonus and similar provisions (reflecting lower-than-expected profits for the year) and the release of certain property provisions due to favourable changes in sub-let income. In the full year, there were a number of non-recurring charges and credits which have not been treated as one-off items as they are not linked to the group's restructuring programme. The largest two items which occurred in the second quarter were an asset retirement, together with associated charges, of £10 million and the £10 million net release of surplus property and environmental provisions. This followed a successful exit from onerous lease liabilities at a large site in Maldon, Essex. A cash payment of £13.2 million was made and the associated provisions were released. In addition, start-up costs of some £3.0 million were incurred in the first half on setting up the UK Shared Service Centre in Dudley. The run-rate of central costs is expected to be around £9.0 million per quarter in 2008.

ONE-OFF ITEMS

One-off items relate to the group's restructuring programme and consist of consultancy, redundancy and reorganisation costs net of the profit on sale of certain properties in the UK washroom business. They 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. In aggregate they make it difficult to understand underlying trends in performance unless they are separately identified.

Across the group, the net cost of these one-off items for the year was £28.4 million, compared with £22.6 million last year. This represents costs of £39.1 million offset by profit of £10.7 million on the disposal of surplus UK washroom properties. Of the costs, £25.4 million related to the integration of City Link and Target Express. Another £12.8 million was incurred in the rationalisation of Textiles and Washroom with a further £0.9 million to complete the UK Pest Control and Facilities Services rationalisation programmes. £18.3 million of the City Link integration costs are provisions for the estimated cost of exiting surplus leasehold depots.

INTEREST

Net interest payable for the year was £71.9 million, a £20.8 million increase over the prior year. Of the increase, approximately £6.1 million was attributable to higher levels of average debt and £14.7 million to effective interest rates which were, on average, approximately 1.3% higher than in 2006.

The interest charge was reduced by approximately £7.7 million in the third quarter and approximately £8.7 million in the fourth quarter as a result of the receipt of £533 million in early July and £92 million in late December following the sale of the group's Electronic Security division. Approximately £800 million of the group's forecast debt is at fixed rates of interest averaging 5.8%. The balance is exposed to LIBOR.

TAX

The blended headline rate for 2007 was 30.0% (2006: 30.7%). This represents the weighted headline tax rates appropriate to the countries in which the group operates. The income statement tax charge for 2007 for continuing businesses was 21.3% of profit before tax from continuing operations, compared with 20.1% for 2006. The principal factor that caused the effective tax rate to be lower than the blended rate is the release of provisions for prior year items as the positions are now agreed with the relevant tax authorities. The blended headline rate for 2008 is expected to be approximately 29.3%.

DISCONTINUED OPERATIONS

Our Electronic Security division was sold during the year at a headline price of £595 million. The sales of the UK, Netherlands and US businesses were completed in early July 2007 and the French business completed in December, following regulatory approval by the French authorities. As a result the activities of the division have been treated as discontinued operations and excluded from the profit before income tax. Revenue from the Electronic Security division for the periods to completion was £181.2 million, generating adjusted operating profit of £25.7 million before amortisation of intangible assets (excluding computer software and development costs). Profit on sale of the division was £524.8 million on which no tax is expected to be paid.

DIVIDENDS

The board has recommended an unchanged final dividend of 5.25p per share which, if approved, will be payable on 23 May 2008 to shareholders on the Register on 18 April 2008. The total dividend for the year will be 7.38p, the same as last year. The board's dividend policy remains unchanged and the dividend will not be increased until the group returns to sustainable profitable growth.

CASH FLOW AND DEBT

Operating cash flow was £188.1 million compared with £211.0 million in the prior year. Although EBITDA was £36.2 million better than last year (reflecting the non-recurrence of losses incurred in the UK linen and workwear business in 2006 and partially offset by the disposal of Electronic Security in July 2007), the working capital and net capex outflows were £46.0 million and £13.1 million worse than 2006, leaving operating cash flow £22.9 million below last year. The working capital outflow has three main components: the payment made to exit the onerous property in Essex; the cash payment in 2007 of certain reorganisation costs provided at the end of 2006; and an increase in trade receivables consistent with the increase in fourth quarter revenues.

Free cash flow was £102.1 million (2006: £128.6 million) reflecting lower net tax payments following the receipt of certain refunds in the first half.

Acquisition activity resulted in a cash outflow of £197.4 million for the year with receipts from disposals (mainly Electronic Security) producing an inflow of £596.8 million. Additional contributions of £80.0 million were made to, or for the benefit of, the UK Pension Scheme during the year.

At 31 December, net debt was £947.1 million. The group currently has £852 million of committed bank finance with available headroom of £775 million at the end of February 2008. This is adequate to deal with the group's foreseeable requirements and also to provide cover for 2008's capital market maturities (€100 million in July 2008 and £250 million in November 2008) in the event that the debt capital markets remain difficult for the remainder of the year.

FINANCIAL RISK MANAGEMENT POLICIES

The board has approved the following financial risk management policies. These policies cover those financial risks that are material to the company's operations and financial results. The board has set appropriate delegated authorities, treasury financing parameters and reporting procedures to ensure compliance with such policies at all times. The effect of the company's treasury activities is reflected in the disclosures in notes 16, 21 and 22.

CAPITAL STRUCTURE AND FINANCING STRATEGY (LIQUIDITY RISK)

The board has set the following policies so as to minimise the company's exposure to liquidity risk and thus ensure that the company is able to meet its liabilities as they fall due.

The company is committed to maintaining a debt/equity capital structure that is sufficiently robust so as to ensure the continued access to a broad range of financing sources and thus be able to maintain sufficient flexibility to pursue commercial opportunities, in a timely manner as they present themselves, without the imposition of onerous financing terms and conditions. The company will target a minimum financing headroom of £200 million, when measured against its latest forecast/anticipated cash flows over a rolling nine-month time horizon. The company's sources of finance should be structured in a manner so as to minimise potential refinancing risk particularly arising from a bunching of debt/note facility maturities.

The company's financing sources should be diversified, across the international banking and capital markets, so as to avoid the over-reliance upon a single source, or disproportionately large source, of funds from an individual capital market note issue or bank finance provider.

In autumn 2005, the group's credit rating from Standard & Poor's was reduced from BBB+ with negative outlook to its current level of BBB. Following the publication of the group's preliminary results at the end of February 2008, Standard & Poor's has placed the group's rating on negative outlook. This outlook change primarily reflected the increased business risk of the group as a result of the recent issues at City Link. We continue to target a stable BBB+ rating in the medium-term as we believe that this strikes an appropriate balance between an efficient capital structure (as represented by a low weighted average cost of capital), liquid access to the capital markets and reasonable pricing.

At 31 December 2007, the group had approximately £544.9 million of undrawn committed bank credit facilities. The company is in compliance with the financial and other covenants within its committed bank credit facilities as well as all obligations relating to the notes issued under the Euro Medium Term Note (EMTN) programme.

In 2007 the group lengthened the maturity profile of its debt. This was achieved through the successful issuance of a €500 million seven year bond in March and the one year extension of the existing £500 million five year syndicated bank credit facility in October, from October 2011 to October 2012.

MARKET PRICE RISK

The company and its reported results are exposed to financial market price movements. These risks principally arise from the interest and foreign exchange rate markets. In addition, through its UK defined benefit pension scheme ("the scheme" – see note 24), the company also has exposure to equity market price movements. The trustee directors are responsible for setting the risk management strategy for this scheme. In 2006 this scheme's exposure to equity market price movements was markedly reduced. In 2006 the scheme's assets were switched from being predominantly in equities (80%/20% equities/bonds) to being mostly in corporate bonds (20%/80% equities/bonds). A 10% movement in equity prices in any one year would give rise to a +/–£20.0 million movement in scheme assets and thus a corresponding movement in the underlying scheme deficit. Shortly after this asset switch, the scheme also undertook inflation and interest rate hedging actions. These actions, together with the closure of the scheme to future accrual with effect from September 2006 were undertaken so as to increase the likelihood that the scheme's assets (together with the company's agreed future contributions) would be sufficient to meet its anticipated financial commitments to existing and future pensioners. The company has agreed a schedule of future company contributions with the scheme's trustee in December 2005.

INTEREST RATE RISK

The policy is to manage interest rate exposures on a 12-month rolling basis (measured quarterly). Unless otherwise agreed by the board, a minimum of 50% of the company's estimated future interest rate exposures should be fixed (or capped) for a minimum period of nine months forward. Additionally, in the event that the company's interest cover (measured by the ratio of adjusted operating profit to net interest payable) is forecast to fall below 4.75 the board will be required to approve a remedial action plan.

Some 80% of the group's net borrowings are currently at fixed rates of interest for 2008. Thereafter, in the event that interest rates rise or fall by 1% p.a. simultaneously across the group's borrowings, the net interest payable by the group would then correspondingly increase or reduce by approximately £2 million on an annualised basis.

FOREIGN EXCHANGE RISK

Foreign exchange risk can arise as follows:

1. from retranslation of overseas business profits into the sterling functional reporting currency of the company;
2. from retranslation of assets and liabilities of overseas companies into the functional currency of the company;
3. from cross-border trading transactions of group companies; and
4. from the use of currency denominated borrowings and financial instruments used to finance business operations.

The company has a policy of not hedging foreign exchange translation risks outlined in 1 and 2 above. Further, the company has a policy of not hedging foreign exchange risks arising from cross-border trading activities given that these are immaterial.

The company policy is to fund its business operations centrally with borrowings that are substantially denominated (90% or greater) in the same actual or effective currencies*, and in the same proportion as the group's forecast cash flows generated by the business.

*Actual or effective currency. The use of either actual currency borrowings or currency swaps is permitted. Currency swaps economically change the actual currency of borrowing into an effective amount, borrowed in a different currency. Currency swaps will be used in preference to actual currency borrowings when the all-in cost is cheaper than the alternative currency borrowings and/or they enable a closer match to the company's debt maturity calendar.

TREASURY RISK

The company utilises financial instruments to manage financial risks that arise naturally from its business operations. Only group treasury personnel are authorised to deal such instruments on behalf of the company. The board has set strict policies for the use of such instruments. The company's policy is to ensure that their use shall be:

- strictly limited to the management of known or anticipated financial exposures which arise from the company's existing or planned commercial operations;
- only undertaken by suitably qualified or experienced group treasury staff;
- undertaken only after efforts have been taken to avoid the need for use of such derivative instruments to manage the group's financial exposures;
- limited to the management of interest rate or foreign exchange exposures (i.e. no equity related or commodity hedging shall be undertaken without specific board approval);
- undertaken only after the preparation of clear documentation which explains the purpose for the use of the specific derivative and its proposed financial accounting treatment;
- capped by the maximum approved counterparty limit for that transaction; and
- subject where relevant to detailed "hedge effectiveness" testing by group treasury, through to maturity of the transaction, if designated and documented as a "hedge" at the outset of the transaction.

CREDIT RISK

The company limits its exposure to credit risk on financial instruments by ensuring, where appropriate, that instruments used are subject to International Swaps and Derivatives Association market standard legal documentation.

The board also sets maximum counterparty approval limits for individual financial counterparties. These limits are reviewed and varied to take account of changes to the underlying credit rating of individual credit counterparties as required.

ACQUISITIONS

The group acquired businesses in the year for a net consideration of £201.0 million.

Details of the businesses acquired and the revenue and operating profit therefrom are set out in note 30 to the accounts.

PENSIONS

The group's IAS 19 net pension asset was £50.0 million at the end of 2007 compared with a deficit of £118.8 million at December 2006. The group has a number of small defined benefit schemes outside the UK but the principal scheme ("The Scheme") is in the UK which had an asset of £63.9 million at December 2007 compared with a deficit of £108.3 million a year ago. The principal reason for the reduction in the deficit is due to pension contributions of £80.6 million and a change in the underlying financial assumptions (in particular the yield on AA-rated corporate bonds rose significantly and the long-term outlook for inflation increased). Overall, this led to a lower value being placed on liabilities at the end of the year resulting in a gain of some £117.6 million. During the year, equity markets increased (but returned less than assumed) and bond markets ended relatively flat (and returned approximately in line with assumed). The swaps also increased in value. Overall, this led to a loss on assets of around £11.9 million. Experience losses on liabilities were £14.0 million and £80.6 million was paid into the scheme during the year.

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 71 to 78.

The group has adopted IFRS 7, "Financial Instruments: Disclosure", the complementary amendment to IAS 1, "Presentation of Financial Statements – Capital Disclosures" and IFRIC 14," IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction" during the year. IFRS 8 "Operating Segments" (effective 1 January 2009) has not been adopted in 2007.

CORPORATE RESPONSIBILITY

Over the last three years, our approach to corporate responsibility has developed alongside our continuous process of business improvement. We have seen improvements in central activities such as our governance processes and our procurement and health and safety management as well as business-based activities – developing colleague engagement, enhancing employees' skills, understanding customers' expectations and improving environmental management. They represent a global commitment aligned with local progress.

Significant progress was made in 2007. Our corporate responsibility performance indicators are shown below:

KPI	**2007**	2006	Change
CO_2 emissions (kilogrammes per employee)	**3,274**	3,870	15.5% improvement
Water consumption (litres used per kilogramme of textiles washed)	**14.40**	14.91	3.4% improvement
Work-related accidents – like-for-like basis (UK RIDDOR reporting)	**222**	244	9% improvement
Health & Safety scorecard management system (% business units populating this system)	**76%**	Not launched	Not applicable
Total colleague engagement score (surveyed across Rentokil and Ambius)	**72**	68	6% improvement

Details can be found in the full Corporate Responsibility Review 2007, which can be accessed via www.rentokil-initial.com. Following are highlights from each key reporting area.

OUR MANAGEMENT APPROACH

Our Company Executive Board reviews all aspects of corporate responsibility. This year, we have articulated our new vision and values statement, updated our code of ethics (and published a statement of principles), and reviewed our competition/antitrust law training, (supported by an online training programme – completed by over 1,000 managers and sales staff to date).

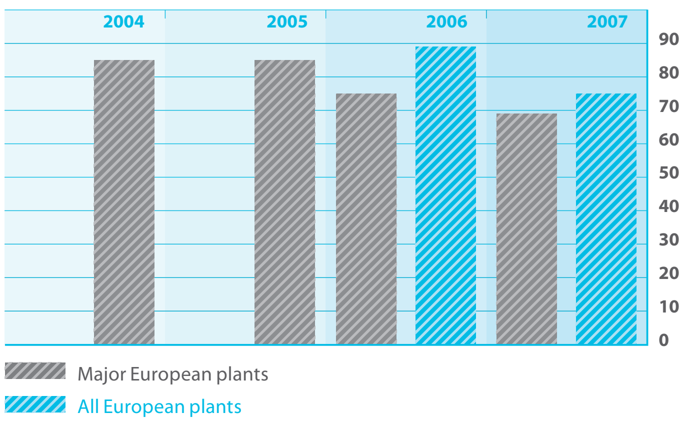
ENVIRONMENT

This year, improvements in a number of areas have resulted in both cost efficiencies and environmental improvements. We invested in new textiles and washroom services processing facilities and introduced a new and more efficient HGV fleet in City Link (supported by introducing Driver Assessors, helping HGV drivers to drive more economically).

Our total CO_2 emissions in 2007 were 258 million kilogrammes (271 million kilogrammes in 2006), equivalent to 3,274 kilogrammes for each employee (3,870 kilogrammes in 2006). This represents a 15.5% improvement (year-on-year).

We have also improved the accuracy of our reporting. 91.5% of data is based on actual figures (2006: 83%). 29% of our CO_2 emissions came from textiles processing plants, where there have been significant process improvements since 2004 (reducing both CO_2 and water consumption) as shown below:

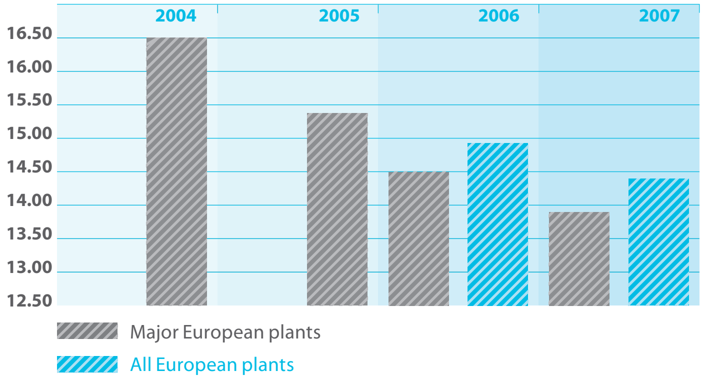
CARBON DIOXIDE EMISSIONS – MILLIONS KG EUROPEAN LAUNDRY PLANTS



PUTTING VALUES INTO ACTION

Our UK shared service centre in Dudley (West Midlands) opened in 2007. It provides customer, financial and human resources services for our UK operating businesses. From the outset, the management has explained our company's values to the centre's employees (visit www.rentokil-initial.com for more information), and demonstrated how they are expected to deliver them to customers. As part of its role, the centre provides support for customers with improved IT systems linked to improved management processes, covering customer billing and tracking of customer complaints. These improved processes means that better measurement can be achieved which leads to improved practices and customer satisfaction.

WATER CONSUMED - LITRES PER KILOGRAMME OF TEXTILES WASHED – EUROPEAN PLANTS



Also, our businesses have focused on delivering technical advances that improved product stewardship and provided environmentally friendly services to customers.

In Pest Control, we established a global technical services team, covering four key areas – fumigation, termites, authorised product list and technical competence. Benefits include an authorised product list ensuring best technical practice and fumigation based on risk hierarchy (minimising risks of use of toxic substances). As part of the approach to improve the quality of our technical services, we are the only service provider to have successfully registered carbon dioxide under the Biocidal Products Directive, due for mandatory application in 2010.

To help customers to adopt more environmentally friendly practices, we have launched a new service through Enviro-Fresh which can significantly reduce urinal water usage. Rentokil has been appointed as one of the preferred suppliers to the 2008 Beijing Olympics – a key factor was our unique indoor fumigation technology, using chemicals with extremely low toxicity. In Hong Kong we are working with the Government to enhance public health, involving the recruitment and training of 1,200 people as pest controllers. Supporting Initial Facilities Services' customers to reduce waste generation, we have introduced Ecologic – enabling customers to undertake waste audit, waste planning, tracking and reporting.

PEOPLE

Our focus on our people activities is in two areas – improving the quality of engagement and developing their skills.

COLLEAGUE ENGAGEMENT

In late 2006, Rentokil and Ambius businesses undertook "Your Voice Counts" – a colleague engagement survey. Repeated in 2007, it was communicated in 16 different languages, reaching over 8,000 people and achieving responses of 93%. Significantly improved results were achieved – overall colleague engagement score improved by 6%. Similar surveys have been undertaken in 2007 in Initial Textiles in France and City Link, where a high percentage of employees regard themselves as a "supporter of change" at a time of considerable change.

DEVELOPING EMPLOYEES' SKILLS

The Talent Development programme, introduced in 2006, focusing on leadership development, is being rolled out across individual businesses appropriate to their needs. In City Link, this includes cultural change training, reflecting its intent to be employer of choice in its sector.

Initiated in 2004, Initial Facilities Services' national contract with the Learning and Skills Council covers cleaning staff in the UK and employees in Initial Catering Services and Initial Hospital Services. In 2007, over 650 people in these companies were working towards NVQ or Skills for Life training qualifications. Initial Facilities Services is also participating in the Asset Skills' Women and Work initiative, supporting a total of 150 supervisors to improve their literacy or numeracy skills. In addition, Ambius is introducing its "Ambius University" to deliver high quality training in multiple languages.

The business was one of the first companies to sign up to the UK Government's Skills Pledge.

CUSTOMERS

Our individual businesses are provided with guidance to make sure they have a thorough and practical understanding of our policies on ethical business behaviour towards both customers and suppliers.

Extensive use is made of customer surveys to monitor and enhance customer relationships. The Initial Textiles and Washrooms division undertook its first pan-European customer survey in 2007, building on its French business's experience of undertaking surveys for 20 years. Some 31,000 customers in 16 countries were contacted to participate in the survey. Overall, customer satisfaction was well above 7 (on a scale from 1 to 10).

In early 2007, the rebranding of the plant rental business to Ambius was based on customer outputs from workshops, identifying opportunities for service enhancements, service proposition and naming. These inputs built upon the longstanding customer survey experience in Ambius's North America operation (its most recent survey was of nearly 6,000 customers) whose results became part of its continuous improvement programme.

In 2007, we opened our new multi-million pound UK Shared Services centre, offering improved management processes, such as customer billing and tracking of customer complaints. These processes included improved customer service delivery measurements.

Focus on customer service can require restructuring of service delivery teams. This was the case with our UK Pest Control business, which launched a dedicated 'High Dependency' technician team focused on the needs of specialist sectors, such as food and pharmaceutical companies. Similarly demanding customer hygiene requirements led Initial Textiles in France to achieve certification of its operations to RABC (Risk Analysis for Bio Contamination) standards – the first and only textiles organisation in France to be certified to RABC standards.

A key element of customer service includes high quality customer communications, including online. Today, we have 75 new websites in local languages supporting our customers.

SUPPLY CHAIN

In 2007, we refined our procurement approach to offer greater structure and co-ordination of purchasing across the group. This builds upon best practice approaches such as those of Initial Textiles in France, which has a supplier contract that requires its suppliers to meet ethical, environmental and labour standards, and uses WethicA (World Ethical Audits) supplier assessments and requires its suppliers to provide OEKOTEX certification, providing traceability for textile products. The business was the first French textiles services company to be certificated as a member of "Fibre Citoyenne" – "Fibre Citizen" – encouraging sustainable development practices in the textiles industry.

The principles behind our new procurement approach are a global approach, implemented locally with consistent quality and governance, as well as a global sourcing capability in Asia Pacific. The benefits of the approach will be both cost effective purchasing and a better governance and procedures framework.

HEALTH AND SAFETY

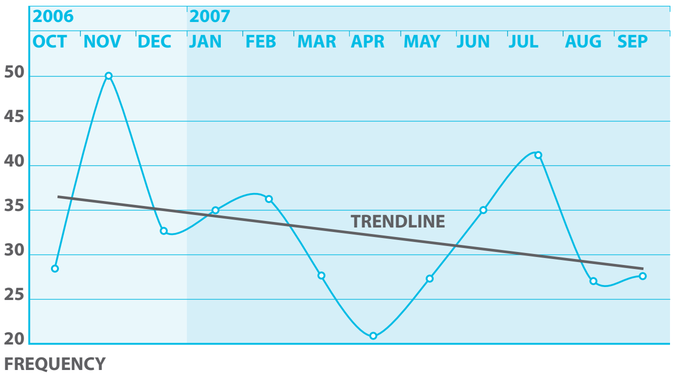
Health and safety is one of our highest priorities. All multi-national companies are challenged to ensure their legal responsibilities are addressed in a consistent and cost effective management approach.

To address this challenge, our new on-line business scorecard system was introduced to provide assurance about the effectiveness of our health and safety management, drive performance improvement and provide assurance to customers. In its first year, the scorecard was rolled out to 76% of companies in the group.

We need also to manage the results of accidents that occur. Within the UK, a new programme – Success is No Accident – was introduced which helps understanding of accidents and their causes, and ensures more effective referral for rehabilitation services. In 2007 this programme won the Rehabilitation Initiative of the Year – Employer Award.

The trend for the number of UK reportable incidents (RIDDOR) to improve continued with a 9% like-for-like reduction in incidents, and the RIDDOR trend remains positive, as shown below.

RIDDOR REPORTABLE INCIDENT
RENTOKIL INITIAL (UK) FOR 2006/2007



Our UK companies continued to be successful in the Royal Society for the Prevention of Accidents (RoSPA) awards, with City Link gaining a total of seven RoSPA Gold Medals.

COMMUNITIES

Our community activities are led at a local level, and focus on activities which benefit their local community and meet their business needs and strategy.

Charitable cash donations amounted to £107,000 in 2007 (2006: £198,000), largely as a result of our matched giving scheme. Alongside these donations, we actively support bodies that aim to improve the quality of life in our society, such as the Safer London Foundation. Our Hong Kong operation was awarded the “Caring Company Award” to recognise our contribution to Hong Kong communities. In Taiwan, where there had been an outbreak of Dengue Haemorrhagic Fever, our local pest control employees conducted free inspections and treatment for the control of mosquitoes in local schools.

Our most effective community initiatives tend to be those where employees are actively engaged in long-lasting programmes.

The Daintree Rainforest Rescue sponsorship programme in Queensland has been supported by our Australian business for several years. We participated in their “buy back and protect forever” with the purchase of a 17,500 square metre block of rainforest and provide support through a wide range of initiatives.

For three years, we have supported the Thusanang Development Centre in South Africa, through the donation of a 21-acre property to develop community projects. Its main beneficiaries are the squatters in the Olivienhoutbosch community. In recognition of our commitment to this project, the business was recently presented with a Merit Award Certificate for “Devoted and Unselfish Service above Self”. We also support The Zenzeleni Trust to provide support and benefit for HIV/AIDS infected or affected colleagues. The business and employees provide funding. Thirty-four volunteers have received training at HIV/AIDS workshops, to enable them to assist HIV/AIDS affected and infected colleagues including counselling.

SENIOR MANAGEMENT

MARK BOYLE
Group Strategy and Development Director

Aged 47. Joined in 2005. Formerly Corporate Development Director of Compass Group PLC having previously spent 14 years in banking with Lloyd's Bank International and Kleinwort Benson.

HENRY CHANDLER
Divisional Managing Director, Textiles and Washroom Services

Aged 47. Appointed Divisional Managing Director in November 2006 having previously held executive responsibility for Electronic Security, City Link and Facilities Services. Joined in 1996 with the acquisition of BET where be was the chief executive of the Style Conferences business.

PETAR CVETKOVIC
Divisional Managing Director, City Link

Aged 46. Appointed in February 2008. Previously Chief Executive Officer of Target Express, acquired by Rentokil Initial plc in November 2006. Before joining Target Express he held senior management positions in a number of leading logistics and transport companies including Norbert Dentressangle, Christian Salvesen and SEI (Securicor/DHL).

ANDY HOBART
Divisional Managing Director, Pest Control, Ambius and Hygiene

Aged 45. Joined in December 2005. Previously managing director of RAC/RBS Joint Venture company Lex Transfleet and prior to that held a number of senior management positions within the BOC Group.

ANDY KEMP
Group HR Director

Aged 57. Appointed in October 2005. Previously Group HR Director of Aegis Group plc, News International, TDG and Bovis International. Before joining Bovis he held a number of HR appointments in the British Army at the rank of captain and major.

BRYAN KINSELLA
Chief Informatiion Officer

Aged 51. Joined in 2007. Formerly, Senior Vice President and chief information officer of the Society of International Telecommunications and Aeronautics having previously held board positions at Vertex (part of United Utilities) and Computer Science Corporation and executive roles at ASDA and International Computers.

DAVID LIU
Regional Managing Director, Asia Pacific

Aged 53. Joined in November 2005. Previously headed Aegis Media, Asia Pacific which had operations in 14 countries across the region. Before this held positions with Saatchi and Saatchi, Bozell and McCann-Erickson.

PETER LLOYD
Divisional Managing Director, Facilities Services

Aged 57. Joined in 1986 having sold his retail cleaning company to the group in 1985. Prior to current role, appointed managing director of UK Cleaning in 2002.

DIRECTORS AND SECRETARY

01 WILLIAM RUCKER
Non-Executive Director

Aged 44. Chartered Accountant. Appointed a director in February 2008. Chief Executive of Lazard & Co Ltd in the UK, Deputy Chief Executive of European Investment Banking and a Deputy Chairman of Lazard LLC. Joined Lazard in 1987 from Arthur Andersen. An independent non-executive director.

02 PETER BAMFORD
Non-Executive Director

Aged 53. Appointed a director in July 2006. Non-executive director of Woolworths plc and Chairman of The Key Revolution. Formerly chief marketing officer and director of Vodafone Group plc having held senior executive roles at Vodafone, including as chief executive of Northern Europe, Middle East and Africa operations and chief executive of Vodafone UK. An independent non-executive director.

03 DOUG FLYNN
Chief Executive (Resigned 19 March 2008)

Aged 58. Appointed a director and chief executive in April 2005. He was previously chief executive of Aegis Group plc, having joined the board as a non-executive director in 1999. Prior to this, he spent 13 years with the News Corporation Limited in the UK and Australia, latterly as managing director of News International Plc. Before joining News Corporation Limited he was with ICI for ten years, working in Australia and Hong Kong in various management roles.

04 DUNCAN TATTON-BROWN
Non-Executive Director

Aged 43. Chartered Management Accountant. Appointed a director in July 2005. Group finance director of Kingfisher plc, having been previously finance director of B&Q plc. He was previously chief financial officer of Virgin Entertainment Group. An independent non-executive director.

05 BRIAN MCGOWAN
Chairman (Resigned 19 March 2008)

Aged 63. Chartered Accountant. Appointed a director in October 1996 and non-executive chairman in July 2004. Chairman of UMECO plc and Catalyst Corporate Finance LLP. Formerly chief executive of Williams plc and chairman of House of Fraser plc.

06 ANDREW MACFARLANE
Chief Financial Officer

Aged 51. Chartered Accountant. Appointed a director in August 2005. He was previously group finance director of Land Securities Group plc. Prior to that he was chief financial officer of Bass Hotels and Resorts. Formerly a non-executive director of Invensys plc.

07 PETER LONG
Non-Executive Director

Aged 55. Chartered Management Accountant. Appointed a director in October 2002. Chief executive of TUI Travel PLC. Non-executive director of Debenhams PLC. Formerly chief executive of Sunworld Limited. The senior independent non-executive director and fulfilling the duties of Chairman from 20 March 2008 until completion of the annual general meeting in 2008.

08 ALAN GILES
Non-Executive Director

Aged 53. Appointed a director in May 2006. Chairman of Fat Face plc and a director of the Office of Fair Trading. Formerly: chief executive of HMV Group plc, managing director of Waterstone's, a director of WH Smith PLC and a non-executive director of Somerfield plc and Wilson Bowden plc. An independent non-executive director.

09 RICHARD BURROWS
Non-Executive Director

Aged 62. Chartered Accountant. Appointed a director in January 2008. Governor of the Bank of Ireland and a non-executive director of Pernod Ricard SA (France), Cityjet Limited (Ireland) and Mey İçki (Turkey). Formerly joint chief executive of Pernod Ricard SA and chairman and chief executive of Irish Distillers. An independent non-executive director.

PAUL GRIFFITHS
Secretary

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The company is the holding company of a group which through its operating businesses in some 50 countries provides a range of, principally, business to business support services. During the year under review the company disposed of its interests in the electronic security sector in Europe and the United States. A summary description of the group's activities is given on the inside front cover and a more detailed description is contained within the business review on pages 18 to 44. The principal subsidiary undertakings and joint ventures of the company are shown on page 122.

BUSINESS REVIEW

The business review, on pages 18 to 44 forms part of this report and reports on the group's activities during the year and on likely future developments. The business review describes the key performance indicators used by the board to monitor progress against strategy, together with disclosures of the principal risks and uncertainties affecting the business.

RESULTS AND DIVIDEND

The consolidated profit before income tax for 2007 was £142.0 million (the tax on this was £30.3 million). Dividends declared and recommended out of 2007 profits amount to £133.4 million. Net consolidated capital employed is £58.3 million compared to negative £533.6 million last year.

An interim dividend of 2.13p per share, amounting to £38.5 million, was paid on 19 October 2007. The board recommends the declaration of a final dividend of 5.25p, amounting to £94.9 million (adjusted for the waiver of dividend in respect of the shares held by the trustee of the Rentokil Initial Employee Share Trust). The total distribution for 2007 would then be 7.38p per share (2006: 7.38p) amounting to £133.4 million. Subject to shareholders approving the recommended dividend at the annual general meeting, the dividend will be paid on 23 May 2008 to shareholders on the register at the close of business on 18 April 2008.

SUBSTANTIAL INTERESTS AND SHARE CAPITAL

The company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements in operation which may at a subsequent date result in a change in control of the company. As at 27 March 2008, the following shareholders had indicated that they were interested in 3% or more of the company's issued share capital. The total interests of such shareholders equals 32.38%.

Details of movements in the company's ordinary shares during the period are provided in note 9 to the parent company financial statements.

Authority for the company to make purchases of its own shares of up to 90.7 million was obtained at the annual general meeting on 3 May 2007. No purchases of its shares were made by the company in 2007.

The authority is normally renewable annually and approval will be sought from shareholders at the 2008 annual general meeting to renew the authority for a further year.

Substantial shareholdings	%	No. of ordinary shares	Nature of holding
Aviva plc (and subsidiaries)	3.11	56,498,478	Direct
Britel Fund Trustees Ltd	5.004	90,818,295	Indirect
Legal and General Group plc	4.19	76,211,543	Indirect
Lloyds TSB Group plc	8.686	157,633,447	Indirect
Silchester International Investors Ltd	5.29	96,039,752	Direct
ValueAct Capital Management LLC and its affiliates (i)	6.10	110,789,037	Indirect

1. (i) This notification has been reported on an aggregated basis and includes the 5.42% holding of Value Act Capital Master Fund LP (98,383,480 ordinary shares) and the 0.68% holding of ValueAct Capital Master Fund III, LP (12,405,557 ordinary shares).

(ii) Franklin Resources, Inc (and affiliates) and UBS AG no longer hold disclosable interests in the Company.

ELECTRONIC COMMUNICATIONS

With the consent of shareholders at the annual general meeting in 2007, the company is authorised under the Companies Act 2006 to communicate with shareholders or anyone with an indirect interest in shares by making such communication available on its website, in accordance with Schedule 5 of the Act. Accordingly, 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 the form in which they wish to receive their shareholder communications. Further information on shareholder services is available on page 132.

BOARD

Biographical information on the current directors of the company, including their ages and their dates of appointment, is shown on page 51.

Ian Harley stepped down as a director on 18 July 2007 and at the same time was appointed a director and chairman of the trustee company of Rentokil Initial's UK pension schemes.

On the recommendation of the nomination committee, Richard Burrows was appointed a director on 14 January 2008 and William Rucker was appointed a director on 15 February 2008 and under the company's articles of association will offer themselves for re-appointment at the annual general meeting on 14 May 2008. Neither Richard Burrows nor William Rucker have a service contract with the company.

Following the resignation of Brian McGowan and Doug Flynn as Chairman and Chief Executive respectively on 19 March 2008, it was announced on 20 March 2008 that Dr John McAdam will be proposed for appointment as a director at the annual general meeting. Alan Brown will be appointed a director and Chief Executive on 1 April 2008 and Andy Ransom will be appointed a director on 1 May 2008, both of whom will submit themselves for election at the annual general meeting.

The directors retiring by rotation will be Andrew Macfarlane and Duncan Tatton-Brown, who are eligible and offer themselves for re-election at the 2008 annual general meeting. Details of Andrew Macfarlane's contractual arrangements with the company are set out in the remuneration report. Duncan Tatton-Brown does not have a service contract with the company.

DIRECTORS' INTERESTS

The interests of the directors and their families in the share capital of the company on 1 January 2007, or their date of appointment if later, and 31 December 2007 are set out on pages 62 to 64. Doug Flynn and Andrew Macfarlane each received an award under the company's performance share plan introduced in 2006, details of which are shown in the remuneration report on page 63. No director had any beneficial interest in the shares of any of the company's subsidiaries on those dates. Any changes in the interests of the directors and their families in the company and its subsidiary companies during the period from the end of the financial year to 27 March 2008 are described in the directors' remuneration report. Richard Burrows holds a beneficial interest over 25,000 shares in the company purchased on 28 February 2008.

DIRECTORS' INDEMNITY AND INSURANCE

The company has granted indemnities in favour of its directors as is permitted by the Companies (Audit Investigations and Community Enterprise) Act 2004. 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 fraudulent activity.

INTERESTS OF DIRECTORS IN CONTRACTS

During 2007, no director had any material interest in any significant contract to which the company or any subsidiary was a party.

RELATED PARTY TRANSACTIONS

Other than in respect of arrangements relating to employment of directors, details of which are provided in the remuneration report, or as set out in note 34 to the consolidated financial statements on page 121 there is no material indebtedness owed to or by the company to any employee or any other person considered to be a related party.

EMPLOYEES

The company attaches considerable importance to communicating with employees. Internal communications take place at a group, divisional, business and team level in order to ensure that employees 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 "Horizons" which features interviews with senior executives about major initiatives and performance. A DVD of the 2007 leadership conference was made available to all businesses to support the communication of company strategy. In Europe, the company meets its European Forum (European Works Council) at least once a year to communicate with employee representatives from across the continent. It maintains an open dialogue with the Forum at times of business change. Divisional communications use a wide range of channels such as email, divisional intranets, electronic newsletters and quarterly magazines. Great importance is placed on face-to-face team meetings.

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

POST BALANCE SHEET EVENTS

Post balance sheet events are shown in note 35 to the consolidated accounts on page 121.

POLICY IN RELATION TO PAYMENT OF SUPPLIERS

Rentokil Initial has a variety of payment terms with its suppliers in various countries. These are either negotiated along with other contract terms or conform to standard terms applied either by the relevant group company or by the supplier. It is the company's policy to pay suppliers in accordance with either negotiated or standard terms, provided that the relevant invoice is properly presented in a timely manner and is not the subject of dispute. At 31 December 2007 the trade creditors of the group represented 57 days of annual purchases and the UK businesses' trade creditors represented 56 days of purchases; UK trade debtors represented 55 days of turnover. During the year the parent company did not have any trade creditors.

CORPORATE RESPONSIBILITY AND CHARITABLE DONATIONS

As described in the corporate responsibility review on pages 45 to 49, the group seeks continually to identify best practices within the group in relation to employees, customers, suppliers and the communities on which we have an impact and to encourage the highest standard of responsible behaviour as well as continually to seek to operate the business in ways which are most sympathetic to our environment. The company publishes a corporate responsibility report annually which is available to download from the company's website, www.rentokil-initial.com/csr.

The company takes account of social, environmental and ethical considerations when managing the business and when contemplating new activities. The company views the processes in place to manage risk and to motivate and incentivise managers described in the report as equally relevant and integral to an analysis of social, environmental and ethical matters.

In 2002 the board adopted a range of corporate responsibility policies. In addition to policies and procedures in respect of the environment and health and safety, they comprise policies on ethics, the fundamental rights of employees, equal opportunities and diversity, employee remuneration, training and employee development, job security and wealth creation, relationships with customers and suppliers and community involvement. In 2007 the company reviewed and updated its ethics policy and introduced new guidance for operating businesses worldwide on how their local business practices should conform to the group's business principles. The chief executive is the director responsible for corporate responsibility matters.

Donations for UK charitable purposes in 2007 amount to £51,000 and a further £56,000 was donated in other countries. There were no payments to political organisations. Payments are made to a wide range of charitable organisations both in the UK and overseas. The matched giving scheme whereby the company matches donations made by employees following employee fundraising has been reviewed by the board and a greater effort is now being placed upon ensuring that the scheme is better utilised by employees, particularly those outside the UK.

RESEARCH AND DEVELOPMENT

The company invests in an active programme of research and development in support of its major international business streams. This programme includes the conception, design, testing and manufacture of new products to enhance the quality, effectiveness and safety of the company's services and minimise their environmental impact. Where appropriate, work may be sponsored at universities with expertise in relevant areas. The company's total research and development expenditure in 2007 was £1.7 million (2006: £3.1 million).

FINANCIAL INSTRUMENTS

The company's financial risk management objectives and policies are set out within the Financial Review on pages 40 to 44, which includes the policy for hedging certain forecast financial transactions. The review and notes 16, 21 and 22 to the accounts also detail the company's exposure to price, credit and liquidity risks. The company is not materially exposed to foreign exchange risks arising from cross-border trading transactions, although it is significantly exposed to foreign exchange investment risks.

TAKEOVERS DIRECTIVE

Pursuant to section 992 of the Companies Act 2006, which implements the EU Takeovers Directive the Company is required to disclose certain additional information. Those further disclosures, which are not made elsewhere in this annual report, include the following:

The company's articles of association give power to the board to appoint 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. The articles themselves may be amended by special resolution of the shareholders.

The board is 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 memorandum and 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 and buying back of shares are also included in the articles of association and such authorities are renewed by shareholders each year at the annual general meeting. A copy of the articles of association is available to view on the company's website.

There are a number of agreements that take effect, alter or terminate upon a change of control of the company, such as some commercial agreements, financing arrangements and employee share plans. None of these are deemed to be significant in terms of their potential impact on the group as a whole. 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. Copies of executive directors' service contracts are available for inspection by shareholders at the company's registered office and at the annual general meeting.

ANNUAL GENERAL MEETING

The annual general meeting of the company will be held at No. 4 Hamilton Place, London W1J 7BQ on 14 May 2008 at 11 a.m.

In addition to the adoption of the 2007 report and accounts, the declaration of a final dividend, resolutions dealing with the appointment and re-election of directors, incentive arrangements for new directors, and the resolution dealing with the approval of the directors' remuneration report, there are resolutions on the following matters: the re-appointment and remuneration of the auditors, a routine authority to repurchase the company's shares, authorities to allot shares and disapply pre-emption rights and a general authority to make donations to EU political organisations. In addition the company will be proposing changes to its articles of association that are consequential on the enactment of the Companies Act 2006.

A separate letter to shareholders containing the notice of the annual general meeting and explanatory information on the resolutions to be proposed as special business accompanies this annual report. This annual report and the notice of the annual general report can be found on the company's website, www.rentokil-initial.com.

By order of the board

Paul Griffiths

PAUL GRIFFITHS
SECRETARY
27 MARCH 2008

CORPORATE GOVERNANCE

The company complies with the Code of Corporate Governance issued by the Financial Reporting Council ("the Combined Code"). The following specific disclosures are now made in accordance with the Combined Code 2006.

1. EFFECTIVE BOARD

The board is responsible to shareholders for the overall direction and control of the company and specifically reserves certain matters for its consideration (such as approval of the company's financial statements, major capital expenditure and major acquisitions and disposals) in the standing board governance procedures and practices, which are reviewed annually. The chief executive has delegated authority from the board to manage the company, subject to the strategic direction of the board. He is also responsible for the achievement of the objectives set by the board and preparing an overall strategy for the company to achieve such objectives and the implementation of the overall strategy decided by the board through the management and organisation of the company.

The board meets routinely eight times a year and additionally when necessary and follows an agreed formal schedule of matters which are considered at individual meetings. In 2007 the board met on eleven occasions. Details of directors' attendance at board and principal committee meetings are set out on page 56. The limited number of directors' absences from meetings were due to unavoidable conflicting business commitments.

2. COMPOSITION OF THE BOARD

Information on directors is set out on page 51.

3. BOARD COMMITTEES

The board has reviewed and updated its governance procedures and practices including the terms of reference of the principal board committees. Following the appointment of additional non executive directors in 2008, the board will be reviewing the membership of principal board committees.

AUDIT COMMITTEE

The principal oversight responsibilities of the committee cover: financial reporting, internal control and risk management, various matters concerning the external auditors including their appointment, scope of their duties, their independence and monitoring and receiving reports from the internal audit function. The terms of reference of the committee (available at www.rentokil-initial.com) reflect the Smith Guidance which is appended to the Combined Code. The committee reviewed its terms of reference towards the end of 2007 and concluded that, subject to a minor amendment, they remained appropriate. The audit committee has reviewed its effectiveness during the year and concluded that it had continued to operate effectively.

The members of the committee at the end of the year were Duncan Tatton-Brown (chairman), chartered management accountant, (becoming chairman in July 2007 on the retirement of Ian Harley as a director), Peter Bamford and Alan Giles, all of whom are non-executive directors. Of the members of the committee, Duncan Tatton-Brown has recent and relevant financial experience. The committee reviews, challenges and approves, as the case may be, presentations or reports from senior management, consulting as necessary with the external auditors, internal auditors and company executives. During the year the committee had a satisfactory level of dialogue with the company's auditors and did not find it necessary to seek external advice. The committee invites the chief executive, the chief financial officer, the director of corporate accounting and control, the director of internal audit and representatives of the external auditors to attend its meetings. The company secretary attends meetings in his role as secretary of the committee. The committee met the external auditors without executives present on three occasions.

During the year the committee met on five occasions and considered a range of matters in fulfilment of its terms of reference the principal matters being summarised below:

- The effectiveness of the group's systems of internal control as well as compliance matters and risk management systems. The committee gains an appropriate level of assurance that the internal control environment was functioning effectively. However, in an environment of significant change there remained an on-going need to enhance processes in certain areas.
- Non-financial KPIs that relate to the group contract portfolio.
- The implementation of changes in the risk management framework and supporting processes which had been designed to focus to a greater extent on the more significant risk areas.
- Financial statements relating to the company's annual report, interim report and quarterly trading updates were reviewed as well as reports from the external auditors on their audit or review of the financial statements.
- Activities of the internal audit department including resource plans, activity levels and objectives, the overall objective being to provide assurance as to the adequacy, effectiveness and quality of the company's system of internal control, risk management and corporate governance. A new audit charter to better communicate internally the role of the internal audit function was reviewed and approved. In accordance with good practice a periodic external review of the effectiveness of the internal audit function was conducted by an external party, Independent Audit Limited, who reported to the committee on their generally favourable findings and recommendations which have been acted upon by the company.
- The fees for the 2007 audit and the audit strategy for 2008 incorporate various changes in audit scope and geographic coverage. The audit strategy would continue to consider the potential for fraud at different levels within the organisation. A fraud risk management awareness review was undertaken by internal audit during the year and reported on to the committee.
- The process of formally evaluating external auditor effectiveness which indicated that the external auditors had met company expectations for the 2006 audit. The evaluation had identified opportunities for both the company and the auditors to further enhance the effectiveness of the process.

- The provision of non-audit services by the company's auditors which were at a level well below that which would question the firm's independence as auditors. PwC assisted the company over two disposal transactions as well as providing assistance in relation to tax and other areas of technical support.
- The review of the effectiveness of the committee's activities and were satisfied that the committee was operating effectively.
- The committee reviewed the group tax policy approved by the committee in 2006 and key issues impacting on the group tax rate and tax payments and the level of tax risks within the group in the context of overall group tax policy.
- Various reports and written and oral updates on a number of control and reporting issues as part of its oversight of the internal control framework which neither individually nor collectively were material to the company.
- Half yearly reports on whistleblowing which did not contain any material matters of concern and approved and updated whistleblowing policy and related communication materials.
- Auditor independence was considered at a number of meetings.

NOMINATION COMMITTEE

This committee is responsible for recommending board appointments. Its terms of reference reflect the Higgs Guidance which is appended to the Combined Code. Its members during 2007 were Brian McGowan, Doug Flynn and Peter Long. The nomination committee met on three occasions in 2007 to consider non-executive director appointments which ultimately led to the appointments of Richard Burrows and William Rucker as non-executive directors and to review succession planning for non-executive directors. In carrying out its duties the committee utilised the services of a specialist firm of search consultants. In 2008, a special nomination committee was established to conduct a recruitment process which ultimately led to the appointment by the board of Dr John McAdam, Alan Brown and Andy Ransom.

REMUNERATION COMMITTEE

The terms of reference of the remuneration committee reflect the Higgs Guidance. The members of the remuneration committee are Peter Long (chairman), Duncan Tatton-Brown and Alan Giles, all of whom are independent non-executive directors. The remuneration committee has reviewed its effectiveness during the year and concluded that it had continued to operate effectively. The directors' remuneration report is set out on pages 59 to 64.

ATTENDANCE AT MEETINGS

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Brian McGowan	11	–	–	3
Doug Flynn	10	–	–	3
Andrew Macfarlane	11	–	–	–
Peter Bamford	9	4	–	–
Alan Giles	11	5	6	–
Ian Harley*	4	2	–	–
Peter Long	7	–	5	3
Duncan Tatton-Brown	10	5	6	–
Total number of meetings	11	5	6	3

* Ian Harley retired from the board in July 2007.

The terms of reference of the principal board committees may be found on the company's website, www.rentokil-initial.com, or if a hard copy is required by application to the company secretary at the head office.

4. INDEPENDENT NON-EXECUTIVE DIRECTORS

The board regards Peter Long (senior independent director), Peter Bamford, Richard Burrows, Alan Giles, William Rucker and Duncan Tatton-Brown as independent non-executive directors within the tests set out in the Combined Code.

5. FURTHER SIGNIFICANT COMMITMENTS OF THE CHAIRMAN

The external commitments of Brian McGowan remained the same from his appointment as chairman in July 2004 until his resignation as a director of the company on 19 March 2008 during which period he continued to be chairman of UMECO plc and Catalyst Corporate Finance LLP.

6. PERFORMANCE EVALUATION

The board has undertaken a formal evaluation of its own performance and that of its principal committees and individual directors. The directors completed appraisals on matters relevant to board, committee and director performance. A report was presented to and reviewed by the board. The board concluded that the evaluation exercise had confirmed that the directors had the appropriate range of skills and experience and constituted an effective and unified board. The review was conducted internally with the aid of a framework developed by external specialists.

Individual director evaluation showed that each director (including those seeking re-election at the annual general meeting in 2008) continued to demonstrate commitment to the role. The non-executive directors, led by the senior independent director, carried out a performance evaluation of the chairman after taking account of the views of the executive directors. The board intends to carry out further performance evaluations but will keep under review the method and frequency.

7. DIALOGUE WITH MAJOR SHAREHOLDERS

The chief executive and chief financial officer hold regular meetings with analysts and institutional shareholders to discuss the company's strategy and financial performance. The board is regularly provided with an analysis of the company's shareholder base and with commentary on market views and sentiment. The chairman, the senior independent director and other non-executive directors make themselves available for discussions with shareholders as required by circumstances or as requested by shareholders.

8. ACCOUNTABILITY AND AUDIT

The audit committee assists the board on matters concerning accountability and audit, information on which is contained within the audit committee report above.

9. GOING CONCERN

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 accounts.

10. AUDITORS' INDEPENDENCE

The company has reviewed its relationship with its auditors, PricewaterhouseCoopers LLP, and concluded that there are sufficient controls and processes in place to ensure the required level of independence. The company has a formal policy on the provision of non-audit services provided by the company's auditors. There are no plans to replace PricewaterhouseCoopers LLP, whose reappointment is proposed as set out in the notice of AGM which accompanies the annual report.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

Insofar as each of the directors is aware, there is no relevant audit information (as defined by section 234 of the Companies Act 1985) of which the company's auditors are unaware; and each of the directors has taken all of the steps that he should have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the annual general meeting to be held on 14 May 2008.

INTERNAL CONTROLS

The annual report provides information on and an assessment of the company's business, operations, financial position and prospects. The board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance controls and risk management, and reviews the effectiveness of the system at least annually. In doing so the group has taken note of the guidance for directors as set out in the Turnbull Guidance. The system is designed to manage, rather than eliminate, risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

The audit committee assists the board in the performance of its responsibilities by reviewing the board procedures as they relate to internal controls and they consider internal and external auditors' reports on internal control issues and reports on internal controls and risk management systems. The risk identification and management process has been in place during the whole of 2007 (and up to 27 March 2008, the date of the approval of the audited 2007 accounts) and during that time the board, with the assistance of the committee, has reviewed the process.

The process used to review the effectiveness of the system of internal control involved: a review of the changes since the last assessment in the nature and extent of significant risks and the company's ability to respond to changes in its business; a review of the scope and quality of management's monitoring of risks and the system of internal control and the work of the internal audit function and other providers of assurance; the incidence of control failings or weakness and their impact on financial performance; and the effectiveness of the public reporting process. The audit committee reviews the scope of external audit, the half-yearly and annual financial statements (including compliance with legal and regulatory requirements) and trading updates and reports to the board on financial issues raised by both internal and external audit reports. The audit committee receives reports from the internal audit department covering financial, operational and information technology risks and controls and reviews the performance of the department against its terms of reference.

An increased level of delegated authority to the divisions and operating businesses (since 2005) introduced changes in the control environment which has been monitored and tested to ensure that the group's internal controls and risk management procedures continued to be effective. During 2006 a review was undertaken of the existing internal control framework which was found to be generally good, although capable of improvement in some areas and action plans were put in place to improve systems and procedures where appropriate which were put into effect during 2007. The process of refining the internal control framework is iterative and improvement measures are continually under review.

During ongoing review of the control environment additional areas for improvement were identified in 2007 which will be addressed in 2008. In addition, the integration of City Link and Target Express businesses exposed weaknesses in the risk management processes within the parcels business. These are described in the Board Review and in the Review of Performance, which are the subject of ongoing review.

By order of the board

Paul Griffiths

PAUL GRIFFITHS
SECRETARY
27 MARCH 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to take responsibility for preparing the annual report in accordance with applicable law and regulations. This report includes the directors' remuneration report, and the financial statements for each financial year which are required to give a true and fair view of the state of affairs of the company and of the group and of the profit and loss and cash flows of the group for that period. In preparing these financial statements, the directors are required to adopt suitable accounting policies and to apply them consistently, making judgements and estimates that are reasonable and prudent and following applicable accounting standards. These standards are: (a) UK Generally Accepted Accounting Principles (UK GAAP) for the company; and (b) International Financial Reporting Standards (IFRS) as adopted for use in the EU and implemented in the UK for the consolidated financial statements of the group.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the remuneration report comply with the Companies Act 1985 and as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Rentokil Initial plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of this matter of and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors' report and certain other sections of this annual report and accounts include statements that constitute "forward-looking statements". Forward-looking statements include information concerning possible, estimated or assumed future results of our operations, earnings, liquidity, cash flow and capital expenditures, industry or market conditions, acquisition activities and the effect of completed acquisitions, gearing, debt levels and the ability to obtain additional financing or make payments on our debt, legal, regulatory or fiscal developments, demand for and pricing of our products and other aspects of our business or general economic conditions. Forward-looking statements are not guarantees of performance. By their nature, forward-looking statements involve risks, uncertainties and assumptions because they relate to events and depend on circumstances that will or may occur in the future. Although we make such statements based on assumptions that we believe to be reasonable, there can be, and we give, no assurance, whether express or implied, that actual results will not differ materially or significantly from our expectations or estimations.

DIRECTORS' REMUNERATION REPORT

INTRODUCTION

This remuneration report sets out the company's policy on the remuneration of executive and non-executive directors together with details of directors remuneration, employment agreements, letters of appointment and interests in shares. The report was approved by the board on 27 March 2008. All information disclosed in the directors' remuneration report is unaudited save where it is stated that the information is audited.

REMUNERATION COMMITTEE

The company's remuneration committee is responsible for making recommendations to the board on the company's remuneration policy and, within the terms of the policy, determining the individual remuneration packages of the executive directors and other members of the Company Executive Board ('CEB') comprising certain divisional managing directors and functional heads. The terms of reference of the committee are available on the company's website or from the company secretary.

The committee comprises Peter Long (chairman), Alan Giles and Duncan Tatton-Brown, all of whom are independent non-executive directors. The committee met six times in 2007 and in addition was consulted on various remuneration issues between formal meetings. Peter Long acted as chairman of Rentokil Initial Pension Trustee Limited and in addition has participated in the activities of the pension trustee company's investment committee until stepping down from those roles on 18 July 2007. His fees up to that date included an amount calculated at the rate of £25,000 per annum in respect of his participation in pension scheme trustee matters.

The company secretary, Paul Griffiths, is secretary to the committee and the group human resources director, Andy Kemp, is invited to attend meetings of the committee to provide views and advice on remuneration matters. The chairman, chief executive and chief financial officer attend by invitation when appropriate.

The committee principally uses two independent external consultants, Deloitte LLP and Watson Wyatt Limited. Watson Wyatt was appointed by the committee to provide advice on the measurement of the company's total shareholder return for historic awards under the old discretionary share option schemes. Watson Wyatt also advise the company on its UK pension arrangements. Deloitte has been retained by the committee to provide advice on executive remuneration and on the Performance Share Plan approved by shareholders in 2006. Deloitte also advised the company on acquisition, risk process and tax matters. An ordinary resolution to approve the directors' remuneration report will be put to the annual general meeting on 14 May 2008.

APPROACH TO REMUNERATION

The company's current remuneration policy is designed to support the strategic objectives of the business. The remuneration and incentive arrangements seek to achieve this in a number of ways:

- by enabling the company to attract and retain the leadership talent necessary to reinvigorate and grow the business;
- by rewarding individual contributions and company financial performance; and
- by aligning executives' interests with those of shareholders.

The company periodically reviews the effectiveness and competitiveness of the total remuneration and benefit packages of executive directors and senior executives, with assistance from Deloitte.

As a result of the announcement on 20 March 2008 of the appointment of new leadership for the company, the remuneration policy of the board will be under review in 2008.

As an initial step, a share plan will be put to shareholders for approval at the 2008 annual general meeting under which awards are proposed to be made to the new senior leadership team and under which awards may at a later stage be provided to other senior executives. The current intention is for awards to be granted only in the year following the annual general meeting and to be subject to a share price growth target that allows shares to be delivered to executives in tranches after 3, 4 and 5 years. Full details of the plan and the proposed awards are set out in the explanatory notes accompanying the notice of the annual general meeting.

The Performance Share Plan, introduced during 2006, was developed in keeping with the current policy. Awards have been made under the plan to some 500 senior executives in over 40 countries around the world in 2006 and in 2007 enabling the company to bring together a large number of Rentokil Initial people under a global incentive structure. In 2008, the committee will be reviewing the performance conditions for future awards under the plan to ensure that they support the pursuit of shareholder value creation.

The following summarises the company's current policy in relation to the main elements of the executive remuneration package.

COMPONENTS OF REMUNERATION

Components of remuneration	Commentary
Base salary	Set at a competitive level by reference to the market median, taking into account individual skills and experience.
Annual bonus	Set at a competitive level assuming financial and other targets are met. Links pay to the achievement of financial and strategic performance goals.
Long-term incentive	Awards under the Performance Share Plan are designed to deliver market competitive pay relative to companies of comparable size and complexity. Performance conditions attached to these awards ensure that the value from incentives is closely linked to the financial success of the business and the creation of shareholder value.
Pension	Defined contribution arrangements, set at market levels.

Each executive director's total remuneration consists of the above elements and other benefits described below. The total remuneration of each executive director should comprise a balance between fixed and variable performance-related remuneration, the latter comprising elements of both short-term financial performance and long-term shareholder value creation.

The table below shows the approximate mix between fixed and variable pay for on-target performance in respect of 2007 remuneration for Doug Flynn (chief executive, resigned 19 March 2008) and Andrew MacFarlane (chief financial officer). The policy, currently and in future years, is that a significant proportion of the total remuneration should be performance-related.

2007	On-target performance chief executive	Chief financial officer	Maximum performance chief executive	Chief financial officer
Base salary	45%	50%	25%	30%
Pensions	10%	10%	5%	5%
Annual incentive	20%	25%	25%	30%
Long-term incentive	25%	15%	45%	35%

BASE SALARIES

Executive directors' base salaries are reviewed with effect from 1 January each year. The committee takes into account company performance and the experience and contribution of individuals. Deloitte has been appointed by the committee and provides the committee with market analysis using data for companies of comparable size and complexity. The committee also uses data from other providers.

BONUSES

At the start of each financial year, the committee sets the performance measures and targets that must be met if a bonus is to be paid under the Senior Executives' Bonus Scheme. The performance measures are designed to focus senior management on the business priorities for the coming financial year and align executives' interests with those of shareholders.

With regard to the Senior Executive Bonus Scheme 2007, approximately 500 senior executives were eligible to participate in the scheme. The performance measures related to group/divisional/business profit and turnover, as appropriate, as well as non-financial personal objectives. Threshold performance levels must be achieved for bonuses to be payable. Cash bonus entitlements under this scheme were subject to a maximum of 50% of basic salary; 80% for members of the CEB; and 100% for the chief executive and the chief financial officer. Bonuses are typically awarded in March following the end of the financial year to which they relate.

LONG-TERM INCENTIVES

In 2006, shareholders approved a new Performance Share Plan designed to enable executive directors and other employees selected on a discretionary basis to earn shares in the company based on achieving stretching performance targets. The principal features of the plan are as follows:

- Awards are made over shares with a face value set by reference to a multiple of base salary, which vest subject to the achievement of performance conditions over a three year period.
- Under normal circumstances, awards will be granted annually with the face value of awards ranging between 25% and 200% of base salary depending on seniority. In exceptional circumstances, a grant of up to 250% of base salary may be made to a participant in any year.
- The performance conditions that applied in 2006 and 2007 relate to Rentokil Initial's relative total shareholder return (TSR) performance (50% of the award) and earnings per share (EPS) growth (50% of the award).
- The committee has, to date, considered that a combination of TSR and EPS is the most appropriate way to link potential rewards to company performance and the delivery of value to shareholders. The committee will be reviewing the performance conditions for future awards.

TSR PERFORMANCE CONDITIONS:

- Rentokil Initial's TSR performance is compared against two different groups of companies established at the date of the award:
  - 75% of the TSR part of the award is based on a comparison against the constituents of the FTSE 100, excluding financial services and resources companies.
  - 25% of the TSR part is based on a comparison with a selected group of international support services companies. For awards made in 2007, these companies are: Brambles Industries, The Capita Group, Compass Group, The Davis Service Group, Group 4 Securicor, Hays, MITIE Group, Prosegur Compañia de Seguridad SA, Rexam, Serco Group, Securitas AB, SGS SA and Sodexho Alliance SA.
- TSR will be calculated in accordance with the rules of the plan by the committee's advisers and approved by the committee.
- The TSR part of an award is subject to the following vesting schedule:

TSR against relevant comparator group	% vesting of relevant part of award
TSR performance at or above upper quartile	100%
Pro-rating between these points	
TSR performance at median	25%
TSR performance below median	0%

EPS PERFORMANCE CONDITIONS:

- For awards made in 2007, the EPS part of awards will vest depending on the cumulative annual growth in EPS over a three year period as follows:

Cumulative EPS growth over performance period	% vesting of EPS part of award
8% per annum	100%
Pro-rating between these points	
5% per annum	33.3%
Below 5% per annum	0%

- EPS will be calculated on a normalised, pre-exceptional earnings per share basis, as determined by the committee, to ensure consistency for comparative purposes, and may be adjusted to take account of matters such as material acquisitions and disposals to reflect the business structure properly.

In 2008, the committee will review the performance conditions to ensure they remain appropriately stretching in respect of each grant.

CONTRACTUAL AWARDS ON APPOINTMENT (AS DISCLOSED IN 2005):

Doug Flynn (appointed 4 April 2005; resigned 19 March 2008): An award of £2.4 million was made in compensation for awards forfeited on cessation with his previous employer. This was paid one-third in cash and two-thirds in Rentokil Initial shares. The unconditional cash element of the award (£0.8 million) was paid after 12 months in employment. The share element of the award (1,036,952 shares) vests, in three equal tranches, on the first, second and third anniversaries of the award being made. The first tranche (over 345,650 shares) vested on 4 April 2006 when the share price was £1.595. The second tranche (over 345,650 shares) vested on 4 April 2007 when the share price was £1.7089. The third and final tranche vested on Doug Flynn's resignation on 19 March 2008 when the share price was 72.8p. These contractual awards had no related performance conditions.

Andrew Macfarlane (appointed a director on 8 August 2005 becoming CFO on 9 September 2005): A one-off award was made to facilitate his recruitment over shares with a then value of £600,000, vesting (subject to continued employment) in three annual tranches of one quarter, one quarter and one half on the first, second and third anniversaries of the award being made. The first tranche (over 101,667 shares) became exercisable on 8 August 2006 when the share price was £1.6288. The second tranche (over 106,370 shares) became exercisable on 8 August 2007 when the share price was £1.6713. These contractual awards have no related performance conditions.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The former chairman, Brian McGowan, had a letter of appointment dated 28 March 2006. He resigned as a director and as chairman on 19 March 2008. No payments were made in connection with his resignation as a director. The chairman did not participate in any of the company's incentive arrangements.

Dr John McAdam has entered into a letter of appointment dated 19 March 2008 under which and subject to shareholder approval he will become a director and chairman following the annual general meeting in 2008. He will receive fees of £350,000 per annum. Details of the proposed share incentive award to be made to him are set out in the notice of the annual general meeting. He will not be eligible for any other bonus or ongoing participation in share incentive plans.

The appointment policy for non-executive directors is that they should be appointed for an initial period of three years, which would be extended for two further periods of three years by mutual consent. 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, nor any conflicts of interest arising from cross-directorships or any day-to-day involvement in running the business. No director plays a part in any discussion about his own remuneration.

In addition to the arrangements concerning the chairman described above, all other non-executive directors have specific terms of engagement and their remuneration is determined by the board on the recommendation of the non-executive directors' fees committee of the board 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 level of fees was reviewed with the benefit of the advice of Deloitte in 2005. The basic fee paid to each non-executive director is £45,000 which is considered to remain competitive. The chairmen of the remuneration and audit committees are each paid an additional £10,000 per annum. During the year up to 18 July 2007, Peter Long was chairman of the board of Rentokil Initial Pension Trustee Limited, a subsidiary, which acts as trustee of the UK pension schemes and as such he received fees at the rate of £25,000 per annum.

The chairman and non-executive directors' fees are set out in the following table which has been audited:

	2007 £000	2006 £000
Brian McGowan (chairman), (resigned 19 March 2008)	**350**	350
Alan Giles (from 18 May 2006)	**45**	28
Peter Bamford (from 14 July 2006)	**45**	21
Ian Harley (retired 18 July 2007)	**30**	55
Peter Long (remuneration committee, pension trustee company chairman and senior independent director)	**74**	80
Paul Mason (to 18 May 2006)	**–**	19
Ron Spinney (to 18 May 2006)	**–**	27
Duncan Tatton-Brown	**50**	45
	594	625

No payments were made to Ian Harley on his retirement as a director.

Set out below are the interests in shares of non-executive directors who were directors at 31 December 2007. The following table has been audited:

Rentokil Initial plc ordinary shares of 1p each	31 December 2007 Beneficial Interests number	1 January 2007 Beneficial Interests number
Brian McGowan	**50,000**	5,000
Alan Giles	**12,000**	2,000
Peter Bamford	**38,000**	50,000
Peter Long	**2,000**	2,000
Duncan Tatton-Brown	**12,000**	2,000

EXECUTIVE DIRECTORS' CONTRACTS

It is the company's policy that executive directors should have rolling contracts subject to one year's notice by the company. The executive directors have rolling contracts which are subject to one year's notice by the company and six months' notice by the relevant director and are dated as follows: Doug Flynn, 26 September 2005; Andrew Macfarlane, 17 August 2005.

The company's policy in respect of the notice periods for the termination of executive directors' contracts conforms to the Combined Code. The committee is fully aware that under the Combined Code and within the contractual framework it should take a robust line over payments to departing directors. On termination without notice, executive directors are entitled to a payment equal only to base pay and the value of benefits for the duration of the notice period.

Executive directors are entitled to accept one non-executive directorship or similar appointment outside the company, provided that the board's permission is obtained and to retain the fees in connection with such appointment. Neither Doug Flynn nor Andrew Macfarlane held any external appointments during the year or at the date of this report.

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) and subsequently maintain a holding of company shares with a market value equivalent to their annual salary. The committee may take into account executives' compliance with the shareholding guidelines (acknowledging any special circumstances that may apply) when considering future long-term incentive awards.

PENSIONS

Doug Flynn and Andrew Macfarlane participate in defined contribution pension arrangements and are entitled to receive contributions from the company into personal pension arrangements which were increased from 22% to 25% of base salaries at the beginning of 2007, in line with the contribution rates for other senior executives participating in the company's UK defined contribution pension scheme.

The table below details pension contributions paid during the year in respect of defined contribution schemes for directors. The pension contributions are paid by the relevant group employer. The following table has been audited.

	2007 Pension contributions £000	2006 Pension contributions £000
Doug Flynn	**225**	185
Andrew Macfarlane	**123**	96
Total	**348**	281

There are no defined benefit pensions for current executive directors.

BONUS

The chief executive and chief finance officer participate in cash bonus arrangements with a maximum entitlement of 100% of base salary. Based upon bonus criteria agreed at the beginning of 2007 and performance achieved. The chief executive and chief financial officer earned bonuses in respect of the year details of which are set out in the following table.

TOTAL PAY AND BENEFITS FOR EXECUTIVE DIRECTORS

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

	Salary £000	**Bonus £000**	**Benefits £000**	**Total £000**	2006 £000
Doug Flynn	**900**	**300**	**62**	**1,262**	1,332
Andrew Macfarlane	**490**	**150**	**25**	**665**	693
2007	**1,390**	**450**	**87**	**1,927**	
2006	1,127	650	98		2,029

1. Executive directors are provided with: life insurance, private health cover and a company car. The value of the benefits is included under "Benefits" in the above table.
2. The "Benefits" referred to in the above table include the sum of £31,600 (exclusive of VAT) (2006: £36,000) in respect of fees for legal and tax advice which was paid by the company on behalf of Doug Flynn, in connection with the development of his service agreement and the structuring of his employment and pension arrangements.
3. The company provides a car and driver for the business use of Doug Flynn, other directors and senior executives and for the limited private use of Doug Flynn. The cost of provision of the car and driver in the year ended 31 December 2007 was in the order of £96,600 (2006: £93,000) and is not included in the above table.
4. In addition to the amounts shown in the table, Doug Flynn and Andrew Macfarlane, as a part of their employment terms, received shares the vesting arrangements in respect of which are set out in this report.
5. The base salaries for Alan Brown (to be appointed a director and chief executive on 1 April 2008) and Andy Ransom (to be appointed a director on 1 May 2008) will be £775,000 and £450,000 respectively. Both executives will have a maximum annual bonus opportunity for 2008 of 100% of salary and a pension contribution of 25% of salary. Full details of the proposed share incentive award to be made to them is set out in the notice of the annual general meeting.

SHARE INCENTIVE AWARDS

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

	Date of award	Plan	Market price at award	At 1 Jan 2007	Shares awarded during 2007	Market price of awarded shares	**At 31 Dec 2007**
Andrew Macfarlane	31/05/06	2006 PSP	143.25p	351,832	–	143.25p	**351,832**
Andrew Macfarlane	06/03/07	2007 PSP	146.50p	–	401,365	146.50p	**753,197**
Doug Flynn	04/04/05	On appointment	166.00p	2,609,263	–	n/a	**2,609,263**
Doug Flynn	06/03/07	2007 PSP	146.50p	–	921,502	146.50p	**921,502**

1. Awards made under the 2006 and 2007 Performance Share Plan will vest on 1 June 2009 and 7 March 2010, respectively, subject to performance conditions described above.
2. An award over shares with a value of five times base salary was made as a "transformation incentive award" on Doug Flynn's appointment as chief executive (as disclosed in the 2005 remuneration report). The award was made on the basis that TSR performance will be measured from 1 January 2005 and the award would vest in three equal tranches based on performance to 31 December 2007, 2008 and 2009. Following the introduction of the PSP in 2006, the vesting horizon for this award has been extended to coincide with the performance cycles that will apply for other participants and the award will therefore vest in three tranches, subject to TSR performance over the periods 1 January 2006 – 31 December 2008; 1 January 2007 – 31 December 2009; and 1 January 2008 – 31 December 2010. The TSR comparator groups and vesting schedule that apply are consistent with those disclosed in relation to the PSP described above.
3. Incentive awards made to Doug Flynn described above lapsed on his resignation on 19 March 2008.

INTERESTS IN SHARES

The following table sets out the interests of executive directors, who were directors on 31 December 2007, in the shares of the company – the table has been audited:

	31 December 2007 Beneficial Interests	1 January 2007 Beneficial Interests
Rentokil Initial plc ordinary shares of 1p each	number	number
Doug Flynn	731,300	345,650
Andrew Macfarlane	162,741	59,984

1. Doug Flynn's interest in shares shown above includes 691,300 shares being his vested beneficial interest in a total of 1,036,952 shares which comprises the share element of the compensatory award which vests in three equal tranches, on the first, second and third anniversary of the award being made. As described above the third tranche of the share element of the compensatory award vested on the termination of his employment on 19 March 2008.
2. Andrew Macfarlane's interest in shares shown above includes 122,741 shares being his vested beneficial interest in one half of his appointment award comprising 101,667 shares, acquired on 6 December 2006 less 41,683 disposed on the same day to meet the associated tax liability at a price of £1.4725 and 106,370 shares, acquired on 28 September 2007 less 43,613 shares disposed on the same day at a price of £1.661 to meet the related tax liability.

The following table sets out on an illustrative basis as at 31 December 2007 the total potential exposure of the executive directors to shares in the company:

Directors	Beneficial/ Owned shares	Outstanding compensatory shares awards not subject to performance conditions	Performance incentive awards subject to performance conditions
Doug Flynn	731,300	345,650(i)	3,530,765(ii)
Andrew Macfarlane	162,741	192,554	1,105,029

(i) Vested on termination of employment on 19 March 2008
(ii) Lapsed on termination of employment on 19 March 2008

SHARE OPTION SCHEMES

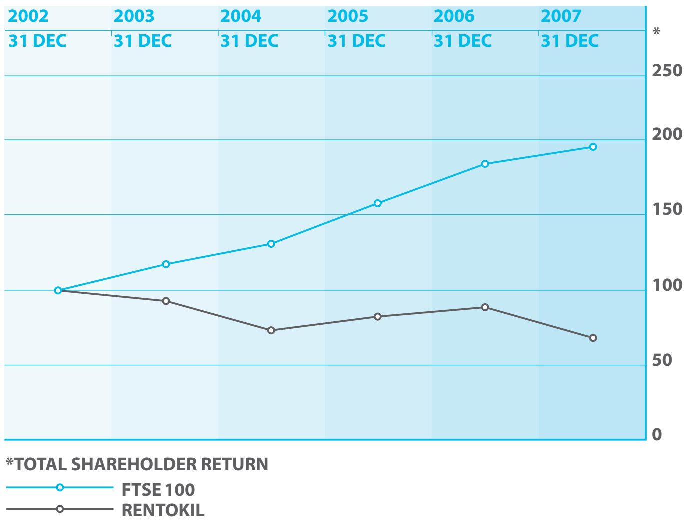
The introduction of the Performance Share Plan in 2006 replaced all previous long-term incentive schemes in the group, under which no further awards have been made since 2005. No serving director has interests in the company's share option schemes. For further details of performance conditions attached to share option schemes see note 26 of the financial statements.

TSR PERFORMANCE GRAPH

The following graph shows the company's total shareholder return (TSR) performance relative to the FTSE 100 Index, of which the company has been a constituent until September 2006 and since August 2007. The graph has been prepared in accordance with the requirements of Schedule 7A of the Companies Act 1985.

RENTOKIL INITIAL VERSUS FTSE 100 INDEX

Rentokil Initial's total shareholder return compared against total shareholder return of the FTSE 100



PREPARATION

The directors' remuneration report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002) ("Schedule 7A") and to comply with the provisions of the Combined Code. The company's auditors, PricewaterhouseCoopers LLP, are required to report to the company's members on the matters set out in part 3 of Schedule 7A and to state, in their opinion, whether that part of the report has been properly prepared in accordance with the Companies Act 1985. In accordance with Schedule 7A, the elements of the report which have been audited are highlighted.

APPROVAL

Approved by the board of directors on 27 March 2008 and signed on its behalf by

PETER LONG
REMUNERATION COMMITTEE CHAIRMAN

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RENTOKIL INITIAL PLC

We have audited the group fi nancial statements of Rentokil Initial plc for the year ended 31 December 2007, which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Rentokil Initial plc for the year ended 31 December 2007 and on the information in the directors' remuneration report that is described as having been audited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the group financial statements. The information given in the directors' report includes that specific information presented in the business review that is cross-referenced from the business review section of the directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specifi ed by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the Combined Code 2006 specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Letter from the Board, the Board Review, the business review, the statement of corporate responsibility, the directors' report, the corporate governance statement, the statement of directors' responsibilities, the unaudited section of the directors' remuneration report, the five year summary and the investor information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
London 27 March 2008

Notes: (a) The maintenance and integrity of the Rentokil Initial plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

	Notes	2007 £m	2006 £m
Continuing operations:			
Revenue	1	**2,203.4**	1,843.2
Operating expenses	2	**(1,991.5)**	(1,628.7)
Operating profit		**211.9**	214.5
Analysed as:			
Operating profit before amortisation of intangible assets		**251.1**	235.6
Amortisation of intangible assets[1]		**(39.2)**	(21.1)
Operating profit		**211.9**	214.5
Interest payable and similar charges	5	**(140.4)**	(112.3)
Interest receivable	6	**68.5**	61.2
Share of profit from associates, net of tax of £1.4m (2006: £1.6m)		**2.0**	2.0
Profit before income tax		**142.0**	165.4
Income tax expense[2]	7	**(30.3)**	(33.3)
Profit for the year from continuing operations		**111.7**	132.1
Discontinued operations:			
Profit for the year from discontinued operations	8	**546.8**	115.0
Profit for the year (including discontinued operations)		**658.5**	247.1
Attributable to:			
Minority interests		**2.2**	2.0
Equity holders of the company		**656.3**	245.1
		658.5	247.1
Basic earnings per share			
• Continuing operations	9	**6.06p**	7.20p
• Discontinued operations	9	**30.26p**	6.37p
• Continuing and discontinued operations	9	**36.32p**	13.57p
Diluted earnings per share			
• Continuing operations	9	**6.06p**	7.20p
• Discontinued operations	9	**30.26p**	6.37p
• Continuing and discontinued operations	9	**36.32p**	13.57p

1 Excluding computer software and development costs.

2 Taxation includes £31.3m (2006: £22.0m) in respect of overseas taxation.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December

	Notes	2007 £m	2006 £m
Profit for the year (including discontinued operations)		**658.5**	247.1
Net exchange adjustments offset in reserves	25	**3.2**	(10.1)
Actuarial gain on defined benefit pension plans	24	**88.8**	44.6
Revaluation of available-for-sale investments	25	**1.3**	0.1
Tax on items taken directly to reserves		**(24.1)**	(13.1)
Net profit not recognised in income statement		**69.2**	21.5
Total recognised income for the year	25	**727.7**	268.6
Attributable to:			
Minority interests		**2.2**	2.0
Equity holders of the company		**725.5**	266.6
	25	**727.7**	268.6

CONSOLIDATED BALANCE SHEET

At 31 December

	Notes	2007 £m	2006 £m
Assets			
Non-current assets			
Intangible assets	11	**683.0**	559.1
Property, plant and equipment	12	**561.2**	513.1
Investments in associated undertakings	13	**5.7**	8.6
Other investments	14	**3.1**	6.8
Deferred tax assets	23	**7.9**	7.1
Retirement benefits	24	**63.9**	–
Trade and other receivables	15	**24.2**	24.7
		1,349.0	1,119.4
Current assets			
Inventory	17	**38.4**	46.9
Trade and other receivables	15	**476.4**	482.6
Derivative financial instruments	16	**0.8**	8.0
Cash and cash equivalents	18	**95.7**	135.1
		611.3	672.6
Liabilities			
Current liabilities			
Trade and other payables	19	**(485.3)**	(553.2)
Current tax liabilities		**(103.1)**	(103.6)
Provisions for other liabilities and charges	20	**(50.7)**	(22.3)
Bank and other short-term borrowings	21	**(380.4)**	(446.0)
Derivative financial instruments	16	**(14.4)**	(4.6)
		(1,033.9)	(1,129.7)
Net current liabilities		**(422.6)**	(457.1)
Non-current liabilities			
Trade and other payables	19	**(17.7)**	(15.8)
Bank and other long-term borrowings	21	**(662.4)**	(877.3)
Deferred tax liabilities	23	**(98.5)**	(45.0)
Retirement benefits	24	**(13.9)**	(118.8)
Provisions for other liabilities and charges	20	**(73.8)**	(128.6)
Derivative financial instruments	16	**(1.8)**	(10.4)
		(868.1)	(1,195.9)
Net assets/(liabilities)		**58.3**	(533.6)

CONSOLIDATED BALANCE SHEET

At 31 December

	Notes	2007 £m	2006 £m
Equity			
Capital and reserves attributable to the company's equity holders			
Called up share capital	25	**18.1**	18.1
Share premium account	25	**6.8**	6.2
Other reserves	25	**(1,727.9)**	(1,728.6)
Retained profits	25	**1,753.9**	1,164.3
		50.9	(540.0)
Minority interests	25	**7.4**	6.4
Total equity		**58.3**	(533.6)

The financial statements on pages 66 to 121 were approved by the board of directors on 27 March 2008 and were signed on its behalf by:

P J Long
Senior Independent Director

A E Macfarlane
Chief Financial Officer

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December

	Notes	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operating activities before special pension contribution	27	**351.9**	369.5
Special pension contribution		**(80.0)**	–
Cash generated from operating activities		**271.9**	369.5
Interest received		**17.0**	13.1
Interest paid		**(73.9)**	(54.7)
Income tax paid		**(27.1)**	(38.5)
Net cash generated from operating activities		**187.9**	289.4
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		**(206.6)**	(176.3)
Purchase of intangible fixed assets		**(12.7)**	(6.3)
Proceeds from sale of PPE		**57.9**	42.5
Acquisition of companies and businesses, net of cash acquired	30	**(193.0)**	(406.5)
Proceeds from disposal of companies and businesses	8	**587.7**	134.9
Disposal of available-for-sale investments		**3.4**	–
Dividends received from associates		**5.6**	1.0
Net cash flows from investing activities		**242.3**	(410.7)
Cash flows from financing activities			
Issue of ordinary share capital		**0.6**	0.9
Treasury shares purchased		**–**	(1.9)
Dividends paid to equity shareholders	10	**(133.4)**	(133.3)
Dividends paid to minority interests		**(2.0)**	(1.8)
Interest element of finance lease payments		**(2.0)**	(2.3)
Capital element of finance lease payments		**(21.3)**	(19.5)
New (repayments)/loans		**(304.7)**	221.0
Net cash flows from financing activities		**(462.8)**	63.1
Net decrease in cash and bank overdrafts	28	**(32.6)**	(58.2)
Cash and bank overdrafts at beginning of year	18	**118.8**	170.7
Exchange gains on cash and bank overdrafts		**0.3**	6.3
Cash and bank overdrafts at end of the financial year	18	**86.5**	118.8

ACCOUNTING POLICIES

BASIS OF PREPARATION

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union as at 31 December 2007.

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).

IFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS 1, "Presentation of financial statements – Capital disclosures", have been implemented in 2007. IFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the group's financial instruments.

IFRIC 14 – IAS 19, "The limit on a defined benefit asset, minimum funding requirements and their interaction", has been implemented in 2007. This interpretation provides guidance on assessing the limit in IAS 19 "Employee Benefits" on the amount of the surplus that can be recognised as an asset. It also explains how a pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The IFRIC had no significant impact on the group.

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, plus costs directly attributable to the acquisition. 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 minority 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 unrealised gains and losses on transactions between group companies are eliminated.

Any change in the parent's controlling interest in a subsidiary that does not result in a loss of control (in buying or selling shares to the minority) 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 reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised 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

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are different from those of segments operating in other economic environments.

The primary segment for the group is the business segment. Business segments reported are: Textiles and Washroom Services, Pest Control, Facilities Services, Ambius and City Link with central items reported separately as these cannot be reliably allocated across segments. Geographic or secondary segments are United Kingdom, continental Europe, North America, Asia Pacific and Africa.

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. Foreign exchange differences for financing of investments which are considered "quasi equity" are reported in reserves. Other foreign exchange differences are taken to the income statement.

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

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

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

4 to 5 years – Vehicles
3 to 10 years – Plant, equipment (including equipment for rental), tropical plants and their containers on rental
3 to 10 years – Office equipment, furniture and fittings

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

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

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

BUSINESS COMBINATIONS

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method ("acquisition accounting"). The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued by the acquirer and any costs directly attributable to the business combination. 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" and its fair value can be measured reliably. 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 minority interests in existing subsidiary undertakings is taken directly to reserves.

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 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 – 16 years
Brands and patents:	2 – 15 years
Reacquired franchise rights:	3 – 5 years
Computer software:	3 – 5 years
Development costs:	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 list 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 the Parcel Delivery division represent 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 terminate on 25 October 2010.

(d) Computer software

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

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

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

(e) Research and development

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

Other development expenditure is recognised as an expense as incurred.

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

INVENTORIES

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

TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of 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 (where hedge accounting is not applied); any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Where fair value hedge accounting is applied, the carrying value is adjusted for any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Borrowings are classified as current liabilities unless the group has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date under both its committed bank credit facility and Euro Medium Term Note programme.

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 accounting nor 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 obligations

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 No2 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 sufficient scope 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 recognised income and expense.

(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 recognised income and expense.

(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 (whether notified or not) date based on actuarial assessments of the likely amounts of these liabilities. Other provisions are made for all other known liabilities that exist at the year end based on management's best estimate as to the cost of settling these liabilities. Provisions are not recognised for future operating losses.

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

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

REVENUE RECOGNITION

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

(a) Service revenue

Revenue excludes VAT and other similar sales based taxes, rebates and discounts and represents the amounts receivable for services rendered and goods sold 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) Franchise income

Franchise income is recognised as services are provided or continuing rights granted by the agreement are used.

(d) 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.

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 investments in the following categories: financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments 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 and certain assets classified as available-for-sale, which are held at fair value.

(a) Financial assets at fair value through profit and loss

Derivatives are categorised as held for trading unless they are designated as hedges. Assets are classified as current if they are either held for trading or 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 are included in trade and other receivables in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity.

(d) 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". Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method, subject to impairment.

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 profit or loss – 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. Impairment testing of trade receivables is described on page 97.

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.

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 or (2) hedges of net investments in foreign operations. The group does not operate any cash flow hedging activities.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Net investment hedge

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

DISCONTINUED OPERATIONS

A discontinued operation is a component of an entity that has either been disposed of, or that is classified as held for sale, which represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of a separate line of business or geographical area of operations.

FAIR VALUE ESTIMATION

The fair value of any financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate and currency swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated on page 72. 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. Refer to note 11 for the key assumptions used for the value-in-use calculations.

(b) Valuation of acquired intangible assets

Acquisitions may result in customer relationships, brands 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 cashflows.

(c) 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.

(d) 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.

(e) 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 24 for the principal assumptions used for the Rentokil Initial Pension Scheme in the United Kingdom.

(f) Self insurance

The group operates captive insurance companies in the UK and US. These companies provide reinsurance exclusively to certain companies within the group. Provision is made based on actuarial assessment of the liabilities arising from the insurance coverage provided. The actuarial assessment of the reserve for future claims necessarily includes estimates as to the likely trend of future claims costs and as to the emergence of further claims subsequent to the year end. An actuarial review of claims is performed annually. To the extent that actual claims differ from those projected, the provisions could vary significantly.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

The following accounting standards and amendments to existing standards are not yet effective and have not been early adopted by the group.

(i) IFRS 8 "Operating Segments". This new standard requires identification and reporting of operating segments on the basis of internal reports that are regularly reviewed by the board in order to allocate resources to the segment and assess its performance. The group is currently in the process of assessing the impact of IFRS 8 and intends to adopt it no later than accounting periods beginning on 1 January 2009.

(ii) IAS 23 (Revised) "Borrowing Costs". This revision of an existing standard requires the capitalisation of borrowing costs directly attributable to an acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The revised standard is not expected to have any impact on the group. The group intends to adopt IAS 23 no later than accounting periods beginning on 1 January 2009.

(iii) IFRS 3 (Revised) "Business Combinations". This revision of an existing standard continues to apply the acquisition method to business combinations with certain changes which could impact the group. For example, all payments to purchase a business must be recorded at fair value at the acquisition date with some contingent payments subsequently remeasured at fair value through the consolidated income statement. In addition, all transaction costs must be expensed. The group intends to adopt IFRS 3 (Revised) no later than accounting periods beginning on 1 January 2009.

NOTES TO THE ACCOUNTS

1. SEGMENT INFORMATION

(a) Primary reporting format – business segments

At 31 December 2007, the group is organised on a worldwide basis into five main business segments: Textiles and Washroom Services, Pest Control, Ambius, City Link and Facilities Services. There are immaterial sales between the business segments. The segment results for the years ended 31 December 2007 and 31 December 2006 are shown below:

	Revenue 2007 £m	Revenue 2006 £m	**Operating profit 2007 £m**	Operating profit 2006 £m
Continuing operations				
Textiles and Washroom Services	**693.2**	671.4	**124.0**	106.8
Pest Control	**377.2**	319.3	**66.9**	61.9
Ambius	**120.6**	116.5	**7.1**	6.6
City Link	**417.1**	213.3	**8.4**	32.6
Facilities Services	**595.3**	522.7	**38.0**	28.7
Central items	**–**	–	**(32.5)**	(22.1)
	2,203.4	1,843.2	**211.9**	214.5
Interest payable and similar charges	**–**	–	**(140.4)**	(112.3)
Interest receivable	**–**	–	**68.5**	61.2
Share of profit of associates (net of tax)				
– Textiles and Washroom Services	**–**	–	**2.0**	2.0
Profit before income tax	**–**	–	**142.0**	165.4
Income tax expense	**–**	–	**(30.3)**	(33.3)
Total for the year from continuing operations	**2,203.4**	1,843.2	**111.7**	132.1
Discontinued operations (after income tax)				
Textiles and Washroom Services	**–**	13.6	**–**	3.0
Facilities Services[1]	**–**	121.9	**–**	88.3
Electronic Security[2]	**180.8**	281.5	**546.8**	22.2
Discontinued business segments	–	–	**–**	1.5
Total for the year from discontinued operations	**180.8**	417.0	**546.8**	115.0
Total for the year (including discontinued operations)	**2,384.2**	2,260.2	**658.5**	247.1

1 Profit from the Facilities Services segment for the year to 31 December 2006 includes the profit on disposal (after tax) of the Manned Guarding businesses of £95.9m.

2 Profit from the Electronic Security segment for the year to 31 December 2007 includes profit on disposal (after tax) of £528.6m.

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

	Depreciation 2007 £m	Depreciation 2006 £m	Amortisation 2007 £m	Amortisation 2006 £m
Continuing operations				
Textiles and Washroom Services	**109.4**	107.6	**10.5**	11.7
Pest Control	**13.4**	14.2	**12.9**	6.1
Ambius	**10.6**	10.2	**3.0**	2.2
City Link	**7.1**	5.7	**11.1**	2.3
Facilities Services	**9.9**	11.2	**3.4**	1.2
Central items	**1.4**	1.9	**0.8**	1.2
Total for the year from continuing operations	**151.8**	150.8	**41.7**	24.7
Discontinued operations				
Electronic Security	**1.9**	5.8	**1.8**	5.9
Textiles and Washroom Services	**–**	0.5	**–**	–
Facilities Services	**–**	0.3	**–**	1.6
Total for the year from discontinued operations	**1.9**	6.6	**1.8**	7.5
Total for the year (including discontinued)	**153.7**	157.4	**43.5**	32.2

During 2007, property, plant and equipment impairment losses of £1.3m were recognised in the Textiles and Washrooms Services segments.

In 2006, property, plant and equipment impairment losses of £0.3m and £0.7m were recognised in the Textiles and Washrooms Services and Facilities Services segments respectively.

Central items represent corporate expenses that are not directly attributable to any business or geographic segment.

The consolidated segment operating assets and liabilities at 31 December 2007 and 31 December 2006 and capital expenditure for the years then ended are as follows:

	Assets 2007 £m	Assets 2006 £m	Liabilities 2007 £m	Liabilities 2006 £m	Capital expenditure 2007 £m	Capital expenditure 2006 £m
Continuing operations						
Textiles and Washroom Services[1]	**712.7**	592.3	**210.5**	197.0	**166.2**	182.8
Pest Control	**313.6**	211.4	**100.3**	77.2	**129.6**	118.0
Ambius	**81.8**	69.7	**20.4**	21.1	**22.2**	19.4
City Link	**388.9**	368.6	**73.8**	59.3	**39.5**	285.4
Facilities Services	**241.8**	169.5	**102.3**	87.0	**80.8**	23.2
Central items	**117.9**	55.5	**150.3**	306.2	**11.7**	7.4
Total from continuing operations	**1,856.7**	1,467.0	**657.6**	747.8	**450.0**	636.2
Discontinued operations						
Electronic Security	**–**	182.8	**–**	105.9	**9.2**	21.7
Textiles and Washroom Services	**–**	–	**–**	–	**–**	0.6
Facilities Services	**–**	–	**–**	–	**–**	1.0
Total from discontinued operations	**–**	182.8	**–**	105.9	**9.2**	23.3
Total (including discontinued)	**1,856.7**	1,649.8	**657.6**	853.7	**459.2**	659.5
[1] Includes associates.						
– Continuing operations (associates)	**7.8**	8.6	**–**	–	**–**	–

Reconciliation of segment assets/liabilities to total assets/liabilities

	Assets 2007 £m	Assets 2006 £m	**Liabilities 2007 £m**	Liabilities 2006 £m
Segment assets/liabilities as above	**1,856.7**	1,649.8	**657.6**	853.7
Deferred tax assets	**7.9**	7.1	**–**	–
Cash and cash equivalents	**95.7**	135.1	**–**	–
Current tax liabilities	**–**	–	**103.1**	103.6
Bank and other short-term borrowings	**–**	–	**380.4**	446.0
Bank and other long-term borrowings	**–**	–	**662.4**	877.3
Deferred tax liabilities	**–**	–	**98.5**	45.0
Total assets/liabilities	**1,960.3**	1,792.0	**1,902.0**	2,325.6

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/long-term borrowings are managed by group treasury and therefore it is not considered appropriate to analyse these by business or geographic segment. Assets and liabilities are allocated to business and geographic segments on a specific basis.

Capital expenditure comprises additions to property, plant and equipment (note 12) and intangible assets (note 11), including additions resulting from acquisitions through business combinations (note 30).

(b) Secondary reporting format – geographical segments

The group manages its business segments on a global basis. The operations are located in the five main geographical areas shown in the table below. The United Kingdom is the home country of the parent company.

The Asia Pacific segment comprises operations based mainly in Australia, New Zealand and South East Asia. The North American segment comprises the USA, Canada and Caribbean businesses.

The revenue analysis in the table below is based on the country where the order is received and would not be materially different if based on the country in which the customer (or total assets) is located.

	Revenue 2007 £m	Revenue 2006 £m	**Total assets 2007 £m**	Total assets 2006 £m	**Capital expenditure 2007 £m**	Capital expenditure 2006 £m
Continuing operations						
United Kingdom	**1,085.0**	834.1	**647.7**	595.0	**102.9**	330.5
Continental Europe	**769.3**	725.4	**714.1**	559.6	**206.4**	129.1
North America	**162.3**	149.8	**143.6**	129.4	**27.7**	96.4
Asia Pacific[1]	**158.0**	102.1	**217.7**	113.3	**99.2**	69.2
Africa	**28.8**	31.8	**15.7**	14.2	**2.8**	4.3
	2,203.4	1,843.2	**1,738.8**	1,411.5	**439.0**	629.5
Central items	**–**	–	**117.9**	55.5	**11.7**	7.4
Total from continuing operations	**2,203.4**	1,843.2	**1,856.7**	1,467.0	**450.7**	636.9

[1] Includes associates.

	Revenue 2007 £m	Revenue 2006 £m	Total assets 2007 £m	Total assets 2006 £m	Capital expenditure 2007 £m	Capital expenditure 2006 £m
Discontinued operations						
United Kingdom	**84.7**	196.4	**–**	96.1	**2.2**	13.5
Continental Europe	**86.8**	122.1	**–**	67.2	**6.8**	5.5
North America	**9.3**	98.5	**–**	19.5	**0.2**	3.6
Total from discontinued operations	**180.8**	417.0	**–**	182.8	**9.2**	22.6
Total (including discontinued)	**2,384.2**	2,260.2	**1,856.7**	1,649.8	**459.9**	659.5

Analysis of revenue by category

	Continuing operations 2007 £m	Continuing operations 2006 £m	Discontinued operations 2007 £m	Discontinued operations 2006 £m
Contract service revenue (including rental income)	**1,525.2**	1,420.6	**65.2**	209.3
Non-contract service revenue	**616.8**	348.3	**110.1**	204.4
Franchise income	**5.4**	32.8	**–**	–
Sales of goods	**56.0**	41.5	**5.5**	3.3
	2,203.4	1,843.2	**180.8**	417.0

(c) Reconciliation of statutory segmental analysis to management divisional analysis

The commentary in the review of performance reflects the management divisional structure and not the segmental information presented above. For statutory purposes, the businesses within the geographic divisions of Asia Pacific and South Africa (Other) have been reallocated back to the relevant business segment in line with the requirements of IAS 14, "Segmental Reporting". In addition, the commentary in the review of performance is presented at constant exchange rates and before the amortisation of intangible assets*. The tables that follow reconcile the segmental information presented above to the divisional performance referred to in the review of performance contained within the business review.

	Statutory basis 2007 £m	Asia Pacific and Other 2007 £m	Foreign exchange 2007 £m	Management basis 2007 £m	Management basis 2006 £m
Revenue from continuing operations					
Textiles and Washroom Services	693.2	(87.7)	(2.5)	603.0	595.4
Pest Control	377.2	(74.5)	7.7	310.4	278.3
Ambius	120.6	(13.2)	5.0	112.4	105.8
City Link	417.1	–	–	417.1	213.3
Facilities Services	595.3	(9.1)	(0.5)	585.7	519.2
Asia Pacific	–	158.0	0.3	158.3	102.1
Other	–	26.5	3.3	29.8	29.1
	2,203.4	–	13.3	2,216.7	1,843.2

	Statutory basis 2007 £m	Asia Pacific and Other 2007 £m	Amortisation of intangible assets* 2007 £m	Foreign exchange 2007 £m	Management basis 2007 £m	Management basis 2006 £m
Operating profit from continuing operations						
Textiles and Washroom Services	124.0	(26.9)	9.3	(0.5)	105.9	92.1
Pest Control	66.9	(14.9)	12.8	0.6	65.4	61.4
Ambius	7.1	(1.4)	3.0	0.4	9.1	7.4
City Link	8.4	–	11.0	–	19.4	34.8
Facilities Services	38.0	(2.1)	2.8	–	38.7	27.4
Asia Pacific	–	31.4	–	(0.4)	31.0	20.2
Other	–	10.2	–	1.2	11.4	11.8
Central items	(32.5)	3.7	0.3	–	(28.5)	(19.5)
	211.9	–	39.2	1.3	252.4	235.6

* Excluding computer software and development costs.

2. OPERATING EXPENSES BY NATURE

	Continuing operations 2007 £m	Continuing operations 2006 £m	**Discontinued operations 2007 £m**	Discontinued operations 2006 £m	**Total 2007 £m**	Total 2006 £m
Employee benefit expense (note 3)	**981.4**	878.4	**65.0**	215.3	**1,046.4**	1,093.7
Depreciation – owned assets	**146.0**	143.6	**0.2**	4.0	**146.2**	147.6
– under finance leases	**5.8**	6.0	**1.7**	3.8	**7.5**	9.8
Profit on disposal of PPE	**(25.9)**	(4.3)	**(0.1)**	(17.0)	**(26.0)**	(21.3)
Loss on disposal/retirement of intangible assets	**9.6**	1.2	**–**	–	**9.6**	1.2
Amortisation – intangible assets[1]	**39.2**	21.1	**1.4**	6.4	**40.6**	27.5
– computer software and development costs	**2.6**	3.5	**0.3**	1.2	**2.9**	4.7
Audit and non-audit services (note 4)	**3.5**	3.3	**0.1**	0.2	**3.6**	3.5
Other impairment of PPE	**1.3**	1.0	**–**	–	**1.3**	1.0
Curtailment and past service credits[2]	**–**	(17.0)	**–**	(2.2)	**–**	(19.2)
Cost of inventories recognised as an expense	**46.8**	52.7	**14.1**	30.3	**60.9**	83.0
Hire of machinery and equipment	**5.2**	8.1	**–**	1.0	**5.2**	9.1
Other operating lease rentals	**21.1**	28.9	**0.8**	2.6	**21.9**	31.5
Net foreign exchange losses	**1.6**	0.1	**–**	–	**1.6**	0.1
Research and development costs (external)	**1.7**	2.8	**–**	0.3	**1.7**	3.1
Other expenses	**751.6**	499.3	**73.2**	146.0	**824.8**	645.3
Operating expenses	**1,991.5**	1,628.7	**156.7**	391.9	**2,148.2**	2,020.6

1 Excluding computer software and development costs.

2 2006 includes £3m in respect of the change in assumptions arising from “A day”.

3. EMPLOYEE BENEFIT EXPENSE

	Continuing operations	Continuing operations	**Discontinued operations**	Discontinued operations	**Total**	Total
	2007	2006	**2007**	2006	**2007**	2006
	£m	£m	**£m**	£m	**£m**	£m
Wages and salaries	**842.4**	748.7	**52.7**	186.0	**895.1**	934.7
Social security costs	**122.2**	110.2	**11.1**	26.7	**133.3**	136.9
Share-based payments	**2.2**	–	**–**	–	**2.2**	–
Pension costs						
• defined contribution plans	**12.6**	10.9	**1.2**	2.3	**13.8**	13.2
Pension costs						
• defined benefit plans (note 24)	**2.0**	8.6	**–**	0.3	**2.0**	8.9
	981.4	878.4	**65.0**	215.3	**1,046.4**	1,093.7

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

	Number	Number	**Number**	Number	**Number**	Number
Service	**64,099**	59,401	**1,372**	14,407	**65,471**	73,808
Selling	**3,492**	3,116	**278**	502	**3,770**	3,618
Administration	**6,668**	4,828	**503**	1,131	**7,171**	5,959
	74,259	67,345	**2,153**	16,040	**76,412**	83,385

Emoluments of directors of Rentokil Initial plc are included in staff costs above and in the key management compensation table in note 34.

Further details are also given in the directors' remuneration report on pages 59 to 64.

4. AUDIT AND NON-AUDIT SERVICES

	2007	2006
	£m	£m
Fees payable to the company's auditors for the audit of the parent company and group accounts	**0.5**	0.5
Fees payable to the company's auditors and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	**1.8**	1.6
Other services pursuant to legislation	**0.3**	0.3
Tax services	**0.4**	0.3
Corporate finance transactions	**0.4**	0.6
All other services	**0.2**	0.2
	3.6	3.5

In addition to the above services, the group's auditors acted as auditors to the Rentokil Initial Pension Scheme. The appointment of auditors to the group's pension scheme and the fees paid in respect of the audit are agreed by the trustees of the scheme, who act independently from the management of the group. The aggregate fees paid to the group's auditors for audit services to the pension scheme during the year were £71,000 (2006: £55,000).

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £m	2006 £m
Interest payable on bank loans and overdrafts	**26.2**	18.4
Interest payable on medium term notes issued	**55.3**	49.6
Net interest payable/(receivable) on fair value hedges	**3.8**	(6.7)
Interest on defined benefit plan liabilities	**51.5**	48.4
Interest payable on finance leases	**1.7**	1.8
Foreign exchange gain on translation of foreign denominated loans	**(0.7)**	(0.3)
Amortisation of discount on provisions	**1.5**	2.0
Net ineffectiveness of fair value hedges[1]	**1.1**	(0.1)
Fair value gain on derivatives not designated in a hedge relationship[2]	**–**	(0.8)
Total interest payable and similar charges (continuing operations)	**140.4**	112.3

1 Net ineffectiveness of fair value hedges consists of income of £4.6m (2006: £25.9m) offset by charges of £5.7m (2006: £25.8m).

2 The fair value (gain)/loss on derivatives not designated in a hedge relationship includes fair value losses relating to forward rate agreements of £nil (2006: £2.0m).

6. INTEREST RECEIVABLE

	2007 £m	2006 £m
Bank interest	**16.2**	13.8
Return on defined benefit plan assets	**52.3**	47.4
Total interest receivable (continuing operations)	**68.5**	61.2

7. INCOME TAX EXPENSE

	2007 £m	2006 £m
Analysis of charge in the year		
UK Corporation tax at 30% (2006: 30%)	**8.5**	15.3
Double tax relief	**(13.0)**	(17.6)
	(4.5)	(2.3)
Overseas taxation	**31.6**	35.3
Adjustment in respect of previous periods	**(6.2)**	(17.1)
Total current tax	**20.9**	15.9
Deferred tax*	**9.4**	17.4
Total income tax expense (continuing operations)	**30.3**	33.3

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

	2007 £m	2006 £m
Profit before income tax (continuing operations)	**142.0**	165.4
Tax calculated at domestic tax rates applicable to profits in the respective countries	**42.6**	50.8
Adjustment in respect of previous periods	**(9.8)**	(15.2)
Expenses not deductible for tax purposes – other	**5.0**	4.4
Income not subject to tax	**(1.3)**	(2.4)
Goodwill deduction for which no deferred tax asset was recognised	**(0.4)**	(0.3)
Utilisation of previously unrecognised tax losses	**(4.6)**	(1.6)
Deferred tax on unremitted profits/(losses)	**0.7**	(0.4)
Provisions utilised for which no deferred tax assets was recognised	**(2.3)**	–
Other	**0.4**	(2.0)
Total income tax expense (continuing operations)	**30.3**	33.3

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 30.0% in 2007 and 30.7% in 2006. The decrease is caused by a change in the profitability of the group's subsidiaries in the respective countries and a reduction in overseas tax rates.

	2007	2006
*The deferred tax charge comprises:	£m	£m
Accelerated tax depreciation	6.8	(2.2)
Deferred tax on retirement benefit obligations	13.5	19.7
Unremitted overseas (losses)/profits	0.7	(0.4)
Other temporary differences	(11.6)	0.3
Deferred tax charge	9.4	17.4
Tax on items charged to equity		
Deferred tax debit in respect of actuarial gain on defined benefit pensions	24.1	13.1
Total tax debited to equity	24.1	13.1

8. DISCONTINUED OPERATIONS AND DISPOSALS

Disposals

Included within discontinued operations is the Electronic Security segment. The group disposed of the UK, the Netherlands and the US businesses on 2 July 2007 for gross proceeds of £533.4m and the remaining French business was disposed on 26 December 2007 for gross proceeds of £91.6m. Net consideration was £614.3m after costs paid of £10.7m.

The group also disposed of two smaller businesses for gross proceeds of £6.2m, the results of which are included within continuing operations.

Details of net assets disposed and disposal proceeds are as follows:

	Discontinued operations £m	Other disposals £m	2007 £m
Non-current assets			
– Intangible assets	70.9	0.4	71.3
– Other Investments	0.1	–	0.1
– Property, plant and equipment	23.8	4.2	28.0
Current assets	109.3	3.5	112.8
Current liabilities	(103.4)	(8.3)	(111.7)
Non-current liabilities	(11.2)	–	(11.2)
Net assets disposed	89.5	(0.2)	89.3
Profit on disposal	524.8	0.3	525.1
Consideration	614.3	0.1	614.4
Consideration deferred to future periods	–	(1.0)	(1.0)
Consideration deferred from prior periods	–	1.7	1.7
Costs deferred to future periods	2.5	–	2.5
Costs deferred from prior periods	–	(0.5)	(0.5)
Cash disposed	(27.3)	(2.1)	(29.4)
Cash inflow from disposals of companies and businesses	589.5	(1.8)	587.7

The profit on disposal from discontinued operations above of £524.8m excludes translation exchange gains of £3.8m, which are recycled to the income statement and taxation of £nil, giving a total post-tax profit on disposal of companies and businesses of £528.6m.

Financial performance of discontinued operations

	2007 £m	2006 £m
Revenue	**180.8**	417.0
Operating expenses	**(156.7)**	(391.9)
Operating profit	**24.1**	25.1
Finance costs – net	**(0.2)**	(1.0)
Profit before income tax	**23.9**	24.1
Taxation	**(5.7)**	(5.0)
Profit after income tax from discontinued operations	**18.2**	19.1
Profit on disposal of subsidiary net assets	**524.8**	98.5
Taxation	**–**	(8.5)
Cumulative translation exchange gain[1]	**3.8**	5.9
Total profit after income tax on disposal of net assets of companies and businesses	**528.6**	95.9
Profit for the year from discontinued operations	**546.8**	115.0

[1] The cumulative translation exchange gain of £3.8m (2006: £5.9m) relating to discontinued operations has been recycled out of exchange reserves to the consolidated income statement.

Net cash flows from discontinued operations

	2007 £m	2006 £m
Operating	**13.5**	7.2
Investing	**(4.6)**	13.7
Total net cash flows*	**8.9**	20.9

* Excludes proceeds on disposal of discontinued operations of £589.5m (2006: £134.9m).

9. 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 (note 26), which are treated as cancelled.

	2007 £m	2006 £m
Profit from continuing operations attributable to equity holders of the company	**109.5**	130.1
Profit from discontinued operations attributable to equity holders of the company	**546.8**	115.0
Weighted average number of ordinary shares in issue	**1,807.2**	1,806.5
Basic earnings per share from continuing operations	**6.06p**	7.20p
Basic earnings per share from discontinued operations	**30.26p**	6.37p
Basic earnings per share from continuing and discontinued operations	**36.32p**	13.57p

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. The company has two categories of potential dilutive ordinary shares, being those share options granted to employees where the exercise price is less than the average market price of the company's shares during the year and deferred shares granted to senior executives that will vest in the future.

	2007 £m	2006 £m
Profit from continuing operations attributable to equity holders of the company	**109.5**	130.1
Profit from discontinued operations attributable to equity holders of the company	**546.8**	115.0
Weighted average number of ordinary shares in issue	**1,807.2**	1,806.5
Adjustment for share options and deferred shares	**–**	–
Weighted average number of ordinary shares for diluted earnings per share	**1,807.2**	1,806.5
Diluted earnings per share from continuing operations	**6.06p**	7.20p
Diluted earnings per share from discontinued operations	**30.26p**	6.37p
Diluted earnings per share from continuing and discontinued operations	**36.32p**	13.57p

10. DIVIDENDS

	2007 £m	2006 £m
2005 final dividend paid – 5.25p per share	–	94.8
2006 final dividend paid – 5.25p per share	**94.9**	–
2006 interim dividend paid – 2.13p per share	–	38.5
2007 interim dividend paid – 2.13p per share	**38.5**	–
	133.4	133.3

A dividend in respect of 2007 of 5.25p (2006: 5.25p) per 1p share amounting to £94.9m (2006: £94.8m) is to be proposed at the AGM on 14 May 2008. These financial statements do not reflect this recommended dividend.

11. INTANGIBLE ASSETS

	Goodwill £m	Customer lists and relationships £m	Brands, patents and reacquired franchise rights £m	Computer software £m	Development costs £m	Total £m
Cost						
At 1 January 2006	80.8	221.6	0.3	35.1	3.2	341.0
Exchange differences	(10.1)	(10.4)	(0.8)	(0.5)	–	(21.8)
Additions	–	–	–	6.0	0.4	6.4
Disposals	–	–	–	(2.0)	–	(2.0)
Acquisition of companies and businesses	269.6	135.6	29.9	0.1	–	435.2
Disposal of companies and businesses	(3.9)	(24.2)	–	(3.8)	(2.7)	(34.6)
Reclassification	–	–	–	0.1	(0.1)	–
At 31 December 2006	336.4	322.6	29.4	35.0	0.8	724.2
At 1 January 2007	**336.4**	**322.6**	**29.4**	**35.0**	**0.8**	**724.2**
Exchange differences	**9.9**	**16.6**	**0.2**	**1.5**	**–**	**28.2**
Additions	**–**	**–**	**–**	**12.6**	**0.1**	**12.7**
Disposals/retirements	**–**	**–**	**–**	**(15.2)**	**–**	**(15.2)**
Acquisition of companies and businesses	**105.8**	**96.3**	**16.0**	**0.1**	**–**	**218.2**
Disposal of companies and businesses	**(22.4)**	**(59.3)**	**–**	**(8.3)**	**(0.8)**	**(90.8)**
Reclassification	**1.1**	**–**	**(1.0)**	**–**	**(0.1)**	**–**
At 31 December 2007	**430.8**	**376.2**	**44.6**	**25.7**	**–**	**877.3**
Accumulated amortisation and impairment						
At 1 January 2006	–	(137.9)	–	(20.9)	(1.9)	(160.7)
Exchange differences	–	5.7	(0.1)	0.4	–	6.0
Disposals	–	–	–	0.8	–	0.8
Disposal of companies and businesses	–	15.7	–	2.6	2.7	21.0
Amortisation charge	–	(25.2)	(2.3)	(3.7)	(1.0)	(32.2)
At 31 December 2006	–	(141.7)	(2.4)	(20.8)	(0.2)	(165.1)

	Goodwill £m	Customer lists and relationships £m	Brands, patents and reacquired franchise rights £m	Computer software £m	Development costs £m	Total £m
At 1 January 2007	–	(141.7)	(2.4)	(20.8)	(0.2)	(165.1)
Exchange differences	–	(9.8)	–	(1.0)	–	(10.8)
Disposals	–	–	–	5.6	–	5.6
Disposal of companies and businesses	–	14.6	–	4.7	0.2	19.5
Amortisation charge	–	(32.2)	(8.4)	(2.9)	–	(43.5)
At 31 December 2007	–	(169.1)	(10.8)	(14.4)	–	(194.3)
Net Book Value						
At 1 January 2006	80.8	83.7	0.3	14.2	1.3	180.3
At 31 December 2006	336.4	180.9	27.0	14.2	0.6	559.1
At 31 December 2007	430.8	207.1	33.8	11.3	–	683.0

Amortisation of £43.5m (2006: £32.2m) 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 business segment. A summary of the 2007 goodwill allocation by business segment is shown below:

	UK £m	Europe £m	North America £m	Asia Pacific £m	Africa £m	Total £m
Textiles and Washroom Services	9.8	65.9	–	25.6	–	101.3
Pest Control	–	12.9	46.7	31.2	–	90.8
Ambius	–	2.4	10.4	3.2	0.2	16.2
City Link	201.3	–	–	–	–	201.3
Facilities Services	13.2	–	–	8.0	–	21.2
	224.3	81.2	57.1	68.0	0.2	430.8

The recoverable amount of a CGU is determined based on value-in-use calculations. Using cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates.

The key assumptions used by individual CGUs for value-in-use calculations were long-term growth rates of between 0% and 3% and pre-tax discount rates of between 11% and 14% (2006: 9% and 13%). No reasonably possible change in these key assumptions would give rise to a significant impairment.

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.

No goodwill impairment charges arose during the current or prior year.

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 2006	166.3	473.7	265.5	263.9	1,169.4
Exchange differences	(3.4)	(13.5)	(4.1)	(8.2)	(29.2)
Additions	12.8	98.6	24.6	56.1	192.1
Disposals	(12.2)	(172.9)	(28.9)	(47.6)	(261.6)
Acquisition of companies and businesses	7.7	2.8	2.3	13.0	25.8
Disposal of companies and businesses	(3.2)	(2.5)	(6.5)	(12.9)	(25.1)
At 31 December 2006	168.0	386.2	252.9	264.3	1,071.4
At 1 January 2007	**168.0**	**386.2**	**252.9**	**264.3**	**1,071.4**
Exchange differences	**10.6**	**33.4**	**16.2**	**11.3**	**71.5**
Additions	**28.0**	**112.5**	**30.5**	**44.5**	**215.5**
Disposals	**(19.8)**	**(67.1)**	**(21.6)**	**(73.7)**	**(182.2)**
Acquisition of companies and businesses	**2.7**	**1.4**	**2.5**	**6.9**	**13.5**
Disposal of companies and businesses	**(7.0)**	**(3.4)**	**(14.3)**	**(41.1)**	**(65.8)**
At 31 December 2007	**182.5**	**463.0**	**266.2**	**212.2**	**1,123.9**

	Land and buildings £m	Equipment for rental £m	Other plant and equipment £m	Vehicles and office equipment £m	Total £m
Accumulated depreciation and impairment					
At 1 January 2006	(44.2)	(296.8)	(182.1)	(148.8)	(671.9)
Exchange differences	1.1	7.4	2.8	4.2	15.5
Disposals	1.9	171.2	28.3	38.7	240.1
Disposal of companies and businesses	1.5	1.5	5.5	7.9	16.4
Impairment charge	–	(1.0)	–	–	(1.0)
Depreciation charge	(3.6)	(89.8)	(20.0)	(44.0)	(157.4)
At 31 December 2006	(43.3)	(207.5)	(165.5)	(142.0)	(558.3)
At 1 January 2007	**(43.3)**	**(207.5)**	**(165.5)**	**(142.0)**	**(558.3)**
Exchange differences	**(3.0)**	**(18.5)**	**(9.9)**	**(6.1)**	**(37.5)**
Disposals	**11.7**	**65.4**	**18.7**	**54.5**	**150.3**
Disposal of companies and businesses	**3.4**	**3.2**	**9.2**	**22.0**	**37.8**
Impairment charge	**–**	**(0.1)**	**(1.2)**	**–**	**(1.3)**
Depreciation charge	**(4.3)**	**(93.9)**	**(18.1)**	**(37.4)**	**(153.7)**
At 31 December 2007	**(35.5)**	**(251.4)**	**(166.8)**	**(109.0)**	**(562.7)**
Net Book Value					
At 1 January 2006	122.1	176.9	83.4	115.1	497.5
At 31 December 2006	124.7	178.7	87.4	122.3	513.1
At 31 December 2007	**147.0**	**211.6**	**99.4**	**103.2**	**561.2**

The impairment charge of £1.0m in 2006 is included within Textiles and Washroom Services (£0.3m) and Facilities Services (£0.7m) operating expenses within continuing operations.

The impairment charge of £1.3m in 2007 is included within Textiles and Washroom Services operating expenses within continuing operations.

	Land and buildings £m	Equipment for rental £m	Other plant and equipment £m	Vehicles and office equipment £m	Total £m
The net carrying amounts of assets held under finance leases are as follows:					
At 31 December 2006	17.7	0.2	0.6	26.0	44.5
At 31 December 2007	**18.0**	**–**	**0.5**	**8.7**	**27.2**

The category of equipment for rental and other plant and equipment includes equipment leased by the group to third parties under operating leases with the following carrying amounts:

	2007 £m	2006 £m
Cost at 1 January	**405.3**	489.3
Accumulated depreciation at 1 January	**(226.6)**	(312.6)
Exchange differences	**15.0**	(5.8)
Additions	**112.2**	98.6
Disposals	**(1.8)**	(2.1)
Acquisition of companies and businesses	**1.4**	2.8
Disposal of companies and businesses	**(0.2)**	(0.8)
Impairment charge	**(0.1)**	(1.0)
Depreciation charge	**(93.9)**	(89.7)
Net book amount	**211.3**	178.7

13. INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	2007 £m	2006 £m
At 1 January	**8.6**	9.2
Exchange differences	**0.7**	(1.6)
Share of profit[1]	**2.0**	2.0
Dividends	**(5.6)**	(1.0)
At 31 December	**5.7**	8.6

1 Share of profit is after tax and minority interest of associates.

Investments in associates at 31 December 2007 includes goodwill of £nil (2006: £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
2007						
Nippon Calmic Ltd (49%)	**Japan**	**13.3**	**(7.6)**	**17.8**	**2.0**	**49%**
2006						
Nippon Calmic Ltd (49%)	Japan	15.8	(7.2)	18.8	2.0	49%

14. OTHER INVESTMENTS

	2007 £m	2006 £m
At 1 January	**6.8**	6.8
Disposals	**(3.8)**	(0.2)
Acquisition of companies and businesses	**0.1**	0.2
At 31 December	**3.1**	6.8
Less: non-current portion	**3.1**	6.8
Current portion	**–**	–
Available-for-sale financial assets include the following:		
• UK Government gilts and US Treasury bonds	**2.6**	6.4
• Unlisted equity securities – Continental Europe	**0.3**	0.2
• Unlisted equity securities – North America	**0.2**	0.2
	3.1	6.8

All other investments are classified as available-for-sale financial assets and are valued based on public price quotations as appropriate. All revaluations of investments have been taken to equity. Changes in fair values of available-for-sale financial assets are recorded directly in equity. Other investments were not impaired in 2006 or 2007. See note 22 for the maturity profile and effective interest rate.

Available-for-sale financial assets are denominated in the following currencies:		
• Pound sterling	**2.4**	5.9
• US dollar	**0.4**	0.7
• Euro	**0.3**	0.2
	3.1	6.8

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

Investments

Fixed rate cash deposits include £2.6m (2006: £6.4m) 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 5.2% (2006: 6.4%) and the weighted average rate is fixed for 0.8 years (2006: 1.4 years).

15. TRADE AND OTHER RECEIVABLES

	2007 £m	2006 £m
Trade receivables	**417.4**	422.5
Less: provision for impairment of receivables	**(16.8)**	(12.5)
Trade receivables – net	**400.6**	410.0
Other receivables	**48.3**	47.4
Prepayments	**51.7**	49.9
Total	**500.6**	507.3
Less non-current portion:		
Other receivables	**24.2**	24.7
	24.2	24.7
Current portion	**476.4**	482.6

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.

	2007 £m	2006 £m
At 1 January	**12.5**	12.3
Acquisition of companies and businesses	**–**	0.5
Disposal of companies and businesses	**(1.5)**	(1.0)
Additional provision	**10.6**	4.5
Receivables written off as uncollectable	**(5.1)**	(3.2)
Unused amounts reversed	**(0.4)**	(0.4)
Exchange differences	**0.7**	(0.2)
At 31 December	**16.8**	12.5

Analysis of total trade receivables which are past due but not impaired.

	2007 £m	2006 £m
Not yet due	**183.2**	239.4
Past due less than 1 month	**110.5**	96.3
Between 1 and 3 months	**80.1**	62.7
Between 3 and 6 months	**19.1**	7.1
Between 6 and 12 months	**5.4**	2.7
Over 12 months	**2.3**	1.8
	400.6	410.0

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. As a matter of policy, all outstanding trade balances greater than 12 months are fully provided except as approved by senior management and with due regard to the historical risk profile of the customer. The group has extremely low historical levels of customer credit defaults, due in part to the nature of many of its customers and the long-term relationships it has with them. There were no new customers in 2007 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:

	2007 £m	2006 £m
Pounds sterling	**183.5**	190.9
Euro	**164.7**	182.2
US dollar	**19.0**	20.5
Other currencies	**50.2**	28.9
	417.4	422.5

The creation and release of provision 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 classes within trade and other receivables do not contain impaired assets.

Other receivables consist primarily of a South African loan note and deferred consideration received in respect of business disposals. The South African loan note of £15.0m, relating to the sale of a minority interest in a South African subsidiary, has been classified as available for sale. The loan note has been revalued at 31 December 2007, using a discounted cash flow model, and the revaluation gain of £1.3m (2006: £0.2m) has been taken directly to reserves and disclosed on the face of the statement of recognised income and expense. The South African loan note has an effective interest rate of 13%.

Other receivables include £15.0m of interest bearing (the South Africa loan note – see above) and £1.7m of non-interest bearing notes and deferred consideration received in respect of business disposals. The notes/deferred consideration have final maturities between 2008 and 2014, although earlier repayments may be precipitated under the terms of the respective disposal notes/sale agreements. Apart from the South African loan note (described above), deferred consideration/disposal notes are classified as loans and receivables.

16. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair value assets 2007 £m	Fair value assets 2006 £m	Fair value liabilities 2007 £m	Fair value liabilities 2006 £m
Interest rate swaps:				
• fair value hedge	–	6.9	**(9.6)**	(10.4)
Forward rate agreements:				
• non-hedge	**0.4**	1.0	**(1.0)**	–
Cross-currency interest rate swaps:				
• non-hedge	–	–	–	(0.5)
• fair value hedge	–	–	–	(2.7)
Foreign exchange swaps:				
• non-hedge	**0.4**	0.1	**(4.8)**	(0.9)
• net investment hedge	–	–	**(0.8)**	(0.5)
	0.8	8.0	**(16.2)**	(15.0)
Analysed as follows:				
Current portion	**0.8**	8.0	**(14.4)**	(4.6)
Non-current portion	–	–	**(1.8)**	(10.4)
	0.8	8.0	**(16.2)**	(15.0)

Fair value hedge accounting has been applied to derivatives (marked as "fair value hedge") in accordance with IAS 39. Where no hedge accounting has been applied, related derivatives have been marked as "non-hedge". The related derivative and the hedged notes (described in note 21) are both fair valued and the ineffective portion of the hedge is taken directly to finance costs. The ineffective portion recognised in the profit and loss that arises from fair value hedges amounts to a loss of £1.1m (2006: gain of £0.1m) (note 5). There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

The group has £300m and £250m fixed to floating (LIBOR plus spread) interest rate swaps for which hedge accounting is applied and whose critical terms match those of the bonds disclosed in note 21.

The group has outstanding forward rate agreements maturing in between 3 to 5 months with a nominal value of €200m attracting an average fixed interest rate of 3.99% and a further £300m of six month forward rate agreements maturing in 15 months, attracting an average fixed interest rate of 5.59%.

The nominal value of forward rate agreements and foreign exchange swaps are £447.1m (2006: £1,083.5m) and £117.6m (2006: £219.7m), respectively.

17. INVENTORY

	2007 £m	2006 £m
Raw materials	**7.1**	8.7
Work in progress	**3.8**	3.2
Finished goods	**27.5**	35.0
	38.4	46.9

There were no inventory impairment charges in 2007 and 2006.

18. CASH AND CASH EQUIVALENTS

	2007 £m	2006 £m
Cash at bank and in hand	**95.7**	90.2
Short-term bank deposits	**–**	44.9
	95.7	135.1
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
Cash and cash equivalents	**95.7**	135.1
Bank overdrafts (note 21)	**(9.2)**	(16.3)
	86.5	118.8

Interest is receivable and payable at rates of interest varying between 0.6% and 9.3%. £nil (2006: £3.4m) of the cash balance is held in trust and is not available for general use by the group.

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 six months and earn interest at market rates related to the currency and the sums invested.

19. TRADE AND OTHER PAYABLES

	2007 £m	2006 £m
Trade payables	**110.6**	134.3
Social security and other taxes	**71.4**	75.3
Other payables	**93.6**	93.4
Accruals and deferred income	**207.9**	251.1
Deferred and contingent consideration on acquisitions	**19.5**	14.9
Total	**503.0**	569.0
Less non-current portion:		
Other payables	**17.3**	15.8
Deferred and contingent consideration on acquisitions	**0.4**	–
	17.7	15.8
Current portion	**485.3**	553.2

20. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Vacant properties £m	Environ-mental £m	Self-insurance £m	Other £m	Total £m
At 1 January 2006	46.3	35.8	51.1	14.8	148.0
Exchange differences	–	(1.4)	(2.3)	(0.2)	(3.9)
Additional provisions	5.1	3.6	13.4	19.3	41.4
Acquisitions of companies and businesses	2.8	–	–	2.2	5.0
Unused amounts reversed	(2.5)	(0.6)	(2.8)	(2.5)	(8.4)
Unwinding of discount on provisions	1.1	0.9	–	–	2.0
Used during the year	(16.5)	(2.4)	(13.4)	(0.9)	(33.2)
At 31 December 2006	36.3	35.9	46.0	32.7	150.9

	£m	£m	£m	£m	£m
At 1 January 2007	**36.3**	**35.9**	**46.0**	**32.7**	**150.9**
Exchange differences	**–**	**(0.1)**	**(0.2)**	**0.3**	**–**
Additional provisions	**21.4**	**4.0**	**13.2**	**5.5**	**44.1**
Reclassification	**0.5**	**–**	**1.8**	**(2.3)**	**–**
Acquisitions of companies and businesses	**0.7**	**1.0**	**–**	**0.9**	**2.6**
Unused amounts reversed	**(6.5)**	**(13.0)**	**(4.9)**	**–**	**(24.4)**
Unwinding of discount on provisions	**0.6**	**0.9**	**–**	**–**	**1.5**
Used during the year	**(17.9)**	**(2.6)**	**(12.9)**	**(16.8)**	**(50.2)**
At 31 December 2007	**35.1**	**26.1**	**43.0**	**20.3**	**124.5**

Provisions analysed as follows:

	2007 £m	2006 £m
Non-current	**73.8**	128.6
Current	**50.7**	22.3
	124.5	150.9

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

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 5 years.

Self-insurance
The group purchases external insurance from a portfolio of international insurers for its key insurable risks in order to limit the maximum potential loss that could be suffered in any one year. 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. The annual review of these provisions by external actuaries resulted in a decrease in the reserves and in the insurance charge to the income statement in the year of £4.9m (2006: £2.8m).

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 5 years.

The above provisions have been discounted where appropriate using a discount rate of 3.2% (2006: 3.2%) for the UK and 2.2% (2006: 2.4%) for the USA.

21. BANK AND OTHER BORROWINGS

	2007 £m	2006 £m
Non-current		
Bank borrowings	**1.6**	254.1
Other loans	**651.3**	603.1
Finance lease liabilities	**9.5**	20.1
	662.4	877.3
Current		
Bank overdrafts	**9.2**	16.3
Bank borrowings	**11.7**	30.5
Other loans	**351.4**	383.3
Finance lease liabilities	**8.1**	15.9
	380.4	446.0
Total bank and other borrowings	**1,042.8**	1,323.3

Bank borrowings of £nil (2006: £nil) are secured on certain assets of the group. Other non-current loans and other current loans include £651.3m (2006: £603.1m) and £351.4m (2006: £383.3m) respectively of notes issued under the company's €2.5bn Euro Medium Term Note programme. The above book values approximate fair values for floating rate borrowings. The fair value of fixed rate borrowings is £885.1m.

The group operated the following medium term notes under its €2.5bn Euro Medium Term Note programme for the years ended 31 December 2007 and 31 December 2006:

Currency/Amount	IAS 39 hedging	Interest Coupon	Maturity date
¥3,000m	FV	Fixed rate – 0.60% pa	Matured
$10m	NH	Floating rate – 3 month USD LIBOR +0.35%	Matured
€500m	FV, NIH	Fixed rate – 5.75% pa	Matured
€100m	NH	Floating rate – 3 month EURIBOR +0.28%	03.07.08
£250m	FV	Fixed rate – 6.125% pa	19.11.08
£300m	FV	Fixed rate – 5.75% pa	31.03.16
€500m	NIH	Fixed rate – 4.625% pa	27.03.14

Key:

FV – Fair value hedge accounting applied

NH – Hedge accounting not applied

NIH – Designated for Net Investment Hedging

The £250m medium-term note detailed above is subject to a deed of guarantee issued by Rentokil Initial 1927 plc on 9 December 2005.

The effective interest rates on the £250m, £300m and €500m notes are 6.20%, 5.82% and 5.00% respectively. For all other bonds the effective interest rate approximates to the coupon. The floating rate bonds that are not designated as hedges in accordance with IAS 39 are carried on the balance sheet at amortised cost and retranslated at the period end rate. The related interest rate swap (a derivative) is fair valued at the period end date.

Floating rate loans bear interest at rates, based on the relevant national borrowing rate benchmark equivalents (e.g. – £ LIBOR), which are fixed in advance usually for periods of between one and 12 months.

The group has no significant fixed rate debt except for the fixed rate bonds disclosed above. The £250m and £300m bonds are designated in fair value hedges which convert them to floating interest rates. The €500m bond is designated for net investment hedging. The group's floating rate exposure is managed using forward rate agreements which all mature within one year, except for a contract with a nominal value of £300m which matures within 15 months.

Other borrowings represent bank loans and overdrafts and are held at amortised cost.

Fair value hedge accounting has been applied to all the notes and related derivatives marked as "FV" ("fair value hedge") in accordance with IAS 39. The related derivative and the hedged note are both fair valued and the ineffective portion of the hedge is taken directly to finance costs. Where no hedge accounting has been applied, all the notes and related derivatives have been marked as "NH" ("non-hedge") and any changes are taken to finance costs.

Net investment hedging

The group has designated the €500m note as a hedge of the net investment in its subsidiaries in the eurozone. The fair value of the euro note at 31 December 2007 was £359.6m (2006: £349.8m). The group has entered into cross-currency swaps to convert GBP debt into synthetic Yen, USD and AUD debt. The notional amounts of foreign exchange swaps (2006: cross-currency swaps) designated as hedges of the net investment in subsidiaries at 31 December 2007 were £5.8m (2006: £5.5m), £16.9m (2006: £22.0m) and £nil (2006: £12.2m) respectively. The foreign exchange loss of £2.5m (2006: £8.8m gain) on translation of the borrowings into sterling has been recognised in exchange reserves. Where net investment hedging has been applied to the medium term notes, the related note has been marked with a "NIH".

Finance leases

Finance lease payments fall due as follows:

	2007 £m	2006 £m
Not later than one year	**7.7**	16.1
Between		
• one and two years	**5.9**	11.7
• two and three years	**3.1**	6.6
• three and four years	**1.2**	2.5
• four and five years	**0.4**	0.4
• over five years	**0.5**	0.8
	18.8	38.1
Future finance charges on finance leases	**(1.2)**	(2.1)
Present value of finance lease liabilities	**17.6**	36.0

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

22. MATURITY PROFILE OF FINANCIAL LIABILITIES

The table below analyses the group's financial liabilities, which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Balances due within 12 months equal their carrying value as the impact of discounting is not significant.

	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 2007					
Borrowings	**395.9**	**34.4**	**102.8**	**772.2**	**1,305.3**
Derivative financial instruments	**1.0**	**–**	**–**	**–**	**1.0**
Trade payables	**110.6**	**–**	**–**	**–**	**110.6**
Other	**41.9**	**5.1**	**1.7**	**8.1**	**56.8**
	549.4	**39.5**	**104.5**	**780.3**	**1,473.7**
At 31 December 2006					
Borrowings	456.6	354.1	52.0	386.4	1,249.1
Derivative financial instruments	–	–	–	–	–
Trade payables	134.3	–	–	–	134.3
Other	19.5	7.1	8.0	23.2	57.8
	610.4	361.2	60.0	409.6	1,441.2

Other include £37.3m (2006: £42.9m) in respect of vacant property provisions related to underlying onerous lease contracts and £19.5m (2006: £14.9m) in respect of deferred consideration.

The table below analyses the group's derivative financial instruments, which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2007					
Interest rate swaps					
• Outflow	**44.3**	**18.1**	**54.1**	**63.4**	**179.9**
• Inflow	**32.6**	**17.3**	**51.8**	**69.0**	**170.7**
Foreign exchange swaps					
• Outflow	**164.1**	**–**	**–**	**–**	**164.1**
• Inflow	**158.5**	**–**	**–**	**–**	**158.5**
Net inflow/(outflow)	**(17.3)**	**(0.8)**	**(2.3)**	**5.6**	**(14.8)**
At 31 December 2006					
Interest rate swaps					
• Outflow	34.2	41.6	57.5	80.4	213.7
• Inflow	32.6	32.6	51.8	86.3	203.3
Cross currency interest rate swaps					
• Outflow	21.3	–	–	–	21.3
• Inflow	18.1	–	–	–	18.1
Foreign exchange swaps					
• Outflow	204.5	–	–	–	204.5
• Inflow	203.1	–	–	–	203.1
Net inflow/(outflow)	(6.2)	(9.0)	(5.7)	5.9	(15.0)

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

	Borrowings 2007 £m	Borrowings 2006 £m	**Trade payables and other 2007 £m**	Trade payables and other 2006 £m	**Total 2007 £m**	Total 2006 £m
Pound sterling	**562.3**	852.3	**76.9**	106.2	**639.2**	958.5
Euro	**464.2**	427.1	**63.8**	65.0	**528.0**	492.1
US dollar	**3.7**	15.7	**4.5**	7.3	**8.2**	23.0
Other currencies	**12.6**	28.2	**20.0**	7.0	**32.6**	35.2
	1,042.8	1,323.3	**165.2**	185.5	**1,208.0**	1,508.8

All financial assets and liabilities are held at amortised cost except for derivatives which are held for trading and certain assets classified as available-for-sale which are held at fair value.

Foreign currency risk

The group uses debt denominated in foreign currencies to provide either a natural offset in the income statement of the translation of foreign currency assets or to designate borrowings and foreign exchange forward agreements as net investment hedges of the foreign currency assets of subsidiaries, with translation gains or losses taken to equity.

Similarly, the group's businesses do not undertake significant cross border trade and therefore are not subject to significant foreign currency transaction risk.

Undrawn committed borrowing facilities

The group had the following undrawn committed borrowing facilities available at 31 December 2007 and 31 December 2006 in respect of which all continuing conditions precedent had been met at that date.

	2007 £m	2006 £m
Expiring within		
• one year, or on demand	**44.9**	–
• one and two years	**–**	44.3
• two and three years	**–**	–
• three and four years	**–**	–
• four and five years	**500.0**	230.0
• over five years	**–**	–
	544.9	274.3

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

RISK MANAGEMENT

(i) Financial risk factors

The group's activities expose it to market risk, credit risk, liquidity and cash flow interest rate risk.

(a) Market risk

The group is exposed to market risk, primarily related to foreign exchange and interest rate risk. The group's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and of the currency exposure of certain net investments in foreign subsidiaries. To achieve this, management actively monitors these exposures and the group enters into currency and interest rate swaps, forward rate agreements and forward foreign exchange contracts to manage the volatility relating to these exposures. The group enters into derivative financial instruments solely for hedging purposes.

The group targets forecast currency cash flows to determine a foreign exchange overlay structure that results in the currency split of the group's borrowings reflecting that of the forecast currency cash flows. In addition, the group runs an active net investment hedgings programme that in turn results in relatively small revaluation foreign exchange gains and losses recognised in the income statement. No sensitivity analysis has been disclosed for foreign exchange risk as the amounts involved are not significant.

(b) Credit risk

The group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The maximum credit risk exposure of the group's financial assets at the end of the period is represented by the amounts reported under the corresponding balance sheet headings. No foreign exchange sensitivities have been disclosed as the amounts involved are insignificant.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow interest rate risk

The group's interest rate risk arises from its Medium Term Note borrowings and bank facilities. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk.

The group normally manages its interest rate exposure by converting fixed rate debt into floating rate debt in the currency required to fund the group's activities through the use of interest rate and cross-currency swaps. Fair value hedge accounting is sought for these relationships.

The group's floating interest rate profile is then managed through the use of forward rate agreements and caps for which hedge accounting is not sought.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on profit or loss of a 10 basis-point shift would be a maximum increase/decrease of £1.1m (2006: £1.0m) before forward rate agreements and caps entered into as hedges. The simulation is done on a monthly basis.

(ii) Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide benefits for shareholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The board has set the following policies so as to minimise the company's exposure to liquidity risk and thus ensure that the company is able to meet its liabilities as they fall due.

The company is committed to maintaining a debt/equity capital structure that is sufficiently robust so as to ensure the continued access to a broad range of financing sources and thus be able to maintain sufficient flexibility to pursue commercial opportunities. The company will target a minimum financing headroom of £200m, when measured against its latest forecast/anticipated cash flows over a rolling nine-month time horizon. The company's sources of finance should be structured in a manner so as to minimise potential re-financing risk particularly arising from a bunching of debt/note facility maturities.

The company's financing sources are diversified, across the international banking and capital markets, so as to avoid the over-reliance upon a single source, or disproportionately large source, of funds from an individual capital market note issue or bank finance provider. At 31 December 2007, the group's credit rating was BBB; following the publication of the group's preliminary results in February 2008, Standard & Poor's has placed the group's rating on negative outlook.

We continue to target a stable BBB+ rating in the medium term. The board believes that a key priority must be to retain sufficient financing flexibility to fund its business turnaround strategy.

23. DEFERRED INCOME TAX

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

	2007 £m	2006 £m
At 1 January	**(37.9)**	30.7
Exchange differences	**(5.2)**	0.2
Acquisition of companies and businesses	**(25.9)**	(35.1)
Disposal of companies and businesses	**10.9**	–
Transfers to current taxation	**0.1**	0.1
Charged to the income statement*	**(8.5)**	(20.7)
Charged to equity	**(24.1)**	(13.1)
At 31 December	**(90.6)**	(37.9)

* Includes deferred tax credit of £0.9m (2006: £3.3m charge) in respect of discontinued operations.

Deferred taxation has been presented on the balance sheet as follows:

	2007 £m	2006 £m
Deferred tax asset within non-current assets	**7.9**	7.1
Deferred tax liability within non-current liabilities	**(98.5)**	(45.0)
	(90.6)	(37.9)

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) is as follows:

	Customer lists/ intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Other £m	Total £m
At 31 December 2006	50.3	33.6	(47.1)	10.5	(9.4)	37.9
At 31 December 2007	**63.3**	**43.1**	**(9.4)**	**11.2**	**(17.6)**	**90.6**

Unprovided deferred tax assets in respect of unutilised tax losses amount to £33.0m (2006: £4.2m). Of the losses, £9.8m will expire at various dates between 2008 and 2025. Capital losses carried forward amount to £77.6m (2006: £84.4m). Other deferred tax assets amounting to £10.4m (2006: £17.9m) have not been recognised due to the uncertainty regarding their utilisation.

Deferred tax liabilities have not been recognised in respect of withholding tax and other taxes that would be payable on unremitted earnings of certain subsidiaries as such amounts are permanently reinvested. If these earnings were remitted, tax of £69.4m (2006: £26.4m) would be payable.

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.

24. 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 major schemes are of the defined benefit type with assets held in separate trustee administered funds.

The principal scheme in the group is the Rentokil Initial Pension Scheme (“RIPS”) in the United Kingdom, which has a number of defined benefit sections which are now closed to new entrants (other than the Initial No2 Section, accounting for 0.5% of the total schemes liabilities, which remains open). Actuarial valuations of the UK scheme are usually carried out every three years. The most recent full valuation was at 31 March 2005. A valuation was performed at 31 March 2007 and is still being finalised.

These defined benefit schemes are reappraised 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.

	2007	2006
Weighted average %		
Discount rate	**6.0%**	5.1%
Expected return on plan assets	**6.1%**	5.5%
Future salary increases	**4.1%**	3.8%
Future pension increases	**3.4%**	3.1%

Mortality assumptions

For current pensioners, standard tables PMA92 and PFA92 projected to 2016 using the medium cohort projection and for future pensioners, standard table PMA92 and PFA92 projected to 2026 using the medium cohort projections have been assumed for 2007 and 2006. The mortality rates are increased by 25% for “non-executive” members. This equates to a man retiring at age 65 living a further 20.7 years if he is a “staff” member, or 22.3 years if he is an “executive” member. The corresponding figures for women are 23.4 and 25.1 years respectively.

Pension benefits

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

	2007 UK RIPS £m	2007 Other[1] £m	2007 Total £m	2006 UK RIPS £m	2006 Other[1] £m	2006 Total £m
Present value of funded obligations	**(910.1)**	**(21.8)**	**(931.9)**	(1,012.2)	(21.6)	(1,033.8)
Fair value of plan assets	**974.0**	**18.9**	**992.9**	903.9	17.2	921.1
	63.9	**(2.9)**	**61.0**	(108.3)	(4.4)	(112.7)
Present value of unfunded obligations	**–**	**(11.0)**	**(11.0)**	–	(6.1)	(6.1)
Asset/(liability) in the balance sheet	**63.9**	**(13.9)**	**50.0**	(108.3)	(10.5)	(118.8)
Presented on the balance sheet as:						
Retirement benefit assets	**63.9**	**–**	**63.9**	–	–	–
Retirement benefit liabilities	**–**	**(13.9)**	**(13.9)**	(108.3)	(10.5)	(118.8)
	63.9	**(13.9)**	**50.0**	(108.3)	(10.5)	(118.8)

The amounts recognised in the income statement are as follows:

	2007 UK RIPS £m	2007 Other[1] £m	2007 Total £m	2006 UK RIPS £m	2006 Other[1] £m	2006 Total £m
Current service cost[2]	0.7	1.3	2.0	8.1	0.8	8.9
Prior service cost[3]	–	–	–	(3.0)	–	(3.0)
Curtailment	–	–	–	(16.2)	–	(16.2)
Interest cost[2]	50.4	1.1	51.5	47.7	0.7	48.4
Amount charged to pension liability	51.1	2.4	53.5	36.6	1.5	38.1
Expected return on plan assets[2]	(51.0)	(1.3)	(52.3)	(46.7)	(0.7)	(47.4)
Total pension cost	0.1	1.1	1.2	(10.1)	0.8	(9.3)

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.

3 Change in assumptions arising from "A day".

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

	2007 UK RIPS £m	2007 Other £m	2007 Total £m	2006 UK RIPS £m	2006 Other £m	2006 Total £m
At 1 January	903.9	17.2	921.1	859.4	15.4	874.8
Exchange differences	–	1.6	1.6	–	(0.6)	(0.6)
Expected return on plan assets	51.0	1.3	52.3	46.7	0.7	47.4
Actuarial gain/(loss) during the year	(11.9)	(1.4)	(13.3)	18.7	1.4	20.1
Contributions received from employees	0.2	0.1	0.3	3.6	0.6	4.2
Contributions received from employer	80.6	1.0	81.6	8.3	0.5	8.8
Benefits paid	(49.8)	(0.9)	(50.7)	(32.8)	(0.8)	(33.6)
At 31 December	974.0	18.9	992.9	903.9	17.2	921.1

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

	2007 UK RIPS £m	2007 Other £m	2007 Total £m	2006 UK RIPS £m	2006 Other £m	2006 Total £m
Equity instruments	175.0	6.7	181.7	177.2	9.0	186.2
Debt instruments	703.5	10.7	714.2	700.8	6.5	707.3
Property	–	0.8	0.8	–	0.8	0.8
Other	55.5	0.7	56.2	–	0.9	0.9
Swaps	40.0	–	40.0	25.9	–	25.9
Total plan assets	974.0	18.9	992.9	903.9	17.2	921.1

Pension plan assets include the company's ordinary shares with a fair value of £0.1m (2006: £0.7m).

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

	2007 UK RIPS £m	**2007 Other £m**	**2007 Total £m**	2006 UK RIPS £m	2006 Other £m	2006 Total £m
At 1 January	**1,012.2**	**27.7**	**1,039.9**	1,029.2	27.9	1,057.1
Exchange differences	**–**	**2.0**	**2.0**	–	(0.8)	(0.8)
Total expense charged in the income statement	**51.1**	**2.4**	**53.5**	36.6	1.5	38.1
Actuarial (gain)/loss during the year	**(103.6)**	**1.5**	**(102.1)**	(24.4)	(0.1)	(24.5)
Contributions received from employees	**0.2**	**0.1**	**0.3**	3.6	0.6	4.2
Benefits paid	**(49.8)**	**(0.9)**	**(50.7)**	(32.8)	(1.4)	(34.2)
At 31 December	**910.1**	**32.8**	**942.9**	1,012.2	27.7	1,039.9

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

	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit plan liabilities	**(942.9)**	(1,039.9)	(1,057.1)	(896.7)
Fair value of plan assets	**992.9**	921.1	874.8	584.9
Net surplus/(deficit)	**50.0**	(118.8)	(182.3)	(311.8)
Experience adjustments on plan liabilities	**(14.0)**	16.2	18.9	8.8
Experience adjustments on plan assets	**(13.3)**	20.1	73.1	11.6

The group made a contribution of £80.0m to the UK defined benefit scheme in 2007. As the 2007 valuation is still being finalised, future contributions have not yet been agreed.

The expected return on plan assets is based on market expectations at the beginning of the year. The actual return on plan assets was £39.0m (2006: £67.5m).

The cumulative actuarial loss recognised in the statement of recognised income and expense was £31.0m (2006: £119.8m). An actuarial gain of £88.8m (2006: £44.6m) was recognised during the year.

25. STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company					
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Minority interest £m	Total equity £m
At 1 January 2006	18.1	5.3	(1,714.1)	1,024.1	7.0	(659.6)
Total recognised income for the year	–	–	(10.0)	278.6	–	268.6
Dividends paid to ordinary shareholders	–	–	–	(133.3)	–	(133.3)
New share capital issued	–	0.9	–	–	–	0.9
Deferred shares issued	–	–	–	(1.9)	–	(1.9)
Transfer to other reserves	–	–	1.2	(1.2)	–	–
Minority interest share of profit	–	–	–	(2.0)	2.0	–
Cumulative exchange recycled to income statement on disposal of foreign subsidiary	–	–	(5.7)	–	–	(5.7)
Currency translation difference on minority interest	–	–	–	–	(0.8)	(0.8)
Dividends paid to minority interests	–	–	–	–	(1.8)	(1.8)
At 31 December 2006	18.1	6.2	(1,728.6)	1,164.3	6.4	(533.6)
At 1 January 2007	**18.1**	**6.2**	**(1,728.6)**	**1,164.3**	**6.4**	**(533.6)**
Total recognised income for the year	**–**	**–**	**4.5**	**723.2**	**–**	**727.7**
Dividends paid to ordinary shareholders	**–**	**–**	**–**	**(133.4)**	**–**	**(133.4)**
New share capital issued	**–**	**0.6**	**–**	**–**	**–**	**0.6**
Cost of share options and long-term incentive plan	**–**	**–**	**–**	**2.0**	**–**	**2.0**
Transfer to other reserves	**–**	**–**	**–**	**–**	**–**	**–**
Minority interest share of profit	**–**	**–**	**–**	**(2.2)**	**2.2**	**–**
Minority interest acquired	**–**	**–**	**–**	**–**	**0.7**	**0.7**
Cumulative exchange recycled to income statement on disposal of foreign subsidiary	**–**	**–**	**(3.8)**	**–**	**–**	**(3.8)**
Currency translation difference on minority interest	**–**	**–**	**–**	**–**	**0.1**	**0.1**
Dividends paid to minority interests	**–**	**–**	**–**	**–**	**(2.0)**	**(2.0)**
At 31 December 2007	**18.1**	**6.8**	**(1,727.9)**	**1,753.9**	**7.4**	**58.3**

Treasury shares of £11.1m (2006: £11.1m) have been netted against retained earnings. Treasury shares represent 7.4m (2006: 7.4m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2007 was £8.9m (2006: £12.3m). Dividend income from, and voting rights on, the shares held by the Trust have been waived. There are a further 0.3m (2006: 0.7m) shares held in trust for the benefit of the chief executive. See the remuneration report starting on page 59. The market value of these shares at 31 December 2007 was £0.4m (2006: £1.2m).

	Capital reduction reserve £m	Legal £m	Translation reserve £m	Available for sale £m	Total £m
	Other reserves				
At 1 January 2006	(1,722.7)	9.2	0.2	(0.8)	(1,714.1)
Net exchange adjustments offset in reserves	–	–	(10.1)	–	(10.1)
Available-for-sale investments fair valued	–	–	–	0.1	0.1
Total recognised expense for the year	–	–	(10.1)	0.1	(10.0)
Cumulative exchange recycled on disposal of foreign subsidiary	–	–	(5.7)	–	(5.7)
Transfer from retained reserves	–	1.2	–	–	1.2
At 31 December 2006	(1,722.7)	10.4	(15.6)	(0.7)	(1,728.6)
At 1 January 2007	**(1,722.7)**	**10.4**	**(15.6)**	**(0.7)**	**(1,728.6)**
Net exchange adjustments offset in reserves	**–**	**–**	**3.2**	**–**	**3.2**
Available-for-sale investments fair valued	**–**	**–**	**–**	**1.3**	**1.3**
Total recognised income for the year	**–**	**–**	**3.2**	**1.3**	**4.5**
Cumulative exchange recycled on disposal of foreign subsidiary	**–**	**–**	**(3.8)**	**–**	**(3.8)**
Transfer from retained reserves	**–**	**–**	**–**	**–**	**–**
At 31 December 2007	**(1,722.7)**	**10.4**	**(16.2)**	**0.6**	**(1,727.9)**

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 £1,792.3m.

	2007 £m	2006 £m
Share capital		
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid		
At 1 January – 1,814,432,961 shares (2006: 1,813,839,693)	**18.1**	18.1
Share options exercised – 398,050 shares (2006: 593,268)	**–**	–
At 31 December – 1,814,831,011 shares (2006: 1,814,432,961)	**18.1**	18.1

26. 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.

Grants of share options under the Discretionary Approved and Discretionary Schemes (the "Discretionary Schemes") are calculated by reference to base salaries and management grade in the company. There are three levels of qualification under the Discretionary Schemes. Level 1 applies to all senior executives (including executive directors), Level 2 and deferred share schemes apply to executive directors and sector managing directors. They are summarised as follows:

Level 1:
Before the exercise of an option under Level 1, the company's annual growth in earnings per share on average over the first three consecutive calendar years, commencing in the year in which the option is granted, is at least 4% per annum in excess of the UK rate of inflation. Failing this, the company's annual growth in earnings per share on average over a greater period (up to a maximum of ten years) is at least 4% in excess of the UK rate of inflation.

Level 2:
The exercise condition under Level 2 is by reference to total shareholder return, i.e. the appreciation of the share price (including reinvested dividends) in comparison with the performance of the FTSE 100 index and a defined group of support services companies being used as comparators, during three consecutive calendar years commencing in the year in which the option is granted, on the following basis:

If the company achieves a median performance in relation to the FTSE 100 index, then 25% of the Level 2 share options will vest, rising pro rata to 50% if the company achieves a performance in the upper quartile of the FTSE 100 and, in addition, if the company achieves a median performance in the group of support services companies, then 25% of the Level 2 share options will vest, rising pro rata to 50% if the company achieves a performance in the upper quartile in a group of support services companies.

Deferred share schemes: shares have been offered to executive directors and divisional managing directors to compensate for loss of bonuses or share options in their previous employment on joining the group during 2005. Deferred shares are awarded to members based upon being in continued employment at the time of meeting the various grant dates in the future. As at 31 December 2007, 4.5m shares have been granted in respect of the deferred share scheme and 532,174 shares have been issued to members during the financial year then ended. Refer to the remuneration report on pages 59 to 64 for details of the chief executive's and chief financial officer's share awards.

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 2006	206.230	38,844
Granted	–	–
Exercised	156.493	593
Expired	215.406	6,336
Outstanding at 31 December 2006	**205.333**	**31,915**
Granted	**–**	**–**
Exercised	**155.448**	**398**
Expired	**217.602**	**6,692**
Outstanding at 31 December 2007	**202.825**	**24,825**

Out of the 24.8m outstanding options, 6,786,045 options were exercisable at a weighted average price of 266.285p per share. Options exercised during the period resulted in 398,050 shares being issued at 1p each. The related weighted average price at the time of exercise was 155.448p per share.

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	1998	2001 – 2008	371.670	1,671,590
	1999	2002 – 2009	270.000	2,100,375
	2000	2003 – 2010	156.500	3,297,623
	2001	2004 – 2011	205.250	3,014,080
	2002	2005 – 2012	266.750	2,511,872
	2003	2006 – 2013	204.500	2,702,868
	2004	2007 – 2014	152.000	4,679,161
	2005	2008 – 2015	160.500	4,847,092
				24,824,661

Performance Share Plan

The company introduced a new share based Performance Plan in 2006 and granted 9,521,516 shares on 31 May 2006 and a further 10,173,589 were issued on various dates throughout 2007.

Year of Grant	Exercise period	Number 31 December 2006	Granted	Lapsed	Number 31 December 2007
2006	2009 – 2016	9,514,606	–	987,355	8,527,251
2007	**2010 – 2017**	**–**	**10,173,589**	**466,515**	**9,707,074**

The performance conditions for these awards are earnings per share ("EPS") growth for 50% of an award and total shareholder return ("TSR") for the remaining 50% of an award. For 75% of the TSR portion of an award, performance is measured by comparing the company's relative TSR performance to that of constituents of the FTSE 100 (excluding financial services companies). For the remaining 25% of the TSR portion of an award, the company's TSR performance is measured against the constituents of an international group of support services companies. 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 above awards is charged to the income statement over the vesting period based on values derived using an option pricing tool which is a closed-form solution operating on similar principles to a Monte Carlo simulation. The significant inputs into the model were a share price of 148.25p (for 6 March 2007 grants) and 163p (for 30 March 2007 grants), an expected share price volatility of 22%, an expected life of three years (i.e. commensurate with the vesting period) and an expected correlation of 23% and 23% for the respective comparator groups. The share price volatility and the correlation assumptions are based on statistical analysis of historical daily share prices. As participants are entitled to dividend equivalents during the vesting period, the expected dividend yield and the assumed risk-free rate of return have no impact on the fair value of the awards.

The total net charge for the year relating to equity-settled share-based payment plans was £2.2m (2006: £nil).

27. CASH GENERATED FROM OPERATING ACTIVITIES

	2007 £m	2006 £m
Profit for the year	**658.5**	247.1
Adjustments for:		
• Profit on sale of discontinued operations	**(524.8)**	(98.5)
• Taxation on profit on sale of discontinued operations	**–**	8.5
• Cumulative translation exchange gain recycled on discontinued operations	**(3.8)**	(5.9)
• (Profit)/loss on sale of continuing operations	**(0.3)**	0.5
• Cumulative translation exchange loss recycled on continuing operations	**–**	0.2
• Discontinued operations tax and interest	**5.9**	6.0
• Tax	**30.3**	33.3
• Share of profit from associates	**(2.0)**	(2.0)
• Interest income	**(68.5)**	(61.2)
• Interest expense	**140.4**	112.3
• Depreciation	**153.7**	157.4
• Amortisation of intangible assets*	**40.6**	27.5
• Amortisation of computer software and development costs	**2.9**	4.7
• Pension curtailment and past pension credits	**–**	(19.2)
• Other non-cash items	**3.5**	1.0
• Profit on sale of property, plant and equipment	**(26.0)**	(21.3)
• Loss on disposal/retirement of intangible assets	**9.6**	1.2
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
• Inventories	**0.8**	(2.8)
• Trade and other receivables	**(27.5)**	(47.6)
• Trade and other payables and provisions	**(41.4)**	28.3
Cash generated from operating activities before special pension contribution	**351.9**	369.5
Special pension contribution	**(80.0)**	–
Cash generated from operating activities	**271.9**	369.5

* Excluding computer software and development costs.

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

	2007 £m	2006 £m
Net book amount	**31.9**	21.2
Profit on sale of property, plant and equipment	**26.0**	21.3
Proceeds from sale of property, plant and equipment	**57.9**	42.5

Non-cash transactions

Non-cash items relate to share option and long term incentive plan charges of £2.2m (2006: £nil) and impairment charges of £1.3m (2006: £1.0m).

28. RECONCILIATION OF NET DECREASE IN CASH AND BANK OVERDRAFTS TO NET DEBT

	2007 £m	2006 £m
Net decrease in cash and bank overdrafts	**(32.6)**	(58.2)
Movement on finance leases	**11.9**	1.9
Movement on loans	**304.7**	(221.0)
Decrease/(increase) in debt resulting from cash flows	**284.0**	(277.3)
Acquisition of companies and businesses	**(4.4)**	(11.3)
Disposal of companies and businesses	**9.1**	9.3
Revaluation of net debt	**(5.5)**	11.3
Net debt translation differences	**(42.1)**	20.1
Movement on net debt in the year	**241.1**	(247.9)
Opening net debt	**(1,188.2)**	(940.3)
Closing net debt	**(947.1)**	(1,188.2)
Closing net debt comprises:		
Cash and cash equivalents	**95.7**	135.1
Bank and other short-term borrowings	**(380.4)**	(446.0)
Bank and other long-term borrowings	**(662.4)**	(877.3)
Total net debt	**(947.1)**	(1,188.2)

29. FREE CASH FLOW

	2007 £m	2006 £m
Net cash flows generated from operating activities	**187.9**	289.4
Add back: special pension contribution	**80.0**	–
	267.9	289.4
Purchase of property, plant and equipment (PPE)	**(206.6)**	(176.3)
Purchase of intangible fixed assets	**(12.7)**	(6.3)
Leased property, plant and equipment	**(9.4)**	(17.6)
Proceeds from sale of PPE and intangible assets	**57.9**	42.5
Proceeds from sale of available-for-sale investments	**3.4**	–
Dividends received from associates	**5.6**	1.0
Dividends paid to minority interests	**(2.0)**	(1.8)
Interest element of finance lease payments	**(2.0)**	(2.3)
Free cash flow	**102.1**	128.6

30. BUSINESS COMBINATIONS

The group purchased 100% of the share capital of Technivap, a French hygiene company, on 31 January 2007 and Lancaster, a facilities services company in the UK, on 9 July 2007. The group made asset purchases of Campbell Bros, a pest control company in Australia, on 2 January 2007 and Presto-X, a pest control company in the USA, on 1 September 2007. The group also purchased 100% of the share capital or the trade and assets of a number of smaller companies and businesses. The total consideration for all acquisitions during the year was £201.0m and the cash outflow from current year acquisitions, net of cash acquired, was £175.9m.

Acquisition consideration by management division	2007 £m
Textiles and Washroom Services	21.9
Pest Control	42.3
Ambius	3.1
City Link	17.4
Facilities Services	38.9
Asia	74.5
Discontinuing	2.9
	201.0

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

	Campbell Bros £m	Technivap £m	Presto-X £m	Lancaster £m	Other £m	2007 £m
Purchase consideration:						
• Cash paid	19.0	17.4	18.3	19.0	98.3	172.0
• Direct costs relating to the acquisition	0.7	1.2	0.6	0.5	4.5	7.5
• Consideration deferred to future periods	1.1	–	–	–	19.8	20.9
• Direct costs deferred to future periods	–	–	–	–	0.6	0.6
Total purchase consideration	20.8	18.6	18.9	19.5	123.2	201.0
Fair value of net assets acquired	(9.2)	(8.4)	(9.8)	(7.6)	(60.9)	(95.9)
Minority interest	–	–	–	–	0.7	0.7
Goodwill	11.6	10.2	9.1	11.9	63.0	105.8

In common with the majority of the previous acquisitions made by the group, goodwill of £105.8m represents synergies, both in increased revenues and reduced costs, expected to be realised in all current year acquisitions.

In addition to the synergies above, the goodwill which arose from the premium paid for Technivap represents the potential benefits and synergies available to the group in introducing the services provided by the business to the group's existing customers in other geographic markets in which it operates.

A proportion of the goodwill arising on the acquisition of Presto-X and Campbell Bros represents premiums paid by the group to expand its presence in the US and Australian pest control markets, allowing the group to benefit from further potential synergies available through more acquisitions and integration of smaller pest control businesses in these markets.

The goodwill attributable to the Lancaster acquisition represents the premium paid to establish a presence in a geographic segment of the UK market and to benefit from further integration synergies available to the group.

Further goodwill is attributable to the workforce in all of the acquired businesses.

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

	Campbell Bros £m	Technivap £m	Presto-X £m	Lancaster £m	Other £m	2007 £m
Non-current assets						
• Computer software	0.1	–	–	–	–	0.1
• Property, plant and equipment	1.6	0.2	1.5	0.8	9.4	13.5
• Other investments	–	–	–	–	0.1	0.1
Current assets	2.0	6.4	2.4	9.6	14.4	34.8
Current liabilities	(1.9)	(2.7)	(1.7)	(8.4)	(19.8)	(34.5)
Non-current liabilities	–	(0.2)	–	(0.5)	(3.8)	(4.5)
Net assets acquired	1.8	3.7	2.2	1.5	0.3	9.5

The provisional fair value adjustments to the book value of assets and liabilities arising from acquisitions are as follows:

	Campbell Bros £m	Technivap £m	Presto-X £m	Lancaster £m	Other £m	2007 £m
Non-current assets						
• Intangible assets[1]	10.2	6.7	7.6	8.9	78.9	112.3
• Computer software	–	–	–	–	–	–
• Property, plant and equipment	–	–	–	–	–	–
Current assets	–	–	–	–	–	–
Current liabilities	–	–	–	–	–	–
Non-current liabilities	(2.8)	(2.0)	–	(2.8)	(18.3)	(25.9)
Net assets acquired	7.4	4.7	7.6	6.1	60.6	86.4

The provisional fair value[2] of assets and liabilities arising from acquisitions are as follows:

	Campbell Bros £m	Technivap £m	Presto-X £m	Lancaster £m	Other £m	2007 £m
Non-current assets						
• Intangible assets[1]	10.2	6.7	7.6	8.9	78.9	112.3
• Computer software	0.1	–	–	–	–	0.1
• Property, plant and equipment	1.6	0.2	1.5	0.8	9.4	13.5
• Other investments	–	–	–	–	0.1	0.1
Current assets	2.0	6.4	2.4	9.6	14.4	34.8
Current liabilities	(1.9)	(2.7)	(1.7)	(8.4)	(19.8)	(34.5)
Non-current liabilities	(2.8)	(2.2)	–	(3.3)	(22.1)	(30.4)
Net assets acquired	9.2	8.4	9.8	7.6	60.9	95.9

1 Excluding computer software and development costs.

2 The provisional fair values will be finalised in the 2008 financial statements. The fair values are provisional since the acquisition accounting has not yet been finalised and as a result of the proximity of many acquisitions to the year end.

	Campbell Bros £m	Technivap £m	Presto-X £m	Lancaster £m	Other £m	2007 £m
Total purchase consideration	20.8	18.6	18.9	19.5	123.2	201.0
Consideration payable in future periods	(1.1)	–	–	–	(19.8)	(20.9)
Direct costs deferred to future periods	–	–	–	–	(0.6)	(0.6)
Purchase consideration (paid in cash)	19.7	18.6	18.9	19.5	102.8	179.5
Cash and cash equivalents in acquired companies and businesses	0.1	(3.1)	–	(1.1)	0.5	(3.6)
Cash outflow on current year acquisitions	19.8	15.5	18.9	18.4	103.3	175.9
Deferred consideration from prior periods paid	–	–	–	–	17.1	17.1
Cash outflow on current and past acquisitions	19.8	15.5	18.9	18.4	120.4	193.0

From the dates of acquisition to 31 December 2007 these acquisitions contributed £121.5m to revenue and £2.1m to operating profit.

If the acquisitions had occurred on 1 January 2007, these acquisitions would have contributed £195.5m to revenue and £3.1m to operating profit.

31. CONTINGENT LIABILITIES

The group has contingent liabilities of £1.2m (2006: £0.9m) relating to guarantees in respect of third parties. In addition, there are contingent liabilities in respect of environmental issues, tax and litigation, none of which are expected to give rise to any significant loss.

The 2006 annual report referred to a contingent liability in respect of litigation against the former Manned Guarding business in the USA by former employees in respect of certain employment practices. As expected, the action failed and no provision has been deemed necessary.

32. CAPITAL COMMITMENTS

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

	2007 £m	2006 £m
Property, plant and equipment	14.9	40.0
Intangible assets	0.4	1.0
	15.3	41.0

33. 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:

	2007 £m	2006 £m
Not later than one year	**11.0**	6.8
Later than one year and not later than five years	**43.7**	24.4
Later than five years	**25.1**	17.3
	79.8	48.5

34. RELATED PARTY TRANSACTIONS

The group's strategy and policy are managed by the executive board. Their compensation is shown below:

	2007 £m	2006 £m
Salaries and other short-term employee benefits	**4.8**	4.6
Post-employment benefits	**0.8**	0.7
Termination benefits	**–**	1.1
Share-based payments	**1.4**	1.8
	7.0	8.2

Initial Catering Services Ltd (75%), Retail Cleaning Services Ltd (51%), Rentokil Initial (Pty) Ltd (74.9%) and Yu Yu Calmic Co Ltd (50%) are non-wholly owned subsidiaries of Rentokil Initial plc. All transactions between these entities and the group were transacted at arms length during the ordinary course of business and have been eliminated on consolidation.

Nippon Calmic Ltd (49%) was an associate during 2007 and its balances are disclosed in note 14. 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 2007 was £0.3m (2006: £2.3m).

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 £15.0m (2006: £13.5m) at the end of the year. It is anticipated that the loan will be repaid over a ten year period. The repayment of the loan will be dependent upon the future dividends generated by the business.

35. POST-BALANCE SHEET EVENTS

The following events have occurred since the end of the year:
A final dividend of 5.25p (2006: 5.25p) has been recommended by the board of directors.

The group has acquired further companies and businesses for a consideration of £17.4m.

PRINCIPAL OPERATING SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

At 31 December 2007

Subsidiary undertakings

United Kingdom
Dudley Industries Ltd
Enviro-Fresh Ltd
Initial Building Services Ltd
Initial Catering Services Ltd (75%)
City Link Ltd
Insitu Cleaning Ltd
Initial Facilities Management Ltd
Initial Hospital Services Ltd
Rentokil Initial Services Ltd
Rentokil Initial UK Ltd
Rentokil Initial Facility Services (UK) Ltd
Rentokil Insurance Ltd
Retail Cleaning Services Ltd (51%)
Target Express Parcels Ltd
Lancaster Office Cleaning Company Ltd

Australia
Rentokil Initial Pty Ltd

Austria
Rentokil Initial GmbH
Textilservice Pointner GmbH

Bahamas
Rentokil Initial (Bahamas) Ltd

Barbados
Rentokil Initial (Barbados) Ltd

Belgium
Initial Textiles NV
Rentokil Initial NV
Ambius NV

Brunei
Rentokil Initial (B) Sdn Bhd (70%)

Canada
Rentokil Pest Control Canada Ltd
Initial Tropical Plants Canada Ltd

Czech Republic
Initial Ecotex sro

Denmark
Rentokil Initial A/S

Estonia
PPS Eesti Ou

Fiji
Rentokil Initial Ltd

Finland
Oy Rentokil Initial AB

France
Initial BTB SA
Rentokil Initial SAS
Ambius SAS
Technivap Paris SAS
Rentokil Initial Martinique Sarl

Germany
Initial Textile Service GmbH and Co KG
Rentokil Initial GmbH
Medentex GmbH

Greece
Rentokil Initial Hellas EPE

Guernsey, C.I.
Felcourt Insurance Co Ltd

Guyana
Rentokil Initial Guyana Ltd

Hong Kong
Rentokil Initial Hong Kong Ltd
Po Hong Hong Kong Ltd

India
Rentokil Initial Pte Ltd

Indonesia
PT Calmic Indonesia
PT Rentokil Indonesia

Italy
Rentokil Initial Italia SpA

Jamaica
Rentokil Initial Jamaica Ltd

Kenya
Rentokil Initial Kenya Ltd

Luxembourg
Initial Textile Luxembourg Sarl
Rentokil Luxembourg Sarl

Malaysia
Rentokil Initial (M) Sdn Bhd

Netherlands
Initial Hokatex BV
Rentokil Initial BV
Ambius BV

New Zealand
Rentokil Initial Ltd

Norway
Rentokil Initial Norge AS

Peoples Republic of China
Rentokil Initial (Shanghai) Ltd
Rentokil Tai Ming China Co Ltd (65%)

Philippines
Rentokil Initial (Philippines) Inc

Poland
Matador Sp Z.O.O.

Portugal
Rentokil Initial Portugal-Serviços de Proteção Ambiental Lda

Republic of Ireland
Rentokil Initial Ltd
Novian International Ltd

Singapore
Rentokil Initial Singapore Pte Ltd
Ademco (Security) Pte Ltd

Slovak Republic
Initial Textile Services Sro

South Africa
Rentokil Initial (Pty) Ltd (74.9%)

South Korea
Yu Yu Calmic Co Ltd (50%)
Rentokil Initial Korea Ltd
Rentokil Enguard Ltd (70%)

Spain
Initial Gaviota SA
Limpiezas Initial SA
Rentokil Initial España SA
Initial Textiles e Higiene SL

Sweden
Rentokil Initial AB
Daily Fruit Ambius AB

Switzerland
Rentokil Initial AG

Taiwan
Initial Hygiene Co Ltd
Rentokil Ding Sharn Co Ltd

Thailand
Rentokil Initial (Thailand) Ltd

Trinidad
Rentokil Initial (Trinidad) Ltd

USA
Initial Tropical Plants Inc
J.C. Ehrlich Inc

Vietnam
Initial Services Co Ltd (85%)

Associated undertakings

Japan
Nippon Calmic Ltd (49%)

The activities of the major subsidiaries are referred to in the review of performance on pages 18 to 39.

Notes:

1. Rentokil Initial plc owns directly 100% of the shares of Rentokil Initial 1927 plc 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 and its involvement in the management and because the business is conducted under licence from the group.

FIVE YEAR SUMMARY

	2003 £m	2004 £m	2005 £m	2006 £m	**2007 £m**
Revenue from continuing operations	2,426.2	2,181.4	2,301.2	2,124.7	**2,203.4**
Operating profit from continuing operations	452.6	308.5	243.3	249.1	**211.9**
Profit before income tax from continuing operations	409.2	256.7	190.1	199.1	**142.0**
Profit for the year from continuing operations	304.0	186.9	138.6	154.3	**111.7**
Profit for the year from discontinued operations	(12.4)	5.2	185.8	92.8	**546.8**
Profit for the year (including discontinued)	291.6	192.1	324.4	247.1	**658.5**
Profit attributable to equity holders of the company	290.1	190.4	321.5	245.1	**656.3**
Profit attributable to minority interest	1.5	1.7	2.9	2.0	**2.2**
	291.6	192.1	324.4	247.1	**658.5**
Basic earnings per share:					
Continuing operations	16.51p	10.24p	7.52p	8.43p	**6.06p**
Continuing and discontinued operations	15.83p	10.53p	17.82p	13.57p	**36.32p**
Dividends per 1p share	6.10p	6.71p	7.38p	7.38p	**7.38p**
Gross assets	1,807.6	1,770.6	1,558.0	1,792.0	**1,960.3**
Gross liabilities	(2,432.2)	(2,554.6)	(2,217.6)	(2,325.6)	**(1,902.0)**
Net assets/liabilities	(624.6)	(784.0)	(659.6)	(533.6)	**58.3**
Share capital	18.2	18.1	18.1	18.1	**18.1**
Reserves	(649.3)	(812.2)	(684.7)	(558.1)	**32.8**
Minority interest	6.5	10.1	7.0	6.4	**7.4**
Capital employed	(624.6)	(784.0)	(659.6)	(533.6)	**58.3**

Notes:

1. The results for 2004, 2005, 2006 and 2007 have been prepared under International Financial Reporting Standards. Earlier years have not been restated and are as published under UK GAAP.

2. The results for 2003 and 2004 are as published as comparatives in the 2004 and 2005 annual reports respectively and the results from 2005 and 2006 are as published in the 2006 annual report. The results from continuing and discontinued operations for these years have not been restated for the effect of subsequent disposals.

PARENT COMPANY BALANCE SHEET

At 31 December

	Notes	2007 £m	2006 £m
Fixed assets			
Investments	4	**2,459.0**	2,458.2
Current assets			
Other debtors	5	**481.1**	543.6
Derivative financial instruments (due within one year)	6	**0.8**	8.0
Short-term deposits and cash		**81.9**	59.9
		563.8	611.5
Creditors – amounts falling due within one year			
Creditors	7	**(676.1)**	(203.1)
Bank and other borrowings	8	**(547.0)**	(546.1)
Derivative financial instruments	6	**(14.1)**	(4.6)
		(1,237.2)	(753.8)
Net current liabilities		**(673.4)**	(142.3)
Creditors – amounts falling due after more than one year			
Bank and other borrowings	8	**(651.3)**	(854.1)
Derivative financial instruments	6	**(1.8)**	(10.4)
		(653.1)	(864.5)
Net assets		**1,132.5**	1,451.4
Equity capital and reserves			
Share capital	9	**18.1**	18.1
Share premium	10	**6.8**	6.2
Profit and loss account	11	**1,107.6**	1,427.1
Capital employed		**1,132.5**	1,451.4

The financial statements on pages 124 to 130 were approved by the board on 27 March 2008 and were signed on its behalf by:

P J Long
Senior Independent Director

A E Macfarlane
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 United Kingdom and comply with the Companies Act 1985.

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 income statement 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 income statement.

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 income 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 1 April 2005. 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 1985.

Rentokil Initial plc has adopted FRS 29, “Financial instruments: disclosures” in 2007 but is exempt from the disclosure requirements of FRS 29.

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. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

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 10 of the consolidated financial statements for details of dividends paid in the year.

3. COMPANY PROFIT AND LOSS ACCOUNT

Of the loss attributable to shareholders, a deficit of £188.1m (2006: £35.5m) is dealt with in the accounts of Rentokil Initial plc. The deficit includes a special pension contribution of £80.0m (2006: £nil), tax credits of £48.0m (2006: £15.6m), audit fees of £0.3m (2006: £0.3m) and a charge of £5.1m (2006: £0.8m credit) in respect of derivatives. Under section 230 of the Companies Act 1985, a profit and loss account for the company alone is not presented.

4. INVESTMENTS

	2007	2006
	£m	£m
At 1 January	**2,458.2**	2,460.0
Share-based payments to employees of subsidiaries	**0.8**	(1.8)
At 31 December	**2,459.0**	2,458.2

The company's sole subsidiary undertaking is Rentokil Initial 1927 plc. It has no other direct subsidiary undertakings.

5. OTHER DEBTORS

	2007 £m	2006 £m
Amounts owed by subsidiary undertakings	**353.1**	463.3
Corporation tax asset	**105.6**	48.7
Deferred tax asset*	**21.4**	30.3
Other debtors	**1.0**	1.3
	481.1	543.6

* The deferred tax comprises the timing difference on the special contributions to the Rentokil Initial Pension Scheme in 2005 and 2007.

6. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair value assets		Fair value liabilities	
	2007 £m	2006 £m	**2007 £m**	**2006** £m
Interest rate swaps:				
• fair value hedge	**–**	6.9	**(9.6)**	(10.4)
Forward rate agreements:				
• non-hedge	**0.4**	1.0	**(1.0)**	–
Cross-currency interest rate swaps:				
• non-hedge	**–**	–	**–**	(0.5)
• fair value hedge	**–**	–	**–**	(2.7)
Foreign exchange swaps:				
• non-hedge	**0.4**	0.1	**(4.5)**	(0.9)
• net investment hedge	**–**	–	**(0.8)**	(0.5)
	0.8	8.0	**(15.9)**	(15.0)
Analysed as follows:				
Due within one year	**0.8**	8.0	**(14.1)**	(4.6)
Due after more than one year	**–**	–	**(1.8)**	(10.4)
	0.8	8.0	**(15.9)**	(15.0)

Fair value hedge accounting has been applied to related derivatives (marked as "fair value hedge") in accordance with FRS 26, "Financial Instruments: Measurement". Where no hedge accounting has been applied, related derivatives have been marked as "non-hedge". The related derivative and the hedged notes are both fair valued and the ineffective portion of the hedge is taken directly to finance costs. The ineffective portion recognised in the profit and loss that arises from fair value hedges amount to a loss of £1.1m (2006: gain of £0.1m). There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

The company has £300m and £250m fixed to floating (LIBOR plus spread) interest rate swaps for which hedge accounting is sought and whose critical terms match those of the bonds disclosed in note 8.

The company has outstanding forward rate agreements, maturing in between 3 to 5 months with nominal values of €200m attracting an average fixed interest rate of 3.99% and a further £300m of six month forward rate agreements maturing in 15 months, attracting an average fixed interest rate of 5.59%.

The nominal value of forward rate agreements and foreign exchange swaps is £447.1m (2006: £1,083.5m) and £103.9m (2006: £218.2m), respectively.

7. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £m	2006 £m
Amounts due to subsidiary undertaking	**676.1**	201.5
Other creditors	**–**	1.6
	676.1	203.1

8. BANK AND OTHER BORROWINGS

	2007 £m	2006 £m
Amounts falling due within one year	**547.0**	546.1
Amounts falling due after one year	**651.3**	854.1

Current and non-current loans include £351.4m (2006: £383.3m) and £651.3m (2006: £603.1m) respectively of notes issued under the company's £2.5bn Euro Medium Term Note programme.

The company operated the following medium term notes under its €2.5bn Euro Medium Term Note programme for the year ended 31 December 2007 and the period ended 31 December 2006:

Currency/Amount	FRS 26 hedging	Interest coupon	Maturity date
¥3,000m	FV	Fixed rate – 0.60% pa	Matured
$10m	NH	Floating rate – 3 month USD Libor + 0.35%	Matured
€500m	FV, NIH	Fixed rate – 5.75% pa	Matured
€100m	NH	Floating rate – 3 month EURIBOR +0.28%	03.07.08
£250m	FV	Fixed rate – 6.125% pa	19.11.08
£300m	FV	Fixed rate – 5.75% pa	31.03.16
€500m	NIH	Fixed rate – 4.625% pa	27.03.14

Key:

FV – Fair value hedge accounting applied

NH – Hedge accounting not applied

NIH – Designated for Net Investment Hedging

The £250m medium-term note detailed above is subject to a deed of guarantee issued by Rentokil Initial 1927 plc on 9 December 2005.

The effective interest rates on the £250m, £300m and €500m notes are 6.20%, 5.82% and 5.00% respectively. For all other bonds the effective interest rate approximates to the coupon. The floating rate bonds that are not designated as hedges in accordance with FRS 26 are carried on the balance sheet at amortised cost and retranslated at the period end rate. The related swap (a derivative) is fair valued at the period end date.

Other borrowings of £195.6m (2006: £413.8m) represent bank loans and overdrafts and are held at amortised cost. Further details are provided in the consolidated financial statements.

9. SHARE CAPITAL

	2007 £m	2006 £m
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid		
At 1 January 2007 – 1,814,432,961 shares of 1p each (2006: 1,813,839,693)	**18.1**	18.1
Share options exercised – 398,050 shares (2006: 593,268)	**–**	–
At 31 December – 1,814,831,011 shares of 1p each (2006: 1,814,432,961)	**18.1**	18.1

At 31 December 2007, 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	1998	2001 – 2008	371.670	1,671,590
	1999	2002 – 2009	270.000	2,100,375
	2000	2003 – 2010	156.500	3,297,623
	2001	2004 – 2011	205.250	3,014,080
	2002	2005 – 2012	266.750	2,511,872
	2003	2006 – 2013	204.500	2,702,868
	2004	2007 – 2014	152.000	4,679,161
	2005	2008 – 2015	160.500	4,847,092
				24,824,661

Performance Share Plan

The company introduced a new share based Performance Plan in 2006 and granted 9,521,516 shares on 31 May 2006 and a further 10,173,589 were issued on various dates throughout 2007.

Year of Grant	Exercise period	Number 31 December 2006	Granted	Lapsed	Number 31 December 2007
2006	2009 – 2016	9,514,606	–	987,355	8,527,251
2007	**2010 – 2017**	**–**	**10,173,589**	**466,515**	**9,707,074**

For more information regarding the company's share option schemes and Performance Share Plan, see note 26 of the group consolidated financial statements.

10. SHARE PREMIUM

	2007 £m	2006 £m
At 1 January 2006	**6.2**	5.3
Premium on shares issued during the year under the share option schemes	**0.6**	0.9
At 31 December	**6.8**	6.2

11. PROFIT AND LOSS ACCOUNT

	2007 £m	2006 £m
At 1 January 2006	**1,427.1**	1,589.0
Loss for the financial period (note 3)	**(188.1)**	(35.5)
Dividend paid	**(133.4)**	(133.3)
Deferred shares issued	**(0.2)**	(1.9)
Share-based payments charged to profit and loss	**1.4**	1.8
Share-based payments charged/(credited) to investments	**0.8**	(1.8)
Exchange adjustments	**–**	8.8
At 31 December	**1,107.6**	1,427.1

Treasury shares of £11.1m (2006: £11.1m) have been netted against retained earnings. Treasury shares represent 7.4m (2006: 7.4m) shares held by the Rentokil Initial Employee Share Trust. The market value of those shares at 31 December 2007 was £9.0m (2006: £12.3m). Dividend income from, and voting rights on, the shares held by the Trust have been waived. There are a further 0.3m (2006: 0.7m) shares held in trust for the benefit of the chief executive. See the remuneration report on pages 59 to 64. The market value of these shares at 31 December 2007 was £0.4m (2006: £1.2m).

12. CONTINGENT LIABILITIES

The company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings. In addition, there are contingent liabilities in respect of litigation, none of which are expected to give rise to any material loss. For more information on contingent liabilities, see note 31 of the consolidated financial statements.

13. EMPLOYEES

The company has 5 employees (2006: 6 employees). For information on employee costs, see note 34 of the consolidated financial statements. Services for finance, taxation, treasury, legal, HR and IT are provided by Rentokil Initial 1927 plc.

14. PENSION COMMITMENTS

At 31 December 2007, the RIPS pension asset under IAS 19, “Employee Benefits” amounted to £63.9m (2006: £108.3m deficit). 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 24 of the consolidated financial statements.

15. SHARE-BASED PAYMENTS

Share-based payments for the financial period were £2.2m (2006: £nil) of which £1.4m (2006: £1.8m) was charged to the profit and loss account and £0.8m (2006: £1.8m credited) charged 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 26 of the consolidated financial statements.

16. RELATED PARTY TRANSACTIONS

The company has not undertaken any transactions with related parties during the year, other than transactions with fellow members of Rentokil Initial plc. Such transactions are exempt from disclosure under FRS 8.

17. POST-BALANCE SHEET EVENTS

A final dividend of 5.25p (2006: 5.25p) has been recommended by the board of directors.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RENTOKIL INITIAL PLC

We have audited the parent company financial statements of Rentokil Initial plc for the year ended 31 December 2007 which comprise the balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited. We have reported separately on the group financial statements of Rentokil Initial plc for the year ended 31 December 2007.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, the directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the parent company financial statements. The information given in the directors' report includes that specific information presented in the business review that is cross-referenced from the business review section of the directors' report.

In addition we report to you if in our opinion the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Letter from the Board, the Board Review, the Business Review, the statement of corporate responsibility, the directors' report, the corporate governance statement, the statement of directors' responsibilities, the unaudited section of the directors' remuneration report, the five year summary and the investor information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the directors' remuneration report to be audited.

OPINION

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants and Registered Auditors
London
27 March 2008

Notes: (a) The maintenance and integrity of the Rentokil Initial plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

SHAREHOLDER SERVICES

THE SHARE PORTAL

The Share Portal is an on-line facility provided by our registrars, Capita Registrars, for you to access securely your holdings via the internet. By creating a share portal account, shareholders are able to access a full range of on-line services including:

VIEW ACCOUNT HOLDING DETAILS

The Share Portal enables users to view all shareholding details, indicative share prices and valuations, view a full transaction trail and dividend history including record and payment dates and method of payment.

CHANGE OF ADDRESS

Users are able to change their registered address online and in real-time, reducing the need for paper-based requests.

ELECTRONIC COMMUNICATIONS

Uses can elect to receive shareholder communications electronically, providing faster access to company information and reducing both paper waste and costs.

REGISTER MANDATE

Users are able to register and change their bank mandate instructions online, updating the register in real-time.

DEDICATED HELPLINE

The Share Portal has a dedicated team of fully trained staff who have vast experience in helping users with all aspects of the service including technical and administrative queries.

ONLINE PROXY VOTING

Provides private shareholders with an online proxy voting mechanism to encourage voting by all shareholders.

DOWNLOADABLE FORMS

A range of easily accessible forms are available online for users to download and print as required.

To make use of any of the above facilities, please log on to www.capitashareportal.com. Should you have any queries in respect of the above facilities, please do not hesitate to contact the Capita Share Portal helpline on 0871 664 0391 (Calls cost 10p per minute plus network extras). Outside the UK contact +44 20 8639 3367 or by e-mail at shareportal@capita.co.uk

SHARE DEALING SERVICES

An on-line and telephone share dealing facility is available through our registrars, Capita Registrars, providing shareholders with an easy to access and simple to use service. There is no need to pre-register and there are no complicated forms to complete. The on-line and telephone dealing service allows you to trade "real time" at a known price which will be given to you at the time you give your instruction.

To deal on-line or by telephone all you need is your surname, shareholder reference number, full postcode and your date of birth. Your shareholder reference number can be found on your latest statement or certificate where it will appear as either a "folio number" or "investor code". Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares. For further information on this service, or to buy and sell Rentokil Initial shares, please contact www.capitadeal.com (on-line dealing) or 0871 664 0454 (Calls cost 10p per minute plus network extras) (telephone dealing).

SHAREHOLDER INFORMATION

Results

2007 Half year – 23 August 2007
2007 Full year – 28 February 2008
2008 Half year – 26 August 2008

Annual general meeting

To be held at No. 4 Hamilton Place, London, W1J 7BQ on 14 May 2008 at 11 am. Web www.4hp.org.uk. The notice of the annual general meeting is contained in a separate letter to shareholders, which accompanies these accounts and on the company website: www.rentokil-initial.com

Dividends

2007 Interim 2.13p (2006: 2.13p) – Paid on 19 October 2007
2007 Final (proposed) 5.25p (2006: 5.25p) – Pay date 23 May 2008
(to shareholders on the register on 18 April 2007)

Registrars

Capita Registrars	Telephone (in UK): 0871 664 0300
The Registry	Calls cost 10p per minute plus network extras
34 Beckenham Road	Telephone (from overseas): +44 20 8639 3399
Beckenham	Fax: +44 (0) 20 8639 2342
Kent BR3 4TU	E-mail: ssd@capitaregistrars.com

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 from online at www.capitashareportal.com or call the Capita IRG Trustees on 0871 664 0381 (Calls cost 10p per minute plus network extras) (from the UK) or +44(0) 208 639 3402 from overseas.

Capital history

Mid market price 31 March 1982 – 7.5375p*
Mid market price 31 December 2007 – 120.9p
2007 high/low – 180.5p/114.3p

- adjusted for the 1983 bonus issue and the 1990, 1992, and 1997 share splits.

Company

Rentokil Initial plc	Telephone: +44 (0) 20 7592 2700
Portland House	Fax: +44 (0) 20 7592 2800
Bressenden Place	Web: www.rentokil-initial.com
London SW1E 5BH	Contact: investor@rentokil-initial.com

Registered number 5393279

WWW.RENTOKIL-INITIAL.COM/ANNUALREPORT2007