
Rentokil Initial
Annual Report 2013

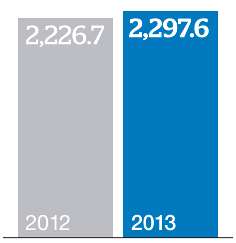
We aim to manage the business for profitable growth in order to drive shareholder value.

To achieve our aim we have reorganised the business into strong regional businesses grouped into five distinct regions: Europe, North America, Pacific, Asia and UK & Rest of World. We manage the business for profitable growth by grouping our categories and geographies into a growth potential and profit contribution matrix and by utilising six operational levers to address growth challenges. Our core competencies are our colleagues as experts, our category leadership and our lean multi-business model.

Financial Highlights 2013 (at CER)

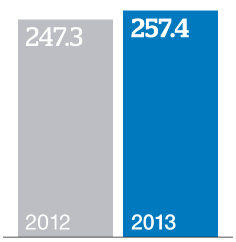
Revenue (£m)

+3.2%



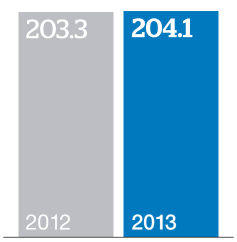
Adjusted operating profit[1] (£m)

+4.1%

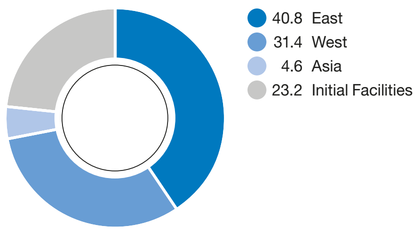


Adjusted profit before tax[2] (£m)

+0.4%

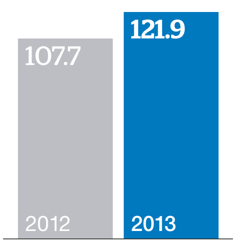


Revenue by region (CER) (%)



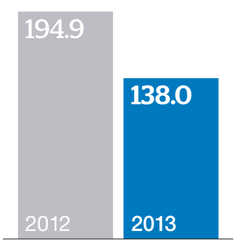
Profit before tax (£m)

+13.2%



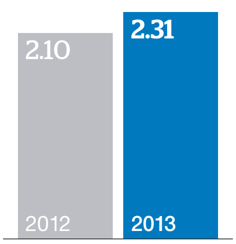
Operating cash flow[3] (£m)

-29.2%

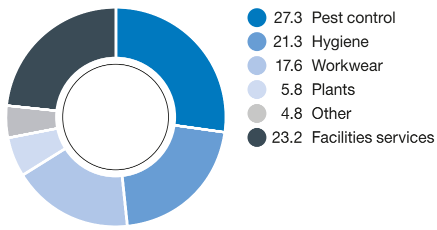


Dividend (p)

+10.0%



Revenue by category (CER) (%)



1 before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items
2 before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items and net interest credit from pensions
3 cash flow before interest, tax, acquisitions, disposals, foreign exchange adjustments and discontinued operations

In this report

Over the following pages 2 to 21, we will outline **what we do** through descriptions of our businesses, markets, growth opportunities and initiatives. On page 8, we will outline **how we do it** through our Operating Model.

In brief

An overview of our business and performance throughout the year.

For more information
go to page 2

Statement by the Chairman and the Chief Executive

Reports on our markets, the Company's strategy and the key factors underlying our performance.

For more information
go to page 4

Good governance

Information on our directors and executive, how we govern our business and deal with remuneration matters.

For more information
go to page 33

A PDF copy of this report can be downloaded from:
www.rentokil-initial.com

Our Business

Who we are

Rentokil Initial is a global leader in support services employing some 52,000 people in 2013. We provide route-based services in pest control, hygiene, workwear and plants and site-based services in facilities management.

Our brands

Our global brands are Rentokil, Initial and Ambius.

Our values

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

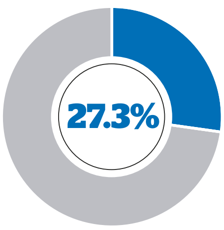
Our businesses

Core categories

Pest Control

Rentokil Pest Control is the world's leading commercial pest control company, operating in over 50 countries including recent entries in Turkey, Mexico and Brazil. We have leading market positions in the UK, continental Europe, Asia and South Africa and a rapidly expanding presence in the Americas.

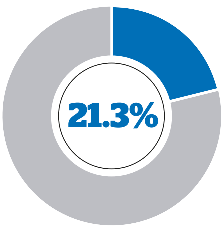
Group revenue (%)



Hygiene

Initial Hygiene provides high-quality hygiene products and services that minimise risk of exposure to bacteria and other infectious micro-organisms. We offer customers a range of services from convenient delivery of hygiene supplies to a complete rental maintenance service.

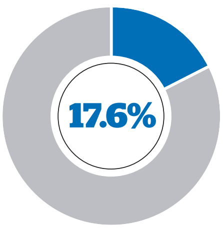
Group revenue (%)



Workwear

Initial Workwear specialises in the supply and maintenance of garments, such as workwear and personal protective equipment, throughout Europe. We are the only player with scale across the four main continental European markets of France, Germany, Belgium and the Netherlands. We also offer a linen service for hotels, restaurants and hospitals.

Group revenue (%)

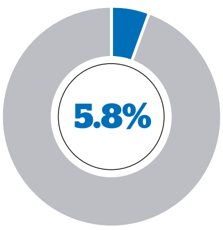


Non-core activities

Plants

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

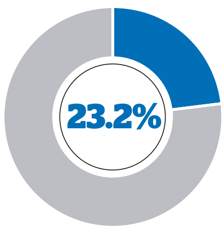
Group revenue (%)



Facilities Services

Initial Facilities provides fully integrated Total Facilities Management (TFM) to commercial and Government sector organisations of all sizes across all business sectors. It has comprehensive service capabilities in catering, cleaning, security, buildings mechanical and electrical engineering and statutory compliance. It has long-term partnering relationships and is the service partner of choice for its customers.

Group revenue (%)



Facilities Services In 2013 the Company indicated that Initial Facilities, with its different site-based operating model, would be managed as a stand-alone business from the remainder of the group. On 28 February 2014 Rentokil Initial announced the divestment of Initial Facilities to Interserve Plc for a total cash consideration of £250m. Completion, which is subject to the agreement of Interserve's shareholders on 17 March, is expected by the end of March 2014.

Mature and growth markets

Mature

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

Growth

These include both established growth markets where there is a steady demand for our services and emerging markets in which a growing middle class in cities, tighter hygiene legislation and greater end-user expectations are driving increased demand. We have a growing presence in Asia, North Africa, the Middle East and the Americas.

Where we operate

We operate in over 60 countries including Europe, Australia, Asia, North America, the Middle East and South America. Greater awareness of public health, stricter food safety legislation and the growing presence of international food, pharmaceutical and hospitality companies in emerging markets are driving demand for our services.

For more information
go to page 12

Global performance

Europe £860m	**Asia £105m**	**Pacific £150m**
UK & Rest of World £308m	**North America £341m**	

Key

Mature markets

Growth markets

Statement by the Chairman and the Chief Executive

John McAdam
Chairman

Andy Ransom
Chief Executive

"2013 has been a year of good progress. We have delivered a steady financial performance despite ongoing economic challenges in Europe, rounding out the year with a solid fourth quarter in line with expectations."

John McAdam, Chairman

Summary of key points

- 2013 revenue, profit and cash performance in line with expectations

- Further expansion of global pest control presence in 2013 and into 2014 through acquisition of 19 bolt-on acquisitions with combined revenues of £19m

£19m

- Recommended final dividend of 1.61p; full year dividend of 2.31p (10% increase year on year)

+10%

Introduction

2013 has been an eventful year for the Company. We announced the sale of our loss-making parcels business, City Link, in April and conducted a Chief Executive succession process leading to the appointment of Andy Ransom as Chief Executive in October. Since his appointment we have conducted a thorough review of group strategy, details of which can be found on pages 10 to 15 of this report. We are also pleased to have announced on 28 February 2014 the divestment of Initial Facilities to Interserve Plc for a consideration of £250m which, subject to approval by Interserve's shareholders, will be effective from the end of March 2014. The divestments of City Link and Initial Facilities allow us to focus on our core growth categories of pest control, hygiene and workwear.

In addition, following a triennial valuation this year of the Company's Pension Scheme, we have agreed with the pension trustees a significant reduction in annual contributions (to be made from March 2014) and in October took advantage of favourable market conditions to issue a 3.25% coupon €350m bond which will be used to refinance the group's €500m bond maturing in March 2014. Following the maturity of the March 2014 bond the average cost of gross debt for the group will be less than 4%.

While we have achieved much in 2013 we are less satisfied with other areas of our performance. Despite a quarter-on-quarter improvement in organic growth from our core businesses, this is not as strong as we would have liked and reflects primarily a continuation of challenging economic conditions in Europe and the Benelux in particular. While we are nearing the end of a major period of restructuring across the group we have incurred some £64m of costs this year associated with redundancy costs, consultancy and plant and office closures. In addition, capital expenditure of £232m remains above depreciation although this will be lowered from 2014.

Based on our overall performance in 2013 the Board is recommending a final dividend of 1.61p per share, to make a total of 2.31p – a 10% increase year on year.

Overview of performance

Revenue in the **West** region rose 17.9% (0.9% organic) driven largely by North America through the acquisition of Western Exterminator. Revenue in the UK and Ireland was adversely impacted by tough economic conditions; however cost savings have enabled profit growth. Europe posted a marginal decline in 2013 revenues reflecting ongoing economic challenges in southern regions. Low single-digit revenue and profit growth from the Rest of World operations reflected solid performances by East Africa, the Nordics and the Caribbean while prior-year acquisitions in Central and South America, the Middle East, North Africa and Turkey have traded in line with expectations. The integrated operating model has been implemented across the region and is underpinning net operating margins. Profit for the region increased by 14.8% on the prior year.

Revenue in the **East** region declined by 2.1% (–0.4% organic) year on year. Trading conditions in continental Europe have continued to be difficult, with the Benelux impacted by significant pricing pressure and France and Germany experiencing some softening in demand. France delivered a steady performance in its core workwear and hygiene operations, supported by moving to an integrated operating model, while Germany was held back by the impact of falling gold prices on dental revenues in its medical hygiene business. Overall performance was also impacted by weak pest control job revenues in Australia due to adverse weather conditions in H1. Significant investment in restructuring programmes in France, the Benelux and Germany is now largely complete. Profit in the East region declined by 2.1%.

Asia continues to build on its solid platform for growth, delivering a revenue increase of 7.0% (7.2% organic) year on year. Both the pest control and hygiene categories performed well, benefiting from ongoing market development. Our operations in the emerging markets of India, China and Vietnam delivered combined revenue growth of 37.3%, albeit from a low base. Growth in the mature market of Malaysia was in mid-single digits building on 2012's strong performance. Profit growth of 32.8% across the region reflects leverage from revenue growth combined with ongoing productivity improvements.

Profit in **Initial Facilities** fell 13.1% on revenue decline of 4.6% (–6.3% organic), reflecting contract terminations and the timing of new contract awards during the summer. £30m of new business was secured, however, at the end of Q3.

The Company announced on 29 April 2013 the sale of its parcels division, **City Link**, to Better Capital. A one-off loss on disposal was incurred of £41.0m of which £30.5m related to a non-cash write down of assets. These are reported within discontinued operations.

Central and divisional overheads

Central and divisional overheads decreased by £2.0m in Q4 and £0.8m in the year reflecting the implementation of a programme designed to reduce annual central and divisional overheads by £10m, announced with the Q3 IMS, as well as lower provisions for bonus payments in Q4.

Reorganisation costs and one-off items (operating)

Net reorganisation costs and one-off items (operating) in the year amounted to £63.7m (2012: £48.0m). £51.7m (2012: £31.2m) of these related directly to the group's major reorganisation programme and consisted mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties. One-off items (operating) of £12.0m (2012: £16.8m) include costs relating to acquisitions and disposals and movements in vacant property provisions. Details of reorganisation costs and one-off items (operating) incurred in the period, for which adjustments have been made, are set out in Note A1.

Interest and one-off items (financing)

Net interest payable was £60.0m at actual exchange rates compared to £48.6m in the prior year, an increase of £11.4m. The increase is predominantly due to the carry cost resulting from raising funds ahead of the maturity of our €500m bond in March 2014. Following the maturity of the March 2014 bond the average cost of gross debt for the group will be less than 4%. In 2013 a £1.5m credit was recognised as a one-off item (financing) in respect of the unwinding of historic gains and losses from equity on disposal of an available-for-sale asset.

Tax

The income tax expense for the year was £31.4m on the reported profit before tax of £122.6m. After adjusting profit for the amortisation and impairment of intangible assets (excluding computer software), reorganisation costs and one-off items and net pension credit from pensions, the effective tax rate for the year is 25.2% (2012: 25.4% as restated). This compares with a blended rate of tax for the countries in which the group operates of 27% (2012: 28% as restated). The reduction is principally due to the recognition of a deferred tax asset in relation to certain UK tax losses carried forward as at 31 December 2013.

Net debt and cash flow

Operating cash inflow from continuing operations of £141.2m at actual exchange rates for continuing operations was £53.7m adverse to 2012 mainly due to increased restructuring costs, working capital outflows and capex in 2013.

Interest payments (including finance lease interest) were £7.0m higher than last year at £51.2m. Total tax payments were £37.2m compared with £35.6m in 2012 and the Company made pension funding payments of £13.6m at the beginning of the year. Free cash inflow of £17.4m was £18.0m adverse compared to the prior year.

The acquisition/disposal outflow of £10.0m compares with £82.8m last year. The Company paid a dividend of £38.6m in 2013, £2.4m higher than 2012. Foreign exchange translation and other items reduced cash flow by a further £14.1m, leaving an overall outflow of £45.3m and net debt of £1,034.8m.

Capital expenditure

Net capital expenditure of £232.1m was £28.7m higher than 2012 due to increased restructuring capex in continental Europe.

Statement by the Chairman and the Chief Executive – continued

Pensions

At 31 December 2013 the Company's UK defined benefit pension scheme, which is closed to new members, was valued at an accounting surplus of £70.6m on the group's balance sheet. The trustees value the scheme on a different basis and are currently in the process of finalising the 31 March 2013 valuation with the Company. On this valuation basis the plan is 99% funded with an estimated deficit of £18m. This deficit is expected to be met by the investment return on pension assets over the period of the recovery plan. In order to mitigate the risk that it does not, however, annual contributions of c.£3m per annum over the next six years, with the first payment made by March 2014, will be paid into a joint escrow account by the group. In the event that the deficit is not cleared by the time of the 31 March 2019 valuation, it will be funded from the escrow account. The funds will be credited back to the Company at such time as the fund goes into surplus.

Acquisitions and disposals

The Company is pursuing a strategy of growth through carefully targeted acquisitions and purchased a number of bolt-ons in the pest control, workwear, hygiene and plants categories during 2013. In pest control we acquired 12 businesses in the UK, Norway, Portugal, French Guyana, Brazil, North America and Canada and entered into a joint venture with an eminent local partner in Saudi Arabia. Combined annual revenues of the above prior to acquisition totalled approximately £9.2m.

In workwear we swapped our Belgian Hospital linen business (which generated revenue of £27.5m in 2012) for a cash payment and the garments contract portfolio of Blanca Linnenservice NV, thereby building our customer base in this important segment. This business generated revenues of £4.9m last year. In hygiene we acquired a medical waste business in France and a washrooms vending machine business in the UK to support our current offering in these areas. Combined annual revenue from these two transactions amounts to £2.0m. In plants we acquired two small businesses in the US generating annual revenues of approximately £0.8m.

This year to date we have accelerated our M&A ambitions to pursue targets in high growth markets and in areas which add local density to our existing operations. We have acquired a further seven pest control companies in Northern Ireland, the Republic of Ireland, Spain, Italy and North America with combined annual revenues of £9.8m.

As noted above we announced the disposal of City Link to Better Capital, a private equity investor, on 29 April 2013.

On 28 February the Company announced it had agreed the sale of its Initial Facilities business to Interserve Plc for a total cash consideration of £250m. Completion, which is subject to the agreement of Interserve's shareholders on 17 March, is expected by the end of March 2014.

Funding

At 31 December 2013 the group had net debt of £1,034.8m and a strong liquidity position, comprising over £400m of funds and £270m of available undrawn committed facilities.

The group has £402.7m of bond maturities in the next 12 months which have been funded at least one year in advance, in accordance with the group's policy and with Standard & Poor's liquidity requirements for investment grade companies.

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

Dividend

Despite continuing challenging market conditions the Company has made solid progress in 2013 and we anticipate further operational and financial progress in 2014. Taking this into consideration the Board is recommending a final dividend in respect of 2013 of 1.61p per share, payable to shareholders on the register at the close of business on 11 April 2014 to be paid on 21 May 2014. This equates to a full year dividend of 2.31p per share, an increase of 10.0% compared to 2012, on an approximately one third/two thirds interim/final basis.

Board changes

On 1 August 2013 we announced that Alan Brown had decided to stand down as Chief Executive and as a director and that after a thorough succession planning process including an external search, Andy Ransom, Regional Managing Director and Executive Director, would succeed Alan as CEO, effective from 1 October 2013. We would like to take this opportunity to thank Alan Brown for his major contribution to the Company since 2008. We have faced huge challenges over the past five years and Alan has navigated us through many of them. The group is today in a much stronger position to continue its international growth strategy.

William Rucker stood down as a director in March 2013 and we are greatly appreciative of his contribution since joining the Board in 2008. After nine years on the Board Duncan Tatton-Brown has decided to stand down as a non-executive director at the conclusion of the AGM on 14 May 2014. The Board thanks Duncan for his leadership of the Audit committee for much of his tenure and wishes him all the very best for the future.

Service delivery

Outstanding service delivery is at the heart of our plan for delivering sustainable profitable growth. Our actions and initiatives to deliver outstanding service include: developing and delivering our Customer Promise; introducing innovative products and services; and ensuring we demonstrate responsible product stewardship. The Company's core State of Service measure remained high in 2013 at 98% while customer satisfaction, as measured through the Customer Voice Counts survey, rose by 2.6 percentage points.

Strategic review

After five years of necessary reinvestment and operational progress the Company has created a new strategic plan to build on the investment phase and drive shareholder value over the medium term. The Rentokil Initial Model is designed to drive higher revenue, generate sustainable profit growth and increased free cash flow. It focuses on a clear organisational structure built around strong regional businesses, three core categories of pest control, hygiene and workwear and differentiated strategies for growth. Further details of our group strategy can be found on pages 10 to 15.

Outlook for 2014

We have delivered a steady financial performance in 2013, despite ongoing economic challenges in Europe, rounding out the year with a solid fourth quarter in line with expectations.

The divestment of Initial Facilities to Interserve Plc, announced on 28 February 2014, together with the sale of City Link in April, allow us to focus on our core service categories of pest control, hygiene and workwear using our differential matrix to target higher growth markets.

Though we see no immediate improvement in trading conditions in Europe (particularly the Benelux) in 2014 we expect to offset ongoing margin pressure with cost efficiencies and anticipate a material improvement in free cash flow as restructuring expenses and capex are reduced. In addition our new strategy, with its differentiated plan to drive shareholder value, gives us confidence in making further operational and financial progress in the coming year.

John McAdam
Chairman

Andy Ransom
Chief Executive

28 February 2014

Managing the business for profitable growth

We have implemented a new model defined by the drive towards profitable growth.

For details of our Strategic Plan **go to page 10**

1. Strong regional businesses	Our business organisation now comprises strong regional businesses grouped into five distinct regions: Europe, North America, Pacific, Asia and UK & Rest of World.
2. Three core categories	Our core competencies are our colleagues as experts, our category leadership, and our lean multi-business operations.
3. Managing the portfolio for growth	We will manage the business for profitable growth by grouping our categories and geographies into a growth potential and profit contribution matrix.
4. Operational levers for growth	We will utilise six operational levers to address growth challenges: Where to play, Mastering our Markets, Building the Pipeline, Sales Brilliance, Delivering our Promise and Engaging our Customers.

Our Operating Model – bringing focus to how we operate

Our business organisation now comprises strong regional businesses grouped into five distinct regions: Europe, North America, Pacific, Asia and UK & Rest of World. Our core competencies are our colleagues as experts, our category leadership, and our lean multi-business model.

We will manage the business for profitable growth by grouping our categories and geographies into a growth potential and profit contribution matrix and by utilising six operational levers to address growth challenges.

Rentokil Initial

Core competencies

Right people – Our colleagues as experts



Our people are our assets and we strive to build motivated and engaged teams across the organisation. We train them to be 'Experts in What they Do' and to have a relentless focus on customers and service.

Right things – Category leadership



We are focused on our three core categories of pest control, hygiene and workwear. Together they comprise 66% of group revenue, have generated 81% of total growth over the last three years and 85% of group profits.

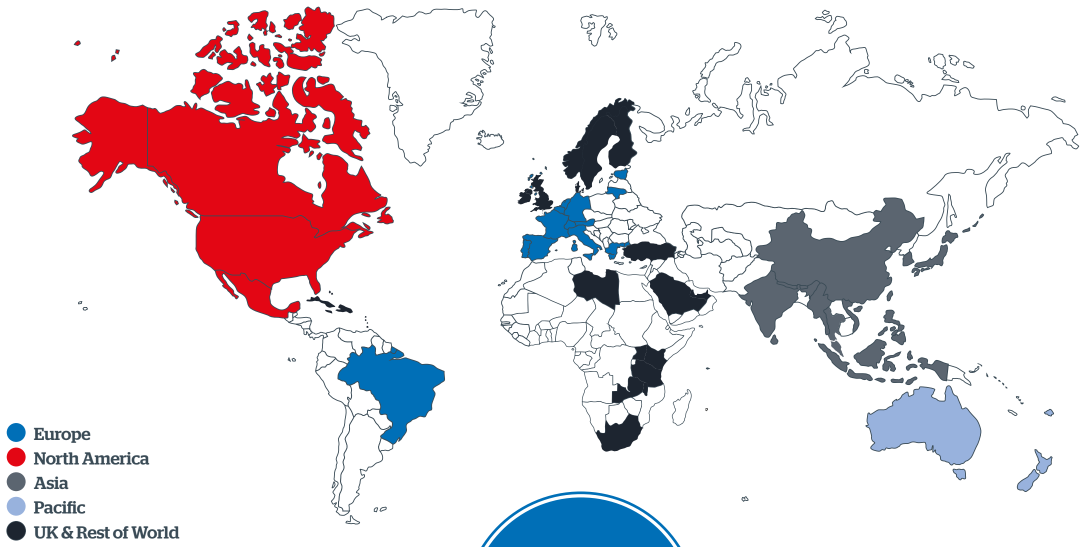
Right way – Lean, multi-business operations

Our move to an integrated country operating model enables our service lines to be combined within single country businesses run by one local management team. Operations, administrative and back office functions are integrated, enabled and underpinned by technology.

Our business organisation
60
countries

Strong regional businesses

Our business organisation comprises five geographic regions run by experienced regional management teams. They are close to their local markets but work to common frameworks and a single agenda, called ‘One RI’. Each region comprises multiple service lines delivered with common operations and single management teams.



Managing for profitable growth

Profitable growth

The group utilises six operational levers to address its growth challenges:

Targeting our offer

1. Where to Play
2. Mastering our Markets

We target our offer appropriately, ensuring we are providing the right offer to the right customers and also that we are masters of our markets, adapting our thinking to local needs.

Sales effectiveness

3. Building the Pipeline
4. Sales Brilliance

We deliver sales effectiveness in both building the pipeline and sales brilliance.

Retention and growth

5. Delivering our Promise
6. Engaging our Customers

We will drive retention and growth through delivery of outstanding customer service, account management and service differentiation.

Differential strategies

The strategic review we have undertaken in 2013 has involved a detailed analysis across the Company in order to group our categories and geographies into a growth potential and profit contribution matrix. Allocation to each quadrant will drive implementation and execution of the right strategy for each business. It will also facilitate efficient allocation of capital to where it is most needed and where it will generate the best returns.

Growth		
	Emerging	Growth
	Manage for Value	Protect & Enhance
	Profit	

Our Strategy

We aim to manage the business for profitable growth in order to drive shareholder value.

To achieve our aim we have reorganised the business into strong regional businesses grouped into five distinct regions: Europe, North America, Pacific, Asia and UK & Rest of World. We manage the business for profitable growth by grouping our categories and geographies into a growth potential and profit contribution matrix and by utilising six operational levers to address growth challenges. Our core competencies remain the same – our colleagues as experts, our category leadership and our lean multi-business model.

We focus on four areas to deliver our strategy:

1. Strong regional businesses

Our business organisation now comprises strong regional businesses grouped into five distinct regions: Europe, North America, Pacific, Asia and UK & Rest of World.

2. Three core categories

We are focused on our three core categories of pest control, hygiene, and workwear.

3. Managing the portfolio for growth

We will manage the business for profitable growth by grouping our categories and geographies into a growth potential and profit contribution matrix.

4. Operational levers for growth

We will utilise six operational levers to address growth challenges: Where to Play, Mastering our Markets, Building the Pipeline, Sales Brilliance, Delivering our Promise and Engaging our Customers.


Rentokil
808 24 24 12
rentokil.pt

Managing the Business for Profitable Growth

1. Strong regional businesses

In 2013 our core businesses have been run on a day-to-day basis by one manager per country, each responsible for the core categories in his/her region. Countries were grouped into three geographic regions – East, West and Asia. Initial Facilities has been run separately as a stand-alone business given its site-based operating model.

In 2014 we will build on this platform with a flatter, geographic grouping. This new, logical structure ends the period of organisational change. The East and West regions will cease to exist and will be replaced by regional clusters. The sale of Initial Facilities to Interserve Plc was announced on 28 February 2014 and, subject to approval by Interserve's shareholders on 17 March 2014, will no longer be part of the group. No further change is envisaged to the group's organisation structure, and external reporting in 2014 will reflect the new groupings (performance will be shown on a regional and category basis).

Our five key geographic regions

Europe
Austria, Benelux, France, Germany, Greece, Italy, Portugal, South America, Spain and Switzerland

Categories:
- Pest control
- Hygiene
- Workwear

North America
Canada, Mexico and US

Categories:
- Pest control
- Plants

Pacific
Australia, Fiji and New Zealand

Categories:
- Pest control
- Hygiene
- Plants

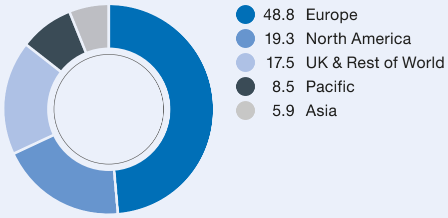
Asia
Brunei, China, India, Indonesia, Malaysia, Singapore, Thailand and Vietnam

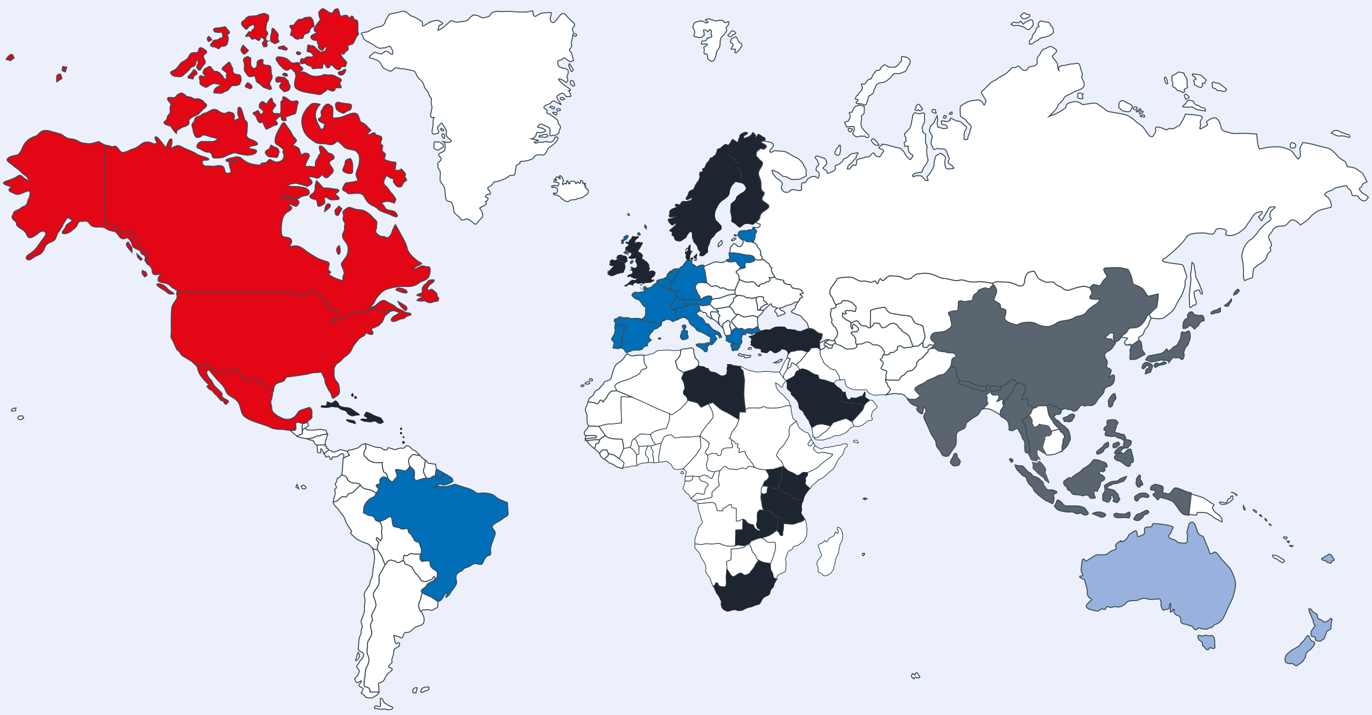
Categories:
- Pest control
- Hygiene

UK & Rest of World
Caribbean, Denmark, Finland, Ireland, the Middle East, North Africa, Norway, South Africa, Sweden, Turkey and UK

Categories:
- Pest control
- Hygiene
- Plants

% of group revenue





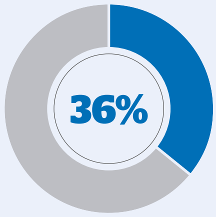
2. Three core categories

The Company is focused on its three core categories of **pest control, hygiene and workwear**. Shared operational synergies include the fact that they are people-serviced, route-based and organised around a branch network.

Rentokil Pest Control

- **Our lead category**
  35.5% of core group revenues
- **Leading positions in most markets**
  including Europe, Asia and Pacific
- **Strategic focus:**
  – Using pest operations as a vehicle for entering new markets (e.g. emerging economies of Brazil and Turkey)
  – Capitalising on North American growth opportunity (currently region's No.3) to enhance our national accounts infrastructure
  – Developing international account sales capability
  – Ongoing service productivity improvements

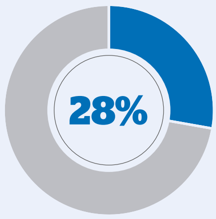
Group revenue (%)



Initial Hygiene

- **Complementary business to pest control**
  compatible operational model and a strong profit contribution (27.7% of core group revenues)
- **Leading positions in 26 of our 43 markets**
- **Strategic focus:**
  – Leveraging award-winning Signature range of hygiene products to sell more services per customer; targeting higher-margin customers and increasing retention rates
  – Improving pricing and margin management particularly for single-service customers
  – Seeking to build market share through acquisitions at local and national level in Europe

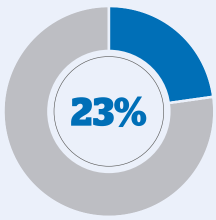
Group revenue (%)



Initial Workwear

- **Complementary fit with hygiene** benefiting from a shared brand, linked service and integrated route-based operations (22.9% of core group revenues)
- Only organisation with **international scale** in four main continental European markets
- **Customer retention**
  94% retention, average customer tenure of 16 years
- **Strategic focus:**
  – Repositioning business to focus on workwear (garments) and on increasing sharing of best practice and product ranges across countries of operation
  – Seeking acquisitions in cleanroom and consolidation opportunities in European workwear

Group revenue (%)



Managing the Business for Profitable Growth – continued

3. Managing the portfolio for growth

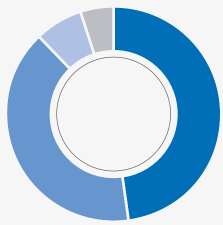
We have grouped our categories and geographies into a four-quadrant growth potential and profit contribution matrix. Allocation to each quadrant will drive implementation and execution of growth strategies and determine appropriate allocation of capital to ensure maximum returns.

Growth potential and profit contribution matrix

Growth potential	Emerging		Growth	
High – Med	**Categories** Pest control Hygiene	**Geographies** Asia Middle East North Africa Turkey South America East Africa	**Categories** Pest control Hygiene Cleanroom (Workwear)	**Geographies** North America United Kingdom Germany Austria Switzerland Caribbean
Med – Low	**Categories** Ambius (Plants)	**Geographies** Ireland Spain Portugal Italy Greece	**Categories** Hygiene Workwear	**Geographies** France Benelux Nordics Australia New Zealand South Africa
	Manage for Value		Protect & Enhance	

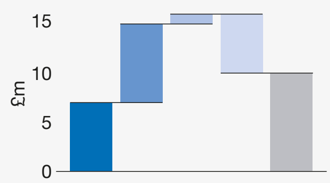
Low Med High
Profit contribution

Revenue 2013 (%)
£1,764m (excludes Initial Facilities)



- 48 Protect & Enhance
- 40 Growth
- 7 Emerging
- 5 Manage for Value

Contribution to revenue growth (£m)



- Growth
- Emerging
- Protect & Enhance
- Manage for Value
- Net

Emerging
High growth potential, low profit contribution
- Focus on: investment in capabilities and effectively directing sales to extend our footprint
- M&A strategy: pest control-led market entry, focus on acquiring local management capabilities, bolt-ons for density – accept lower IRR (~15%) after adjusting for risk
- Categories include: pest control and hygiene
- Geographies include: Asia, the Middle East, North Africa, Turkey, East Africa and South America

Manage for Value
Low growth potential, lower profit contribution
- Focus on: productivity and route density, reducing cost base and improving retention
- M&A strategy: acquiring bolt-ons for density – requires high IRR (~30%), divesting sub-scale unprofitable businesses
- Categories include: Ambius (plants)
- Geographies include: Ireland, Spain, Portugal, Italy and Greece

Growth
High growth potential, high profit contribution
- Focus on: investing to take share and develop existing customers whilst filling gaps in our geographic footprint
- M&A strategy: extend geographic reach into new cities and build out sub-scale regions, lower IRR (>15%) as platform for growth
- Categories include: pest control and cleanroom (workwear)
- Geographies include: North America, UK, Germany, Austria, Switzerland and the Caribbean

Protect & Enhance
Low growth potential, high profit contribution
- Focus on: service productivity, route density, retaining and growing existing customers and development of new offers and services
- M&A strategy: consolidate regional and local strengths, acquire new capabilities in adjacent service areas, above average IRR (~25%)
- Categories include: hygiene and workwear
- Geographies include: France, Benelux, Nordics, Australia, New Zealand and South Africa

4. Operational levers for growth

The drive for growth will be delivered through the differentiated plan for each quadrant, described opposite. In addition, the businesses will utilise six revenue growth levers. First, we will target our offer appropriately ensuring we are providing the right offer to the right customers but also that we are masters of our markets, adapting our thinking to local needs. Second, we will deliver sales effectiveness in both building the sales pipeline and through sales brilliance. Finally, we will drive retention and growth through delivery of outstanding customer service, account management and service differentiation.

Operational levers

Levers		Objectives	Examples of value potential	
Targeting Our Offer	1. Where to Play	• **The Right Offer** for the **Right Customers** • Innovating to build our **Future Offer**	+17%	Signature product range: 17% increase in services per new customer in the first six months post launch
	2. Mastering our Markets	• Adapting the thinking to meet **Local Needs** • **Local Planning** for sales and marketing	+10%	Geographic targeting: a 10% increase in route density offers 3-5% productivity gain
Sales Effectiveness	3. Building the Pipeline	• Delivering **Warm Prospects** to sales • Directed selling to **Target Customers**	40%	Online: 40% win rate for inbound enquiries from web and other marketing channels
	4. Sales Brilliance	• The right **Recruitment and Training** for sales • Supported by the **Best Sales Tools**	+7%	Advantage sales tablet: UK 7% increase in sales yield in first year post launch
Retention & Growth	5. Delivering our Promise	• Delivering the **Service** our customers expect • Service **Differentation** versus competitors	£12m	Retention: 1% increase in retention delivers £12m revenue and £4m profit per annum
	6. Engaging our Customers	• **Account Management** to build strong links • **Long-Lasting Relationships** with customers	+24%	Account management: 24% increase in NPS and quarter of reviews led to sale

Medium-term objectives

As a result of the strategic review outlined above the Company is committed to delivering a number of medium-term financial objectives. These commitments are built around our focus on clear investment criteria to ensure optimal allocation of capital and to drive shareholder value. They will form a key element of our strategy going forward.

We will seek to deliver:

- Mid single-digit revenue growth, supported by M&A investment and divestment of non-core or poorly performing businesses
- High single-digit profit growth, leveraging revenue ambitions
- Significant improvement in sustainable cash flow which will be used to fund:
  - M&A investment, on average c.£50m per annum
  - Progressive dividend policy
  - Incremental reduction in debt

We will also seek to deliver:

- Post-tax IRR of 20% on acquisitions:
  - Reduced for Growth/Emerging (but >15%)
  - Higher for Protect & Enhance (c.25%) and Manage for Value (c.30%)
- Prioritised approach to investment:
  - Restructuring costs of £20m per annum
  - IT capital expenditure of £25m per annum
- Capex broadly in line with depreciation:
  - £20m reduction in 2014

Experts in Pest control

Rentokil is the world's leading commercial pest control company providing the highest levels of risk management, reassurance and responsiveness to our customers.

Performance

In 2013 we achieved revenues of £626.1m and operating profits of £125.2m from our pest control activities. The business is highly profitable and generates a 20% operating margin. North America is our largest geography in this category.

Stefanie Scheider, one of our highly skilled North American pest technicians, believes our comprehensive training programme sets us apart from our competitors

Revenue performance (£m)

£626.1m

Operating profit (£m)

£125.2m

Operating margin (%)

Market opportunities and competition

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

Initiatives

Some of our growth initiatives include:

- 'PestConnect' – remote system for monitoring mice that links into our online reporting tools
- Roll-out of 'myRentokil' smartphone app, providing customers with a slimmed down view of their site focusing on pest activity and open recommendations; the first of its kind in the European pest control market
- 'Advantage' sales capability – tablet-based sales tool to support account management and new business

Market category

Pest control is the group's leading category. We are a leading player in most of our markets. Pest control is the engine for growth of our business and is the vehicle for both new market entry and for further significant expansion in North America. This was accelerated by the acquisition of Western Exterminator and Eden Advanced Pest Technologies in 2012. In the coming year we will be looking to broaden further our national footprint in the US and Canada for full access to large customers across the region. Our pest control operations work together across regions to share best practice and build capabilities in strategic marketing and innovation. This has allowed us to develop a leading technical capability worldwide with unique proprietary products.

Customers

Throughout the world homeowners and businesses trust Rentokil to solve their pest problems. In 2013 commercial pest control accounted for 74% of the business, with residential services accounting for 26%. We offer a comprehensive pest control service and supply of Rentokil-branded DIY pest control products.

Environmental

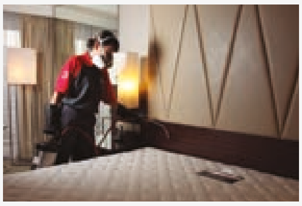
In pest control a key element of product stewardship is to minimise the need for the use of potentially dangerous products. By way of illustration, Rentokil uses 'Entotherm', a heat treatment that replaces traditional chemical spraying against bed bugs, moths and beetles. Similarly, 'Pygo' is a 'smart' insecticide that bio-degrades in a controlled manner depending on its exposure to light, which minimises contact with non-target species. During the year Rentokil entered into a research and development agreement with Intrexon, a US leader in synthetic biology, with the objective of developing a new generation of highly-effective and sustainable pest control solutions.

Rentokil places great importance in developing its Authorised Product List (APL). The selection of 'which bait is best' is made at the Global Science Centre, through a rigorous evaluation procedure which includes worldwide field testing. This approach ensures unacceptable toxic products are not used, chemical compliance aspects are controlled and excessive dosage avoided. Preliminary APL work in the USA enabled a reduction from 2,286 Stock Keeping Units (SKUs) in 2008 to 99 in 2012, prior to the acquisition of Western Exterminator. Across Europe, the APLs have been reduced from 270 at the end of 2011 to 186 at the end of 2013.

As well as its regulatory review, the Centre works with other organisations to influence end users' knowledge and understanding of safe pest control. This includes bodies such as the Universities Federation for Animal Welfare (UFAW) and the Campaign for Responsible Rodenticide Use (CRRU) which helps ensure pest control related environmental impacts are mitigated by sharing best practice and technical advice with professional users such as farmers and researchers.

No.1

Rentokil is the world's leading commercial pest control company



Over the last three years the company has seen a significant increase in the number of call-outs relating to bed bugs

THINK WILDLIFE
Campaign for Responsible Rodenticide Use

Rentokil places great importance in working with other organisations to influence end users' knowledge and understanding of safe pest control

Our CR report can be downloaded from the following link:
rentokil-initial.com/corporate-responsibility

Experts in Hygiene

For more than 100 years Initial Hygiene has helped organisations provide pleasant and hygienic environments for staff, clients and visitors. Establishing good hygiene practices throughout organisations reduces the risk of infection being passed from person to person. As a result, fewer days are lost to sickness which translates directly into real cost savings and improved productivity.

Performance

In 2013 the business generated revenues of £488.4m. It has a 21% operating margin and delivered £102.0m in operating profits. State of service has risen consistently over the past five years and as a result customer satisfaction rates continue to improve.

Initial Hygiene has helped organisations provide pleasant and hygienic environments for staff, clients and visitors

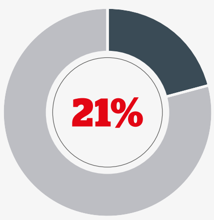
Revenue performance (£m)

£488.4m

Operating profit (£m)

£102.0m

Operating margin (%)



Market opportunities and competition

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

Initiatives

Growth initiatives include:

- Launch of new 'Reflection' range in 2012 and 'Signature' range in 2013

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

- Roll-out of new hygiene working practice 'On Site Service' for feminine hygiene units
- Focus on key accounts

Market category

Our hygiene business is complementary to our world-leading pest control business – a linked offer in environmental health, requiring similar skills sets from our employees and with both categories having compatible operational models. While organic growth has been squeezed through difficult trading conditions in Europe, the strong contribution to profits from our hygiene category underscores its importance to the group.

Customers

We achieve high customer satisfaction levels and believe this is a key competitive advantage. This will be enhanced further as we use the insight gained from our Customer Voice Counts feedback to improve service levels. Additionally, we will be looking to use our new Signature range of washroom products to sell more services per customer in 2014.

Environmental

Responsible product development within the Company is an essential aspect of its working practices. These include extensive training for colleagues to ensure that chemicals, whether used in pest control, hygiene or workwear, are utilised in the correct way. Responsible product development is focused on introducing services that offer customers safe and environmentally friendly products. Following the decision to manufacture in-house hand wash hygiene products used in the Signature range, the Company has now attained inclusion in the EU's Eco Label catalogue which is designed to help customers 'distinguish greener, more environmentally friendly, products of high quality'. The catalogue's coverage includes all of the Company's EU, Caribbean and African operations.

EU Ecolabel
www.ecolabel.eu

Initial Hygiene is market leader in 26 out of 45 countries

17%

Sales of Signature have led to a 17% increase in services per new customer in the first six months post launch

PRESIDENT'S DESIGN AWARD SINGAPORE

Signature was designed to stand out from the competition and won the prestigious Singapore President's award for product design

Our CR report can be downloaded from the following link:
rentokil-initial.com/corporate-responsibility

Experts in Workwear

Initial Workwear specialises primarily in the rental and maintenance of garments, such as workwear and personal protective equipment (PPE), throughout Europe.

Performance

In 2013 we achieved revenues of £403.8m. The majority of business in this category came from France. Our competitive position in this market is highlighted by the 16% operating margin achieved in 2013, delivering £64.4m of operating profits for the year.

Market opportunities and competition

The European workwear market is estimated to be worth approximately £5bn (of which we have an estimated 8%) and growing ahead of GDP at +3%. There is an increasing trend by customers to outsource their workwear requirements which is fuelling further growth opportunities. Customers are seeking both functional and fashionable workwear, maintained to the highest standard and with greater transparency on costs and performance. Initial is well positioned to capitalise on these trends through product innovation, service differentiation and investment in plant and equipment.

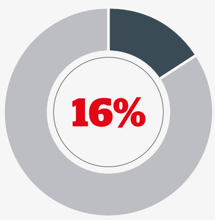
Revenue performance (£m)

£403.8m

Operating profit (£m)

£64.4m

Operating margin (%)



Initiatives

Growth initiatives include:

- Launch of our seven new proprietary ranges of workwear garments across Europe
- Cleanrooms – we are ideally placed in this rapidly growing, high margin sector. We maintain zero-tolerance environments for customers in the pharmaceutical and hi-tech manufacturing industries

Market category

The business is highly profitable and enjoys a strong position in the European workwear market. It is a good complementary fit with our hygiene business – both businesses are route-based and have a shared brand with linked services for customers.

Customers

Based on our thorough understanding of people at work, we can help our customers perform better by providing them with the highest quality workwear solutions. Our strategic focus includes:

- Growing the rental market by converting customers currently purchasing their garments to our rental business model
- Targeting priority market segments with high potential, such as those industries where health and safety are of paramount importance and which therefore need expert advice in workwear management
- Ongoing investment in R&D and innovation to deliver the best products and services to our customers

Environmental

Our workwear processing plants in Europe (44 plants in Austria, Belgium, the Czech Republic, France, Germany, the Netherlands, Nordics and Poland) represent 80% by volume of the Company's total property energy consumption. These plants are the focus for ongoing innovation development in the area of energy management.

In 2013 the results of a survey by ETSA (European Textile Services Association) provided an insight into the operational efficiencies of the member companies. Internal comparison showed that Initial's major processing plants were operating at, or above, the industry's best practice estimates for water, energy and chemicals usage.

Steam-free laundries are also in the process of being introduced (with the first in Sweden in 2011). This type of laundry operates with the lowest possible energy consumption – roughly one third of the average for older style plants. By 2013 five laundries had been converted to this technology. Other improvements include the completion of a project in our French workwear plant at Bourg-en-Bresse where new remote monitoring equipment enables maintenance teams to review both energy and water consumption from one console, and spot efficiency deviations in operating processes that require immediate maintenance.

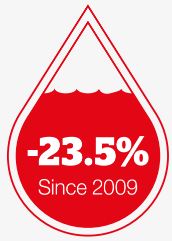
Total emissions from the Company's workwear processing plants have reduced by 6.9% in 2013, with an overall reduction of 20% since 2008.

We class water consumption in our European workwear and textiles processing plants as a key performance indicator because of the large amounts of water used in the laundry process. Over recent years these plants have utilised water recovery systems reducing both water and energy consumption, and have delivered effluent suitable for subsequent reuse. Water consumption is normalised based on kilograms of workwear washed. Total consumption across our workwear and textile processing plants fell by 4.4% to 9 litres during the year (2012 saw a reduction of 14.1% and 10 litres). This represents an overall reduction of 23.5% since 2009.

Our new Personal Protective Equipment (PPE) workwear range is the first of its kind to adopt the latest EU standards for PPE, giving customers greater assurance in respect of their businesses' health and safety liabilities. An environmentally friendly approach has been adopted in the development of its 'Fil'in' range of Polo shirts made with polyester that comes from recycled bottles. This new range is estimated to save nearly 3,000 litres of water and over 300kg of waste compared with 100% cotton polo shirts. Over 47,000 items in this range have been sold post launch.

Emissions (kWh per kg)

Water consumption (litres)



In 2013 we invested £23m in our European laundry infrastructure

Our CR report can be downloaded from the following link:
rentokil-initial.com/corporate-responsibility

Business Overview

The tables below represent revenue and adjusted operating profit[1] (APBITA) by segment, as disclosed in Note A1 to the accounts, split across the main groups of business category and activity, as described on page 3: pest control, hygiene, workwear, plants and facilities services. 'Other' represents a number of small businesses outside of the other categories. The segment information disclosed in Note A1 to the accounts is presented in accordance with IFRS 8 – Operating Segments. This additional information is designed to provide further details split by category and activity, given that a number of our segments include businesses from different categories.

In 2013 our core businesses have been run on a day-to-day basis by one manager per country, each responsible for the core categories in his/her region. Countries have been grouped into three geographic regions – East, West and Asia. Initial Facilities has been run separately as a stand-alone business given its site-based operating model.

In 2014 the East and West regions will cease to exist and will be replaced by regional clusters. The Company announced on 28 February 2014 the sale of its Initial Facilities business to Interserve Plc. Subject to the approval by Interserve's shareholders on 17 March 2014, Initial Facilities will no longer remain part of the group. No further change is envisaged to the Company's organisation structure, and external reporting in 2014 will reflect the new groupings.

At constant exchange rates	2013 Revenue								2013 APBITA
2013	Pest Control £m	Hygiene £m	Workwear £m	Plants £m	Facilities Services £m	Other £m	Central and Divisional Overheads £m	Total £m	Total £m
France	**20.7**	**73.8**	**237.5**	**4.2**	**–**	**18.6**	**–**	**354.8**	**61.5**
Benelux	**47.6**	**76.1**	**83.2**	**20.0**	**–**	**10.8**	**–**	**237.7**	**49.1**
Germany	**44.6**	**57.4**	**83.1**	**1.7**	**–**	**8.2**	**–**	**195.0**	**44.5**
Pacific	**64.4**	**68.9**	**–**	**15.5**	**–**	**1.2**	**–**	**150.0**	**28.4**
East	**177.3**	**276.2**	**403.8**	**41.4**	**–**	**38.8**	**–**	**937.5**	**183.5**
North America	**230.7**	**–**	**–**	**62.6**	**–**	**52.5**	**–**	**345.8**	**37.2**
UK and Ireland	**79.2**	**77.3**	**–**	**9.4**	**–**	**17.7**	**–**	**183.6**	**38.1**
Rest of World	**87.8**	**83.6**	**–**	**20.3**	**–**	**–**	**–**	**191.7**	**42.2**
West	**397.7**	**160.9**	**–**	**92.3**	**–**	**70.2**	**–**	**721.1**	**117.5**
Asia	**51.1**	**51.3**	**–**	**0.3**	**–**	**2.3**	**–**	**105.0**	**8.1**
Central and Divisional Overheads	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(77.5)**
Core group	**626.1**	**488.4**	**403.8**	**134.0**	**–**	**111.3**	**–**	**1,763.6**	**231.6**
Initial Facilities	**–**	**–**	**–**	**–**	**534.0**	**–**	**–**	**534.0**	**25.8**
Continuing group	**626.1**	**488.4**	**403.8**	**134.0**	**534.0**	**111.3**	**–**	**2,297.6**	**257.4**
APBITA[1]	**125.2**	**102.0**	**64.4**	**14.4**	**25.8**	**3.1**	**(77.5)**	**257.4**	
2012									
France	21.5	70.8	233.1	4.5	–	21.2	–	351.1	59.0
Benelux	47.6	78.6	103.2	20.8	–	11.0	–	261.2	52.7
Germany	44.4	57.9	81.6	1.8	–	9.4	–	195.1	45.9
Pacific	63.1	69.1	–	16.0	–	1.7	–	149.9	29.8
East	176.6	276.4	417.9	43.1	–	43.3	–	957.3	187.4
North America	160.7	–	–	62.7	–	18.6	–	242.0	29.7
UK and Ireland	78.5	78.2	–	9.1	–	17.5	–	183.3	32.0
Rest of World	80.4	85.0	–	20.7	–	–	–	186.1	40.6
West	319.6	163.2	–	92.5	–	36.1	–	611.4	102.3
Asia	45.4	50.1	–	0.4	–	2.2	–	98.1	6.1
Central and Divisional Overheads	–	–	–	–	–	–	–	–	(78.2)
Core group	541.6	489.7	417.9	136.0	–	81.6	–	1,668.8	217.6
Initial Facilities	–	–	–	–	559.9	–	–	559.9	29.7
Continuing group	541.6	489.7	417.9	136.0	559.9	81.6	–	2,226.7	247.3
APBITA[1]	112.8	103.8	67.4	13.7	29.7	(1.9)	(78.2)	247.3	

New reporting structure

2013	Revenue (£m)	APBITA (£m)
France	**354.8**	**61.5**
Benelux	**237.7**	**49.1**
Germany	**195.0**	**44.5**
Other Europe	**72.5**	**12.2**
Europe	**860.0**	**167.3**
UK & Ireland	**183.6**	**38.1**
Rest of World	**124.4**	**30.5**
UK & Rest of World	**308.0**	**68.6**
North America	**340.6**	**36.7**
Pacific	**150.0**	**28.4**
Asia	**105.0**	**8.1**
Group overheads	**0.0**	**(77.5)**
Group	**1,763.6**	**231.6**

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

Business Review

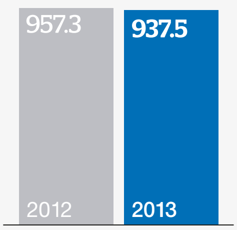
This review of performance takes a close look at each of our business regions – East, West, Asia and Initial Facilities in 2013.

Basis of preparation

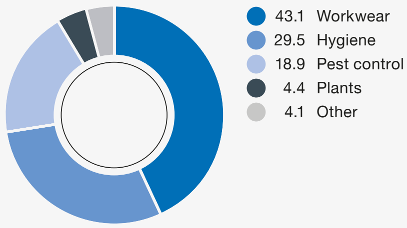
Segmental information has been presented in accordance with IFRS 8 – Operating Segments which the group implemented with effect from January 2009. Full details of the basis of preparation are set out in Note A1 to the financial statements.

East region

Revenue CER (£m)



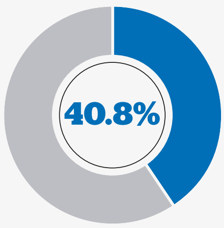
Category mix (%)



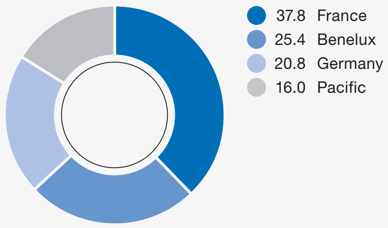
Overview of 2013 performance

- Continuation of difficult trading conditions in Europe
- Benelux impacted by significant pricing pressure
- Steady performance in Workwear and Hygiene in France supported by move to integrated operating model
- Germany held back by impact of falling gold prices on dental revenues in medical hygiene business
- Pacific impacted by weak pest job revenues
- Significant investment in restructuring programme during the year – now largely complete

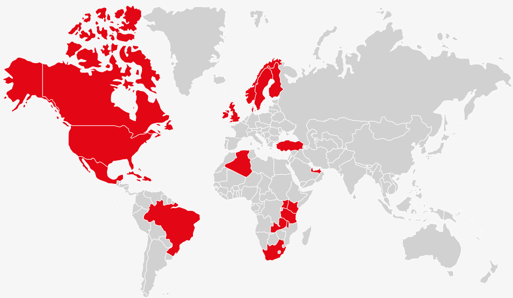
Group revenue (%)



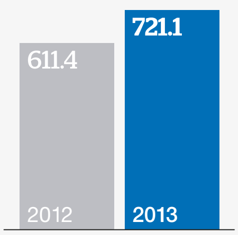
Countries of operation (%)



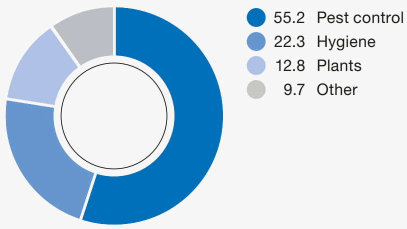
West region



Revenue CER (£m)



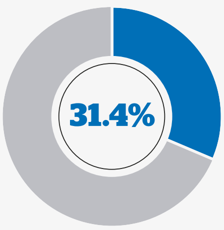
Category mix (%)



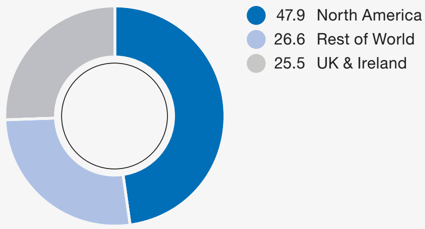
Overview of 2013 performance

- Revenue and profit growth driven largely by North America through acquisition of Western Exterminator
- UK & Ireland revenue adversely impacted by tough economic conditions; however cost savings have enabled profit growth
- Low single-digit revenue and profit growth from Rest of World reflecting solid performances by East Africa, the Nordics and the Caribbean
- Marginal revenue decline in Europe reflecting ongoing economic challenges in southern Europe
- Prior-year acquisitions in Central and South America, Middle East, North Africa and Turkey trading in line with expectations
- Integrated operating model implemented across the region underpinning net operating margins

Group revenue (%)

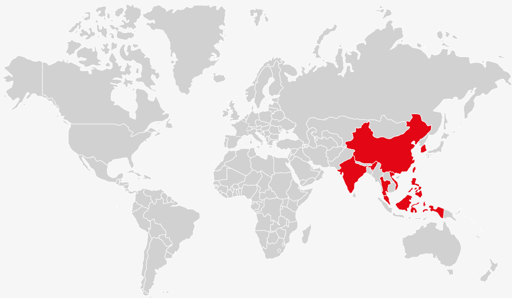


Countries of operation (%)

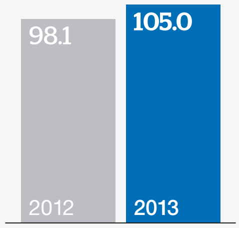


Business Review – continued

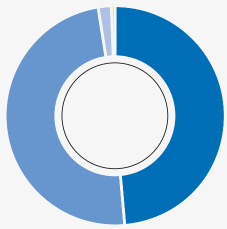
Asia



Revenue CER (£m)



Category mix (%)

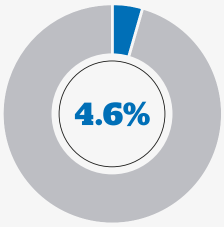


- 48.8 Hygiene
- 48.7 Pest control
- 2.2 Other
- 0.3 Plants

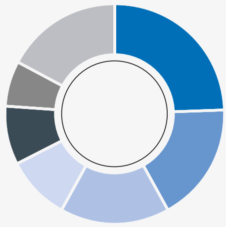
Overview of 2013 performance

- Good performances from pest and hygiene categories, reflecting ongoing market development
- Combined revenue growth of 37.3% from India, China and Vietnam
- Mid single-digit revenue growth from Malaysia building on strong 2012 performance
- Profit growth reflects leverage from revenue growth combined with ongoing productivity improvements

Group revenue (%)

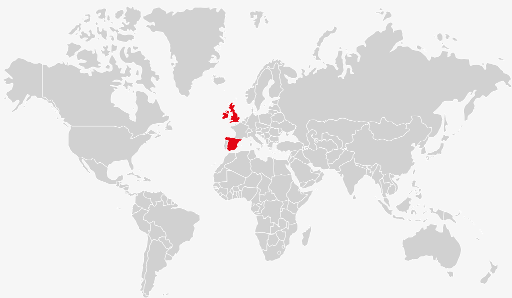


Countries of operation (%)

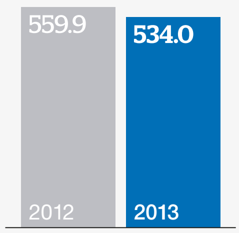


- 24.7 Malaysia
- 17.4 Singapore
- 16.1 Indonesia
- 9.5 South Korea
- 8.6 Hong Kong
- 6.7 Thailand
- 17.0 Other (China, Brunei, India, Philippines, Taiwan, Vietnam)

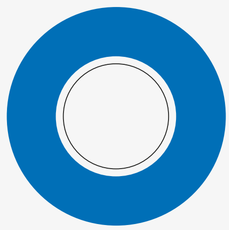
Initial Facilities



Revenue CER (£m)



Category mix (%)

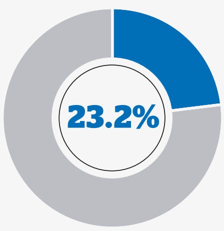


- 100 Facilities Services

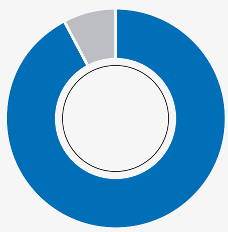
Overview of 2013 performance

- Revenue reduction reflected withdrawal from low-margin, single-service contracts and delays in timing of new contract awards in the summer
- £30m of new business secured in H2

Group revenue (%)



Countries of operation (%)



- 92.4 UK & Ireland
- 7.6 Spain

Key Performance Indicators

Measuring achievement in 2013

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

Colleagues

Engagement/Enablement

Explanation	2013 Results	2012 Results
'Your Voice Counts' – an employee engagement survey representing aggregate engagement rating from these reports.	**74% / 74%**	**75% / 74%**

Sales colleague retention

Explanation	2013 Results	2012 Results
The reciprocal of total number of sales staff leaving in year as percentage of sales headcount at start of year.	**70%**	**71%**

Service colleague retention

Explanation	2013 Results	2012 Results
The reciprocal of total service employees leaving in year as percentage of service headcount at start of year.	**82%**	**79%**

Health and safety (H&S) lost time through accidents (LTA) rate

Explanation	2013 Results	2012 Results
Defined as work-related injury/illness resulting in employee absenteeism for one day/shift or more (excluding day/shift in which the accident occurred). Number of lost time accidents expressed as rate per 100,000 standard working hours.	**0.94**	**1.08**

Customers

Gross sales as percentage of opening portfolio

Explanation	2013 Results	2012 Results
Additions to portfolio (new business and additions to existing business but excluding price increases) expressed as percentage of opening portfolio.	**14%**	**14%**

Customer retention

Explanation	2013 Results	2012 Results
The reciprocal of total terminations (reductions and terminations) expressed as percentage of opening portfolio.	**84.2%**	**85.3%**

Net gain as a percentage of opening portfolio

Explanation	2013 Results	2012 Results
Movement in portfolio expressed as percentage of opening portfolio.	**-1.8%**	**4.0%**

State of service

Explanation	2013 Results	2012 Results
Total number of service visits performed divided by total number of visits due.	**98%**	**98%**

Customer satisfaction (Customer Voice Counts)

Explanation	2013 Results	2012 Results
Measured by average net promoter score rating across all branches. The CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting.	**19.3%**	**16.7%**

Key Performance Indicators – continued

Shareholders

Organic revenue growth

Explanation	2013 Results	2012 Results
Revenue growth (excluding acquisitions and disposals).	-1.2%	-0.1%

Total revenue growth from continuing operations (including acquisitions)

Explanation	2013 Results	2012 Results
Year-on-year increase in total revenue expressed as percentage of prior-year revenue (at CER).	3.2%	2.6%

APBITA margin

Explanation	2013 Results	2012 Results
Adjusted profit before interest, tax and amortisation (APBITA) expressed as percentage of total revenue.	11.2%	11.1%

Debtors (days' sales outstanding – DSO)

Explanation	2013 Results	2012 Results
Trade debtors gross of provisions calculated on the exhaust basis (i.e. going back over relevant number of preceding days' invoicing until debt balance is zero). Number of days taken = debtor days.	52	51

Cost savings delivered in year

Explanation	2013 Results	2012 Results
Savings delivered in year related to permanent cost reductions.	£50m	£41m

Cash conversion as percentage of operating profit

Explanation	2013 Results	2012 Results
Operating cash flow expressed as a percentage of APBITA.	85%	94%

Gross capex as percentage of depreciation

Explanation	2013 Results	2012 Results
Cash capital additions (net of proceeds from disposals) expressed as percentage of depreciation.	113%	103%

Risks and Uncertainties

Principal risks

The group's overall risk management approach, described on pages 46 to 47, is designed to provide reasonable, but not absolute, assurance at all levels of the group that risks are properly identified and are being effectively managed. This includes the provision of appropriate mechanisms to ensure that issues and concerns relating to risk can be escalated up through the organisation confidentially.

The principal risks most relevant to the group are described in the table below, together with mitigating actions. 'Assurance Risks', which relate to activities that the group must undertake in order to meet legal, fiscal and governance obligations, are also shown. Full details of the Company's financial risks can be found in Note C1 on pages 114 to 116.

The exact financial impact of one or more of our principal risks materialising will depend on the precise operational impact of the risk, its interaction with other risks and whether mitigating actions are successful in reducing the overall financial impact. However, as a rule of thumb, a 1% decrease in revenue, if not mitigated at all, would have an impact on operating profit in the range of £8.0m to £12.0m and on operating cash flow in the range of £6.0m to £10.0m.

Review of risks – Risks and mitigating activities are regularly reviewed by the Board and the senior leadership team, but it should be noted that remedial actions taken may not be sufficient on their own to fully mitigate the risks, should they materialise.

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

Strategic Report
Corporate Governance
Financial Statements
Additional Information

Managing our principal risks

Strategic thrusts	Risk description	Management and/or mitigating actions
Customer service	• Failure to achieve service level targets	• Global KPIs are defined for state of service. These are reviewed monthly at local, regional and group level and incorporated into employee reward schemes
	• Failure to achieve or exceed customer satisfaction	• Customer account management processes and systems are being rolled out following successful trials in the UK. Customer Voice Counts (net promoter score) surveys are regularly undertaken across the group, included in group KPI reporting

Strategic thrusts	Risk description	Management and/or mitigating actions
Capability of our organisation and people	• Failure to ensure appropriate project management resource is in place across the group to deliver planned business projects on schedule including implementation of new information systems and technologies	• Our project management process (PFI Lite) is used to drive all significant projects. The IT Investment committee prioritises projects to ensure sufficient resources (financial and manpower), are available to deliver the projects to the agreed budget and schedule. Progress is monitored by the ELT
	• Failure to roll out a pipeline of new innovation across the business	• A group marketing and innovation function was established in 2012, focusing on innovation for the hygiene and pest categories, leveraging the group's global scale and ensuring effective development and deployment
	• Failure to develop and appropriately incentivise a professional sales capability	• A global sales leadership team (GSLT) has been established to drive improved sales capability, training and selling tools as well as to support activity at regional/country level

Strategic thrusts	Risk description	Management and/or mitigating actions
Operational excellence	• Industrial action in a major country	• Local management has an ongoing dialogue with unions and works councils where issues are discussed and resolved
	• Failure to integrate acquisitions	• A detailed implementation checklist is deployed on completion of an acquisition. Implementation is regularly monitored by senior management, and internal audit reviews the internal controls at all acquired businesses within 18 months of completion

Managing our principal risks – continued

Strategic thrusts	Risk description	Management and/or mitigating actions
Operating at lowest possible cost consistent with delivering service objectives and maximising cash flow	• Failure to identify and execute cost saving opportunities via service productivity and overheads reduction	• Cost savings programmes are in place across all operations and are monitored monthly. Cost savings of £50m were delivered in 2013
	• Poor supply chain management (including procurement)	• A Group Procurement function oversees procurement of key capital and direct materials and central logistics across all European operations
	• Failure to optimise capital expenditure and working capital to support operating cash flow targets	• Cash management is monitored monthly through KPIs, the most important of which are cash conversion rate and debtor days. Approval for all capex projects greater than £100,000 is managed centrally through an Investment committee and all units have debtor days targets
	• Failure to deliver benefits from the country integrated management operating model	• A number of projects are in place to harmonise processes and systems across the group, where cost-effective to do so. These augment local harmonisation and integration projects at country level. Implementation is regularly monitored by regional and group management
	• Deteriorating ability to collect debts due to weak economies impacting our customers, especially governments	• Aged debtors' KPIs are monitored monthly. The creditworthiness of new customers and material existing customers is regularly reviewed. Credit limits are applied based on an assessment of risk
	• Financial market risks – foreign exchange risk, interest rate risk, liquidity risk, counterparty risk and settlement risk	• Detailed policies are in place that require Group Treasury to approve, oversee and monitor all financial market risks. See Note C1 on pages 114 to 116
	• Failure to ensure sufficient funds are available at short notice to enable the business to deliver its strategy and meet its obligations, including acquisitions	• Further fundraising during 2013 has been successful and the business is now fully funded for at least two to three years. Plans are in place to significantly increase free cash flow, which will provide greater capacity for M&A activity

Strategic thrusts	Risk description	Management and/or mitigating actions
Delivering profitable growth organically and through acquisition	• Failure to win profitable new business through acquisition of new customers and/or up-selling to existing customers including through digital channels	• Initiatives to win new customers such as tele-appointing, bids and tenders and online tools as well as the development of cost-to-serve models to enable more competitive pricing of the service offering continue to be rolled out, coordinated by the GSLT (see above)
	• Failure to retain profitable business (when renewing existing customer contracts) by ensuring that cost inflation is mitigated through pricing action	• A number of initiatives are under way focusing on price. Training of the sales force, customer profitability analysis and greater financial control are all in place to ensure that appropriate pricing action is considered whenever contracts are renewed
	• Failure to generate profitable growth through strategically relevant acquisitions/joint ventures	• A major acquisition was completed in 2012 and a significant number of bolt-on acquisitions have taken place in 2012, 2013 and early 2014. The pipeline of potential acquisitions is regularly reviewed by group management. The group has sufficient funding capacity for the anticipated level of bolt-on acquisitions

Strategic thrusts	Risk description	Management and/or mitigating actions
Assurance risks	• Fraud, financial crime or material accounting misstatement	• There is a strong focus on regular financial controls testing, including independent testing against a set of minimum control standards by the external auditors. 'Speak Up' is available for confidential whistleblowing
	• Health, Safety or Environmental breach resulting in loss of life, litigation, financial penalties or reputational damage	• The group SHE board is responsible for setting SHE policies, processes and systems and monitoring and reviewing their effectiveness. External certification and review ensure that SHE standards are maintained at an adequate level. SHE metrics are reviewed monthly by the Group Executive Board
	• Breach of laws or regulations (including competition and anti-trust laws and regulations)	• Group policies are in place on competition law. Compulsory e-training is required for all managers on competition law and anti-corruption laws. The group legal director is informed of all potential law breaches which may give rise to litigation
	• Loss of operational capability due to major incident (e.g. fire, flood, terrorism, war, political or civil unrest, kidnap, etc.)	• The business continuity policy has been revised and is being implemented across all business units
	• Failure to act responsibly and ethically towards colleagues, customers or business partners (i.e. failure to comply with the Code of Conduct)	• The Code of Conduct that was rolled out in 2010 was refreshed in 2013. Code of Conduct training is taken by all new starters. An e-learning programme has been developed and will be rolled out through 2014. A confidential 'Speak Up' hotline is monitored by group internal audit

Corporate Governance

Other information

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

Statutory information	Location in this annual report
Accountability and audit	Page 51
Acquisitions and disposals	Page 6 & Note B1 Financial Statements
Appointment of directors	Page 35
Board of directors and committee membership	Pages 30 and 31
Directors' conflicts of interest	Page 37
Directors' interests in shares	Page 70
Directors' liabilities and protections	Page 39
Going concern	Page 51
Greenhouse gas emissions	Pages 52 and 53
Key Performance Indicators	Pages 25 and 26
Operating Model	Pages 8 and 9
Pension schemes	Note A9 Financial Statements
Post balance sheet events	Page 53 & Note D3 Financial Statements
Risks and Uncertainties	Pages 27 and 28
Share capital	Note 10 Parent Company Accounts
Substantial interests in shares	Page 40

Board of Directors


1. John McAdam
Chairman

Committee memberships
Chairman, Nomination committee

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

Current external commitments and qualifications
Chairman of United Utilities Group PLC, senior independent director of J Sainsbury plc and Non-executive Director of Rolls-Royce PLC.

Graduated from Manchester University with a first class honours degree in chemical physics and, after completing his doctorate, was awarded a research fellowship. Age 65.

2. Andy Ransom
Chief Executive from 1 October 2013

Executive Director and Regional Managing Director, West region until 1 October 2013

Committee memberships
None

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

Current external commitments and relevant qualifications
No other appointments.

Mr Ransom has a LLB (Hons) Law from the University of Southampton. A Solicitor. Age 50.

3. Jeremy Townsend
Chief Financial Officer (and Chief Information Officer from November 2013)

Committee memberships
None

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

Current external commitments and relevant qualifications
No other appointments.

Graduated from Manchester University with a first class honours degree in Management Science. A Chartered Accountant. Age 50.

4. Peter Bamford
Non-executive Director

Committee memberships
Member, Audit committee

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

Current external commitments and relevant qualifications
Chairman of SuperGroup plc, Chairman of PRS for Music Limited and Six Degrees Technology Group Ltd. Age 59.

5. Richard Burrows
Non-executive Director

Committee memberships
Member, Remuneration committee

Skills and experience
Joined Rentokil Initial as a Non-executive Director in January 2008. Significant international business experience ranging from leading successful manufacturing and service businesses in the drinks industry to banking and financial services roles. Formerly Governor of the Bank of Ireland, joint Chief

Executive and latterly a Non-executive Director of Pernod Ricard SA (France), Chairman and Chief Executive of Irish Distillers and a director of CityJet Ltd (Ireland), Mey İçki (Turkey) and Eurasian Natural Resources Corporation plc.

Current external commitments and relevant qualifications
Chairman of British American Tobacco plc and Voicesage Global Holdings Ltd. Non-executive director of Carlsberg A/S (Denmark). Mr Burrows is a graduate of Wesley College, Dublin (Ireland). A Chartered Accountant. Age 68.

6. Alan Giles
Non-executive Director

Committee memberships
Chairman, Remuneration committee
Member, Nomination committee and Audit committee

Skills and experience
Joined Rentokil Initial as a Non-executive Director in May 2006. He has extensive commercial and strategic service industry experience, having led two major retail brand businesses through significant periods of change. Formerly Chairman of Fat Face Group Limited, Chief Executive of HMV Group plc, Managing Director of Waterstones, a director of WHSmith PLC and Book Tokens Limited and held Non-executive Directorships at Somerfield plc and Wilson Bowden plc.

Current external commitments and relevant qualifications
A Non-executive Director of the Competition and Markets Authority and lead Non-executive Director for the Office of Fair Trading. Chairman of the Advisory Board at Oxford Institute of Retail Management and Associate Fellow at Oxford University's Saïd Business School. Honorary visiting professor at Cass Business School. Age 59.

7. Peter Long
Non-executive Director
Senior Independent Director

Committee memberships
Member, Remuneration committee and Nomination committee

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

Current external commitments and relevant qualifications
Chief Executive of TUI Travel plc. A Chartered Management Accountant. Age 61.

Subject to re-election at the 2014 AGM, Mr Long will stand down as a director at the end of 2014.

8. Angela Seymour-Jackson
Non-executive Director

Committee memberships
Member, Remuneration committee

Skills and experience
Joined Rentokil Initial as a Non-executive Director on 5 March 2012. Formerly the Chief Executive of RAC Motoring Services. Prior to joining the RAC she held roles as Distribution Director of Aviva UK Life and Norwich Union Insurance.

Current external commitments and relevant qualifications
Managing Director, Corporate Solutions at AEGON UK Plc and a Non-executive Director of Henderson Group Plc.

A member of the Chartered Institute of Marketing and the Chartered Insurance Institute, with a master's degree in Marketing. Age 47.

9. Duncan Tatton-Brown
Non-executive Director

Committee memberships
Chairman, Audit committee
Member, Nomination committee

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

Current external commitments and relevant qualifications
Chief Financial Officer of Ocado Group plc. A Chartered Management Accountant. Age 48.

Mr Tatton-Brown will retire from the Board at the conclusion of the 2014 AGM.

Paul Griffiths
Company Secretary

Relevant qualifications
Chartered Secretary. Age 61.

Note: William Rucker stood down as a director on 14 March 2013 and Alan Brown stood down as a director and Chief Executive on 30 September 2013.

Executive Leadership Team

1. Andy Ransom
Chief Executive
(formerly Executive director and Regional Managing Director, West region until 1 October 2013)

Please see page 30.

2. Mike Brown
Managing Director, Initial Facilities

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

Current external commitments and relevant qualifications
No external commitments. A Chartered Accountant. Age 57.

3. Jeremy Townsend
Chief Financial Officer and Chief Information Officer

Please see page 30.

4. Martin Sawkins
Group HR Director

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

Current external commitments and relevant qualifications
Non-executive director of Wincanton plc. BSc (Hons) in Physics from Southampton University. Age 58.

5. Peter Slator
Managing Director, Europe (formerly East region)

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

Current external commitments and relevant qualifications
Board member of the European Textile Services Association. BSc (Hons) in Physics from Imperial College, London. Age 53.

6. Phill Wood
Managing Director, UK & Rest of World

Skills and experience Appointed to above position in October 2013. He joined the Company in 2006 as Managing Director Europe (Pest Control) and was appointed Managing Director of the Pest Control division UK and Ireland in 2009. Previously at Lex Service/RAC plc for 15 years, holding Managing Director positions of commercial fleet and outsourced vehicle solution divisions. Prior to that he held commercial business development and senior operational roles within the Lex Service group.

Current external commitments and relevant qualifications
No external commitments. First class BSc (Hons) in Management Science from Loughborough University. A Chartered Management Accountant. Age 48.

7. John Myers
Managing Director, North America

Skills and experience Appointed to above position in October 2013. He joined the Company in 2008 as President and Chief Executive of North America Pest Control division. His previous career was as Senior Vice President of Sales at Cintas Corporation. He previously held a number of operations and business development roles within the Cintas group. Prior to that he was President and Chief Executive at Bio Quest LLC and began his career with American National Can Company where he held a variety of sales, operations and marketing roles including one international assignment.

Current external commitments and relevant qualifications
Member of the United Way Board in Berks County and the National Pest Management Association Board. Degree in Business Administration from the University of Vermont and MBA from Mercer University. Age 56.

Note: The Chief Executive chairs the Executive Leadership Team, comprising the regional business and functional leaders. They meet regularly to review performance, priorities and operational actions. Further information on the Executive Leadership Team is provided on page 37.

Chairman's Statement

Dear fellow shareholder

The governance process provides the framework for the successful delivery of strategy, commercial success and the creation of shareholder value. It also provides the channel through which high standards of good governance are cascaded through the Company ensuring that throughout the business, decisions are taken on a timely basis by the right people who have the correct information to hand.

In an eventful year for the Company, we sold the City Link business, we conducted a chief executive succession process leading to the appointment of Andy Ransom as Chief Executive on 1 October 2013 and we instigated a thorough review of the effectiveness of our long-term incentive plan. Throughout the year, we continued apace with the strategic actions started in 2008 to return the group to financial health.

In the Strategic Report you will have seen that we have revised the existing corporate strategy to deliver a tangible improvement in the return to shareholders.

Sale of City Link

The performance of City Link has for a number of years consumed a significant amount of Board attention, as did the process at the beginning of the year of agreeing the most appropriate transaction to take the business out of the group, whilst at the same time giving shareholders the best protection from residual liabilities.

Chief Executive

Alan Brown stood down as chief executive at the beginning of October 2013 after five and a half years, during which time his strategic plan for the group has delivered substantial structural and operational improvements which have laid the foundations for the delivery of improved financial performance and shareholder value. The Board is very grateful for the contribution he has made over that period.

Selecting a new chief executive was a pivotal decision for the Board in 2013 and I am confident that in appointing Andy Ransom to succeed Alan Brown as chief executive we have in him the right skills, experience and most of all motivation to develop the foundations laid over the last five years and to deliver value to shareholders.The succession planning process for the chief executive role described in this report was thorough both in terms of internal and external candidates.

Board composition

The focus in 2013 was on executive succession. We were sorry to lose the contribution from William Rucker who stepped down from the Board in March. In 2014, Duncan Tatton-Brown will have served on the Board for nine years, much of that time as Audit committee Chairman, and will be standing down at the AGM in May. The Board has initiated a search for an additional non-executive director with a current financial remit to join the Board and chair the Audit committee. I am pleased that Peter Long, our senior independent director, who joined the Board in 2002, has agreed, subject to re-election at the AGM, to remain as a director until the end of 2014 to provide further continuity during the first year of Andy Ransom's executive leadership.

It is my responsibility to ensure that Board members have a diverse range of backgrounds and skills and that they all contribute to our decision-making. Each Board member brings his or her viewpoint to Board discussions and collectively, as well as individually, I am confident the Board demonstrates the highest standards of governance and integrity which is essential to ensuring that these standards are reflected across the group.

Director rotation and equipping the Board with the optimum skills for the future is an important topic for the Board in 2014. I am also mindful of our intention to seek to make a second female appointment to the Board.

The Board evaluation for 2013 reconfirmed the positive outcome of the previous year and confirms that the Board functions effectively. Some suggestions for improvements were identified in Board processes and these are described in this report.

Challenge

A major responsibility of the Board is to constructively challenge the executive team over its execution of strategy and hold it to account over actions taken. During the year the Board has held meetings with the team leading the growth of the North American business that acquired the Western Exterminator Company in California at the end of 2012, with the leaders of the UK pest and hygiene business and East region, as well as with members of the leadership team of the Initial Facilities business. These engagements not only help directors to develop a better understanding of the issues faced in implementing strategy but also provide reference points for the assessment of the management cadre in the organisation.

Reporting and engagement

I hope that you have found the Strategic Report to shareholders on pages 2 to 28 a helpful explanation of our strategy and of how the strategy is executed through our business model. This year we also provide additional reporting from the Audit committee following changes in the UK Corporate Governance Code in 2012 and additional remuneration reporting under the new regulations. Our remuneration policy, set out on pages 55 to 62, will be put to shareholders for a binding vote at the AGM on 14 May 2014.

I hope that the remainder of this report gives you a clear understanding of the governance process as well as how the Board complies with its obligations under the UK Corporate Governance Code (2010 and 2012), the Listing Rules and the Disclosure and Transparency Rules.

If you are able to attend the AGM, I look forward to seeing you in May. In the meantime we are keen to engage with shareholders and other stakeholders and would welcome your feedback on this annual report. Please e-mail investors@rentokil-initial.com and let us know what you think.

Yours faithfully

John McAdam
Chairman
28 February 2014

Corporate Governance Report

Good corporate governance from the Board down through the business units ensures the right decision-making processes, controls and information to drive strategy and deliver long-term shareholder value.

Compliance statement

As noted in the Chairman's introduction, the principal governance framework applying to the Company is the UK Corporate Governance Code. The edition of the Code published in September 2012 applied throughout our year ended 31 December 2013. The report also addresses the requirements of the Code published in June 2010 as the Listing Rules are still subject to the 2010 edition of the Code. The Code is published by the Financial Reporting Council and if you wish to review the full text it is available on its website at https://www.frc.gov.uk. The Company has complied throughout 2013 with the relevant main principles and detailed provisions set out in both editions of the Code.

The Chairman, John McAdam, is not considered to be independent as a result of his participation in a one-off incentive arrangement approved by shareholders in 2008 in connection with the recruitment at that time of a new leadership team for the business.

Role and effectiveness of the Board

The role of the Board

The Board is collectively responsible for the long-term success of the Company by creating value for shareholders and always acting in their interests. It assesses whether the necessary financial and human resources are in place to enable the Company to meet its objectives as well as ensuring that it takes into account safety, environmental and social factors when reviewing operations and taking decisions.

Specifically the Board must:

- provide entrepreneurial leadership
- understand and monitor risk
- develop the business model, consider and approve strategy, approve annual operating plans and major transactions
- ensure the adequacy of management resources and make executive appointments including that of chief executive
- both challenge and support executive management, oversee the governance process and the control framework
- report to shareholders and be accountable to them

A schedule of the matters reserved for the Board's attention is reviewed annually and was most recently reviewed in December 2013. The schedule sets out the Board's ultimate responsibility for the group's strategy, operations and risks and reserves to the Board power to approve a range of decisions of a significant nature. The schedule is available on the Company's website. Without seeking to single out one responsibility above others the Board is mindful of its responsibility for the group's risk management approach, including evaluating and reviewing the overall level of risk that is inherent in its strategy and for the execution of that strategy.

An overview of the matters considered by the Board in 2013 is shown in the table on page 40.

Board responsibilities

For more information go to pages 30-33

Principal governance responsibilities

Chairman John McAdam

Duties include:

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

Chief Executive Andy Ransom

Duties include:

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

Senior Independent Director Peter Long

Duties include:

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

Company Secretary Paul Griffiths

Duties include:

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

* The group's corporate responsibility performance is in the group's web-based 2013 Corporate Responsibility Report which is available online at www.rentokil-initial.com

Key Board roles
The division of responsibilities between the Chairman and Chief Executive is set out in writing and is summarised on the previous page, together with the primary responsibilities of the senior independent director and those of the company secretary. Non-executive directors have regular opportunities to meet with members of executive management and also hold discussions under the leadership of the Chairman without executive members present. At least once a year non-executive directors meet under the leadership of the senior independent director without the Chairman being present.

Appointments to the Board and composition

The Company's articles of association empower the Board to appoint new directors. To ensure a formal, rigorous and transparent procedure for appointing directors, a Nomination committee comprising independent non-executive directors chaired by the company Chairman has responsibility for managing the appointment process and its work is described on page 48.

In order for the Board to discharge its duties and responsibilities effectively, it must comprise the right blend of individuals whose skills and experience are gained in a diverse range of backgrounds. Most importantly, directors must exhibit independence of mind, integrity and have the ability to challenge constructively when appropriate. All appointments are made on merit and against objective criteria. In the case of candidates for non-executive directorships, time commitment and potential conflicting interests are considered carefully by the Nomination committee. Letters of appointment and employment contracts are available for public inspection on the Company's website.

At the date of this report the Board has nine members: the Chairman, six non-executive directors, and two executive directors. The names of the directors serving throughout and at the end of 2013 and their biographical details are set out on pages 30 and 31. William Rucker stepped down from the Board on 14 March 2013 and Alan Brown stepped down from the Board as a director and chief executive on 1 October 2013 at which time Andy Ransom, an existing executive director, was appointed chief executive.

As mentioned in the introduction, diversity considerations are among the important factors considered by the Nomination committee and the Board when considering the composition of the Board. The Board has made a statement of its aspiration to have two female Board members by 2015.

Duncan Tatton-Brown will have served as a director for nine years in 2014 and will step down from the Board at the AGM in 2014. The Company is currently undertaking a recruitment process for a non-executive director with current financial management experience who we would expect to chair the Audit committee. Peter Long, who is currently senior independent director, has agreed with the Board that, subject to shareholder approval at the AGM in May, he will remain as a director until the end of December 2014.

Balance and independence of Board members

The Board believes that it and its committees have an appropriate composition to discharge their duties effectively and to manage succession issues. The Board keeps its membership and that of its committees under review to ensure that an acceptable balance is maintained and that the collective skills and experience of its members continue to be refreshed. It is satisfied that all directors have sufficient time to devote to their roles and that undue reliance is not placed on any individual.

All directors may serve on a number of other boards, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company and that they obtain the agreement of the Chairman before proceeding. This ensures that any potential conflicts of interest are considered and addressed. The major commitments of the directors are shown in their biographical information on pages 30 and 31. Currently non-executive directors are obliged to commit at least 20 days a year and the Chairman is obliged to commit at least two days a week to the Company.

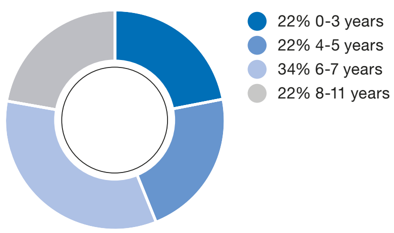
The continuing independence of non-executive directors is critical to their ongoing effectiveness over challenging executive management. The independence of directors is reviewed as part of the individual director performance evaluation process. The performance evaluation process provides assurance that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

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

The Board considers that an individual's independence cannot be determined arbitrarily on the basis of a particular period of service. In the case of Peter Long, who has served as a director for eleven years (six years following the change in executive management in 2008) the Board benefits from his considerable experience and knowledge resulting from the length of his service as well as from his wider business experience.

Directors' length of service

Directors' tenure



Board performance, training and succession

The Board ensures that the directors continue to provide suitable leadership for the Company through a regular performance evaluation process, training processes, Board succession planning and annual re-election by shareholders.

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

Corporate Governance Report – continued

The evaluation in 2013 covered: the balance of skills and experience, independence and knowledge, diversity including gender, how the Board works together, all of which are important factors relevant to an assessment of the Board's effectiveness. This year there was particular emphasis on the way in which the committees, the Board and the Chairman dealt with the succession planning process and arrangements concerning the transfer of responsibilities from Alan Brown, the outgoing chief executive, to his successor Andy Ransom. The review also covered: Board support and time management, strategic and operational risk oversight, succession planning and priorities for change. The anonymity of all respondents was ensured in order to promote an open and frank exchange of views.

The Board considered the output from the 2013 review earlier this month and agreed a number of actions summarised below:

- More comprehensive analysis of competitor landscape and positioning by category, given the added focus on the pest, hygiene and workwear categories
- Refinements in reporting linked to the adoption of the Differentiated Growth quadrant matrix basis for operational management adopted by the chief executive
- Increased time allocation of strategic risk issues both at Board strategy discussions and in routine performance reporting

We will report on the actions in the 2014 report.

Succession planning
The Board is ultimately responsible for succession planning for directors and key management roles. The Nomination committee has conducted a formal performance evaluation of each non-executive directors seeking re-election and concluded that their performance continues to be effective and that each demonstrates commitment to the role. The committee is also satisfied that the backgrounds, skills experience and knowledge of the continuing directors collectively enables the Board and the committees to discharge their duties and responsibilities effectively. The Nomination committee is in the process of seeking an additional non-executive director with recent and relevant financial experience. Further information on the succession planning process is included in the Nomination committee report on page 48.

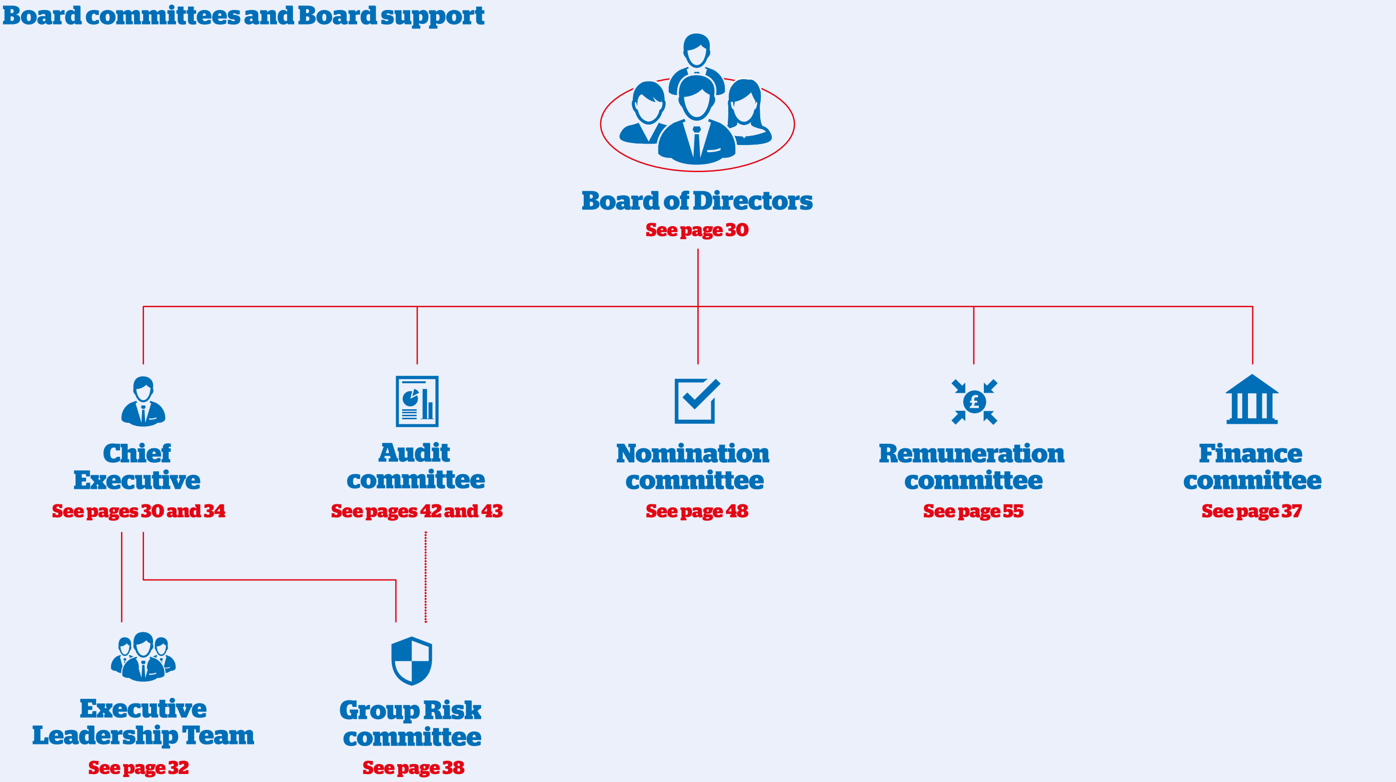
Training
The Company is mindful that ongoing training for executive directors and non-executive directors must be targeted to specific needs. Where appropriate, directors participate in peer group discussion forums and seminars related to the commercial environment, for example relating to executive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

Further information on the induction process for new directors is included in the Nomination committee report.

Annual re-election
In accordance with the Code the directors are subject to annual re-election by shareholders. To enable shareholders to make an informed decision, the 2014 notice of the AGM includes biographical information and a statement as to why the Company believes the directors should be re-elected. The results of the individual director performance review undertaken by the Chairman indicate that each director continues to be effective and demonstrates commitment to the role.

The Board recommends to shareholders the re-appointment of all directors retiring at the meeting on the basis that they are all effective directors of the Company and demonstrate the appropriate level of commitment to the role. The terms of the directors' service contracts are disclosed in the Directors' Remuneration Report starting on page 55. Directors' interests in shares are disclosed on page 70. Directors' service contracts and the letters of appointment of the non-executive directors are available for inspection at the Company's registered office and will be available at the AGM which will take place on 14 May 2014. A pro-forma of non-executive directors' letters of appointment is available at www.rentokil-initial.com

Board committees and Board support



In order to operate effectively and to give the appropriate level of attention to the range of matters required to be addressed by the Board, tasks have been delegated to committees. Each committee has written terms of reference, approved by the Board, summarising its objectives, remit and powers, which are available on the Company's website at www.rentokil-initial.com. Membership of the principal Board committees is shown in the directors' attendance and membership table on page 39.

Agendas, papers and minutes of committee meetings are generally provided to all Board members, save for the private sessions of committee members. Chairmen of committees update the Board following each committee meeting. The Nomination committee is chaired by John McAdam who, while not an independent director, as the Company Chairman, is considered by the Board to be the appropriate person to chair the Board's Nomination committee. The chairmen of committees attend the AGM to answer any questions on the committees' activities.

Reports by the principal Board committees, audit, remuneration and nomination, including a full discussion of their role, structure and composition are set out between pages 42 and 72.

In addition to the principal Board committees the Board operates a number of ad hoc committees. The main one being the Finance committee which comprises the Chairman, the chief executive, the chief financial officer and non-executive directors with relevant financial experience. This committee reviews matters concerning Company financing and group treasury policy and makes recommendations to the Board on financing matters.

The Chairman, supported by the company secretary, ensures that the Board is kept properly informed and that matters are given appropriate attention. Board papers and other information and resources are provided in sufficient time to allow directors to be properly briefed in advance of meetings. All directors are able to make further enquiries of the executive directors or management whenever necessary and have access to the company secretary. There is a procedure in place for directors to take independent legal advice, if they judge this to be necessary, at the Company's expense.

Managing conflicts of interest

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

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

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

Details of directors' interests are shown on page 70. No director has a material interest in any contract of significance in relation to the Company's business at any time during the year or to the date of this report.

Executive governance

The Board's governance procedures delegate the day-to-day management of the group's businesses to the chief executive who in turn cascades authority to the wider management population through a documented schedule of authorities, setting out responsibilities, decision-making and approval powers of managers at different levels in the organisation.

Executive leadership team

To support the chief executive in managing the business at group level the Executive Leadership Team has been established under the chief executive's chairmanship and comprises the group's operational heads and heads of the finance, human resources and information services and marketing functions. They meet regularly to review performance, priorities and operational actions. Biographical information on the executive directors, Andy Ransom and Jeremy Townsend is provided on page 30 and information on other current members of the Executive Leadership Team is shown on page 32.

Senior leadership forum

The chief executive has also established the senior leadership forum comprising the most senior operational and functional colleagues who are engaged on a monthly basis to share progress and discuss priorities on the range of common issues that are critical to the operational performance of the group as a whole.

Integrated single country operating model

In 2013 the group largely completed the migration of its governance model to the single country operating model which has provided not only additional operational focus at country level and reduced lines of communication but also significant cost savings through the removal of the divisional structure and by the amalgamation of operating unit management in country.

Clear roles and responsibilities

Clarity of roles and responsibility is critical and a clear distinction between governance, centres of excellence, spread of best practice and local activities as illustrated in the chart on the next page.

Corporate Governance Report – continued

One Rentokil Initial – clear roles and responsibilities

Rentokil Initial

Governance
Rules set centrally within framework

Centres of Excellence
Subject matter experts, adding value with benefits of scale

Best Practice Sharing
One best way, efficiency and effectiveness

Identification of best practice

Creating structure to share and distribute best practice

Local Activity
Local teams provide ongoing input and activate

Disclosure committee

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

Group risk committee

The Company's risk committee, chaired by the chief financial officer, has oversight of the group's risk and control functions and reviews the risks the group is facing and the effectiveness of the internal controls. Risk management and internal control is an intrinsic part of the governance process as is the identification, management and control of risk. Information on the risk management and control framework is provided in the Risks and Uncertainties section on pages 27 to 28 and in the Audit committee report on pages 42 to 47.

Performance reviews

The chief executive and chief financial officer lead monthly and quarterly business performance reviews with business unit management teams. The group's change programmes driving capability improvements are monitored by regional and functional programme Boards reporting to members of the Executive Leadership Team.

Corporate responsibility

The chief executive is responsible for corporate responsibility and the Executive Leadership Team has authority for reviewing all aspects of corporate responsibility. The main Board reviews specific corporate responsibility matters on a regular basis and on a broader basis at least once a year. A Safety, Health and Environment (SHE) report is submitted to each meeting of the Board and of the Executive Leadership Team. Key performance indicators on health and safety matters are reviewed at each meeting and published annually.

Business units

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

Directors' liabilities and protections

Directors are ultimately responsible for most aspects of the Company's business dealings. They face significant personal liability under criminal or civil law, or the UK Listing, Prospectus, Disclosure & Transparency Rules, and face a range of penalties including censure, fines and imprisonment. The Company considers that it is in its best interests to protect individuals who serve as directors from the consequences of innocent error or omission, since this enables the Company to continue to attract prudent individuals to act as directors.

The Company maintains at its expense a directors' and officers' liability insurance policy to afford an indemnity in certain circumstances for the benefit of group personnel including, as recommended by the Code, the directors. The policy does not provide cover where the director or officer has acted fraudulently or dishonestly.

In addition the Company has granted indemnities in favour of directors, as permitted by s.232 to s.235 of the Companies Act 2006. In general terms, the indemnities protect directors to the extent permissible by law from all costs and expenses incurred in the defence of any civil or criminal proceedings in which judgement is given in their favour or the proceedings or otherwise disposed of without finding fault or where there is a successful application to court for relief from liability. The indemnity operates to the extent that the director is not able to recover the relevant amounts under the Company's directors' and officers' liability insurance.

Board meetings

The Board met eleven times during the year, of which eight meetings were pre-scheduled. The remaining meetings were called to deal with individual matters which did not necessarily require full attendance. As in previous years the Board has this year visited one of its major overseas operations, on this occasion the North America pest control business. The Board had the opportunity to meet the extended management team of the business and conduct a full review of the progress to date in integrating the acquisition of Western Exterminator into the North American business as well as to review business performance and the significant organisational changes which have been implemented to improve the overall effectiveness of the business.

A summary of the activities carried out by the Board during the year is shown on the next page and directors' membership and attendance at Board and committee meetings is shown below.

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

Directors' attendance and committee membership

	Board	Audit committee	Remuneration committee	Nomination committee
John McAdam	11/11	–	–	9/9 (Chairman)
Andy Ransom	11/11	–	–	–
Jeremy Townsend	11/11	–	–	–
Peter Bamford	9/11	5/6	–	–
Richard Burrows	11/11	–	8/8	–
Alan Giles~	11/11	4/4	8/8 (Chairman)	8/9
Peter Long	9/11	–	7/8	7/9
Angela Seymour-Jackson	11/11	–	8/8	–
Duncan Tatton-Brown	11/11	6/6 (Chairman)	–	9/9
Alan Brown#	9/9	–	–	–
William Rucker†	2/3	1/2	–	–
Total number of meetings	11	6	8	9

~ Alan Giles became a member of the Audit committee in March 2013
# Alan Brown resigned on 1 October 2013
† William Rucker resigned on 14 March 2013

Corporate Governance Report – continued

Key items discussed in 2013 meetings

At all meetings

- Safety, health and environment performance metrics and operational actions
- Chief Executive's report on key financial, operational, HR and strategic issues
- Chief Financial Officer's report on financial performance, including cash flow, treasury matters and forward-looking information on key metrics
- Board committee reports
- Approval of minutes and updates on actions
- Investor relations activity
- Potential conflicts of interest and authorisation of new matters (as required)

Other topics

- Setting the annual operating plan
- Arrangements concerning the sale of City Link
- Annual and periodic financial results
- Internal control framework and going concern matters
- Material litigation and disputes (quarterly)
- Board effectiveness, independence and director performance
- Corporate responsibility performance and reporting
- Chief Executive succession
- Medium-term debt financing under the Company's Euro medium-term note programme
- On-site review with the North America management team of the US pest control business and market opportunities
- The integration of the Western Exterminator acquisition in 2012
- Initial Facilities business review with the divisional Managing Director, Mike Brown
- Acquisition opportunities
- Strategy including consideration of long-term portfolio options for the group
- Senior management succession
- Colleague engagement and enablement
- Board governance and procedures
- Organisation structure and operating model
- UK pension scheme funding
- Acquisitions performance
- Principal risks

Accountability to shareholders

Accountability to shareholders is a key consideration and the Board is extremely conscious that it is a steward of the business and that ultimately it manages the group on their behalf. Accountability represents both clear and open reporting on current performance and plans for the future and taking into account the views expressed by shareholders.

The Company has a premium listing on the London Stock Exchange and an ADR listing on the New York Stock Exchange to facilitate shareholding by retail investors in the United States. All ordinary shares carry the same rights and no shareholder enjoys any preferential rights, regardless of the size of their holding. Further information on the rights attaching to shares can be found in the Directors' Report on page 50.

The Company has been notified pursuant to DTR 5 of the following substantial interests in the Company's share capital.

Substantial interests in shares at 28.02.14

	%	No. of ordinary shares	Nature of holding
Schroders plc	15.07	273,875,763	Indirect
Invesco Ltd	13.97	254,053,324	Direct
Aviva plc (and subsidiaries)	6.66	120,863,049	Direct
Ameriprise Financial Inc.*	5.00	90,790,221	Indirect
Blackrock Inc.	4.96	90,090,116	Indirect
Société Générale SA	4.81	87,287,805	Direct
AXA SA	4.80	87,093,421	Indirect
Orbis Holdings Ltd	3.54	64,277,495	Indirect

* Ameriprise Financial Inc. includes Threadneedle Asset Management Holdings Ltd

Formal reporting

The Company publishes quarterly trading updates in May and November, a half yearly unaudited interim statement at the end of July/early August as well as audited financial statements which are announced in February and circulated to shareholders at the end of March. In addition, the Company makes regulatory news announcements when required to ensure that all required information is made available to shareholders on a timely basis.

The Code requires that the Board provides a fair, balanced and understandable assessment of the Company's position and prospects in its external reporting. The Board considers that the annual report and accounts for 2013, taken as a whole, is compliant with the Code requirement and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Over 80% of shareholders obtained their primary information on the Company through electronic communications and the Company's website. The Company strongly encourages shareholders to use electronic means for accessing shareholder communications, saving resources and cost that would be involved in distributing printed material. Shareholders who elect to receive electronic communications can revert to paper communications at a future time, if they so wish. The Company periodically canvasses new shareholders on how they wish to receive their shareholder communications and did so in February 2014.

The Company's website www.rentokil-initial.com contains information on the Company's operations and the website investor centre contains information on past results and publications, press releases and analyst presentation material. It also contains information to help shareholders manage their holdings such as change of address or change of name notifications, transfer of shares, lost share certificates, online and telephone share dealing facilities and how to receive shareholder communications electronically.

Shareholder communications

The Board places great importance on communications with shareholders and also recognises the contribution made by other providers of capital and is open to hearing the views of such providers in so far as they are relevant to the Company's overall approach to governance.

The following summarises the activities carried out by the Company to ensure that investors and other interested parties have a transparent and effective dialogue with the Company.

- The Chairman, Chief Executive and Chief Financial Officer make themselves available to shareholders at all appropriate times
- Regular dialogue with institutional shareholders through one-to-one and group meetings, formal investor and analyst conference calls as well as ad-hoc communications, where appropriate
- Formal presentations are held after full-year and half-year results, to which investors and sell and buy-side analysts are invited. These presentations are web-cast and any investor is able to hear the presentation and related questions and answers via the Company's website. Slide presentations of results are hosted on the Company's website as are recordings of meetings
- Conference calls for investors and analysts are hosted after the first and third quarter trading updates, with typical levels of participation in excess of 80 shareholders and analysts
- Investor roadshows are conducted after full-year and interim results, involving extensive investor meetings on each occasion
- The Chief Financial Officer, supported by the group treasurer, regularly meets with and hears the views of representatives of the debt capital markets
- The Chairman, the senior independent director and committee chairmen are available to attend meetings with investors, as required and will typically do so on a number of occasions annually
- The Company provides opportunities for private client investor presentations across the UK
- The Board receives material issued by shareholder representative groups to ensure that the views and preferences of investors are taken into account
- The Company sees the AGM as an important opportunity for all shareholders to engage with the Board over performance and other matters on the agenda for the meeting and encourages both private and institutional shareholders to attend
- The Board is briefed on the Company's investor relations programme through a regular report from the Head of Investor Relations as well as by periodic updates from the Chief Executive and the Chief Financial Officer

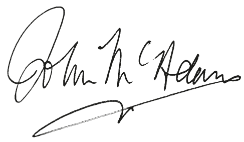
Additional information for investors can be found on pages 138 to 140.

Annual general meeting

The 2014 AGM will be held at 12 noon on 14 May 2014 at the Desoutter Suite, Sofitel, Gatwick Airport (North Terminal), Crawley, West Sussex RH6 0HP. A separate circular containing the notice of meeting, together with an explanation of the items of special business has been sent to all shareholders and is available on the Company's website.

The Company encourages all shareholders to attend the AGM and to participate in discussion of the matters before the meeting. The chief executive will give a presentation to shareholders at the AGM on the Company's strategy and performance and all directors will be available to answer questions both formally at the meeting and informally after the meeting.

Voting at the AGM will be conducted by a poll and the results announced to the market and displayed on the Company's website on the day following the AGM.



John McAdam
Chairman
28 February 2014

Audit Committee Report

Duncan Tatton-Brown
Chairman,
Audit Committee

Dear fellow shareholder

The Audit committee has a clear set of responsibilities laid down in its terms of reference and agreed by the Board. These terms of reference were reviewed and updated during the year and conform with the requirements of the Code and to the best practice standard laid down by the Institute of Chartered Secretaries and Administrators (ICSA).

The committee comprises only independent directors and its overriding purpose is to provide assurance to the Board that the interests of shareholders are appropriately protected, principally in the areas of financial reporting (both internal and external) and over the effectiveness of the internal control environment and of the internal and external audit processes. The role of the committee is set out in this report and the terms of reference are available at www.rentokil-initial.com

The Code requires that the committee report on significant matters considered during the year. In this report the committee reports formally on the issues in relation to the financial statements where key judgements were taken and these relate to: reorganisation costs and one-off items, the annual impairment assessment of goodwill and acquired intangible assets, and provisions for tax contingencies. In their audit report on pages 73 to 74 the auditors also provide a commentary on what they consider to be the significant matters of judgement taken in respect of the financial statements. I am comfortable that all material issues of accounting judgement have been fully discussed by the committee and that there were no divergent views between management and the auditors that were not resolved.

In addition to consideration of areas of accounting judgement we have set out on pages 43 to 44 a summary of all the activities of the committee during the year divided between the committee's primary areas of focus: internal controls and risk, external audit and financial reporting.

On a more general theme, it is evident to me that the improvements in capability (organisation, systems and people), that have been a feature of the group's strategy in recent years continue to show through in year-on-year incremental improvements in the robustness of the group's control framework. This had led to the opportunity for some assurance processes to be directed to higher added-value activities, whilst the progress has been encouraging, we will remain vigilant and so will maintain an appropriate emphasis on the quality of basic financial controls.

It is also evident that as the Company emerges from a significant period of change involving a focus on operational effectiveness, management capability improvements and portfolio change there remains an opportunity to further improve risk management and processes for the identification and assessment of risk. It is reassuring that throughout this period of significant change the Company has not suffered any incident which has highlighted a major misjudgement of risk; however there is an opportunity for improvement in processes which will further embed risk management principles into the everyday consideration of risk, without undue bureaucracy.

As described in this report, we will continue to monitor the effectiveness of the internal audit assurance process but the committee has seen clear benefit from the more thematic and targeted approach to internal audit assurance over the last two years which has helped to ensure that internal audit's forward-looking programme is fully aligned with the group's risk profile and its strategy.

The committee has considered the recommendations of the Code and related guidance in relation to tendering the external audit at least every 10 years. As shareholders will be aware, KPMG Audit Plc were appointed auditors to the group in 2009 following a competitive tender. As reported last year, the lead audit partner appointed in 2009 retired from the firm early in 2013 and the Company has a new lead audit partner with effect from the beginning of the 2013 financial year. Given that the committee is comfortable with the effectiveness of the audit process and the committee's relationship with KPMG is good the committee does not see audit re-tendering as relevant to the Company at the present time.

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

Yours faithfully

Duncan Tatton-Brown
Chairman, Audit Committee
28 February 2014

Role of the committee

The Audit committee assists the Board in its oversight and monitoring of financial reporting, risk management and internal controls. The committee's focus is to review and challenge in these areas both with management and with internal and external auditors. The committee's terms of reference include a responsibility on the committee to advise the Board on whether the content of the annual report taken as a whole represent a fair, balanced and understandable representation of the Company's performance, financial position and prospects.

The committee:

- monitors the integrity of the annual and half-year results and interim management statements, including a review of the significant financial reporting judgements contained in them
- keeps under review the Company's internal financial controls and internal control and risk management systems
- provides the Board with an independent assessment of the group's accounting affairs and financial position
- monitors and reviews the effectiveness of the Company's internal audit function
- establishes and oversees the Company's relationship with the external auditors, including setting their fees, monitoring their independence and effectiveness and ensuring that the Company's policy relating to their engagement on non-audit matters is appropriate and observed
- monitors matters raised pursuant to the Company's whistleblowing arrangements

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

The Board is required by the Code to present a fair, balanced and understandable assessment of the Company's position and prospects. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the annual report and the financial statements set out on page 54.

Terms of reference

The terms of reference of the committee are available at www.rentokil-initial.com. The committee's terms of reference were reviewed by the committee during 2013 and the Board approved a number of amendments to the text to ensure that the terms of reference are fully aligned to current best practice. They take full account of the Smith Guidance on the role of audit committees.

Composition of the committee

The members of the committee are set out on page 39 in the Corporate Governance Report. Alan Giles replaced William Rucker as a member of the committee when William Rucker stood down as a director on 14 March 2013. Duncan Tatton-Brown, who chairs the committee, is a chartered management accountant with extensive financial and accounting experience. Both Peter Bamford and Alan Giles have extensive commercial and operational experience in overseeing the financial affairs of substantial business undertakings. Biographical information on all committee members is set out on pages 30 and 31. Committee members are all independent non-executive directors and Duncan Tatton-Brown is considered by the Board to have recent and relevant financial experience. The committee did not find it necessary to seek external advice during the year, other than through its usual dialogue with the auditors.

Meetings of the committee are attended by the Chairman, the chief executive, the auditors, the director of risk and audit and the company secretary. Other company executives attend meetings periodically such as, the group financial controller and treasurer, the group tax director and the divisional or regional finance heads who periodically update the committee on control and reporting within their areas of responsibility.

Activities of the committee in 2013

The committee met six times during the year and attendance at those meetings is shown on page 39.The committee has a regular work plan and additional matters are added to the agenda of meetings which are dictated either by current events or by the requirements of the committee. The areas of focus for the committee in 2013 are summarised in the chart below. In addition to these matters the committee was briefed on general reports issued by the auditors' regulatory bodies, or from other sources, such as from the ICSA on risk reporting and the Competition Commission on the market for audit services.

Internal controls and risk

- The status of the control environment and on control incidents – each meeting
- The resolution of issues raised during internal audit investigations and the status of outstanding actions – each meeting
- Group risks and the related mitigation status for both 2012 reporting and as part of the strategy review in the fourth quarter of 2013
- The circumstances and investigation of a breach of local law and regulation and Code of Conduct compliance in the Company's operation in Indonesia
- The anti-bribery and anti-corruption policy removing some ambiguities and making executive responsibilities more explicit
- The resolution of the operational HR policy control incident in Australia (reported in 2012)
- The review of HR processes worldwide including specific actions underway to underpin and ensure compliance with laws, regulation and group policy
- Group reporting processes and the central control environment, including treasury operations
- The conclusions and themes emerging from the internal audit investigations conducted during the year and approved the plans for 2014 in parallel with the Board's strategic review and operating plan for the year

External audit

- The terms and scope of the audit engagement for the annual, half-year and quarterly financial statements together with fees charged
- The effectiveness of the external audit process, which included an analysis prepared by finance function heads both centrally and in business units measuring performance relative to earlier periods
- Consideration of the reappointment of the auditors at the 2013 AGM and the requirements of the 2012 Code concerning the re-tendering of audit services at least once in every 10 years
- A review of the annual financial statements, consideration of principal areas of accounting judgement or materiality, further details of which are provided in this report

Audit Committee Report – continued

- The level and nature of services provided by the auditors that was outside the scope of the audit of financial statements and compliance with the Company's policy on the provision of non-audit services by the auditors
- The processes undertaken and discussions between the auditors and management on matters relating to audit judgements discussed with the auditors without executives present
- The audit strategy for the 2013 audit including the key areas of focus, materiality levels, scope and coverage
- An analysis setting out the basis on which KPMG continued to meet the appropriate professional standards of independence as auditors to the Company

Accounting and financial reporting
- The effectiveness of the internal control and risk management framework and consideration of the statement to shareholders on the control environment
- The annual, half-year and quarterly financial statements together with the significant financial reporting judgements relating to each statement
- The financial performance of acquisitions made in the current and previous two financial years to validate narrative statements in external reporting
- A review of accounting issues associated with the disposal of the City Link business in April 2013
- The committee's report to shareholders contained within the 2012 report and accounts of the Company
- A review of material litigation and claims in connection with the preparation of financial statements to establish that necessary appropriate provision had been made
- A review the basis on which it was reasonable for the Board to adopt the going concern basis for the preparation of financial statements and advise the Board accordingly
- A review of the transactional accounting processes and systems across the group and changes underway to improve effectiveness and reduce the overall processing cost

Significant issues considered by the Audit committee

After discussion with both management and the external auditor, the committee determined the key issues of accounting judgement affecting the financial statements and therefore providing the potential for material misstatement in the group's financial statements related to be:

- Reorganisation costs and one-off items
- Annual impairment assessment of goodwill and acquired intangible assets
- Provision for tax contingencies

These issues have been discussed and reviewed by the committee during the year but notably at the review of the interim results and at the review and agreement of the audit plan for 2013.

Reorganisation costs and one-off items

Since the appointment of a new Chief Executive in 2008, the group's management team has been implementing a recovery plan based on operational excellence. To support this plan there are a large number of improvement initiatives, the costs of which have been recognised as reorganisation costs in the consolidated income statement. Additionally there have arisen costs which, if included within trading profit, would give a misleading view of the underlying performance of the business, and therefore are treated as one-off items. The risk relating to both of these categories is that costs are included which are really part of the underlying performance of the business and that therefore this is misstated.

In order to address this risk, management requires that all items must have prior authorisation for their treatment from the group finance team. Additionally there is a group finance policy with which these items must comply in order to qualify for this treatment. In the case of reorganisation costs there must also be a specific business case supporting the expenditure signed off by the chief financial officer.

The auditor reviews material items recorded as reorganisation costs and one-off items to ensure they comply with the group's policy and that, where appropriate, they are supported by an approved business case. The committee has discussed the items with management on a quarterly basis to discuss and review the nature of these items and to receive assurances that these processes have been complied with. After such scrutiny, the committee is satisfied that the items have been appropriately categorised.

Annual impairment assessment of goodwill and acquired intangible assets

The group has £379m of acquired intangible assets. Management is required to perform annual tests for potential impairment of goodwill and other intangible assets. The group's principal non-financial assets are grouped into cash generating units (CGUs) for the purpose of assessing the recoverable amount – usually a country business unit. Where a CGU carries goodwill above the local equivalent of £1m sterling, this must be tested for potential impairment using a centrally provided model. For goodwill balances below the local equivalent of £1m sterling, CGUs are only required to satisfy themselves that nothing has happened since the previous review or since the goodwill balance was established that would indicate any impairment.

Cash flows are based on recent strategic plans as amended for any significant changes since preparation. Discount rates used for cash flows must be the applicable rate from the published group discount rates. CGUs are required to provide positive confirmation that they have performed impairment tests and, where applicable, that they are satisfied that no impairment of goodwill is necessary.

The auditor reviews the centrally provided model and a sample of individual CGUs impairment testing, as well as evaluating the procedures undertaken to identify indicators of impairment in the year.

Although the total values are significant, management have been able to demonstrate to the committee that there is material headroom in the major balances based on the assumptions made. Where there has been an indicator of impairment, management have impaired the asset to its recoverable amount.

Provision for tax contingencies

The group operates across a wide range of tax jurisdictions, representing many different approaches to the charging and collection of corporation tax. Because of the complexity of the group's tax position there are a number of areas where significant judgement is exercised. The group employs local tax experts to support judgements where there is significant uncertainty and the amounts involved are material. In respect of transfer pricing across tax jurisdictions the group has benchmarked its approach using international tax experts to ensure the risk of breaching local tax authority requirements is mitigated. Where the judgements are material to the group, the auditor uses its own specialists to assist in the review of the approaches taken and assumptions made by management and ensure these result in adequate provisions. The committee is satisfied that the assumptions supporting the valuations are appropriate and that the provisions are reasonably stated in the financial statements.

Internal audit

The group has an internal audit team of six led by the director of risk and audit. The team draws additional resources when required from co-sourced auditors from external practices, principally Deloitte LLP. The committee also has the benefit of the output from the controls testing programme carried out by the Company's auditors, KPMG Audit Plc. The director of risk and audit reports to the chief financial officer and has direct lines of communication with the Chairman of the Audit committee, the chief executive and the Company Chairman, as well as to all operational and functional leaders in the business.

The Company has continued the process of bringing additional talent into the audit team. The changes in the structure of the internal audit function started in 2011 are largely complete and the committee remains comfortable that the assurance process has been enhanced by the changes made. The effectiveness of the internal audit function will be kept under review.

During the year, internal audit continued with the approach first adopted in 2012, to review a broad range of business processes in depth at a relatively limited number of business locations. The audit plan approved by the committee in December 2012 was mostly completed, although a number of planned audits were postponed to 2014 due to other business priorities. The common themes and related recommendations arising from the 21 audits completed or in progress, considered by the committee covered: key financial controls, payroll processes (including a data mining review of the group's largest payroll), performance monitoring and non-financial KPIs, IT services and general controls, pricing strategy, procurement, customer contract management, project management, business continuity management and Code of Conduct compliance.

In each area of focus recommendations for incremental improvements were agreed with management and realistic time frames set for actions to be completed. Progress on the completion of agreed recommendations is reviewed by the committee as is any departure from agreed time frames.

None of the failures identified by internal audit in the control environment or any of the recommendations resulting from individual audits represented a systemic underlying issue and overall the work of the internal audit function is supportive of the committee's and the Board's view (set out in the 'Risk Management' section later in this report) that the financial controls environment is working adequately.

External audit

Audit services

The external auditors are appointed by shareholders to provide an opinion on the financial statements and certain other disclosures prepared by the directors. KPMG Audit Plc has acted as the external auditor to the group throughout the year. The committee is responsible for oversight of the external auditors, agreeing the audit strategy and related work plan as well as approving their fees.

The auditor attends all meetings of the committee and meets with the committee without executive management present. The main engagement with the committee in 2013 has been over the review and publication of annual and periodic financial statements and consideration of the changes required this year in reporting to shareholders on the committee's activities in relation to its review of the financial statements, as provided in the Code. The committee considers that it has an effective working relationship with the external audit team. As reported below, the committee has formally reviewed the effectiveness of the external auditors and is satisfied with their performance.

Audit related and non-audit services

To safeguard the objectivity and independence of the external auditors, the Company has a policy on the engagement of the auditor's services on audit related and non-audit services. The committee accepts that certain work of a non-audit nature is best undertaken by the external auditor. The policy sets out the nature of services that are permitted and those that are specifically prohibited. In general, permitted services would be limited to matters that are closely related to the annual audit process or where a detailed knowledge of the group is advantageous. The auditor is permitted to be engaged on transaction services but not to undertake any work which would itself be subject to audit. The committee reviews regularly the amount and nature of non-audit work performed by the auditor to ensure that the auditor's independence is not compromised. Any engagement on permitted services in excess of £50,000 requires the approval of the Chairman of the Audit committee and any engagement in excess of £250,000 requires the approval of the committee. A copy of the policy is available at www.rentokil-initial.com

Fees for audit related and non-audit services incurred during the year amounted to £0.5m (2012: £ 0.7m), representing 15% of the audit fees. Details of the fees paid for audit services, audit related services and non-audit services can be found in note A11 to the financial statements.

Disclosure of information to the auditor

The committee monitors the process leading up to the preparation of financial statements, including the arrangements the Company has in place for disclosing all relevant audit information to the auditors. A formal confirmation on disclosure of information to the auditor is provided in the Directors' Report on page 54.

Effectiveness

Under the Code the committee is required to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. Despite some complexity relating to the City Link disposal and a significant acquisition in the US in the last quarter of the previous year, the 2012 audit went smoothly and all milestones were achieved on time. There were no significant unexpected events relating to the publication of the year-end results.

The committee conducted a review of the auditor's effectiveness during the year, drawing input from the chief financial officer, the director of risk and audit and other members of the senior finance management team as well as from the majority of the finance directors of the group's subsidiaries. The process made use of a formal evaluation using a questionnaire which was completed by 37 business unit and the UK shared service centre as well as by central functions. The questionnaire covered:

- resources and expertise of the external audit team
- effectiveness of the audit process
- effectiveness of the financial controls testing process

The committee considered the detailed findings of the review which included a number of detailed recommendations, none of which was material in the overall context of the group audit but was helpful in relation to improvements in the Company's processes

Audit Committee Report – continued

and those of the auditor. Taking all responses into account, the scoring mechanism, (which was the same as in the previous year) demonstrated that the audit performance was effective and at a similar level to the previous year.

Auditor independence and objectivity
As part of an internal reorganisation within the firm, our current auditor, KPMG Audit Plc has instigated an orderly wind down of business. Engagements will in future be conducted through KPMG LLP. In accordance with s.489 of the Companies Act 2006, the Board has decided to put KPMG LLP forward to be appointed as auditor of the Company and a resolution concerning their appointment and a resolution to authorise the directors to determine their remuneration will be proposed at the forthcoming AGM of the Company.

In concluding that KPMG LLP should be appointed as auditor at the 2014 AGM, the Board and the Audit committee took into account the need to ensure that auditor independence was safeguarded. The Audit committee also took into account the review undertaken of the effectiveness of the audit process as well as input from executive management.

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

Auditor re-tendering
The Company's audit services were last subject to a tender process in 2009 at which time KPMG Audit Plc replaced PricewaterhouseCoopers LLP as the group's auditor. The lead audit partner at group level changed with effect from the beginning of the current financial year, his predecessor who had been lead audit partner on KPMG's appointment in 2009 having retired from the firm in 2013. There are no contractual obligations which restrict the committee's choice of auditor.

The Code states that FTSE 350 companies should tender the provision of audit services at least every 10 years or explain their approach, if different. A resolution concerning KPMG's appointment as auditors and setting of its fees will be proposed at the 2014 AGM of the Company.

Group's approach to risk management and internal control

The group's approach to managing risk and ensuring that an effective internal control environment is maintained is described below and the Board's statement on internal control and risk is set out in the section immediately following.

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

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

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

Some of the above responsibilities are delegated to the Audit committee, the full remit of which is described above.

The Audit committee receives regular reports from the chief financial officer and the director of risk and audit on financial controls and process improvement programmes. These include:

- a report on the overall status of the control environment in the group including the results of testing
- a report on identified areas of weakness in controls
- action plans on control environment improvements
- status updates on the implementation of action plans
- periodic reports from divisional and functional finance executives

The Group Risk committee chaired by the chief financial officer includes senior functional executives with day-to-day responsibility for the internal control environment covering financial, HR and IT systems, legal and regulatory compliance as well as the director of risk and internal audit and from 2014 a representative of operational management. The Group Risk committee supports the Audit committee and executive management by:

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

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

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

The Board delegates day-to-day management of the Company to the Chief Executive who, together with his Executive Leadership Team, are responsible for day-to-day identification and management of risk, which includes:

- setting targets and objectives for their respective teams in line with the agreed group strategic direction

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

Board statement on the effectiveness of risk management and internal control

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

The system of risk management and internal control described in the preceding section is designed to manage and mitigate risk rather than eliminate the risk of failure to achieve business objectives. In pursuing business objectives, internal controls and risk management can only provide reasonable, and not absolute, assurance against material misstatement or loss.

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

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

The Audit committee assists the Board in meeting its obligations for maintaining sound systems of risk management and internal control and a summary of the committee's activities in 2013 is provided earlier in this report. The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2013 and confirms that:

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

Code of Conduct

The group's Code of Conduct was reviewed and updated at the end of 2013 for distribution early in 2014. Policy and procedures on anti-bribery and anti-corruption introduced in 2010 were reviewed and updated in 2013. Over 3,000 colleagues have participated in online training to reinforce policy and related procedures covering competition law issues as well as anti-bribery and anti-corruption matters. In 2013 a Human Rights policy was adopted to bring added focus to Code of Conduct compliance particularly in the area of third party supply arrangements.

The Code of Conduct is distributed in 26 languages covering all of the group's material operations and a communications programme and material for workplace briefing to support reinforcement of Code of Conduct compliance is embedded in the business units. The effectiveness of the communications programme is reviewed by group internal audit. The Code communications for front line colleagues includes graphic material, tailored to each business category, flagging the key 'Do's and Don'ts' of responsible business conduct that are embedded in the group's Code of Conduct. The Board will continue to keep policies supporting Code of Conduct compliance under regular review to ensure that they are appropriate and effective.

Whistleblowing 'Speak-up'

There are policies and procedures in place for the reporting by colleagues of suspected wrongdoing, for these suspicions to be formally investigated, and for the results of the investigation to be reported to the whistleblower. The committee receives a report on control incidents arising from whistleblowing as well as from other sources. The committee also reviews periodically processes which the Company has in place to ensure that in all territories there is an effective communication process through which colleagues are kept informed about the whistleblowing process. Global freephone numbers and a dedicated email address have been established. In addition to workplace material for colleagues, multiple language information on the 'Speak-up' programme is prominently displayed on the group and individual business unit intranet sites.

Committee effectiveness

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

Duncan Tatton-Brown
Chairman, Audit Committee
28 February 2014

Nomination Committee Report

John McAdam
Chairman

Dear fellow shareholder

The Nomination committee provides a focus for the key task of ensuring that the Board continues to comprise a group of individuals who work effectively together as a team and who possess the right mix of experience and talent to provide effective oversight and challenge to management.

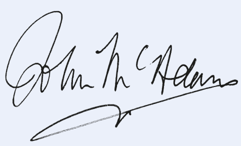
The committee's principal task in 2013 was to conclude an internal evaluation of the executive management team to identify those with the potential to succeed to the role of chief executive and to identify training and development opportunities that would facilitate the development of the senior cadre of executives in the Company, leading to the opportunity of filling executive director roles as well as to identify gaps that might need to be addressed through external recruitment.

Having completed the internal evaluation, which commenced in 2012, the committee gave consideration to the availability of talent outside the Company to provide future executive leadership and undertook a thorough review of external candidates for the chief executive role from similar business-to-business backgrounds and others with strong credentials from other sectors. The committee was assisted by Egon Zehnder International (EZI) in its evaluation of both internal and external candidates.

The committee was unanimous in concluding that Andy Ransom was the right candidate to recommend to the Board as a successor to Alan Brown as chief executive. In the months since his appointment as chief executive the Board has been pleased both with the transition process and with the start he has made in evolving the existing strategy through a differentiated plan to deliver on the investments in people and processes that have been made in recent years.

The committee's report on the year follows.

Yours faithfully



John McAdam
Chairman, Nomination Committee
28 February 2014

Role of the committee

The committee has delegated authority from the Board as set out in its terms of reference. The primary purpose of the committee is to ensure that a regular, rigorous and objective evaluation of the structure, size, composition, balance of skills, knowledge and experience of the Board is undertaken and to recommend any changes to the composition of the Board and its committees and to instigate and manage recruitment processes.

Material findings and recommendations are reported at the next Board meeting and copies of the minutes of meetings are circulated to all directors where appropriate.

The terms of reference of the committee were reviewed by the committee during 2013 and are available at www.rentokil-initial.com

Composition of the committee

The composition of the committee and attendance at meetings in 2013 is shown in the chart on page 39. The committee met nine times during the year. All non-executive directors are invited to participate in meetings of the committee. In the context of the committee's work in 2013 on executive management development and succession processes leading to a recommendation to the Board over chief executive succession, all non-executive directors participated in meetings of the committee for key discussions on this subject.

Appointment process and diversity

Our policy on appointments to the Board is set out in the Directors' Remuneration Report on page 60. In brief, all appointments are made on merit against objective criteria and the process is usually supported through the use of an external recruitment consultant. This process was followed over the appointment of Angela Seymour-Jackson in 2012. The process typically commences with the selection of a recruitment consultant, considered to be most suited for the proposed appointment. The agency will be briefed on the skill sets and candidate experience we were seeking to attract. The recruitment consultant (EZI in the case of Angela Seymour-Jackson), then prepares a candidate specification for approval by the committee. Thereafter potential candidates are identified, interviews take place with members of the committee, with other non-executive directors and with executive directors, following which the Nomination committee forms a recommendation for consideration by the Board.

A similar process is undertaken when external candidates are under consideration for executive roles.

The issue of diversity was considered by the Board in 2012, and a formal policy adopted. This is predicated on appointing the best possible candidates. To avoid precluding any deserving candidate from consideration, the policy requires that shortlists contain candidates from as diverse a range of backgrounds as possible. While gender is an important element of diversity it is important that these lists are gender-neutral and constructed entirely on merit and measured against the required objective criteria. The Board is in no doubt that in order to secure the best talent either for the Board, or for within the business, it is essential to draw on the widest possible talent pool. Optimum diversity enriches debate and problem solving at Board level as well as in governance processes throughout the group.

The Board has confirmed its aspiration to broaden gender diversity with the appointment of a second female director by 2015 and is also mindful that as director rotation occurs candidates will be sought who fit the skills criteria and gender balance that is in line with the Board aspiration. We continue to focus on encouraging diversity and business skills and experience throughout the group, recognising that directors and leaders in our businesses with diverse skill sets, capabilities and experience gained from different geographic and cultural backgrounds enhance the effectiveness of the organisation.

The gender breakdown for the group as a whole (some 52,000 colleagues at the end of 2013) and for the operational management population (some 2,500 colleagues) is provided in the Directors' Report on page 51.

Director induction process

Following the appointment of any new director, the Chairman, in conjunction with the company secretary and the group HR director ensures that a full, formal and tailored induction to the Company is made available. The induction process is summarised below:

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

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

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

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

Activities of the committee in 2013

Chief Executive succession

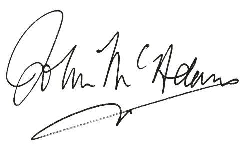
As mentioned above, the majority of the committee's time in 2013 (six of nine meetings) was dedicated to the completion of an executive management review and the chief executive succession process. As part of that process, the committee reviewed in detail the output from the executive management assessment process, discussed and settled the candidate specification for the role of chief executive, approved a shortlist of candidates from both within the Company and externally and met with candidates individually, in some cases on a number of occasions, prior to forming a unanimous recommendation that Andy Ransom should succeed Alan Brown as chief executive. The committee was supported in this work by EZI and by the group's HR director.

Other matters considered by the committee in 2013 included:

- A review of the committee's report within the 2012 annual report and recommended approval to the Board
- A review of the committee's effectiveness which was externally facilitated by Lintstock, an independent corporate governance consultancy
- A review of the membership of the Audit committee following William Rucker stepping down as a director in March 2013 and recommended that Alan Giles join the committee
- A review of the potential conflicts of interest authorised by the Board and a review of the processes in place to ensure that potential conflicts are properly considered
- A review of the performance of individual directors, utilising the output from the Board evaluation process, and making recommendations to the Board over the re-election of directors at the AGM

Committee effectiveness

The committee conducted a review of how it operates, which concluded that the committee had operated effectively in 2013. The focus of the review had been substantially on executive management succession and the overwhelming proportion of the committee's time during the year was dedicated to this critical activity. The committee noted that in 2014 its attention would be focused on non-executive director rotation and succession.



John McAdam
Chairman, Nomination Committee
28 February 2014

Directors' Report and Other Statutory Disclosures

The Directors' Report is a requirement of the Companies Act 2006. The UKLA's Disclosure and Transparency Rules (DTRs) and Listing Rules (LRs) also require the Company to make other disclosures. The Corporate Governance Report for the year on pages 30 to 72 forms part of the Directors' Report. Disclosures elsewhere in the 2013 annual report are cross-referenced where appropriate and taken together fulfil the requirements of the Companies Act, the DTRs and the LRs.

The directors submit their report and audited financial statements of the Company and the group to the members of Rentokil Initial plc ('the Company') for the year ended 31 December 2013.

The Company

Constitution Rentokil Initial plc is a company incorporated in England and Wales, with company number 5393279. The Company is a holding company with limited trading in its own right and with subsidiary undertakings in over 60 jurisdictions. The material subsidiary undertakings are listed in on page 128.

Articles of association and directors' powers

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

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

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

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

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

Dividend

Despite continuing challenging market conditions the Company has made solid progress in 2013 and we anticipate further operational and financial progress in 2014. Taking this into consideration the Board is recommending a final dividend in respect of 2013 of 1.61p per share, payable to shareholders on the register at the close of business on 11 April 2014 to be paid on 21 May 2014. This equates to a full year dividend of 2.31p per share, an increase of 10.0% compared to 2012, on an approximately one third/two thirds interim/final basis.

Outlook for 2014

We have delivered a steady financial performance in 2013, despite ongoing economic challenges in Europe, rounding out the year with a solid fourth quarter in line with expectations.

The divestment of Initial Facilities to Interserve Plc, announced on 28 February 2014, together with the sale of City Link in April, allow us to focus on our core service categories of pest control, hygiene and workwear using our differential matrix to target higher growth markets.

Though we see no immediate improvement in trading conditions in Europe (particularly the Benelux) in 2014 we expect to offset ongoing margin pressure with cost efficiencies and anticipate a material improvement in free cash flow as restructuring expenses and capex are reduced. In addition our new strategy, with its differentiated plan to drive shareholder value, gives us confidence in making further operational and financial progress in the coming year.

Share capital

The Company's share capital during the year consisted of ordinary shares of 1p each. There were 1,817,498,329 shares in issue at 31 December 2013 (2012: 1,814,831,011). Each ordinary share (other than treasury shares, which have no voting rights) carries the right to vote at a general meeting of the Company. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is duly demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder.

The Company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements which may at a subsequent date result in a change in control of the Company. As at 28 February 2014 the shareholders shown in the 'accountability to shareholders' section of the Corporate Governance Report on page 40 had indicated that they had an interest in 3% or more of the Company's issued share capital and were not subject to the 5% disclosure exemption under the Disclosure and Transparency Directive. No other interests have been disclosed to the Company in accordance with Disclosure and Listing Rule 5 either during the year or as at 28 February 2014.

Authority for the Company to make purchases of its own shares of up to 181,483,101 shares was obtained at the AGM on 15 May 2013. No purchases of its shares were made by the Company during 2013. The authority is normally renewable annually and approval will be sought from shareholders at the 2014 AGM to renew the authority for a further year.

Authority for the Company to allot shares or grant rights to subscribe for shares was obtained at the AGM on 15 May 2013. The authority remains in force and approval will be sought from shareholders at the 2014 AGM to renew the authority for a further year. During the year 2,667,318 shares were issued for cash to satisfy the exercise of the vested rights under the share incentive plan approved by shareholders in 2008.

Change of control provisions

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as some commercial agreements and employee share plans. None of these are deemed to be significant in terms of their potential impact on the group as a whole. A description of the group's debt funding arrangements is set out in Note C1 to the financial statements which also describe the change of control provisions relating to the group's Euro medium-term note programme.

Reporting, accountability and audit

The directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations. UK company law requires that the directors must not approve financial statements unless they are satisfied that they give the true and fair view of the state of affairs of the group. In preparing the financial statements the directors are required to: apply them consistently, make judgements and estimates that are reasonable and prudent, state the basis on which they are prepared and prepare the financial statements on a going concern basis.

The directors must keep adequate accounting records for the Parent Company to enable them to ensure that its financial statements comply with the Companies Act 2006. The directors have a general responsibility for taking such steps as are reasonable to safeguard the assets of the group and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Report that comply with law and regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The Strategic Report (which includes the Chairman's and Chief Executive's letter) provides an overview of the development and performance of the Company's business in the year ended 31 December 2013 and its position at the end of the year and covers the likely future developments in the business of the Company and the group. For the purposes of compliance with DTR 4.1.5R (2) and 4.1.8R, the required content can be found in the Strategic Report and the Directors' Report, including material incorporated by reference.

The independent auditor's report on pages 73 to 74 includes a statement by the auditors about their reporting responsibilities. The directors recognise that their responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports, reports to regulators and information required to be presented by law.

Disclosure of information to auditors

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

Going concern

The directors, having made enquiries, consider that the Company and the group have adequate resources to continue in operation for the foreseeable future. For this reason, they consider it appropriate to adopt the going concern basis in preparing the financial statements. Further details on the group's net debt, borrowing facilities and financial risk management policies is provided in the Financing section of notes to the accounts on pages 113 to 125.

Directors' indemnity and insurance

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

Colleagues and community

The group is committed to employment practices that follow best practice and are based on equal opportunities for all colleagues, irrespective of age, gender, race, colour, sexual orientation, disability or marital status. The Company's policy is to recruit, appoint and promote on the merit of the individual. Of its 52,000 colleagues at the end of 2013, 42% were female, and of its 365 senior managers, 20% were female. Female representation at Board level is 9%.

The engagement and enablement of colleagues is critical to our success as a service company. In September 2013 a confidential survey carried out by Hay Group revealed that both colleague engagement and enablement were six percentage points ahead the global norm for service companies. At 74% the Company's colleague enablement score was three percentage (%) points ahead of the global High Performance company norm.

The Company has over 100 colleagues in apprenticeships across Europe. By the end of 2013, 28,000 training hours were recorded globally on U+ Online, the Company's in-house 'university'.

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

In Europe the Company meets its European Forum (European Works Council) usually twice a year to communicate with colleagues' representatives from across the continent. The Company maintains an open dialogue with the Forum at times of business change.

In recent years the Company has provided support to colleagues and communities at times of natural disaster including response to flooding in Thailand and Indonesia, the earthquake in New Zealand and the tsunami in Japan. Following Typhoon Yolanda, which struck the Philippines in 2013, the Company made cash donations and provided food, personal hygiene and pest control provision in affected areas. Local management teams worked in partnership with the Philippine Red Cross to supply food and other basic items to those in need.

During the year our South African operations launched an Employee Share Ownership Plan – in which all employees became members of a trust which owns a 25% share in the business. This resulted in it being awarded a Level 3 B-BBEE (Broad-Based Black Economic Empowerment) status. In 2013 the Company also supported the global charities 'Malaria No More' and 'WaterAid': for every colleague taking part in its global colleague survey a donation of £1 was donated to these charities and a total of £8,688 was presented to each charity.

Directors' Report and Other Statutory Disclosures – continued

Health and safety

Direction of health and safety is set by the Safety, Health and Environment (SHE) leadership team who focus upon developing operational and functional capability to deliver improved performances, especially on the priority businesses, of which there were five in 2013. Details of the Company's health and safety performance and initiatives can be found in the Corporate Responsibility Report 2013, available at www.rentokil-initial.com

The SHE leadership team reports on health and safety matters to every meeting of the Executive Leadership Team and of the Board and is always the first item of business. The Executive Leadership Team reviews individual businesses' health and safety performance, using its KPIs of Lost Time Accident Rate (LTA – a frequency measure) and Working Days Lost Rate (WDL – a severity measure). The table below shows the continued improvement in these two KPIs over the past six years as well as the performance against target for 2013.

KPI	2008	2009	2010	2011	2012	2013	2013 target
LTA	1.82	1.53	1.68	1.34	1.08	0.94	0.97
WDL	n/a	39.66	47.56	35.75	24.83	19.97	21.65

Regrettably there were two fatalities in 2013, which involved Company vehicles. One occurred on a Company site in France, and involved a female colleague who was hit by a reversing truck. As a result of this incident, a Company-wide workplace transport safety review was initiated and a series of improvements on vehicle/pedestrian segregation agreed for sites across the group. The other, also in France, involved an elderly lady who was hit by one of our vehicles when crossing the road, which remains under investigation.

Environment

The Company's principal environmental KPIs are water consumption in the workwear processing plants and energy derived emissions. Details of the Company's environmental initiatives can be found in its Corporate Responsibility Report 2013, available at www.rentokil-initial.com

Water consumption

Water consumption in our European workwear processing plants is a key performance indicator, because of the large amounts of water used in the laundry process.

For several years, these plants have utilised water recovery systems, reducing both water and energy consumption, and delivering effluent suitable for subsequent reuse. In addition, following supplier contractual agreements, water, energy and chemical consumption are controlled jointly with the supplier which is responsible for all consumption improvements. All plants are audited with the supplier, with a focus on water and energy consumption. Equipment suppliers review boiler water treatment systems to ensure boiler efficiency is maintained at the highest levels. Also, steam-less laundries are being introduced (currently in use in four plants). Steam-less processing plants operate at the lowest possible energy and water consumption levels.

Water consumption is normalised based on kilograms of workwear washed. For all the workwear processing plants, consumption fell in 2013 by 4.4% to 9.3 litres (2012 – a reduction of 14.1% and 9.8 litres). This represents an overall reduction of 28% since 2008.

The table below shows the trend in water consumption over the past six years for all the workwear processing plants.

	Water usage per unit washed – litres used per kilogram					
	2008	2009	2010	2011	2012	2013
All workwear processing plants	13.0	12.2	11.6	11.3	9.8	9.3

Greenhouse gas (GHG) emissions reporting

Our principal energy derived emissions KPI is reported as an index on a normalised basis in order to provide an accurate like-for-like performance comparison, removing the variables of currency and corporate changes. In 2013 the Company's energy derived emissions (excluding those related to City Link) per £m turnover at constant exchange rates reduced by 3.2%.

The Company publishes its emissions data in the Carbon Disclosure Project (CDP). In 2013 it completed its seventh successive CDP submission, obtaining a disclosure percentage of 70% in the CDP Leadership Index. It also submits environmental data for publication to the Business in the Community Index and Dow Jones Sustainability Index, which placed the Company in the World Index for its sector.

Under the requirements of The Companies Act 2006 (Strategic Report and Directors' Report Regulations), Rentokil Initial is required to report in its Directors' Report on all direct GHG emissions relating to the combustion of fuel and the operation of any facility and indirect GHG emissions (through the purchase of electricity, heat, steam or cooling. In addition, the Company must state the methodologies used and at least one intensity value which expresses the emissions relative to its activities.

Since 2006, the Company has reported on its emissions relating to all property, plant and vehicles owned by the Company. In 2013, we also reviewed other sources of emissions, including leakages and process gases. A scoping exercise assessing HFCs leakages from air conditioning and refrigeration units was undertaken worldwide. This indicated that these represented less than 0.5% of the Company's total 2012 emissions and is considered not material for reporting purposes. A similar exercise focused on PFCs, which confirmed there was no use of any PFC related chemicals.

However, material levels of emissions were established in the use of methyl bromide and sulfuryl fluoride in fumigation pest treatments in around 10 country operations. The latter is a relatively new gas and the former has been in use for many years but its production will be phased out in 2015. Whilst the manufacturer states that sulfuryl fluoride is not ozone depleting, we are reporting on emission derived from its use because it has a global warming potential of around 5,000.

The acquisition of Western Exterminator in the US at the end of 2012 led the Company to become a more significant user of sulfuryl fluoride. During 2014 we are undertaking a data collation of consumption of fumigation gases as well as investigating the availability of possible alternatives to sulfuryl fluoride. For 2013, we are reporting upon the results from the fumigation gases scoping exercise, and include emissions based on this exercise in the data below. In future years, we anticipate there could be some variability in fumigation gases emissions, as the use of these gases is typically related to large building fumigation contracts.

The Company's total 2013 emissions, split between the two categories, and segregated between energy derived emissions and fumigation derived emissions are as follows:

Source of emissions	Total energy derived emissions (tonnes CO_2e)	Total fumigation derived emissions (tonnes CO_2e)
Direct GHG emissions (relating to the combustion of fuel and the operation of any facility)	232,971	380,979
Indirect GHG emissions (through the purchase of electricity, heat, steam or cooling)	28,072	0

The energy derived emissions include those that are defined as scope 3 emissions and those that are defined as 'outside scope'.

This emissions data is based on the 12 months ended 31 December 2013. Energy data has been collated in tandem with energy costs and covers all worldwide operations. Fumigation gas data has been collated from those Rentokil operations authorised to use these gases. Emissions have been calculated in line with the 2013 DEFRA reporting standards, and have been calculated using the UK Government conversion factors for company reporting produced on behalf of DEFRA and DECC.

The intensity values are based on energy derived emissions per £m turnover, with two variants. The first uses actual exchange rates to calculate the turnover base. However, because of the extent of our worldwide operations, this may show variations that may be due to currency variations. The second intensity value is an index of emissions per £m turnover at constant exchange rates.

	Energy derived emissions per £m turnover				
Intensity values	2013	2012	2011	2010	2009
At actual exchange rates	112	117	114	117	131
Index based on constant exchange rates	84.82	87.63	87.92	89.05	100.00

The five-year trend of normalised energy derived emissions shows that the Company has produced an overall reduction in emissions of 15.1%. All these values exclude both City Link revenue and energy usage, to provide consistency of comparison.

The Company has set a target of an emissions reduction of 10% by 2016, based on this index of energy derived emissions, from 2011 levels.

Key contracts

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

Post balance sheet events

The Company announced on 28 February 2014 that it had signed a contract with Interserve Plc to sell the Initial Facilities business to them for £250m. The transaction is subject to the approval by Interserve shareholders at a general meeting to be held on 17 March 2014. Please refer to Note D3 to the accounts on page 127 which sets out the financial effect of the transaction on the Company.

Political donations

It is the Company's policy to not make payments to political organisations. The Company does however maintain a shareholder authority to make payments of a political nature but does so only in order to ensure that the Company has authority from shareholders for the limited number of activities associated with the operation of the business which might be caught by the broad definition of payments of a political nature contained within current legislation. There were no payments to political organisations during 2013 (2012: nil).

Related party transactions

Other than in respect of arrangements relating to the employment of directors, details of which are provided in the Directors' Remuneration Report or as set out in Note D2 on page 126, there is no indebtedness owed to or by the Company to any colleague or any other person considered to be a related party.

Research and development

The Company invests in an active programme of innovation in support of its major international business streams. This programme includes the conception, design, testing and manufacture of new products to enhance the quality, effectiveness and safety of the Company's services and minimise their environmental impact. Where appropriate, work may be sponsored at universities with expertise in relevant areas.

Directors' Report and Other Statutory Disclosures – continued

Statement of directors' responsibilities (in respect of the annual report and the financial statements)

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

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

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

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

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

Each of the directors, whose name and functions are set out on pages 30 to 31, confirms that, to the best of their knowledge:

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

b. the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

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

The Directors' Report on pages 50 to 54 and the Strategic Report on pages 2 to 28 were approved by a duly authorised committee of the Board of directors on 28 February 2014 and signed on its behalf by Paul Griffiths, the Company Secretary.

Paul Griffiths
Company Secretary
28 February 2014

Registered office:
Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey GU17 9AB
Registered in England and Wales No: 5393279

Cautionary statement
This report contains statements that are, or may be, forward-looking regarding the group's financial position and results, business strategy, plans and objectives. Such statements involve risk and uncertainty because they relate to future events and circumstances and there are accordingly a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements. Forward-looking statements speak only as of the date they are made and no representation or warranty, whether expressed or implied, is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Other than in accordance with the Company's legal or regulatory obligations (including under the Listing Rules and the Disclosure and Transparency Rules), the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Information contained in this 2013 annual report relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing in this 2013 annual report should be construed as a profit forecast.

Directors' Remuneration Report

Alan Giles
Chairman, Remuneration committee

Dear fellow shareholder

The committee's report for 2013 sets out the Company's remuneration policy, the implementation of policy during 2013, the linkage with strategy and alignment with shareholders' interests.

The key remuneration challenges in 2013 were to review the effectiveness of our long-term incentive arrangements for 2014 and beyond, in the context of portfolio rationalisation and the evolution of the Company's strategy and secondly to deal with remuneration issues around the change of chief executive in October 2013.

Change of chief executive

We worked closely with the Nomination committee as, during the year, it led a succession planning process that resulted in the appointment by the Board of Andy Ransom as chief executive in October 2013. The committee is comfortable that in setting the remuneration for Andy Ransom in his new role it has provided a meaningful remuneration and incentive package that is fully aligned with our shareholders' interests.

The committee also reviewed the arrangements relating to Alan Brown stepping down as chief executive after five years in the role during which the Company's structure and operational performance has been significantly overhauled. The report sets out the amounts paid to him in discharge of the Company's contractual obligations.

Link to strategy

The strategy for the group is articulated in the Strategic Report and is focused on the core categories of pest control, hygiene and workwear. The strategy utilises a differentiated approach based around a four-quadrant matrix, as described in the Strategic Report. The strategy also utilises six operational levers to drive revenue whether through targeting new customers or up-sell and cross-sell of existing customers.

For the wider management and colleague population, sales effectiveness and customer retention are two key levers where remuneration issues are critical. Incentivisation of colleagues throughout the business is now looked at in the context of both the business units' strategic positioning in the matrix and the operational levers to drive growth.

With regard to executive director remuneration, the Company is clearly focused on building on the platform created over the last five years to deliver sustainable, profitable growth and create shareholder value. You will see in this report that the committee has introduced changes to short and long-term variable pay arrangements for 2014 placing greater emphasis on revenue, profit and cash conversion.

In 2013, with the City Link business divested from the group, the committee approved adjustments to existing short-term incentives to ensure that arrangements for the core business remained effective.

The links to strategy that relate to the elements of remuneration for directors are described in the remuneration policy report.

Long-term incentive arrangements

As I indicated last year, in 2013 we conducted a thorough review of the Company's long-term incentive arrangements, and as a result we have decided to introduce earnings per share as a second performance measure alongside relative Total Shareholder Return (TSR) for 2014 for approximately the top 100 participants, including executive directors, to further strengthen the link between performance and reward. We have also decided to retain the performance modifier for long-term incentive awards to executive directors.

The final performance test for the share incentive scheme introduced in 2008 to facilitate the appointment of the new leadership team was conducted in 2013 and no additional shares vested. The share incentive scheme is no longer in operation. Long-term incentives for executive directors will continue to be delivered through the existing long-term incentive plan, as described in the report.

Remuneration outcomes for 2013

The committee reviewed performance in 2013 and determined that the Chief Executive, Andy Ransom, should receive a bonus of 34.5% of base salary. While profit performance was below target (although above threshold), the committee considered that this represented good performance in a challenging market. The West region for which Andy Ransom was responsible prior to taking on the role of chief executive had a good year with profit, cash and revenue performance above threshold and just below target. The bonus paid reflects the progress delivered this year and the chief executive's contribution to this. Jeremy Townsend, the Chief Financial Officer, will receive a bonus of 38.9% of target reflecting strong group cash performance and the profit progress. The chief financial officer also achieved a number of key strategic objectives set by the committee at the start of the year.

Relative TSR performance for the Performance Share Plan awards granted in 2010 was below median and therefore these awards lapsed in May 2013.

Andy Ransom's salary was set at £700,000 with effect from his appointment as chief executive on 1 October 2013. Jeremy Townsend received a 1.77% increase in salary with effect from 1 January 2014.

Remuneration policy

The remuneration policy in this report, for which we will seek shareholder approval at the annual general meeting in May, will, we believe, be appropriate to permit the Board to undertake stewardship of remuneration matters for the Company for the following three years. The policy is in the most part an articulation of current practice.

Engagement

During the year I have engaged with a number of major shareholders and I am extremely grateful for the input and support we have received, particularly as we have been reflecting on how best to incentivise executive directors and the broader team to deliver on the strategy and create value for shareholders.

Yours faithfully

Alan Giles
Chairman, Remuneration Committee
28 February 2014

Directors' Remuneration Report

Remuneration policy report

This report sets out the Company's policy on the remuneration of executive and non-executive directors and it will be presented to shareholders for approval at the annual general meeting on 14 May 2014 in accordance with s.439A of the Companies Act 2006. The remuneration policy is largely unchanged from that in force in recent years. If approved, the policy will be effective from the date of the 2014 annual general meeting and can apply until 31 December 2017 unless a revised policy is approved by shareholders and comes into force before this date.

The Company's remuneration policy for executive directors, which is described in the policy tables on pages 56 to 62, is designed to:

- attract and retain the leadership talent needed to drive and deliver business growth, financial performance and other key strategic priorities without paying more than is necessary
- recognise and reward individual contribution to delivering long-term, sustainable business performance
- ensure alignment of executives with the overall shareholder objective of long-term value creation through linking a substantial part of the remuneration package to long-term performance targets
- deliver a total reward package that is market aligned, affordable and reflective of business performance
- encourage executive behaviours consistent with Rentokil Initial's business values and risk appetite

The same principles apply for the remuneration policy for other senior executives.

As noted in the introductory letter to shareholders, the committee is open to an ongoing dialogue with shareholders on remuneration matters. In early 2014, the Company communicated with larger investors regarding the adoption of an EPS measure alongside relative TSR for the long-term incentive plan.

Key elements of remuneration policy – executive directors

Base salary

Purpose and link to strategy	Operation	Levels of payout	Performance measures and periods
To attract and retain executives of the calibre required to implement our strategy	Cash salaries are normally reviewed annually with effect from 1 January. Salaries are set taking into account: • market data from both Towers Watson and Deloitte (or other appropriate data providers) for a cross-section of companies of a similar size and complexity at the time of review • scope and responsibilities of the role • external economic environment • individual skills and experience • contribution to overall business performance • pay conditions for other colleagues based in the UK or other regions which are considered by the committee to be relevant for that executive	Salary policy is to set base salary at an appropriate level taking into account the factors described under 'Operation' and salary increases are considered in this context. While there is no maximum salary level, the committee would normally expect percentage pay increases for the executive directors to be broadly in line with other colleagues in relevant regions. However, higher increases may be awarded in certain circumstances, where the committee considers this appropriate, such as: • where a new executive director has been appointed to the Board at a lower than typical market salary to allow for growth in the role then larger increases may be awarded in following years to move salary positioning closer to typical market level as the executive grows in experience • where the executive director has been promoted or has had a change in responsibilities salary increases in excess of the above level may be awarded • where the positioning of an executive director's salary has fallen significantly behind market practice • in exceptional circumstances, where a non-executive director temporarily takes up an executive position The annual remuneration report on pages 62 to 72 sets out base salaries of executive directors for 2013 and 2014. However, the 2014 salary for the Chief Executive (Andy Ransom) is £700,000 and for the Chief Financial Officer (Jeremy Townsend) is £450,000.	The payment of salary is not dependent on achieving performance targets although individual performance is taken into account when setting salary levels and determining any salary increases.

Key elements of remuneration policy – executive directors

Annual bonus

Purpose and link to strategy	Operation	Levels of payout	Performance measures and periods
Recognises and rewards the delivery of exceptional business performance against annual financial, strategic and operational goals and individual contribution to Company performance	The annual bonus is paid in cash each year after the committee has reviewed performance against targets, which are set at around the beginning of each year for each executive director, taking into consideration the underlying performance of the business. The committee may reduce bonus payments in respect of the current year or future years (potentially to nil) in the event of a material misstatement of the Company's audited results for the current year or prior years, serious reputational damage to a member of the Company's group or in any other circumstances where the committee considers that this treatment is appropriate.	Bonus payouts start to accrue at 10% of base salary for meeting threshold levels of performance, with an on target bonus opportunity of 50% of base salary and a maximum bonus opportunity of 100% of base salary (before the individual performance modifier). An individual performance modifier, based on individual performance, as measured by the Company's performance and development review process, may also increase or decrease the opportunity stated above to further recognise individual contribution to business performance. The maximum opportunity will not exceed 120% of base salary.	The annual bonus is normally linked to a mix of financial elements and other key strategic performance targets, including achievement of personal objectives where appropriate. Financial elements will include profit and may include one or more of the following annual measures: • cash • revenue At least 50% of the bonus will be based on financial measures. Financial measures may be linked to group performance or the executive's specific area of responsibility if appropriate. The annual remuneration report on pages 62 to 72 sets out the measures and weightings for 2013 and 2014. The committee reserves the right to change the measures in future years to reflect alignment with business strategy and shareholder interests, subject to at least 50% of measures being financial in nature.

Long-term incentive plan (LTIP)

Purpose and link to strategy	Operation	Levels of payout	Performance measures and periods
To motivate and incentivise delivery of exceptional business performance over the long-term and to create alignment with growth in value for shareholders **To act as a retention tool for the senior Executive Leadership Team**	Awards are made over shares (normally in the form of nil-cost options or conditional shares) with a face value set by reference to a multiple of base salary. Awards normally vest after three years, subject to the committee's assessment of the achievement of the relevant performance conditions and underlying performance. Awards may be settled in cash. Award levels and performance conditions are set to support the business's long-term goals and seek to reflect market practice and shareholder guidance. Award levels are generally set at a market competitive level, relative to companies of comparable size and complexity. A 'malus' provision exists to allow the committee the discretion to scale back awards granted on or after 1 May 2012 (potentially to nil) that have not yet vested in the event of a material misstatement of the Company's audited results, serious reputational damage to a member of the Company's group or in other circumstances where the committee considers that this treatment is appropriate. Vested LTIP awards include dividend equivalents linked to the performance period.	The core award is 120% of base salary for the chief executive and 100% of base salary for other executive directors. 25% of the award shall vest for meeting threshold levels of performance. Awards are subject to an individual performance modifier which is based on annual bonus outcomes over the three years of the plan. This individual performance modifier can increase the LTIP award to 200% of base salary if exceptional business and individual performance is delivered over the performance period. If bonus targets are not met in each of the three years of the performance period the LTIP award will normally reduce to 0%. The maximum award is therefore 200% of base salary (in line with the plan rule approved by shareholders, this may be increased to 250% in exceptional circumstances as determined by the committee).	Awards are subject to • relative total shareholder return performance, and • the achievement of earnings per share targets Performance measures will typically be weighted two thirds relative TSR and one third EPS but the committee shall retain discretion to determine that a different weighting shall apply for future awards. Performance conditions are normally measured over a three year period. Awards granted under the LTIP prior to 2014 were subject to total shareholder return performance only. If events happen which cause the committee to consider that a performance condition would not, without alteration, achieve its original purpose, it may amend that performance condition provided that the amended performance condition is materially no less challenging than it would have been had the event not occurred.

Directors' Remuneration Report – continued

Key elements of remuneration policy – executive directors

Long-term incentive plan (LTIP) – continued

Purpose and link to strategy	Operation	Levels of payout	Performance measures and periods
	Executive directors are normally expected to retain at least half of their vested shares (after sufficient shares have been sold to settle any tax liability) until their shareholding guideline is met, unless agreed otherwise with the committee. Under the shareholding guidelines, directors are expected to build up a shareholding in the Company of 100% of salary over a five year period. The exercise period for awards in the form of nil cost options extends from the date of vesting to the tenth anniversary of the award being made. The LTIP was approved by shareholders in 2006. Awards may be (a) adjusted in accordance with the rules in the event of a variation of the Company's share capital, demerger, special dividend or similar event that materially affects the price of shares and (b) amended in accordance with the plan rules.		The annual remuneration report on pages 62 to 72 sets out the performance conditions for 2013 and 2014.

Pensions

Purpose and link to strategy	Operation	Levels of payout	Performance measures and periods
To attract and retain executives of the calibre required to implement our strategy **To facilitate executives' planning for retirement**	Executive director pension arrangements are by way of a defined contribution arrangement or through a cash alternative of a similar value. The committee retains the discretion to operate different pension arrangements where new executive directors are appointed to reflect individual circumstances, market practice and Company strategy.	Contribution of up to 25% of base salary.	None.

Benefits

Purpose and link to strategy	Operation	Levels of payout	Performance measures and periods
To attract and retain executives of the calibre required to implement our strategy	Benefits are determined taking into account market practice, the level of benefits provided throughout the group and individual circumstances. The main benefits for executive directors are: • life assurance • car or allowance • family healthcare • permanent health insurance • relocation benefits – in the event that an executive were required to relocate to undertake their role, the committee may provide an additional appropriate level of benefits to reflect the relevant circumstances. Such benefits may be one-off or ongoing in nature. Should an executive director be appointed in a country other than the UK, benefits appropriate to that market would be considered. The committee retains the discretion to change the benefits provided (including offering additional benefits) in line with market practice. This may include offering participation in any future all-employee share plan offered and the provision of a car and a driver for the chief executive.	Levels of benefits are set in line with market practice. The level of benefits provided varies year on year depending on the cost of provision of benefits to the Company and therefore it is not meaningful to identify a maximum level of benefits.	None.

Notes

Measures and targets

All the measures selected support the delivery of short and long-term financial performance of the business and shareholder value creation. Targets are set each year based on stretching internal budgets and achieving or exceeding these targets will both return value to shareholders and reward the executive team for delivery.

The committee has chosen revenue and profit for the 2014 bonus. These measures have been chosen as revenue is a key focus for the business to increase and broaden our scale while ensuring that we also improve overall profitability. The individual modifier allows the committee to incentivise executives to achieve specific strategic/operational objectives.

Over the long term, performance measures are focused on generating returns to shareholders through the relative TSR measure and through a focus on improving earnings.

All colleague remuneration policy

At the end of 2013 the Company had 52,000 colleagues based in over 60 countries. Our broad remuneration policy reflects the diversity of cultures, legislative environments, employment markets and the types and seniority of roles that this geographic spread provides. We structure our colleague reward to enable us to recruit and retain the right people doing the right job for our customers.

A broad population of management colleagues are invited to join the annual bonus plan (the Group Management Bonus Scheme – the GMBS). The measures for the GMBS are broadly aligned with those set out in the policy table above.

The senior management population are eligible to participate in the Long-Term Incentive Plan wherever practicable and possible, subject to local legislation and annually around 250 are invited to join the plan. The measures for the 100 most senior colleagues will remain aligned with those of the executive directors, with the exception of the use of the individual bonus modifier, to support focus on key strategic targets; however, the plan structure below this may be varied to support the retention of this population.

Performance scenario charts

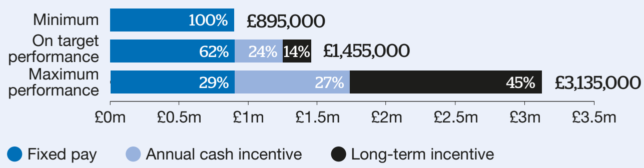
Our remuneration arrangements are designed so that a significant proportion of pay is dependent on the delivery of short and long-term goals that are aligned with our strategic objectives and the creation of shareholder value.

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

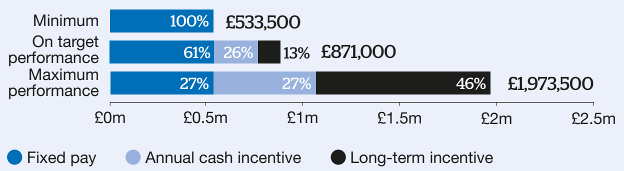
Minimum	No bonus payout No vesting under the Long-Term Incentive Plan
On target performance	50% of maximum annual bonus payout assuming target individual performance under the personal modifier (50% of salary) 25% of target awards vesting under the Long-Term Incentive Plan (30% of salary for the chief executive and 25% of salary for the chief financial officer), with no change resulting from the individual performance modifier
Maximum performance	Maximum annual bonus payout (120% of salary) Maximum Long-Term Incentive Plan vesting (200% of salary) i.e. maximum individual performance modifier

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

Chief Executive
Illustration of remuneration policy for 2014



Chief Financial Officer
Illustration of remuneration policy for 2014



Fixed pay is derived as follows:

	Base from 1 January 2014 (£000)	Benefits (for 2013) (£000)	Pension (based on salary from 1 January 2014) (£000)	Total fixed (£000)
Andy Ransom – Chief Executive	700	20	175	895
Jeremy Townsend – Chief Financial Officer	450	16	67.5	533.5

Directors' Remuneration Report – continued

Key elements of remuneration policy – Chairman and non-executive directors

Fees

Approach	Details	Other items
Non-executive directors' remuneration is determined by the Board on the recommendation of the non-executive directors' terms committee of the Board (comprising the Chairman, the chief executive and the chief financial officer) within the limits set by the articles of association. Non-executive directors' fees are set at a level which is considered appropriate for the calibre of individual required to support the delivery of business strategy and taking into account skills, experience, time commitment and independent surveys of fees paid to non-executive directors of similar companies. Fees for the Company Chairman are determined by the Board based on external remuneration advice and considered by the Remuneration committee taking into account typical fee arrangements at other companies of a similar size and complexity, the time commitment required to fulfil the role and the calibre of the individual required. Fees are reviewed at appropriate intervals.	Non-executive directors' fees are payable in cash and consist of a basic fee plus additional fees payable to: • Senior independent director • Board committee chairmen Additional fees may be paid to non-executive directors on an ongoing or temporary basis if there is a change in their responsibilities or a significant increase in the time commitment required from them to fulfil their role. The Chairman receives annual fees agreed periodically by the Board and based upon external remuneration advice considered by the committee. The fees for directors were approved by shareholders in 2005 and shall not exceed in aggregate £1,000,000 per annum or such higher amount as the Company may from time to time by ordinary resolution determine.	No element of non-executive director remuneration is performance related. Non-executive directors do not participate in any of the Company's incentive schemes, nor are they eligible to join the Company's pension scheme. The Chairman is not eligible to participate in the Company's annual bonus plan or in the Company's Long-Term Incentive Plan. The Chairman has access to a company car and driver. Non-executive directors who are based outside the UK may be provided with support in relation to their tax reporting. The Chairman and non-executive directors do not currently receive any other benefits. However, benefits may be provided in the future if, in the view of the non-executive directors' fees committee (for non-executive directors or the committee for the Chairman), this was considered appropriate.

Recruitment

The committee's key principle when determining appropriate remuneration arrangements for a new executive director (appointed from within the organisation or externally) is to ensure that arrangements are in the best interests of both Rentokil Initial and its shareholders, without paying more than is considered necessary by the committee to recruit an executive of the required calibre to develop and deliver the business strategy. When determining appropriate remuneration arrangements the committee will take into account all relevant factors. These factors may include (among others):

- the level and type of remuneration opportunity being forfeited
- the jurisdiction the candidate was recruited from
- the skills, experience and calibre of the individual
- the circumstances of the individual

The committee would generally seek to align the remuneration package offered with our remuneration policy outlined in the table above. However, the committee may offer additional variable remuneration arrangements in respect of an executive director's appointment that it considers appropriate and necessary to recruit and retain the individual. Any variable remuneration awarded in respect of the executive director's appointment shall be limited to 370% of base salary. This reflects bonus policy and the level of award under the LTIP in exceptional circumstances. This limit excludes any awards made to compensate the executive director for remuneration forfeited from their previous employer.

The committee may make awards on appointing an executive director to 'buy out' remuneration terms forfeited on leaving a previous employer. In doing so the committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally buy-out awards will be made on a comparable basis to those forfeited.

To facilitate awards outlined above, in the event of recruitment, the committee may grant awards to a new executive director under Listing Rule 9.4.2 which allows for the granting of awards, to facilitate, in unusual circumstances, the recruitment of an executive director, without seeking prior shareholder approval or under other appropriate Company share plans. The use of Listing Rule 9.4.2. will be limited to granting buy-out awards only.

Where an executive director is required to relocate to take up their role the committee may provide appropriate assistance with relocation either on an ongoing or one-off basis.

In the event that an internal candidate was promoted to the Board legacy terms and conditions may be honoured, including pension entitlements and any outstanding incentive awards.

In the event of the appointment of a new Chairman or non-executive director remuneration arrangements will normally reflect the policy outlined above for Chairman and non-executive directors.

The committee's intention is that timely disclosure of the remuneration structure of any new executive director or Chairman will be made by the Company unless not practical.

Directors' service agreements and letters of appointment

Executive directors

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

Executive directors	Date of service agreement	Type of agreement	Notice by the Company	Notice by the director
Andy Ransom	31 December 2013	Rolling contract	12 months	12 months
Jeremy Townsend	4 March 2010	Rolling contract	12 months	6 months

Current policy is for executive directors to be required to give six months' notice to the Company. Andy Ransom has a legacy agreement requiring that he give the Company one year's notice which was a term of his previous service agreement as an executive director prior to his appointment as chief executive. Under the terms of their contracts, executive directors are entitled to participate in the annual bonus scheme and performance share plan. They are also entitled to receive a car allowance, life assurance cover, family healthcare and permanent health insurance.

Non-executive directors

Non-executive directors have letters of appointment, but not service contracts. Subject to annual re-election at the annual general meeting, Non-executive directors will be appointed for an initial period of three years, which may be extended for a further period of three years by mutual consent and thereafter reviewed annually, subject to acceptable tests of performance and independence.

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

Chairman

The Chairman, John McAdam, has a letter of appointment, dated 13 December 2012, setting out his responsibilities for the management of the Board. On termination of the appointment, the Company and the Chairman are entitled to two months' notice in the year to May 2014 with no notice provision on either side thereafter. If the Chairman's services were to be terminated without notice, prior to May 2014, he will be entitled to a payment in lieu of two months' notice. Following May 2014, the Chairman's contract may be terminated by either party without notice.

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

Loss of office payments

The policy on termination is as follows:

Element	Policy – Disability, retirement, redundancy, death, sale of an individual employing business out of the group	
Base pay and benefits	On termination without notice, executive directors are entitled to a payment in lieu of notice equal to base pay and the value of benefits only for the duration of the remaining notice period, subject to mitigation. The Company has the ability to terminate executive directors' employment, without notice, in the event of a prolonged mental or physical incapacity to carry out his/her Company duties or in the event of gross misconduct or being disqualified to act as a director. Appropriate medical benefits may still be provided in the case of prolonged mental or physical incapacity.	
Other	Executive directors may be entitled to appropriate repatriation/relocation, outplacement, legal and/or tax and other relevant professional costs. The committee would look to ensure that the level of these costs/ benefits was reasonable and in the best interests of shareholders.	
	Policy – Disability, retirement, redundancy, death, sale of an individual employing business out of the group	Policy – other leavers
Bonus	Executive directors may receive a bonus payment for the year in which they cease employment. This payment will normally be pro-rated for time and performance, however the committee retains the discretion to review overall business and individual performance and determine that a different level of bonus payment is appropriate.	Generally, executive directors must be employed at the date of payment to receive a bonus. In certain circumstances, the committee may determine that a bonus payment may be due to reflect performance and contribution to the point of cessation.
The Long-Term Incentive Plan (LTIP)	Awards may vest following a review by the committee of the extent to which the performance conditions are met on a time pro-rated basis (on a monthly basis) in the case of redundancy, retirement or the sale of the individual employing company or business. In the case of disability, or death the level of vesting will be determined by the committee. The committee may have regard in these circumstances to the performance conditions and time pro-rating formulae referred to above.	Vested awards may be exercised for six months following cessations. Unvested awards will lapse.

Directors' Remuneration Report – continued

When an executive director leaves the business on the basis of mutual agreement, the committee will determine an appropriate payment taking into account the circumstances of leaving but any payment will be no more generous than that for leavers by reason of disability, retirement, redundancy, death or sale of an individual employing business.

There are no provisions for notice periods or compensation in the event of termination of the appointment of a non-executive director other than for the Chairman to May 2014 as outlined above.

Change of control

If the Company is taken over or wound up, LTIP awards may vest by reference to the extent to which the performance conditions are met and on a time pro-rated basis (calculated on a monthly basis). Typically salaries and bonuses will be paid to date of change of control.

Comparison of remuneration policy to that of the wider employee group

Whilst our colleagues are not currently formally consulted on executive director pay, our employee opinion survey 'Your Voice Counts' provides an opportunity for them to provide the Company with feedback on their own remuneration arrangements and also to comment on broader matters across the Company.

The committee recognises that it needs an understanding of the broader remuneration of colleagues when making decisions on executive director pay. The committee annually reviews pay and conditions for all colleagues based in the UK, has sight of the high level outcomes of annual bonuses and is responsible for approving all LTIP awards across the group.

Stakeholder views

The views of shareholders are important to the committee and provide the context for setting the remuneration arrangements for executive directors. The Chairman of the Remuneration committee, the Company Chairman and the chief executive have met with a number of major shareholders during 2013 and their views have been taken into account when formulating this policy report.

General

The committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not line with the policy set out in this report where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes 'payments' includes the committee satisfying awards of variable remuneration and an award over shares is 'agreed' at the time the award is granted.

The committee may make minor changes to this policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without seeking shareholder approval for that amendment.

Directors' Annual Remuneration Report

Directors' remuneration in the year to 31 December 2013

This section of the Directors' Remuneration Report sets out the Company's remuneration of its executive and non-executive directors during 2013 and how the committee intends to apply policy for 2014. This part of the report is subject to an advisory vote on an annual basis. In this section we describe the year under review. This Annual Remuneration part of the report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Listing Rule 9.8.6R.

The Remuneration committee

In summary, the role of the committee is to determine and agree with the Board the policy, individual remuneration packages and performance targets (where appropriate) for the remuneration of the Chairman of the Company, the executive directors and other members of the Company's Executive Leadership Team giving full regard to the matters set out in the UK Corporate Governance Code ('the Code'). When determining policy, the committee shall consider the pay and conditions across the rest of the Company. The committee's role also includes ensuring that contractual terms on termination affecting executive directors and senior executives, and any payments made, are fair to the individual and to the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

The committee comprised four independent non-executive directors during the year and at the date of this report, Alan Giles (Chairman), Richard Burrows, Peter Long and Angela Seymour-Jackson. Each of the committee members has significant senior level experience of setting and monitoring remuneration matters in large complex international businesses with similar characteristics to those of the Company, giving them the collective experience to offer a balanced, independent and informed view on remuneration matters. No member of the committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the committee. No member of the committee has any conflict of interest arising from other directorships nor does any member participate in any of the Company's remuneration, incentive or pension arrangements or have any involvement in the day-to-day running of the Company.

The committee's terms of reference are available on the Company's website at www.rentokil-initial.com or from the company secretary. They were reviewed during the year and a number of amendments were approved by the Board to ensure that they remain in line with best practice as well as reflecting the requirements of the Code. The committee's main responsibilities are:

- to determine and agree with the Board the executive remuneration strategy and policy
- to settle individual remuneration arrangements for the executive directors and members of the Executive Leadership Team, including arrangements relating to those leaving the business
- to oversee the Company's incentive schemes including the operation and effectiveness of performance measures and targets in both annual bonus plans and in long-term incentive schemes
- to consider major changes in employee remuneration in the group to report to shareholders on remuneration matters to select and appoint advisers to the committee

The committee met eight times in 2013 and in addition was consulted on various remuneration issues between formal meetings. In 2013 the committee worked in conjunction with the Nomination committee over remuneration issues connected with the change in leadership and therefore met more frequently in 2013 that would usually be the case.

Details of attendance can be found in the Corporate Governance Report on page 39. Key items considered by the committee during the year are shown below.

Activities of the committee

In 2013:

- Approval of the following for executive directors and senior executives:
  - Base salaries
  - 2012 bonus outcome
  - Objectives for 2013
  - Bonus structure for 2013
  - Proposed long-term incentive awards for 2013
  - Approval of the 2012 Directors' Remuneration Report
- Consideration of reward arrangements for key executives at divisional level
- Review of group targets in light of the sale of the City Link business
- Review of incentive arrangements for Initial Facilities key executives below executive director level
- Approval of awards under the 2013 performance share plan
- Approval of the non-vesting of the 2010 Performance Share Plan award as a result of performance targets not having been met
- Approval of final vesting of the 2008 SIP
- Consideration of the appointment terms of a new chief executive, and the arrangements relating to the current chief executive stepping down
- Broad review of existing LTIP arrangements with a particular focus on performance conditions
- Review of remuneration arrangements for key executives below executive director level – ongoing
- Annual performance review of the committee
- Review of draft 2013 Directors' Remuneration Report prepared in accordance with the new reporting regulations – ongoing
- Preliminary review of LTIP structure for 2014
- Review of broad colleague reward arrangements across the group
- Discussion with remuneration advisers on market practice on remuneration and governance issues
- Preliminary review of proposed bonus structure for 2014 for executive directors and senior executives
- Initiation of a process to review the provision of professional advice to the committee to be undertaken in the first half of 2014

In 2014:

- Following year end approval of the following for executive directors and other senior executives:
  - Base salaries
  - 2013 bonus outcome
  - Bonus structure for 2014
  - Proposed share awards and share plans
- Approval of the 2013 Directors' Remuneration Report
- Review of results of the annual committee performance review

The committee Chairman presents a summary of material matters discussed at each meeting to the following Board meeting and minutes of the committee meetings are circulated all directors. The committee reports to shareholders annually in this report and the committee Chairman attends the AGM to address any questions arising.

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

Advisers to the committee

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

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

Deloitte has been retained by the committee to provide independent advice on executive remuneration matters and on the Company's long-term incentive arrangements. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Fees charged during the year for advice to the committee were £20,635. Deloitte also provided services to the HR and company secretary teams in their roles of supporting the committee. These services included support in preparing the Directors' Remuneration Report, provision of market data and support in relation to the taxation of and accounting for share plans. The committee is satisfied that the Deloitte engagement partner and team, who provide remuneration advice to the committee, do not have connections with the group that may impair their independence. The committee has initiated a review of sources of advice which will be undertaken during the first half of 2014.

During the year separate teams within Deloitte provided the Company with a limited level of advice over non-remuneration matters, such as taxation and due diligence on acquisitions, although they are one of a number of advisers to the Company in such areas. Deloitte also acted as a co-source partner providing support to the internal audit function. Neither the quantum nor the nature of services provided by Deloitte to the Company that are unrelated to remuneration matters represented a conflict of interest over the firm's role as advisers to the committee.

Towers Watson's involvement with the committee is limited to the provision of market data on competitiveness and current trends for use in connection with remuneration matters. Fees charged during the year for market data were £3,500. Towers Watson also advises the Company on UK pension scheme matters.

Freshfields, who were appointed by the Company, advised in connection with the employment contract for the chief executive.

The Group HR Director has direct access to the Chairman of the committee and together with the group reward director advises the committee on remuneration matters relating to executive directors and members of the Executive Leadership Team.

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

Directors' Remuneration Report – continued

Remuneration in the year to 31 December 2013

Single total figure for the remuneration of executive directors

The table below has been audited:

Purpose	Fixed pay						Variable pay				Total	
Executive directors	Base salary 2013	Base salary 2012	Benefits[2] 2013	Benefits[2] 2012	Pension 2013	Pension 2012	Annual bonus 2013	Annual bonus 2012	Long-term incentives[3] 2013	Long-term incentives 2012	Total single figure 2013	Total single figure 2012
Andy Ransom Chief Executive from 01 Oct 2013[1]	**513**	450	**20**	20	**128**	113	**177**	156	**0**	0	**838**	739
Alan Brown Chief Executive to 30 Sept 2013[4]	**581**	775	**16**	22	**145**	194	**251**	124	**0**	0	**993**	1,115
Jeremy Townsend	**442**	434	**16**	16	**65**	65	**172**	104	**0**	0	**695**	619

1 Andy Ransom became chief executive on 1 October 2013, for the prior nine months he was an executive director. His salary has been apportioned to show nine months at executive director salary and three months at the new chief executive salary

2 Executive directors are provided with life insurance, private health cover and a company car or a car allowance. The value of the benefits is included under 'Benefits' in the above table. There were no other taxable benefits paid to executive directors in 2013

3 No LTIP vested in 2013 hence disclosure of nil. Prior to 14 June 2013 there were two vesting dates under the 2008 Share Incentive Plan (2008 SIP). In 2011 a total of 2,585,000 shares per participant vested (plus dividend equivalents) and the vested portion of the award was exercisable in three equal tranches following the third, fourth and fifth anniversary of the date of grant. At 2012 and 2013 vesting dates the share price achieved did not exceed the highest average share price already achieved in 2010 and therefore no further awards vested and any unvested shares lapsed in 2013

4 Alan Brown stepped down as a director on 30 September 2013 but continued to be employed by the Company until 31 January 2014 and continued to receive remuneration in line with the amounts previously paid as chief executive. His salary, benefits and pension have been shown to the point he stepped down from the Board. The bonus shown is the full bonus earned for the year ended 31 December 2013

Pensions

Executive directors participate in defined contribution pension arrangements or receive additional gross salary in lieu of pension contributions from the Company at a rate of up to 25% of base salary. Andy Ransom and Alan Brown received a cash supplement in lieu of a pension contribution in 2013. Jeremy Townsend participated in the Company's defined contribution pension scheme on the basis of 75.4% of the 15% of salary employer contribution to which he is entitled under current group policy and received a cash supplement for the balance. A cash supplement in lieu of pension scheme contribution is not counted as salary for bonus purposes. This figure is included in the single total figure for remuneration table above.

Executive director base salaries from 1 January 2014

Executive directors' and senior executives' salaries are reviewed with effect from 1 January each year in accordance with the remuneration policy. Base salaries reflect the role, individual experience, skills and contribution to overall business performance as well as external market conditions. On a review of the economic and market considerations in the UK, where average pay increases in the Company will be in the order of 2%, the committee agreed that the salaries of executive directors for 2014 should be as set out below. The committee also took into account the wider pay position across the group.

Andy Ransom's base salary was reviewed on appointment as chief executive in line with the policy set out on page 56 and was set at £700,000. This salary was not reviewed on 1 January 2014 and will therefore next be reviewed with effect from 1 January 2015. His salary was previously reviewed on 1 January 2013 as an executive director and was at that time £450,000.

With effect from 1 January 2014, the base salary for Jeremy Townsend was increased by 1.77% to £450,000. This was in line with the economic and market considerations in the UK and average pay increases across the Company.

Salary from 1 January 2014

Executive director	Salary	Effective date
Andy Ransom	£700,000	1 October 2013
Jeremy Townsend	£450,000	1 January 2014

Annual bonus plan

2013 bonus outcome

The committee reviewed the 2013 bonus plan outcome for the group's senior management population based on the targets set at the start of the financial year. The metrics and the levels of performance for the executive directors for the 2013 bonus plan are set out below. Individual performance was also reflected using a personal performance modifier. This is linked to the group performance and development review process, details are set out below. Bonuses earned are reflective of the performance of the group, individual businesses and achievement against specific personal objectives (where relevant).

Bonus targets have not been disclosed as the Board believes that this information is commercially sensitive. Disclosing bonus targets could provide information about our business plan to our competitors which could be damaging to our business interests and therefore to shareholders. The committee will give consideration to disclosing targets when they are deemed to be no longer commercially sensitive.

Annual bonus

Andy Ransom
Executive director to 30 September 2013
Chief Executive from 1 October 2013

	Group profit	West region profit	West region cash	West region revenue	Total
% weighting	20%	40%	20%	20%	100%
Range around target from threshold to maximum	95% to 110%	95% to 110%	95% to 110%	99% to 102%	
2013 performance	96.6%	99.7%	99.8%	98.1%	
% bonus achieved (before modifier)	4.6%	18.9%	9.8%	0.0%	33.3%
£ value bonus (before modifier)	£20,810	£85,184	£44,083	£0	£170,921

The bonus for Andy Ransom was prorated to reflect his salary before and after his appointment to the role of chief executive. The metrics remained unchanged after his appointment to the role. Given that his role change was at the start of the 2013 fourth quarter, the committee considered that this was appropriate. The Chairman rated Andy Ransom a three rating for his contribution to 30 September and a four rating from 1 October to the end of the year reflecting his strong start in the role of chief executive. As described on the next page, for 2014 Andy Ransom's bonus structure has been changed to focus on group metrics.

Alan Brown
Chief Executive to 30 September 2013

	Group profit	Group cash conversion	Group revenue	Personal objectives	Total
% weighting	50%	20%	20%	10%	100%
Range around target from threshold to maximum	95% to 110%	95% to 110%	95% to 102%	Individually measured based on agreed goals linked to business strategy	
2013 performance	96.6%	100.9%	95.8%	100.0%	
% bonus achieved (before modifier)	11.6%	10.9%	0.0%	10.0%	32.4%
£ value bonus (before modifier)	£89,600	£84,233	£0	£77,500	£251,334

The personal objective for the former Chief Executive, Alan Brown, was based on the transition to the new Chief Executive, Andy Ransom. The Chairman considered the support of the outgoing chief executive to the incoming chief executive to be exceptional and on this basis considered that maximum payout for this element was an appropriate basis. He also awarded him a three rating for his contribution during the year until he stepped down at the end of September 2013.

Jeremy Townsend
Chief Financial Officer

	Group profit	Group cash conversion	Personal objectives	Total
% weighting	50%	30%	20%	100%
Range around target from threshold to maximum	95% to 110%	95% to 110%	Individually measured based on agreed goals linked to business strategy	
2013 performance	96.6%	100.9%	55.0%	
% bonus achieved (before modifier)	11.6%	16.3%	11.0%	38.9%
£ value bonus (before modifier)	£51,121	£72,088	£48,639	£171,848

The chief executive assessed the performance of Jeremy Townsend, the chief financial officer, as above target in relation to the delivery of his personal objectives relating to the finance function transformation and effectiveness and overall awarded him a performance rating of three for his contribution during the year.

Directors' Remuneration Report – continued

Performance ratings are linked to bonus through the personal performance modifier as set out in the table below:

Rating

	1	2	3	4	5
Modifier %	0%	75%	100%	110%	125% (The total bonus payment is capped at 120% of base salary for executive directors

A personal performance modifier of 100% was applied to the bonus for Andy Ransom for the period to 30 September 2013 and 110% for the period from 1 October to the end of 2013. A modifier of 100% was applied to the bonus for Jeremy Townsend. The modifier for Alan Brown was based on his performance to 30 September 2013 and was agreed by the committee as 100%.

The total bonus outcomes, including modifiers, in relation to 2013 are as follows:

Bonus outcomes

Executive director	Bonus
Andy Ransom	£176,757
Alan Brown	£251,334
Jeremy Townsend	£171,848

Bonus outcomes for 2013 for executive directors are also shown in the single total figure for the remuneration of executive directors table on page 64. Bonuses were paid in cash.

2014 bonus structure

The focus for 2014 is delivering profitable growth for Rentokil Initial plc as a group. To align executive director reward with this priority, the committee has approved the following structure of bonuses for 2014 for the executive directors:

Metrics and weightings	Group profit	Group revenue
Threshold to maximum as range around budget	95% to 110%	99% to 102% (see segment co-efficients below)
Andy Ransom Chief Executive	50%	50%
Jeremy Townsend Chief Financial Officer	70%	30%

To further support the delivery of growth in 2014, and align incentives with the group's new strategy, revenue targets for executive directors are weighted to focus on sectors that are critical to the business. To provide focus the following coefficients will be applied to revenue generated from businesses in the following segments as described in the Strategic Report on page 14.

Segment	Co-efficient
Emerging	1.4
Growth	1.2
Protect & Enhance	0.7
Manage for Value	0.4

As in previous years 95% of the profit target has to be achieved before any bonus is paid. Additionally for 2014 cash of £100m has to be generated at the group level before any bonus is paid to the executive directors. The individual performance modifier will continue to apply for executive directors and is unchanged from 2013.

Bonus targets have not been disclosed as the Board believes that this information is commercially sensitive. Disclosing bonus targets could provide information about our business plan to our competitors which could be damaging to our business interests and therefore to shareholders. The committee will consider disclosing targets when they are deemed to be no longer commercially sensitive.

Long-term share incentive plans

The executive directors and senior management team participate in the Performance Share Plan (PSP).

The Performance Share Plan

2010 PSP Vesting

Relative TSR performance for 2010 to 2013 was tested on the third anniversary of the grant date on 14 May 2013. The Company's position relative to the comparator group was below median and as such no award vested and the award lapsed. The LTIP number disclosed in the single total figure for the remuneration of executive directors on page 64 is therefore nil.

2013 PSP Award

231 senior managers across the group received awards under the PSP plan in 2013. Awards to executive directors were in line with policy described on pages 57 to 58 and are set out in the table opposite.

On his appointment as chief executive on 1 October 2013 Andy Ransom received an additional award of shares to reflect policy for awards to the chief executive and his increase in salary.

2013 PSP Award

The table below has been audited:

Participant	Date of award	Form of award	No of shares awarded	Market price at date of award	Exercise price	% vesting for target levels of Company and individual performance	% vesting for maximum levels of Company and individual performance	Face value of award for target levels of performance £[2]	Face value of award for maximum levels of performance £[2]	Performance period
Andy Ransom (Chief Executive)	01/10/13	Nil cost option	458,716[1]	109p	0.00p	120%	200%	£299,999	£500,000	Three years to 30/04/16
Andy Ransom (Executive director)	30/04/13	Nil cost option	937,500	96p	0.00p	100%	200%	£529,265	£900,000	Three years to 30/04/16
Jeremy Townsend	30/04/13	Nil cost option	921,186	96p	0.00p	100%	200%	£442,169	£884,338	Three years to 30/04/16
Alan Brown	30/04/13	Nil cost option	1,614,583	96p	0.00p	120%	200%	£930,000	£1,549,999	Three years to 30/04/16

1 An additional allocation of 458,716 shares was awarded in accordance with policy for awards to the chief executive whereby the target level of award was based on 120% of his original salary. The additional allocation of shares in total was valued at £390,000

2 Calculation based value of shares at date of grant of award

3 Awards were made in the form of nil cost options and vest after three years subject to the achievement of the performance conditions set out below

Awards were subject to two performance measures:

- Relative TSR performance:
  - A relative TSR measure is used to ensure participants are incentivised to outperform key peers and to ensure that the interests of management are aligned with shareholders. TSR was also selected to reflect market practice and shareholder preferences.
  - Measured relative to the constituents of the FTSE 350 index, excluding financial services, property and primary resources sectors. The FTSE 350 is recognised as a broad index and is considered to be an appropriate benchmark for measuring performance given the Company's membership of the FTSE 250, the scope and scale of the Company's international operations, and the diverse nature of companies in the business services sector.
  - 25% of the initial award will vest if Rentokil Initial's performance is positioned at median against the comparator group with the full initial award vesting for upper quartile TSR performance. Vesting is on a straight-line basis between these two points. No award vests for below median performance.
- Individual performance modifier:
  - For executive directors, the effect of the individual performance modifier as set out in the table below, is to reduce the level of award that would otherwise vest if an individual fails to reach threshold performance under the annual bonus in each of the three years of the performance period to zero, and increase vesting to a maximum of 200% if above bonus target performance is achieved.

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

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

Accordingly, there is the possibility that awards could vest at 200% of salary, if the business achieves upper quartile TSR performance over the performance period and financial performance that results in maximum bonus outcomes in each of the three consecutive financial years for the relevant business unit.

Directors' Remuneration Report – continued

Directors' total share incentive awards

PSP and Compensatory Share awards

The table below has been audited:

PSP 2010	Date of award	Plan	Market price of award	Scheme interest at 1 January 2013	Shares vested during 2013	Shares awarded during 2013	Shares lapsed during 2013	Shares exercisable during 2013	Shares exercised during 2013	Outstanding at 31 December 2013	Performance period
Alan Brown	14/05/10	2010 PSP[1]	125.00p	1,240,000	–	–	1,240,000[3]	–	–	0	14/05/13
Andy Ransom	14/05/10	2010 PSP[1]	125.00p	720,000	–	–	720,000[3]	–	–	0	14/05/13
Jeremy Townsend	30/09/10	2010 PSP[1]	103.00p	825,242	–	–	825,242[3]	–	–	0	30/09/13
Compensatory award 2010											
Jeremy Townsend	01/09/10	2010 appt[2]	96.75p	90,618[2]	–	–	–	–	93,044[2]	0	01/09/12
PSP 2011											
Alan Brown	01/08/11	2011 PSP[1]	89.55p	1,688,453	–	–	–	–	–	1,688,453[1]	01/08/14
Andy Ransom	01/08/11	2011 PSP[1]	89.55p	980,394	–	–	–	–	–	980,394[1]	01/08/14
Jeremy Townsend	01/08/11	2011 PSP[1]	89.55p	925,926	–	–	–	–	–	925,926[1]	01/08/14
PSP 2012											
Alan Brown	08/05/12	2012 PSP[1]	83.5p	1,864,101	–	–	–	–	–	1,864,101[1]	08/05/15
Andy Ransom	08/05/12	2012 PSP[1]	83.5p	1,082,380	–	–	–	–	–	1,082,380[1]	08/05/15
Jeremy Townsend	08/05/12	2012 PSP[1]	83.5p	1,042,692	–	–	–	–	–	1,042,692[1]	08/05/15
PSP 2013											
Alan Brown	30/04/13	2013 PSP[1]	96.0p	–	–	1,614,583	–	–	–	1,614,583[1]	30/04/16
Jeremy Townsend	30/04/13	2013 PSP[1]	96.0p	–	–	921,186	–	–	–	921,186[1]	30/04/16
Andy Ransom	30/04/13	2013 PSP[1]	96.0p	–	–	937,500	–	–	–	937,500[4]	30/04/16
Andy Ransom[4]	01/10/13	2013 PSP Additional[4]	109p	–	–	458,716	–	–	–	458,716[4]	30/04/16

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

2 Jeremy Townsend was awarded compensatory share awards on 1 September 2010. This award was granted to compensate him for awards forfeited on leaving his previous employer. There were no performance measures as the awards forfeited were not subject to performance conditions but their vesting was subject to continued employment. The first tranche of 113,273 shares vested on 1 September 2011 and were acquired on 29 September 2011. 58,902 shares were sold to satisfy the related tax liability. The second tranche of 90,618 shares vested on 1 September 2012. Following adjustments for dividend, 93,044 shares were acquired on 22 May 2013 with 43,730 being sold to satisfy the related tax liability. The balance of 49,314 shares held by Jeremy Townsend is included in the directors' share interests table on page 70. No further awards are capable of vesting under this compensatory share arrangement

3 The PSP 2010 award was tested in May 2013. The median TSR performance condition for the three-year performance measurement period was not met. Therefore the PSP 2010 share awards lapsed on 14 May 2013

4 An additional award was made to Andy Ransom calculated on a basis of £90,000 additional target shares being the equivalent of 120% award of his salary as an executive director. A further supplementary award calculated on a basis of Andy Ransom's new salary as chief executive with the target being to 120% of base salary. The maximum that can be achieved is 200% of applicable salary

2014 PSP Award

During 2013 and into early 2014 the committee carried out a review of the Performance Share Plan. For the executive directors and the most senior colleagues (approximately 100), the committee supported the introduction of a measure based on earnings per share as well as the existing relative total shareholder return (TSR) measure. The relative TSR and EPS performance measures will apply to two thirds and to one third of the total award, respectively.

The structure of the relative TSR return measure remains unchanged from 2013. EPS will be measured on a point to point basis over the three-year period of the award. In order to measure underlying earnings improvement EPS will be measured after adjusting for impairments, amortisation, pension interest and material exceptional items, as the committee considers that these items do not reflect the underlying performance of the business. Given the business' focus on improving efficiency and reducing costs around reorganisation, the committee felt that it was appropriate that these costs are included in the EPS calculation in order to incentivise management to achieve this. Given the international nature of our business, EPS will be measured on an exchange neutral basis to reflect management performance by removing the impact of windfalls and losses as a result of exchange rate movements.

The proposed targets for the 2014 are as follows (with a straight-line vesting between these figures):

	Vesting level	Compound EPS growth per annum
Target	25% of maximum	14% per annum
Maximum	100% of maximum	20% per annum

The committee recognises that these targets are higher than typical market practice and considers that they are very stretching. If these targets are achieved this will represent significant value creation for shareholders. Part of this growth is anticipated to be driven by a reduction of annual re-organisation costs although a substantial amount will be driven by underlying improvements in the business. In this context, the committee will review EPS targets for awards to be made in 2015 and it anticipates that lower targets will be set for awards going forward.

In addition, when determining the level of vesting, the committee will also consider the underlying financial performance of the business, as well as the value added to shareholders during the performance periods and may adjust the vesting outcome if it considers this to be appropriate. The individual performance multiplier will continue to apply in its current format for the executive directors.

The 2008 Plan

The 2008 Plan was approved by shareholders in 2008 to facilitate the appointment of John McAdam, Alan Brown and Andy Ransom and to motivate them to deliver a turnaround in corporate performance. Details of awards made under the 2008 Plan are set out in the share incentive awards table below.

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

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

Share incentive plan 2008 awards to directors are as follows:

The 2008 Plan

The table below has been audited:

	Date of award	Plan	Market price at date of award	Vesting period	Scheme interest at 1 Jan 2013	Shares vested during 2010	Shares released during 2011	Shares released during 2012	Dividend on earned shares in 2012	Shares released during 2013	Dividends on earned shares in 2013	Shares lapsed during 2013	Total Vested shares	Outstanding at 31 Dec 2013 or at date of cessation
John McAdam	26/06/08	2008 Plan[1]	100.50p	2011/13	7,500,000	2,618,484[2]	872,828	872,828	14,191	872,828	34,622	8,582,682	2,667,318[3]	2,667,318
Andy Ransom	26/06/08	2008 Plan[1]	100.50p	2011/13	7,500,000	2,618,484[2]	872,828	872,828	14,191	872,828	34,622	8,582,682	2,667,318[3]	2,667,318
Alan Brown to 30 September 2013	26/06/08	2008 Plan[1]	100.50p	2011/13	7,500,000	2,618,484[2]	872,828	872,828	14,191	872,828	34,622	8,582,682	2,667,318[3]	2,667,318

1 Awards under the Plan were subject to performance conditions as set out in this report and related to share price performance between 1 April 2008 and three specified vesting dates in 2011, 2012 and 2013. These vesting dates were 61 dealing days after the announcement of the Company's financial results for years ending 31 December 2010 ('first vesting date'), 31 December 2011 ('second vesting date') and 31 December 2012 ('third vesting date')

2 At the first vesting date on 19 May 2011 (61 dealing days after 31 December 2010 preliminary results announcement), 34.43% of the total plan interest at 1 January 2011 vested, representing 2,585,000 shares per participant in total. Following dividend readjustment the first one third of 872,828 was released to each participant on 19 May 2011 ('first vesting date'). A further 887,020 (including dividend equivalents) were released on 31 May 2012 ('second vesting date') and the final one third of 907,470 (including dividend equivalents) were released on 14 June 2013 ('third vesting date'). The total of vested shares (including dividend equivalents) for each participant is 2,667,318. The remaining shares lapsed

3 Participants have 12 months from 14 June 2013 from which to call for their vested shares. The creation of earned and vested shares is not an event requiring a stock exchange announcement. However, when the participant exercises the right to call for the shares, a stock exchange announcement will be made at that time

Directors' Remuneration Report – continued

Share plan funding

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

Former Chief Executive departure arrangements

Following an announcement on 1 August 2013, Alan Brown stood down as a director and as chief executive with effect from 30 September 2013 and his successor Andy Ransom was appointed chief executive on 1 October 2013.

Mr Brown's remuneration in respect of the period he was a director in 2013 is set out on page 64, including a bonus payment reflecting group and individual performance for 2013 relating to the nine months for which he was chief executive, further details of which are described in this report. After stepping down as a director Mr Brown received his basic salary (£193,750) and standard benefits, comprising principally: car allowance (value £5,000), life insurance (value £3,771), medical insurance (value £503) during the remainder of his employment with the group during 2013. Mr Brown's employment with the group ended on 31 January 2014. Mr Brown received no other payments in 2013 from the Company in respect of his employment.

Outstanding awards made to the former chief executive, Alan Brown, will vest only if performance conditions are met and will be time apportioned.

Single total figure for the remuneration of the Chairman and Non-executive directors

The table below has been audited:

Chairman and non-executive directors	Fees 2013	Fees 2012	Benefits 2013	Benefits 2012	Total single figure 2013	Total single figure 2012
John McAdam	350	350	21[1]	22[1]	371	372
Peter Bamford	55	55	0	0	55	55
Richard Burrows	55	55	0	0	55	55
Alan Giles	70	70	0	0	70	70
Peter Long	60	60	0	0	60	60
Angela Seymour-Jackson	55	41	0	0	55	41
Duncan Tatton-Brown	70	70	0	0	70	70
William Rucker[2]	7	55	0	0	7	55

1 The benefit relates to the private use by the Chairman of a company driver and vehicle. The comparative for 2012 was not included in the 2012 table as a result of a reporting error
2 William Rucker resigned as a non-executive director on 14 March 2013

Non-executive director fees from 1 January 2014

Position	Fee policy for year beginning 1 January 2014
Chairman	£350,000 per annum
Non-executive director	£55,000 per annum
Senior independent director	Additional £5,000 per annum
Chairman of Audit committee	Additional £15,000 per annum
Chairman of Remuneration committee	Additional £15,000 per annum

Directors' shareholdings and share interests

The interests of the directors and their families in the share capital of the Company on 1 January 2013 or their date of appointment if later, and at 31 December 2013, are set out below. No director has any beneficial interest in the shares of any of the Company's subsidiaries. Any changes in the interests of the directors and their families in the Company and its subsidiary companies during the year and from the end of the year to 28 February 2014 are shown below. This table has been audited.

Directors' shareholdings and share interests

Rentokil Initial plc (ordinary shares of 1p each)	31 December 2013 Beneficial interests number or at date of cessation*	1 January 2013 Beneficial interests number
John McAdam	2,688,118[1]	1,780,648[1]
Andy Ransom	2,719,318[1]	1,811,848[1]
Jeremy Townsend	148,685	99,371
Peter Bamford	38,000	38,000
Richard Burrows	25,000	25,000
Alan Giles	12,000	12,000
Peter Long	2,000	2,000
Angela Seymour-Jackson	—	—
Duncan Tatton-Brown	12,000	12,000
Alan Brown to 30 September 2013*	2,688,118[1]	1,780,648[1]
William Rucker to 14 March 2013*	100,000	100,000

1 Includes a beneficial interest in vested shares held in the Share Incentive Plan 2008 set out in the table on page 69

Executive shareholding requirements

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

Executive	Beneficial interests in shares at 31 December 2013	Value of shareholding at 31 December 2013 (based on three month average share price to that date)	Shareholding as a percentage of salary	Shareholding guideline	Interest in PSP share awards at 31 December 2013 (nil cost options, vesting subject to performance)
Chief Executive – Andy Ransom – from 1 October 2013*	2,719,318*	£2,948,284	575.28%	100% of salary	3,458,990
Chief Financial Officer – Jeremy Townsend	148,685	£161,204	36.46%	100% of salary	2,889,804

*Andy Ransom has a beneficial interest in 2,667,318 shares vested in the Share Incentive Plan 2008. This includes an interest in 1,413,678 shares held in the SIP 2008 scheme on a net of tax basis

External appointments

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

Alan Brown joined the Board of Intertek Group plc on 15 April 2011 as a non-executive director. He received and retained non-executive directors' fees for the period ended 30 September 2013 (the date on which he stepped down as a director of the Company) of £50,250 (2012: £60,000).

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

No other executive director currently holds an external non-executive director post.

Chief Executive remuneration over five year period

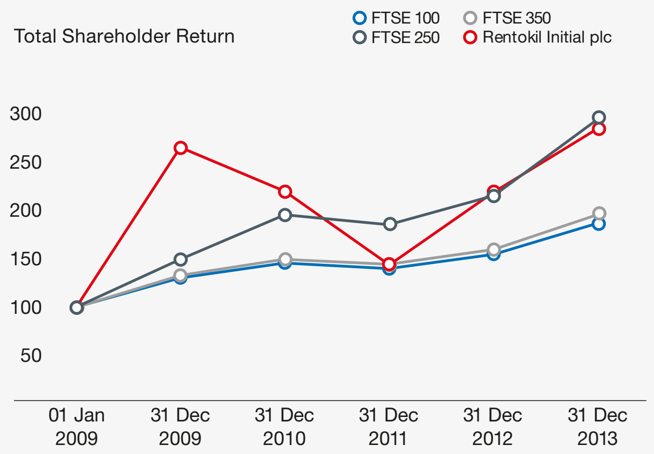
	2009	2010	2011	2012	2013	
Chief Executive	Alan Brown	Alan Brown	Alan Brown[1]	Alan Brown	Alan Brown[2]	Andy Ransom[2]
Single figure of remuneration	£1,656,000	£989,000	£3,564,971	£1,115,000	£931,562	£287,949
% annual bonus payout vs. maximum opportunity	72%	0%	0%	13%	32.43%	34.49%
% long-term incentive vesting rates against maximum opportunity	0%	0%	22%	0%	0%	0%

1 2011 single figure for the Chief Executive includes the value of the 2008 Share Incentive Plan of £2,573,971 which were valued on the release date of 20 May 2011
2 Alan Brown was appointed as Chief Executive on 1 April 2008 stepped down on 30 September 2013 and Andy Ransom was appointed from that date. The total single figure has been apportioned to reflect payment during these periods
3 The Long Term incentive vesting includes Share Incentive Plan for Alan Brown whose share vested in May 2011 which is referred to in the 2008 Share Incentive Plan table on page 69 and appointed as Chief Executive on 1 April 2008 stepped down on 30 September 2013 and Andy Ransom was appointed from that date. The total single figure has been apportioned to reflect the total single figure of remuneration paid to the each Chief Executive during the period

TSR performance over a five-year period relative to FTSE Index

The following graph shows total shareholder return over a five-year period reflecting the holding of the Company's shares, plotted against the movement of a broad equity market index. The following graph shows the Company's TSR performance relative to the FTSE 100 Index and the FTSE 250 Index, on a consistent basis with the graph shown last year which is compliant with the requirements. The Company has been a constituent of both these indices over the five year period that is shown. The FTSE 350 Index is also shown on the basis that the constituents for the comparator group for long-term incentive purposes are drawn from this index (the comparator group excludes financial services, property and primary resource companies). The basis of assessment of relative TSR performance in respect of awards made under the Company's PSP award differs from the basis on which this chart is prepared and is described on pages 67 and 69 of this report. This chart has been prepared by Deloitte LLP for the Company for inclusion in the annual report for the year ended 31 December 2013 and is based on data sourced from Thomson Reuters DataStream and uses spot Return Index data at each year end.

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



Directors' Remuneration Report – continued

Percentage change in remuneration

The table below sets out a comparison of the change in pay for the chief executive for the year ended 2013 compared with 2012 and to all UK employees, excluding Initial Facilities which will be run as a non-core business during 2014, over the same periods. The chief executive is based in the UK and as such is impacted by the same economic and legislative environments as other UK colleagues based in core businesses. Figures below for the chief executive reflect the change of chief executive and associated terms and conditions on 1 October 2013.

Average base salary for all UK employees includes overtime and premium rate pay, which is flexed to meet business requirements, as well as annual and out of cycle pay increases and headcount changes during the year. All bonus schemes are performance related and reflect business performance during the year. The impact of changes to the UK car scheme and private healthcare drove a reduced cost of benefits.

	Base salary	Annual bonus	Benefits	Total
Chief Executive	2.42% decrease	103.79% increase	2.27% decrease	11.88% increase
All UK employees (excluding Initial Facilities)	2.9% increase per capita[1]	1.5% decrease per capita[2]	2.3% decrease per capita[3]	2.2% increase per capita

1 Base salary includes overtime and premium rate pay
2 Annual bonus includes our Group Management Bonus Scheme and any other bonus commission or cash incentive
3 Benefits includes private healthcare, car allowance (including trade down), cars, fully expensed fuel cards and commercial vans (private use)

Relative importance of spend on pay

The table below sets out amounts paid in total employee costs and total dividends paid for the years ended 31 December 2013 and 31 December 2012.

	2013 £m	2012 £m	% change
Remuneration paid to all employees of the group[1]	£1,030.6[1]	£1,020.5	1.0%
Distributions to shareholders[2]	£38.6[2]	£36.2[2]	6.6%

1 The figure for 2013 shows employee remuneration for continuing operations. It does not include discontinued operations following the sale of the City Link business in April 2013
2 The Board is recommending a final dividend in respect of 2013 of 1.61p per share. This equates to a full year dividend of 2.31p per share. In 2012 a full year dividend of 2.1p per share was paid to shareholders

Voting at the 2013 AGM

At the AGM on 15 May 2013, votes cast by proxy and at the meeting in respect of the 2012 Directors' Remuneration Report were as follows:

Approval of the remuneration report

	Total
Votes for	1,512,707,486
% for	98.28%
Votes against	26,398,941
% against	1.72%
Total votes cast	1,539,106,427
Votes withheld (abstentions)	4,415,000
% votes withheld	0.29%

A vote 'for' include those votes giving the Chairman discretion. A vote 'withheld' is not classed as a vote in law and is not counted in the calculation of proportion of votes cast for or against a resolution.

The committee is pleased with the level of shareholder support received for the 2012 Directors' Remuneration Report. Rentokil remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to directors' remuneration, Rentokil Initial would seek to understand the reasons for any such vote and would set out in the following Annual Report and Accounts any actions in response to it. During late 2013/early 2014, the committee consulted with shareholders regarding changes to the performance measures for long-term incentive arrangements.

Alan Giles
Chairman, Remuneration Committee
28 February 2014

Independent Auditor's Report to the Members of Rentokil Initial plc

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Rentokil Initial plc for the year ended 31 December 2013 set out on pages 76 to 127 and 130 to 136. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the Parent Company's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Reorganisation costs and one-off items (Reorganisation costs: £51.7m; one-off items – operating: £12.0m; one-off items – financing: £1.5m):

Refer to page 44 (Audit committee report) and Notes A1 and C4 (accounting policy and financial disclosures)

The risk: In addition to the disclosure of IFRS reported earnings, reorganisation costs and one-off items have been separately identified and presented, based on the group's definitions of these items as set out in Note A1. A key judgement is the classification of these items. There is a risk that items included within 'reorganisation costs' and 'one-off' items are not in accordance with the group's accounting policies and therefore the 'adjusted' result is misstated.

Our response: Our audit procedures included, among others: assessing the consistency of the items classified as reorganisation costs and one-off items with the group's policy and disclosures in the financial statements and; testing the group's procedures over the approval and monitoring of reorganisation costs and one-off items by observing the performance of the operation of the procedures and testing a sample of such items to assess whether their classification is in line with the group's policy. The principal considerations in performing our assessment included whether the nature of the items were consistent with the group's policy and whether the items were part of an approved reorganisation programme.

Impairment assessment and testing of cash generating units that include goodwill and acquired intangible assets (including customer lists and relationships and brands): carrying values of £291.3m and £87.7m respectively

Refer to page 44 (Audit committee report) and Note B4 (accounting policy and financial disclosures)

The risk: The group has significant carrying amounts of both goodwill and acquired intangible assets. It tests goodwill for impairment annually and when there is an indicator of impairment. Acquired intangibles are tested where there is an indicator of impairment.

A value in use model is used for impairment testing in both cases. The estimation of the value in use of cash generating units requires significant judgement in relation to the appropriate discount rates, growth rates, terminal values, and forecast cash flows. This is therefore a key area we focused on during our audit.

Our response: Our audit procedures included, among others, instructing local auditors to evaluate the procedures undertaken to identify indicators of impairment in the year, testing the underlying methodology and the mathematical accuracy of the models used to estimate the recoverable amount of the cash generating units; assessment and challenge of the key input assumptions (including growth rates, inflation rates, discount rates) through comparison to information derived internally; assessing the sensitivity of the key input assumptions through reperformance; and considering the adequacy of the disclosures in the financial statements.

Provisions for tax contingencies and recognition of UK deferred tax assets

Refer to page 44 (Audit committee report) and Note A14 (accounting policy and financial disclosures)

The risk: Provisions for tax contingencies require the directors to make judgements and estimates in relation to tax risks. This is one of the key judgemental areas that our audit concentrated on due to the group operating in a number of tax jurisdictions, the complexities of transfer pricing and other international tax legislation and the time taken for tax matters to be agreed with the tax authorities.

The recognition of deferred tax assets also requires the directors to make judgements as to whether the deferred tax assets are likely to be recoverable in the future, particularly with regard to the deferred tax assets on tax losses held within the UK.

Our response: With regard to the tax contingencies we have performed the following with the assistance of our tax specialists: assessed the group's tax positions, its correspondence with the relevant tax authorities and its external tax advisors and analysed and challenged the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts. We have also considered the adequacy of the group's disclosures in respect of tax and uncertain tax positions.

In respect of deferred tax assets our audit procedures included, among others, analysing the judgements in relation to the recognition of the deferred tax assets, to assess the likelihood of use of deferred tax assets and the appropriateness of management's assumptions regarding the forecast period. We have tested the underlying methodology and the mathematical accuracy of the taxable profit forecast models used to estimate the future use of deferred tax assets through assessment and challenge of the key input assumptions (primarily UK taxable profit forecasts and the term covered by the model) to information derived internally by the group; and considered the adequacy of the disclosures in the financial statements.

Discontinued operations and disposal accounting:

Refer to Note D3 (financial disclosures)

The risk: The group has not classified the Initial Facilities business as held for sale and consequently has not classified it as a discontinued operation at the end of 2013. The classification as 'held for sale' is a key judgemental area as it requires consideration of whether specific criteria set out in accounting standards are present at the year end.

Our response: Our audit procedures in this area included, among others: assessing the appropriateness of not classifying the Initial Facilities business as held for sale applying the facts and circumstances present at the year end to the criteria set out in

Independent Auditor's Report to the Members of Rentokil Initial plc – continued

accounting standards and assessing the carrying value of the Initial Facilities business, by considering whether any impairment exists based on a fair value less cost to sales equivalent to the likely sale price. We also considered the adequacy of the disclosures in the financial statements.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £7.5m. This has been determined with reference to a benchmark of profit before taxation, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the group.

We agreed with the Audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £250,000. We also agreed to report any audit misstatement below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by component auditors at the key reporting components in each of the following segments: France, Benelux, Germany, Pacific, North America, UK & Ireland, Rest of World, Asia and Initial Facilities and by the group audit team in the UK & Ireland. These audits covered 82% of total group revenue; 77% of profit before taxation; and 81% of total group assets (in absolute terms). The segment disclosures in Note A1 set out the individual significance of each specific segment.

The audits undertaken for group reporting purposes at the key reporting components of the group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from £0.1m to £2.5m.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. The group audit team visited Initial Facilities in the UK, France and the Netherlands, as well as having several phone calls with the US throughout their audit.

Telephone meetings were also held with the auditors at these locations both during our planning and to evaluate the results of their audit procedures during the year end audit.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the activities of the committee in 2013 section of the Audit committee report does not appropriately address matters communicated by us to the Audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 51, in relation to going concern; and
- the part of the Corporate Governance Statement on page 34 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Paul Sawdon (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
28 February 2014

Financial Statements

Consolidated Income Statement

For the year ended 31 December

	Notes	2013 £m	Restated* 2012 £m
Revenue	A1	**2,327.1**	2,226.7
Operating expenses	A7	**(2,155.8)**	(2,052.6)
Operating profit		**171.3**	174.1
Analysed as:			
Operating profit before amortisation and impairment of intangible assets[1], reorganisation costs and one-off items	A1	**261.9**	247.3
Reorganisation costs	A1	**(51.7)**	(31.2)
One-off items – operating	A1	**(12.0)**	(16.8)
Amortisation and impairment of intangible assets[1]	B4	**(26.9)**	(25.2)
Operating profit		**171.3**	174.1
Interest payable and similar charges	C8	**(70.9)**	(57.3)
Interest receivable	C9	**10.9**	8.7
Net interest credit from pensions	A9	**5.5**	9.0
One-off items – financing	C4	**1.5**	(31.4)
Share of profit from associates, net of tax of £3.1m (2012: £3.4m)		**4.3**	4.6
Profit before income tax		**122.6**	107.7
Income tax expense[2]	A13	**(31.4)**	(34.1)
Profit for the year from continuing operations		**91.2**	73.6
Discontinued operations:			
Loss for the year from discontinued operations	B2	**(52.5)**	(23.7)
Profit for the year (including discontinued operations)		**38.7**	49.9
Attributable to:			
Equity holders of the Company		**37.5**	47.6
Non-controlling interests		**1.2**	2.3
		38.7	49.9
Basic earnings per share			
Continuing operations	A2	**4.95p**	3.92p
Discontinued operations	A2	**(2.89p)**	(1.30p)
Continuing and discontinued operations	A2	**2.06p**	2.62p
Diluted earnings per share			
Continuing operations	A2	**4.94p**	3.91p
Discontinued operations	A2	**(2.89p)**	(1.30p)
Continuing and discontinued operations	A2	**2.06p**	2.61p
Basic adjusted earnings per share[3]	A2	**8.42p**	8.24p
Diluted adjusted earnings per share[3]	A2	**8.40p**	8.22p

1 excluding computer software
2 taxation includes £30.9m (2012: £19.6m as restated) in respect of overseas taxation
3 earnings per share before the after-tax effects of amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items and net interest credit from pensions
* restated as a result of IAS 19R and discontinued operations. Please refer to the General Accounting Policies section of the notes to the consolidated financial statements for further details

Consolidated Statement of Comprehensive Income

For the year ended 31 December

	Notes	2013 £m	2012 £m
Profit for the year		**38.7**	49.9
Other comprehensive income:			
Items that are not reclassified subsequently to the income statement:			
Remeasurement of net defined benefit asset/liability	A9	**(75.6)**	(74.4)
Tax related to remeasurement of net defined benefit asset/liability		**18.6**	19.4
Items that may be reclassified subsequently to the income statement:			
Net exchange adjustments offset in reserves		**(33.1)**	(10.8)
Revaluation of available-for-sale investments		**(0.5)**	0.3
Available-for-sale investments reclassified to the income statement		**(1.5)**	–
Effective portion of changes in fair value of cash flow hedge		**1.2**	1.9
Recycling of cash flow hedge reserve on settlement		**–**	2.1
Net loss not recognised in income statement		**(90.9)**	(61.5)
Total comprehensive expense for the year		**(52.2)**	(11.6)
Attributable to:			
Equity holders of the Company		**(52.7)**	(13.6)
Non-controlling interests		**0.5**	2.0
		(52.2)	(11.6)

Consolidated Balance Sheet

At 31 December

	Notes	2013 £m	Restated 2012 £m
Assets			
Non-current assets			
Intangible assets	B4	**425.0**	452.1
Property, plant and equipment	B5	**537.1**	550.3
Investment property		**4.4**	–
Investments in associated undertakings	B7	**13.0**	13.9
Other investments	C3	**0.2**	56.5
Deferred tax assets	A14	**9.2**	8.0
Retirement benefit assets	A9	**70.6**	126.1
Other receivables	A3	**8.2**	25.3
Derivative financial instruments	C5	**0.2**	48.1
		1,067.9	1,280.3
Current assets			
Other investments	C3	**292.0**	1.0
Inventories	A4	**63.8**	54.0
Trade and other receivables	A3	**417.4**	459.5
Current tax assets		**5.7**	3.0
Assets held for sale	B3	**–**	9.4
Derivative financial instruments	C5	**3.4**	2.4
Cash and cash equivalents	C2	**143.8**	166.6
		926.1	695.9
Liabilities			
Current liabilities			
Trade and other payables	A5	**(492.8)**	(563.3)
Current tax liabilities		**(66.5)**	(68.2)
Provisions for other liabilities and charges	A6	**(30.0)**	(28.3)
Bank and other short-term borrowings	C4	**(444.2)**	(91.4)
Derivative financial instruments	C5	**(7.8)**	(3.6)
		(1,041.3)	(754.8)
Net current liabilities		**(115.2)**	(58.9)
Non-current liabilities			
Other payables	A5	**(13.0)**	(14.7)
Bank and other long-term borrowings	C4	**(1,022.5)**	(1,120.8)
Deferred tax liabilities	A14	**(62.7)**	(82.4)
Retirement benefit obligations	A9	**(23.6)**	(24.3)
Provisions for other liabilities and charges	A6	**(62.9)**	(70.1)
Derivative financial instruments	C5	**–**	(36.3)
		(1,184.7)	(1,348.6)
Net liabilities		**(232.0)**	(127.2)
Equity			
Capital and reserves attributable to the Company's equity holders			
Called up share capital	C11	**18.2**	18.1
Share premium account		**6.8**	6.8
Other reserves		**(1,790.2)**	(1,757.0)
Retained profits		**1,533.1**	1,598.2
		(232.1)	(133.9)
Non-controlling interests		**0.1**	6.7
Total equity		**(232.0)**	(127.2)

The financial statements on pages 76 to 127 were approved by the Board of directors on 28 February 2014 and were signed on its behalf by:

Andy Ransom
Chief Executive

Jeremy Townsend
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December

	Attributable to equity holders of the Company					
	Called up share capital £m	Share premium account £m	Other reserves £m	Restated Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2012 – as reported	18.1	6.8	(1,750.8)	1,616.2	5.5	(104.2)
Adjustment for defined benefit plans	–	–	–	21.7	–	21.7
At 1 January 2012 – as restated	18.1	6.8	(1,750.8)	1,637.9	5.5	(82.5)
Profit for the year	–	–	–	47.6	2.3	49.9
Other comprehensive income:						
Net exchange adjustments offset in reserves	–	–	(10.5)	–	(0.3)	(10.8)
Remeasurement of net defined benefit asset/liability	–	–	–	(74.4)	–	(74.4)
Revaluation of available-for-sale investments	–	–	0.3	–	–	0.3
Effective portion of changes in fair value of cash flow hedge	–	–	1.9	–	–	1.9
Recycling of cash flow hedge reserve on settlement	–	–	2.1	–	–	2.1
Tax related to remeasurement of net defined benefit asset/liability	–	–	–	19.4	–	19.4
Total comprehensive (expense)/income for the year	–	–	(6.2)	(7.4)	2.0	(11.6)
Transactions with owners:						
Dividends paid to equity shareholders	–	–	–	(36.2)	–	(36.2)
Cost of share options and long-term incentive plan	–	–	–	3.9	–	3.9
Transactions with non-controlling interests:						
Dividends paid to non-controlling interests	–	–	–	–	(0.8)	(0.8)
At 31 December 2012	18.1	6.8	(1,757.0)	1,598.2	6.7	(127.2)
At 1 January 2013	**18.1**	**6.8**	**(1,757.0)**	**1,598.2**	**6.7**	**(127.2)**
Profit for the year	**–**	**–**	**–**	**37.5**	**1.2**	**38.7**
Other comprehensive income:						
Net exchange adjustments offset in reserves	**–**	**–**	**(32.4)**	**–**	**(0.7)**	**(33.1)**
Remeasurement of net defined benefit asset/liability	**–**	**–**	**–**	**(75.6)**	**–**	**(75.6)**
Revaluation of available-for-sale investments	**–**	**–**	**(0.5)**	**–**	**–**	**(0.5)**
Available-for-sale investments reclassified to the income statement	**–**	**–**	**(1.5)**	**–**	**–**	**(1.5)**
Effective portion of changes in fair value of cash flow hedge	**–**	**–**	**1.2**	**–**	**–**	**1.2**
Tax related to remeasurement of net defined benefit asset/liability	**–**	**–**	**–**	**18.6**	**–**	**18.6**
Total comprehensive (expense)/income for the year	**–**	**–**	**(33.2)**	**(19.5)**	**0.5**	**(52.2)**
Transactions with owners:						
Issue of ordinary shares	**0.1**	**–**	**–**	**(0.1)**	**–**	**–**
Dividends paid to equity shareholders	**–**	**–**	**–**	**(38.6)**	**–**	**(38.6)**
Cost of share options and long-term incentive plan	**–**	**–**	**–**	**2.0**	**–**	**2.0**
Transactions with non-controlling interests:						
Acquisition of non-controlling interests	**–**	**–**	**–**	**(8.9)**	**(3.7)**	**(12.6)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(3.4)**	**(3.4)**
At 31 December 2013	**18.2**	**6.8**	**(1,790.2)**	**1,533.1**	**0.1**	**(232.0)**

Treasury shares of £11.1m (2012: £11.1m) have been netted against retained earnings. Treasury shares represent 6.0m (2012: 6.1m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2013 was £6.9m (2012: £5.9m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

Consolidated Statement of Changes in Equity – continued

Analysis of other reserves

	Capital reduction reserve £m	Legal £m	Cash flow hedge reserve £m	Translation reserve £m	Available for sale £m	Total £m
At 1 January 2012	(1,722.7)	10.4	(5.1)	(35.1)	1.7	(1,750.8)
Net exchange adjustments offset in reserves	–	–	–	(10.5)	–	(10.5)
Revaluation of available-for-sale investments	–	–	–	–	0.3	0.3
Effective portion of changes in fair value of cash flow hedge	–	–	1.9	–	–	1.9
Recycling of cash flow hedge reserve on settlement	–	–	2.1	–	–	2.1
Total comprehensive income for the year	–	–	4.0	(10.5)	0.3	(6.2)
At 31 December 2012	(1,722.7)	10.4	(1.1)	(45.6)	2.0	(1,757.0)
At 1 January 2013	**(1,722.7)**	**10.4**	**(1.1)**	**(45.6)**	**2.0**	**(1,757.0)**
Net exchange adjustments offset in reserves	**–**	**–**	**–**	**(32.4)**	**–**	**(32.4)**
Revaluation of available-for-sale investments	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Available-for-sale investments reclassified to the income statement	**–**	**–**	**–**	**–**	**(1.5)**	**(1.5)**
Effective portion of changes in fair value of cash flow hedge	**–**	**–**	**1.2**	**–**	**–**	**1.2**
Total comprehensive income for the year	**–**	**–**	**1.2**	**(32.4)**	**(2.0)**	**(33.2)**
At 31 December 2013	**(1,722.7)**	**10.4**	**0.1**	**(78.0)**	**–**	**(1,790.2)**

The capital reduction reserve arose in 2005 as a result of the scheme of arrangement of Rentokil Initial 1927 plc under s.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.

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operating activities before special pension contributions	C12	**349.0**	357.3
Special pension contributions		**(13.6)**	(12.5)
Cash generated from operating activities	C12	**335.4**	344.8
Interest received		**10.6**	2.7
Interest paid		**(60.9)**	(46.0)
Income tax paid		**(37.2)**	(35.6)
Net cash generated from operating activities		**247.9**	265.9
Cash flows from investing activities			
Purchase of property, plant and equipment		**(201.1)**	(182.7)
Purchase of intangible fixed assets		**(27.6)**	(23.4)
Proceeds from sale of property, plant and equipment		**6.3**	9.2
Acquisition of companies and businesses, net of cash acquired	B1	**(12.0)**	(83.7)
Disposal of companies and businesses	B2	**2.0**	0.9
Disposal of available-for-sale investments		**1.2**	2.1
Dividends received from associates		**1.9**	8.9
Net cash flows from investing activities		**(229.3)**	(268.7)
Cash flows from financing activities			
Dividends paid to equity shareholders		**(38.6)**	(36.2)
Dividends paid to non-controlling interests		**(3.4)**	(0.8)
Interest element of finance lease payments		**(0.9)**	(0.9)
Capital element of finance lease payments		**(8.1)**	(6.6)
Cash inflow on settlement of debt related foreign exchange forward contracts		**5.7**	6.4
One-off items – financing	C4	**–**	(31.4)
Net investment in term deposits		**(292.1)**	–
Proceeds from issue of debt		**290.4**	402.9
Loan repayments		**(50.0)**	(180.4)
Net cash flows from financing activities		**(97.0)**	153.0
Net increase in cash and cash equivalents	C13	**(78.4)**	150.2
Cash and cash equivalents at beginning of year	C2	**218.9**	71.0
Exchange losses on cash and cash equivalents		**2.9**	(2.3)
Cash and cash equivalents at end of the financial year	C2	**143.4**	218.9

Notes to the Accounts

General accounting policies

Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union as at 31 December 2013.

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

After reviewing group and Company cash balances, borrowing facilities and projected cash flows, the directors believe that the group and Company have adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements (see the Corporate Governance Report on pages 34 to 41).

Consolidation

(a) Subsidiaries

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

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

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

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

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

(b) Associates

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

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

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

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, or from the translation of monetary assets and liabilities denominated in foreign currencies at reporting period end exchange rates are recognised under the appropriate heading in the income statement, except when deferred in equity as qualifying net investment hedges or where certain intra-group loans are determined to be quasi-equity (normally not expected to be repaid).

(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 or deemed to be quasi-equity, 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.

Critical accounting estimates and assumptions

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

The group makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant notes to the accounts.

(a) Estimated impairment of goodwill (Note B4)
The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note B4. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions consistent with the most up-to-date budgets and plans that have been formally approved by management.

(b) Valuation of acquired intangible assets (Note B1)
Acquisitions may result in customer relationships, brands, patents and reacquired franchise rights being recognised. These are valued using the excess earnings and relief from royalty methods. In applying these methodologies certain key judgements and estimates are required to be made in respect of future cash flows.

(c) Income taxes (Notes A13 and A14)
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 (Note A6)
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 (Note A9)
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 A9 for the principal assumptions used for the Rentokil Initial Pension Scheme in the UK.

Standards, amendments and interpretations to published standards that are not yet effective

The group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

- Presentation of Items of Other Comprehensive Income – amendments to IAS 1 (see (a))
- Defined Benefit Plans – amendments to IAS 19 (see (b))
- Disclosures – Offsetting Financial Assets and Financial Liabilities – amendments to IFRS 7
- IFRS 13 – Fair Value Measurement
- IAS 27 – Separate Financial Statements (2011)
- IAS 28 – Investments in Associates and Joint Ventures (2011)
- Improvements to IFRS: IAS 1, IAS 34, IAS 16, IAS 32

The nature and the effect of the material changes as a result of the adoption of the new standards are further explained below.

The following new standards and amendments to standards have been endorsed by the European Union and are applicable to the group for the financial year beginning 1 January 2014:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32
- Recoverable amount disclosures for non-financial assets – Amendments to IAS 36
- Continuing hedge accounting after derivative novations – Amendments to IAS 39

(a) Presentation of items of other comprehensive income
As a result of the amendments to IAS 1, the group has modified the presentation of items of other comprehensive income to present separately items that would be reclassified to the income statement in the future from those that would never be.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the group.

(b) Defined benefit plans
As a result of IAS 19 (2011) the group has changed its accounting policy with respect to the basis for determining the income or expense related to its defined benefit scheme.

Under IAS 19 (2011) the group determines the net interest income for the period on the net defined asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset at the beginning of the annual period, taking into account any changes in the net defined benefit asset during the period as a result of contributions and benefit payments.

Consequently, the net interest on the net defined benefit asset now comprises:

- Interest cost on the defined benefit obligation;
- Interest income on plan assets; and
- Interest on the effect on the asset ceiling.

Notes to the Accounts – continued

Previously, the group determined interest income on plan assets based on their long-term rate of expected return.

Under IAS 19 (2011) it is not permitted to allow for an expense reserve in the defined benefit obligation, which represents the capitalised value of future expenses in relation to the scheme. The impact of this on the group balance sheet is to increase the retirement benefit asset by £29.2m at 31 December 2012.

The following tables summarise the material impacts resulting from the above changes in accounting policies and the representation of City Link as discontinued operations on the group's income statement, earnings per share (also includes the impact of the change in definition of adjusted earnings per share – please refer to Note A2), balance sheet, statement of other comprehensive income.

Consolidated income statement

For the year ended 31 December 2012	As previously reported £m	Adjustment for discontinued operations £m	Adjustment for defined benefit plans £m	As restated £m
Revenue	2,546.3	(319.6)	–	2,226.7
Operating expenses	(2,400.5)	349.8	(1.9)	(2,052.6)
Operating profit	145.8	30.2	(1.9)	174.1
Analysed as:				
Operating profit before amortisation and impairment of intangible assets[1], reorganisation costs and one-off items	222.8	26.4	(1.9)	247.3
Reorganisation costs	(37.6)	6.4	–	(31.2)
One-off items – operating	(14.2)	(2.6)	–	(16.8)
Amortisation and impairment of intangible assets[1]	(25.2)	–	–	(25.2)
Operating profit	145.8	30.2	(1.9)	174.1
Interest payable and similar charges	(110.2)	–	52.9	(57.3)
Interest receivable	73.9	–	(65.2)	8.7
Net interest credit from pensions	–	–	9.0	9.0
One-off items – financing	(31.4)	–	–	(31.4)
Share of profit from associates, net of tax	4.6	–	–	4.6
Profit before income tax	82.7	30.2	(5.2)	107.7
Income tax expense	(29.0)	(6.5)	1.4	(34.1)
Profit for the year from continuing operations	53.7	23.7	(3.8)	73.6

1 excluding computer software

Earnings per share

For the year ended 31 December 2012	As previously reported £m	Adjustment for discontinued operations £m	Adjustment for defined benefit plans £m	Adjustment to definition of adjusted EPS £m	As restated £m
Profit from continuing operations attributable to equity holders of the Company	51.4	23.7	(3.8)	–	71.3
Reorganisation costs and one-off items, amortisation and impairment of intangibles[1] and net interest credit from pensions before tax	108.4	(3.8)	–	(9.0)	95.6
Tax on reorganisation costs and one-off items, amortisation and impairment of intangibles[1] and net interest credit from pensions	(19.4)	–	–	2.2	(17.2)
Adjusted profit from continuing operations attributable to equity holders of the Company	140.4	19.9	(3.8)	(6.8)	149.7
Loss from discontinued operations attributable to equity holders of the Company	–	(23.7)	–	–	(23.7)
Weighted average number of ordinary shares in issue	1,816.9	–	–	–	1,816.9
Adjustment for share options and LTIPs	5.2	–	–	–	5.2
Weighted average number of ordinary shares for diluted earnings per share	1,822.1	–	–	–	1,822.1
Basic earnings per share					
Continuing operations	2.83p	1.30p	(0.21p)	–	3.92p
Discontinued operations	–	(1.30p)	–	–	(1.30p)
Continuing and discontinued operations	2.83p	–	(0.21p)	–	2.62p
Diluted earnings per share					
Continuing operations	2.82p	1.30p	(0.21p)	–	3.91p
Discontinued operations	–	(1.30p)	–	–	(1.30p)
Continuing and discontinued operations	2.82p	–	(0.21p)	–	2.61p
Basic adjusted earnings per share[2]	7.73p	1.09p	(0.21p)	(0.37p)	8.24p
Diluted adjusted earnings per share[2]	7.71p	1.09p	(0.21p)	(0.37p)	8.22p

1 excluding computer software
2 earnings per share before the after-tax effects of amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items and net interest credit from pensions

Consolidated statement of comprehensive income

For the year ended 31 December 2012	As previously reported £m	Adjustment for defined benefit plans £m	As restated £m
Remeasurement of net defined benefit asset/liability	(79.7)	5.3	(74.4)
Tax related to remeasurement of net defined benefit asset/liability	20.7	(1.3)	19.4
Others	(6.5)	–	(6.5)
Total comprehensive (expense)/income	(65.5)	4.0	(61.5)

Consolidated balance sheet

At 31 December 2012	As previously reported £m	Adjustment for defined benefit plans £m	As restated £m
Retirement benefit assets	96.9	29.2	126.1
Deferred tax liabilities – non-current	(75.1)	(7.3)	(82.4)
Retained profits	1,576.3	21.9	1,598.2

Notes to the Accounts – continued

A. Operating

A1. Segment information

Revenue recognition

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

Segment reporting

Segmental information has been presented in accordance with IFRS 8 – Operating Segments which the group has implemented with effect from 1 January 2009. This statement reflects internal organisation changes made in 2013 with the pest control and plants business units in France, Benelux and Germany (including Austria, Switzerland and the Czech Republic) transferring from the West region to the East region; the UK other category business units transferring from the East region to the West region, and East and West region overhead business units transferring to central and divisional overheads. Prior year comparisons have been restated.

Reporting segments reflect the internal management organisation and reporting structures. Each segment is headed by a regional managing director who reports directly to the Chief Executive and is a member of the Executive Leadership Team responsible for the review of group performance. Operating businesses within each segment report to segment Regional Managing Directors.

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

Revenue and operating profit relate to the following main groups of business category and activity, as described on page 2: pest control, hygiene, workwear, plants and facilities services. 'Other' represents a number of small businesses outside of the other categories. Central and divisional overheads represent corporate expenses that are not directly attributable to any reportable segment. A reconciliation of segmental revenue and operating profit to business category and activity is shown in the Business Overview on page 22.

Revenue and profit from continuing operations

	Revenue 2013 £m	Revenue 2012 £m	**Operating profit/(loss) 2013 £m**	Restated Operating profit/(loss) 2012 £m
At actual exchange rates				
France	**369.8**	351.1	**64.2**	58.9
Benelux	**247.8**	261.2	**51.2**	52.7
Germany	**202.8**	195.1	**46.2**	45.9
Pacific	**142.7**	149.9	**27.1**	29.7
East	**963.1**	957.3	**188.7**	187.2
North America	**349.1**	242.0	**37.6**	29.7
UK & Ireland	**184.3**	183.3	**38.2**	32.0
Rest of World	**191.2**	186.1	**41.4**	40.6
West	**724.6**	611.4	**117.2**	102.3
Asia	**103.7**	98.1	**7.7**	6.1
Initial Facilities	**535.7**	559.9	**25.8**	29.7
Central and divisional overheads	**–**	–	**(77.5)**	(78.0)
Total segmental	**2,327.1**	2,226.7	**261.9**	247.3
Reorganisation costs	**–**	–	**(51.7)**	(31.2)
One-off items – operating	**–**	–	**(12.0)**	(16.8)
Amortisation of intangible assets[1]	**–**	–	**(23.5)**	(23.9)
Impairment of goodwill	**–**	–	**(3.4)**	(1.3)
Operating profit	**–**	–	**171.3**	174.1
Interest payable and similar charges	**–**	–	**(70.9)**	(57.3)
Interest receivable	**–**	–	**10.9**	8.7
Net interest credit from pensions	**–**	–	**5.5**	9.0
One-off items – financing	**–**	–	**1.5**	(31.4)
Share of profit from associates (net of tax) – Asia	**–**	–	**4.3**	4.6
Profit before income tax and discontinued operations	**–**	–	**122.6**	107.7

1 excluding computer software

Revenue from external customers attributed to the UK amounted to £661.6m (2012: £682.2m), with overseas countries accounting for the balance of £1,665.5m (2012: £1,544.5m). The only other countries accounting for more than 10% of revenue from external customers are France, totalling £369.8m (2012: £351.1m), and the US, totalling £329.3m (2012: £227.2m). No major customer accounts for more than 10% of total revenue.

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

	Amortisation and impairment of intangibles[1]	
	2013 £m	2012 £m
East	**2.9**	5.5
West	**15.2**	12.3
Asia	**4.5**	4.0
Initial Facilities	**3.3**	3.1
Central and divisional overheads	**1.0**	0.3
Total	**26.9**	25.2
Tax effect	**(7.3)**	(7.0)
After tax effect	**19.6**	18.2

1 excluding computer software

Analysis of revenue by category

	Total 2013 £m	Total 2012 £m
Contract service revenue	**1,920.0**	1,871.5
Non-contract service revenue	**293.0**	270.2
Sales of goods	**114.1**	85.0
	2,327.1	2,226.7

Reorganisation costs and one-off items – operating

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

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

Notes to the Accounts – continued

	2013 £m	2012 £m
East		
Reorganisation costs – Benelux[1]	**5.4**	7.8
Reorganisation costs – France[1]	**10.2**	2.0
Reorganisation costs – Germany[1]	**4.7**	0.9
Reorganisation costs – Australia[1]	**1.9**	0.2
Reorganisation costs – other businesses[1]	**3.4**	1.0
Impairment of Belgian flat linen business	**1.1**	10.2
Acquisition costs	**–**	0.1
Fair work undertaking – Australia	**–**	3.8
Product rationalisation	**–**	1.4
Profit on disposal	**–**	(0.2)
Total – East	**26.7**	27.2
West		
Reorganisation costs – UK hygiene business[2]	**1.8**	1.3
Reorganisation costs – plants[2]	**2.8**	–
Reorganisation costs – other businesses[2]	**2.3**	5.0
Increase in provisions[3]	**1.2**	–
Release of prior period provisions[4]	**(2.1)**	–
Acquisition and integration costs – Western Exterminator	**2.5**	1.5
Release of unpaid contingent consideration	**(0.4)**	–
Libya provision write back	**–**	(0.5)
Total – West	**8.1**	7.3
Asia		
Reorganisation costs[1]	**0.4**	0.9
Loss on disposal – South Korea	**0.2**	–
Release of prior period accruals	**–**	(0.9)
Total – Asia	**0.6**	–
Initial Facilities		
Reorganisation costs – UK divisional reorganisation[5]	**10.7**	7.7
Reorganisation costs – Spain	**0.8**	0.8
One-off items – other	**0.2**	–
Write down of property	**–**	0.2
Acquisition costs	**–**	0.4
Total – Initial Facilities	**11.7**	9.1
Central and divisional overheads		
Reorganisation costs – Programme Olympic/What Next[6]	**2.9**	2.1
Reorganisation costs – UK head office	**1.9**	–
Reorganisation costs – other	**2.5**	1.5
Acquisition/disposal costs	**1.3**	–
Impairment of computer software	**4.6**	–
One-off items – other	**2.3**	–
Vacant property provisions[7]	**1.1**	0.8
Total – Central and divisional overheads	**16.6**	4.4
Total	**63.7**	48.0
Classified as:		
Reorganisation costs	**51.7**	31.2
One-off items – operating	**12.0**	16.8
Total	**63.7**	48.0
Tax effect	**(14.9)**	(12.4)
Total after tax effect	**48.8**	35.6

Additional notes in respect of 2012/13 reorganisation costs and one-off items
1 relates to the reorganisation of business units into the integrated country operating model and includes redundancy of employees and office closure costs
2 relates to the closure of major processing plants in the UK including asset write-offs and redundancy costs net of the profit on the disposal of certain properties
3 relates to the closure of operational sites in the UK and includes vacant property provisions and asset write-offs
4 relates to the release of the Reading vacant property provision on assignment of the lease to a third party
5 reorganisation of the divisional head office including redundancy costs and office closure costs
6 consultancy and pilot running costs associated with Programme Olympic/What Next
7 increase in existing provisions as a result of the City Link disposal

A2. Earnings per share

Basic

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

	2013 £m	2012 £m
Profit from continuing operations attributable to equity holders of the Company	**90.0**	71.3
Loss from discontinued operations attributable to equity holders of the Company	**(52.5)**	(23.7)
Weighted average number of ordinary shares in issue	**1,817.1**	1,816.9
Basic earnings per share from continuing operations	**4.95p**	3.92p
Basic earnings per share from discontinued operations	**(2.89p)**	(1.30p)
Basic earnings per share from continuing and discontinued operations	**2.06p**	2.62p

Diluted

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The group has two types of potential dilutive ordinary shares – those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period, and the contingent issuable shares under the group's long-term incentive share plans to the extent the performance conditions have been met at the end of the period.

	2013 £m	2012 £m
Profit from continuing operations attributable to equity holders of the Company	**90.0**	71.3
Loss from discontinued operations attributable to equity holders of the Company	**(52.5)**	(23.7)
Weighted average number of ordinary shares in issue	**1,817.1**	1,816.9
Adjustment for share options and LTIPs	**6.0**	5.2
Weighted average number of ordinary shares for diluted earnings per share	**1,823.1**	1,822.1
Diluted earnings per share from continuing operations	**4.94p**	3.91p
Diluted earnings per share from discontinued operations	**(2.89p)**	(1.30p)
Diluted earnings per share from continuing and discontinued operations	**2.06p**	2.61p

Basic adjusted

Basic adjusted earnings per share is the basic earnings per share adjusted for the after tax effects of reorganisation costs and one-off items, amortisation and impairment of intangibles[1] and net interest credit from pensions. Prior year comparatives have been restated to adjust for discontinued operations and changes in IAS 19R and to reflect the change in definition of basic adjusted earnings per share in 2013 – please see the General Accounting Policies section for further details.

	2013 £m	Restated 2012 £m
Profit from continuing operations attributable to equity holders of the Company	**90.0**	71.3
Reorganisation costs and one-off items, amortisation and impairment of intangibles[1] and net interest credit from pensions before tax	**83.6**	95.6
Tax on reorganisation costs and one-off items, amortisation and impairment of intangibles[1] and net interest credit from pensions[2]	**(20.5)**	(17.2)
Adjusted profit from continuing operations attributable to equity holders of the Company	**153.1**	149.7
Weighted average number of ordinary shares in issue	**1,817.1**	1,816.9
Basic adjusted earnings per share from continuing operations	**8.42p**	8.24p

1 excluding computer software
2 includes tax on reorganisation costs and one-off items – operating of £14.9m (2012: £12.4m) (Note A1), one-off items – financing of £(0.4)m (2012: £nil), amortisation and impairment of intangibles of £7.3m (2012: £7.0m) and net interest credit from pensions £(1.3)m (2012: £(2.2)m)

Notes to the Accounts – continued

Diluted adjusted

	2013 £m	Restated 2012 £m
Adjusted profit from continuing operations attributable to equity holders of the Company	**153.1**	149.7
Weighted average number of ordinary shares in issue	**1,817.1**	1,816.9
Adjustment for share options and LTIPs	**6.0**	5.2
Weighted average number of ordinary shares for diluted earnings per share	**1,823.1**	1,822.1
Diluted adjusted earnings per share from continuing operations	**8.40p**	8.22p

A3. Trade and other receivables

Trade and other receivables

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

Book value approximates fair value because of the short-term nature of the receivables 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. The maximum amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet. Customer credit facilities for new customers are approved by designated managers at business level. Credit limits are set with reference to trading history and reports from credit rating agencies. Overdue accounts are regularly reviewed and impairment provisions are created where necessary with due regard to the historical risk profile of the customer. There were no new customers in 2013 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.

	2013 £m	2012 £m
Trade receivables	**358.0**	397.5
Less: provision for impairment of receivables	**(19.8)**	(21.2)
Trade receivables – net	**338.2**	376.3
Other receivables	**32.7**	46.9
Prepayments	**54.7**	61.6
Total	**425.6**	484.8
Less non-current portion:		
Other receivables	**8.2**	25.3
Total non-current portion	**8.2**	25.3
Current portion	**417.4**	459.5

Other receivables includes interest bearing notes of £nil (2012: £17.0m). The interest bearing notes related to the part disposal of the South African business and were classified as available-for-sale. During the year the Company reacquired the 25.1% of the South African business that was the subject of the part-disposal, thus reducing the associated interest bearing notes to £nil. Other receivables and prepayments do not contain impaired assets.

The creation and release of provisions for impaired receivables have been included within operating expenses in the income statement. Amounts charged to the allowance for doubtful debts are generally written off when there is no expectation of recovering additional cash.

Analysis of the group's provision for impairment of trade receivables is as follows:

	2013 £m	2012 £m
At 1 January	**21.2**	20.1
Acquisition of companies and businesses	**1.1**	0.3
Disposal of companies and businesses	**(1.0)**	–
Additional provision	**7.3**	8.4
Receivables written off as uncollectable	**(5.3)**	(5.0)
Unused amounts reversed	**(3.4)**	(2.1)
Exchange differences	**(0.1)**	(0.5)
At 31 December	**19.8**	21.2

The ageing of trade receivables is as follows:

	2013 £m	2012 £m
Neither impaired nor past due	**159.6**	154.9
Not impaired but overdue by less than 1 month	**85.8**	110.7
Not impaired but overdue by between 1 and 3 months	**63.8**	83.3
Not impaired but overdue by between 3 and 6 months	**15.6**	13.4
Not impaired but overdue by between 6 and 12 months	**6.9**	6.1
Not impaired but overdue by more than 12 months	**4.3**	2.7
Impaired	**22.0**	26.4
Allowance for doubtful debts	**(19.8)**	(21.2)
	338.2	376.3

The carrying amounts of the group's trade receivables are denominated in the following currencies:

	2013 £m	2012 £m
Pounds sterling	**91.2**	134.6
Euro	**179.8**	179.3
US dollar	**32.1**	29.3
Other currencies	**54.9**	54.3
	358.0	397.5

A4. 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.

	2013 £m	2012 £m
Raw materials	**12.4**	8.6
Work in progress	**2.4**	2.7
Finished goods	**49.0**	42.7
	63.8	54.0

There were no material inventory impairment charges in 2012 and 2013.

A5. Trade and other payables

	2013 £m	2012 £m
Trade payables	**136.7**	149.3
Social security and other taxes	**76.3**	90.6
Other payables	**57.8**	63.9
Accruals and deferred income	**224.0**	259.3
Deferred and contingent consideration on acquisitions	**11.0**	14.9
Total	**505.8**	578.0
Less non-current portion:		
Other payables	**12.0**	12.5
Deferred and contingent consideration on acquisitions	**1.0**	2.2
	13.0	14.7
Current portion	**492.8**	563.3

Notes to the Accounts – continued

A6. Provisions for other liabilities and charges

Vacant property, environmental, self-insurance and other provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and 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.

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.

	Vacant properties £m	Environmental £m	Self-insurance £m	Other £m	Total £m
At 1 January 2012	53.1	19.4	23.2	12.0	107.7
Exchange differences	(0.1)	(0.5)	(0.7)	(0.2)	(1.5)
Additional provisions	5.3	0.3	4.5	14.7	24.8
Acquisition of companies and businesses	0.5	–	–	(0.4)	0.1
Unused amounts reversed	(2.8)	(0.2)	(2.1)	(1.0)	(6.1)
Unwinding of discount on provisions	0.4	0.2	–	–	0.6
Used during the year	(10.1)	(1.8)	(6.0)	(9.3)	(27.2)
At 31 December 2012	46.3	17.4	18.9	15.8	98.4
At 1 January 2013	**46.3**	**17.4**	**18.9**	**15.8**	**98.4**
Exchange differences	**–**	**0.2**	**(0.2)**	**0.2**	**0.2**
Additional provisions	**14.0**	**1.0**	**7.0**	**25.5**	**47.5**
Disposal of companies and businesses	**–**	**–**	**–**	**(1.2)**	**(1.2)**
Unused amounts reversed	**(7.3)**	**(1.5)**	**(2.1)**	**(1.4)**	**(12.3)**
Unwinding of discount on provisions	**0.5**	**0.2**	**–**	**–**	**0.7**
Used during the year	**(9.9)**	**(1.2)**	**(3.6)**	**(25.7)**	**(40.4)**
At 31 December 2013	**43.6**	**16.1**	**20.0**	**13.2**	**92.9**

Provisions analysed as follows:

	2013 £m	2012 £m
Non-current	**62.9**	70.1
Current	**30.0**	28.3
	92.9	98.4

Vacant properties

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

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases at 31 December 2013 is £4.9m (2012: £4.5m).

Environmental

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

Self-insurance

The group purchases external insurance from a portfolio of international insurers for its key insurable risks. Historically the group self-insured its risks. During the latter part of 2008, other than for third party motor liability (UK & US), workers compensation (US) and the global property damage/business interruption, this practice was stopped and these became fully covered in the insurance market. Provision is still held for self-insured past cover, primarily in relation to workers compensation (US). For the continuing self-insured programmes, individual claims are met in full by the group up to agreed self-insured limits in order to limit volatility in claims. The calculated cost of self-insurance claims is based on an actuarial assessment of claims incurred at the balance sheet date and is accumulated as claims provisions.

Other

Other provisions principally comprise amounts required to cover obligations arising, warranties given and costs relating to disposed businesses together with amounts set aside to cover certain legal and regulatory claims. These provisions are expected to be substantially utilised within the next five years.

The above provisions have been discounted where appropriate using discount rates of 2.4% (2012: 1.3%) for the UK, 1.9% (2012: 0.7%) for Europe and 2.6% (2012: 1.8%) for the US.

A7. Operating expenses by nature

Operating expenses include the following items:

	Total 2013 £m	Restated Total 2012 £m
Employee costs (Note A8)	**1,030.6**	1,020.5
Subcontract labour costs	**137.2**	136.8
Depreciation – owned assets	**179.5**	174.9
– under finance leases	**7.2**	6.6
Amortisation – intangible assets[1]	**23.5**	23.9
– computer software	**11.8**	7.5
Impairment – intangible assets[1]	**3.4**	1.3
– computer software	**5.2**	–
Impairment of PPE	**–**	8.1
Impairment of investment property	**3.5**	–
Cost of inventories expensed	**140.0**	135.1
Loss on disposal of PPE	**3.4**	4.7
Loss on disposal/retirement of intangible assets	**1.9**	0.2
Audit and non-audit services (Note A11)	**3.3**	3.6
Hire of machinery and equipment	**2.8**	3.3
Other operating lease rentals	**45.6**	52.5
Net foreign exchange losses	**0.1**	0.6
Research and development costs (external)	**1.8**	1.8
Reorganisation costs (Note A1)	**51.7**	31.2
One off items – operating (Note A1)	**12.0**	16.8
Other operating expenses	**491.3**	423.2
Operating expenses	**2,155.8**	2,052.6

1 excluding computer software

Notes to the Accounts – continued

A8. Employee benefit expense

(a) 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.

(b) 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.

(c) 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 where the effect of discounting is material.

	Total 2013 £m	Restated Total 2012 £m
Wages and salaries	**858.2**	853.3
Social security costs	**149.2**	142.9
Share-based payments	**2.0**	3.9
Pension costs:		
– defined contribution plans	**19.8**	18.2
– defined benefit plans (Note A9)	**1.4**	2.2
	1,030.6	1,020.5

Average number of people employed by the group during the year:

	2013 Number	2012 Number
Processing and service delivery	**45,806**	46,236
Sales and marketing	**3,363**	3,366
Administration and overheads	**4,339**	4,642
	53,508	54,244

Emoluments of the directors of Rentokil Initial plc are detailed below. Further details are also given in the Directors' Remuneration Report on pages 55 to 72.

	Highest paid director 2013 £000	Other directors 2013 £000	Highest paid director 2012 £000	Other directors 2012 £000
Aggregate emoluments excluding share options	**994.4**	**2,226.7**	1,115.0	2,087.1
Aggregate value of Company contributions to defined contribution pension schemes	**–**	**49.0**	–	49.0
	994.4	**2,275.7**	1,115.0	2,136.1

	2013 Number	2012 Number
Number of directors accruing retirement benefits		
– defined contribution schemes	**3**	3
– defined benefit schemes	**–**	–
Number of directors exercising share options	**–**	–
Number of directors receiving shares as part of long-term incentive schemes	**–**	–

A9. Retirement benefit obligations

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

The principal pension scheme in the group is the Rentokil Initial Pension Scheme (RIPS) in the UK which has a number of defined benefit sections, which are now closed to new entrants (other than the Initial No 2 Section, accounting for 0.5% of the total schemes liabilities, which remains open), 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.

Defined benefit pension plans

A defined benefit pension plan is a 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.

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

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

Defined contribution pension plans

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

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.

Other post-employment obligations

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

Rentokil Initial Pension Scheme (RIPS)

The assets of the RIPS are legally separated from the group. The Trustee of the pension fund is Rentokil Initial Pension Trustee Limited. The Board comprises six Company nominated directors and three member nominated directors. The Trustee is required by law to act in the best interests of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the scheme.

Actuarial valuations of the UK scheme are usually carried out every three years. At 31 December 2013 the group's UK defined benefit pension scheme, which is closed to new members, was valued at an accounting surplus of £70.6m on the group's balance sheet. The trustees value the scheme on a different basis and are currently in the process of finalising the 31 March 2013 valuation with the Company. On this valuation basis the plan is 99% funded with an estimated deficit of £18m. It has been agreed that this deficit is anticipated to be met by the investment return on pension assets over the period of the recovery plan but, in order to mitigate the risk that it does not, annual contributions of c.£3m per annum over the next six years, with the first payment made by March 2014, will be paid into a joint escrow account by the group. In the event that the deficit is not cleared by the time of the 31 March 2019 valuation it will be funded from the escrow account. The group has recognised the pension surplus as an asset because the group has a right to reduce future pension contributions.

The group has put in place a guarantee in favour of the Trustee of the RIPS which provides that the group will make payments to the scheme up to a maximum amount equal to the lowest non-negative amount which, when added to the assets of the scheme, would result in the scheme being at least 105% funded on the date on which any liability arises, calculated on the basis set out in s.179 of the Pensions Act 2004. This amount will vary and is in any event capped at £219m, the amount assessed at 31 March 2009. The provision of the guarantee is reviewed on an annual basis.

Notes to the Accounts – continued

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

	2013	2012
Weighted average %		
Discount rate	**4.4%**	4.4%
Future salary increases	**4.3%**	3.9%
Future pension increases	**3.4%**	3.1%
RPI inflation	**3.6%**	3.2%
CPI inflation	**2.6%**	2.5%

Risks

The scheme exposes the Company to a number of risks, the most significant of which are:

Asset volatility – The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (equities, diversified growth fund and global absolute return fund) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the scheme's long-term objectives.

Changes in bond yields – A decrease in corporate bond yields will increase the value placed on the scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk – A significant proportion of the scheme's benefit obligations are linked to inflation and higher inflation will give rise to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

Life expectancy – The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

Profile of the scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners.

Broadly, about 40% of the liabilities are attributable to former employees and 60% to current pensioners. The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the scheme as a whole, the duration is around 18 years.

There have been no significant changes to the membership of the scheme over the year.

Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of scheme members, and allow for expected future improvements in mortality rates.

The mortality tables used are:

- 94% of the SAPS All base tables for male pensioners and male and female dependents;
- 106% of the SAPS All base tables for female pensioners;
- 104% of the SAPS All base tables for male non-pensioners; and
- 107% of the SAPS All base tables for female non-pensioners.

This equates to an assumption that a man currently aged 65 will live on average for a further 22.8 years. Further improvements are made in line with CMI_2013 Core Projections with a long-term rate of future improvement of 1.25% p.a.

Sensitivity of significant assumptions

		Impact on pension obligations (£m)	
	Sensitivity	Increase	Decrease
Discount rate	1.0%	156.3	(194.1)
Inflation	1.0%	(99.1)	95.0
Mortality	1 year	(46.6)	47.0

Pension benefits

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

	UK RIPS 2013 £m	Other[1] 2013 £m	Total 2013 £m	Restated UK RIPS 2012 £m	Other[1] 2012 £m	Restated Total 2012 £m
Present value of funded obligations	(1,185.0)	(31.6)	(1,216.6)	(1,149.9)	(33.0)	(1,182.9)
Fair value of plan assets	1,255.6	21.7	1,277.3	1,276.0	22.2	1,298.2
	70.6	(9.9)	60.7	126.1	(10.8)	115.3
Present value of unfunded obligations	–	(13.7)	(13.7)	–	(13.5)	(13.5)
Asset/(liability) in the balance sheet	70.6	(23.6)	47.0	126.1	(24.3)	101.8
Presented on the balance sheet as:						
Retirement benefit assets	70.6	–	70.6	126.1	–	126.1
Retirement benefit obligations	–	(23.6)	(23.6)	–	(24.3)	(24.3)
	70.6	(23.6)	47.0	126.1	(24.3)	101.8

The amounts recognised in the income statement are as follows:

	UK RIPS 2013 £m	Other[1] 2013 £m	Total 2013 £m	Restated UK RIPS 2012 £m	Other[1] 2012 £m	Restated Total 2012 £m
Current service cost[2]	0.7	1.1	1.8	0.7	1.5	2.2
Past service cost[2]	–	(0.4)	(0.4)	–	–	–
Administration expenses[2]	1.8	–	1.8	1.8	–	1.8
Total operating costs	2.5	0.7	3.2	2.5	1.5	4.0
Interest on net defined benefit liability/(asset)	(6.1)	0.6	(5.5)	(9.2)	0.2	(9.0)
Total pension (income)/cost	(3.6)	1.3	(2.3)	(6.7)	1.7	(5.0)

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 and administration expenses are charged to operating expenses and interest cost and return on plan assets to interest payable and receivable respectively

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

	UK RIPS 2013 £m	Other[1] 2013 £m	Total 2013 £m	Restated UK RIPS 2012 £m	Other[1] 2012 £m	Restated Total 2012 £m
At 1 January	1,276.0	22.2	1,298.2	1,254.1	20.5	1,274.6
Exchange differences	–	–	–	–	(0.4)	(0.4)
Interest income on scheme assets	55.5	0.4	55.9	59.6	0.6	60.2
Remeasurement (loss)/gain on scheme assets	(35.6)	0.1	(35.5)	(1.3)	1.3	–
Contributions received from employees	0.1	0.1	0.2	0.1	0.1	0.2
Contributions received from employer	13.4	1.7	15.1	13.4	0.9	14.3
Benefits paid	(53.8)	(2.8)	(56.6)	(49.9)	(0.8)	(50.7)
At 31 December	1,255.6	21.7	1,277.3	1,276.0	22.2	1,298.2

Total contributions payable to defined benefit pension schemes in 2014 are expected to be £1.5m.

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

	UK RIPS 2013 £m	Other[1] 2013 £m	Total 2013 £m	Restated UK RIPS 2012 £m	Other[1] 2012 £m	Restated Total 2012 £m
Equity instruments	365.8	3.3	369.1	339.0	8.4	347.4
Debt instruments – quoted	608.0	–	608.0	250.4	–	250.4
Debt instruments – unquoted	0.1	4.4	4.5	–	7.2	7.2
Interest and inflation rate hedging instruments	141.2	–	141.2	93.2	–	93.2
Property	–	0.5	0.5	–	1.1	1.1
Funding trade	–	–	–	591.2	–	591.2
Other	140.5	13.5	154.0	2.2	5.5	7.7
Total plan assets	1,255.6	21.7	1,277.3	1,276.0	22.2	1,298.2

Notes to the Accounts – continued

Where available, the bid value of assets has been used. In other cases the market value as provided by the investment managers has been used.

During the year the Trustee of the RIPS exited the funding trade it had with Barclays releasing £610.0m and as a result the investment strategy of the scheme was revisited. The transition to the new strategy is still on going. The target portfolio remains unchanged at:

- 25% in return seeking assets
- 75% in matching assets

The scheme's liability hedge is made up of interest rate and inflation swaps, corporate bonds, fixed gilts and LPI swaps. The overall objective of the hedge is to match 85% of the interest rate and inflation sensitivity of the scheme's liabilities (c.100% of assets).

The current portfolio's return seeking assets consist of diversified growth funds (18%) and global equities (11%). Diversified growth funds invest in a range of asset classes including developed equities, emerging market equities, hedge funds, infrastructure, commodities, private equity, property, high yield credit, emerging market debt, investment grade credit, reinsurance and leveraged loans.

Matching assets consist of 39% gilts, 9% UK credit, 8% global credit and 15% cash and swaps.

The actual holdings in return seeking assets are currently higher than the target portfolio. This is monitored on a regular basis, and there are no plans to rebalance at present.

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

	UK RIPS 2013 £m	Other[1] 2013 £m	Total 2013 £m	Restated UK RIPS 2012 £m	Other[1] 2012 £m	Restated Total 2012 £m
At 1 January	**1,149.9**	**46.5**	**1,196.4**	1,080.9	39.1	1,120.0
Exchange differences	**–**	**(0.3)**	**(0.3)**	–	(0.9)	(0.9)
Interest expense	**49.4**	**1.6**	**51.0**	50.6	1.1	51.7
Current and past service costs	**0.7**	**0.7**	**1.4**	0.7	1.5	2.2
Actuarial loss during the year[1]	**38.7**	**1.4**	**40.1**	67.5	6.9	74.4
Pensions transferred on disposal of business	**–**	**(0.7)**	**(0.7)**	–	–	–
Contributions received from employees	**0.1**	**0.1**	**0.2**	0.1	0.1	0.2
Benefits paid	**(53.8)**	**(4.0)**	**(57.8)**	(49.9)	(1.3)	(51.2)
At 31 December	**1,185.0**	**45.3**	**1,230.3**	1,149.9	46.5	1,196.4

1 the actuarial movement on the UK RIPS scheme comprises actuarial losses arising from changes in demographic assumptions of £23.5m (2012: £20.1m gain), actuarial losses arising from changes in financial assumptions of £23.2m (2012: £71.5m loss) and actuarial gains arising from experience of £8.0m (2012: £16.1m loss)

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

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit plan liabilities	**(1,230.3)**	(1,196.4)	(1,149.0)	(1,082.1)	(1,065.4)
Fair value of plan assets	**1,277.3**	1,298.2	1,274.4	1,070.2	1,001.1
Net surplus/(deficit)	**47.0**	101.8	125.4	(11.9)	(64.3)
Experience adjustments on plan liabilities	**(8.0)**	16.1	(5.3)	2.8	29.5
Experience adjustments on plan assets	**35.5**	(1.3)	191.7	56.9	(65.0)

The cumulative actuarial loss recognised in the consolidated statement of comprehensive income was £199.7m (2012: £124.1m).

An actuarial loss of £75.6m (2012: £74.4m loss) was recognised during the year.

A10. Share-based payments

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.

The Company has share option schemes for approximately 500 senior executives worldwide. The exercise price for share options is the mid-market closing price immediately preceding the date of grant. Share options are equity-settled. The total net charge for the year relating to equity-settled share-based payment plans was £2.0m (2012: £3.9m).

Executive Share Option Schemes

No awards have been made under these schemes since 2005. Grants of share options under the Discretionary Approved and Discretionary Schemes (the 'Discretionary Schemes') are calculated by reference to base salaries and management grade in the Company. There were two levels of qualification under the Discretionary Schemes. Level 1 applied to senior executives (including executive directors) and all awards have now lapsed. Level 2 schemes applied to executive directors and sector managing directors and are summarised as follows:

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

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

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Weighted average exercise price p per share	Number of share options 000
Outstanding at 1 January 2012	197.247	3,581
Expired	235.729	1,423
Outstanding at 31 December 2012	171.863	2,158
Expired	199.360	905
Outstanding at 31 December 2013	152.000	1,253

No options were exercised during the period.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Granted	Exercise period	Exercise price (p)	Number of shares
Executive schemes	2004	2007–2014	152.000	1,252,635
				1,252,635

Notes to the Accounts – continued

Performance Share Plan

The Company introduced a new share-based Performance Plan in 2006 and granted 13,264,216 shares at various dates throughout 2013.

Year of grant	Vesting year	Scheme interest at 1 January 2013	Shares awarded during 2013	Shares vested during 2013	Shares lapsed during 2013	Outstanding at 31 December 2013	Shares exercisable at 1 January 2013	Shares exercised during 2013	Shares exercisable at 31 December 2013
2008	2011	–	–	–	–	–	380,322	132,263	248,059
2010	2013	8,372,736	–	–	8,372,736	–	–	–	–
2011	2014	12,652,282	–	–	948,061	11,704,221	–	–	–
2012	2015	16,149,794	–	–	2,853,305	13,296,489	–	–	–
2013	2016	–	13,264,216	–	448,348	12,815,868	–	–	–

The performance conditions for the 2008 awards were the share price and the financial performance ('bonus multiplier') of the group, division or business whichever is applicable to the award holder. The share price condition was based on the highest average share price of Rentokil Initial plc over any 60 consecutive dealing days during the initial three-year period. The performance period for the share price element of the award began on 1 April 2008 and ended 61 dealing days following the announcement of the Company's results for the financial year ended 31 December 2010. The annual bonus multiplier measured the extent to which the annual bonus targets had been achieved in respect of each financial year during the performance period. The 2008 awards in the above table reflect that during the first half of 2010 the Company's share price achieved a 60 day highest average price of 130.82p. Participants were entitled to the value of dividends that were paid during the vesting period on the number of shares that ultimately vested, in the form of additional shares transferred at the end of the vesting period.

The performance conditions for the 2009, 2010, 2011 and 2012 awards are total shareholder return (TSR) and the financial performance ('bonus multiplier') of the group, division or business whichever is applicable to the award holder. The performance condition for the 2013 award for participants below the Board and Executive Leadership Team level is solely relative TSR performance. The TSR condition is measured relative to the TSR achieved by constituents of a comparator group, made up of the FTSE 350 companies at the date of grant but excluding financial services, primary resource and property sector companies. The performance period for the share price element of the 2013 award began on 1 April 2013, running to 31 March 2016. The TSR performance is measured using a three-month average with the start period average being 1 January 2013 to 31 March 2013 and the end period average being 1 January 2016 to 31 March 2016. For the 2009, 2010, 2011 and 2012 awards the annual bonus multiplier measures the extent to which the annual bonus targets have been achieved in respect of each financial year during the performance period. The 2009, 2010, 2011, 2012 and 2013 awards in the above table assume a TSR performance in the upper quartile or above is reached at the end of the vesting period and that participants achieve their target bonus in each of the three years over the vesting period. For the 2009 and 2010 awards no shares will vest if the share price does not reach median TSR performance at the end of the vesting period and 200% will vest if the TSR performance is above the upper quartile and all participants attain maximum bonus targets. For the 2011, 2012 and 2013 awards no shares will vest if the share price does not reach median TSR performance at the end of the vesting period and 150% will vest if the TSR performance is above the upper quartile and all participants attain maximum bonus targets. Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period.

The fair value of the 2013 awards made under the 2006 Performance Share Plan is charged to the income statement over the vesting period based on values derived from a model developed by Deloitte LLP. This is a closed-form solution (similar to a Monte Carlo simulation) which takes account of the correlation between share price performance and the likelihood of a TSR performance condition being met. For the shares awarded on 30 April 2013, the significant inputs into the model were a share price of 0.96p (2012: 83.15p), an expected share price volatility of 30%, a share price correlation of the companies in the comparator group of 26% and an expected life commensurate with the performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices. As the awards are nil-cost (i.e. there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards. Similarly, as dividend equivalents are paid on the vesting portion of awards, the fair value of these awards is not reduced to reflect dividends paid during the vesting period.

The fair value of shares granted during 2013 was £8.1m.

2008 Share Incentive Plan

In 2008 the Company also introduced a long-term incentive plan for the Chairman, Chief Executive and one other executive director and granted 22,500,000 shares during the year.

Year of grant	Exercise period	Scheme interest at 1 January 2013	Shares lapsed during 2013	Shares outstanding at 31 December 2013 and still subject to performance criteria	Shares exercisable at 1 January 2013	Shares released during 2013	Shares exercised during 2013	Shares exercisable at 31 December 2013	Shares vested but not yet exercisable at 31 December 2013
2008	2011–2013	14,753,250	14,753,250	–	5,236,970	2,764,982	2,667,318	5,334,634	–

The performance condition for the award was share price and would only be satisfied if the share price target was achieved over a sustained period, demonstrating realisable value creation for shareholders. This was measured on the basis of an average share price over 60 consecutive trading days during the performance measurement period. Until a minimum share price of 120p per share was met over a sustained period, no shares are earned. At 120p per share, 20% of the award would be earned, rising on a straight-line basis to full vesting at a share price of 180p per share. For achieving growth in market value between a share price of 180p per share and 280p per share further shares would be earned up to a maximum of a further 50% of the original award. The 2008 awards in the same table assumed an on target share price of 180p per share is reached at the end of the vesting period. Up to one third of the award would vest following the end of the third year, another one third following the end of the fourth year and a further one third following the end of the fifth year, based on the extent to which performance targets were achieved. Any unvested portion of the award following the end of the fifth year lapsed. Participants were entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period. See the Directors' Remuneration Report on pages 55 to 72 for further details.

The fair value of the 2008 awards made under the Rentokil Initial 2008 Share Incentive Plan is charged to the income statement over the vesting period based on values derived from a bespoke Monte Carlo simulation model. The significant inputs into the model were a share price of 102p, an expected share price volatility of 21%, an expected dividend yield of 5% per annum and an expected life commensurate with the performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices measured until October 2007 (therefore excluding the significant volatility during the last months of 2007, which the Company would not expect going forward). As the awards are nil-cost (i.e. there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards.

During the first half of 2010 the Company's share price achieved a 60-day highest average price of 130.82p and therefore under the terms of the plan, 34.43% of the award vested with participants receiving one third of the award in May 2012, and being entitled to a second third a year later and the balance in June 2013. Additional amounts could have been earned based on share price appreciation beyond the 130.82p level during the remaining life of the scheme. The final one third of 907,470 (including dividend equivalents) per participant were released on 14 June 2013 ('third vesting date'). The total of vested shares (including dividend equivalents) for each participant was 2,667,318. The remaining shares lapsed. Participants have 12 months from 14 June 2013 from which to call for their vested shares.

A11. Audit and non-audit services

	2013 £m	2012 £m
Fees payable to the Company's auditor for the audit of the Parent Company and group accounts	**0.5**	0.5
Fees payable to the Company's auditor and its associates for other services:		
The audit of accounts of any associate of the Company	**2.0**	2.0
Audit-related assurance services	**0.3**	0.4
Total audit and audit-related assurance services	**2.8**	2.9
Fees payable to the Company's auditor and its associates for other services:		
Taxation compliance services	**0.1**	0.1
Taxation advisory services	**–**	0.1
All other non-audit services	**0.4**	0.5
Total non-audit services	**0.5**	0.7
Total audit and non-audit services	**3.3**	3.6

The amounts included in the above table relate to fees payable to KPMG Audit plc and its associates.

Fees for all other non-audit services in the year related to forensic investigations in Asia and advice in relation to the disposal of City Link.

A12. Operating leases

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.

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 A7.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 £m	2012 £m
Not later than one year	**32.1**	32.3
Later than one year and not later than five years	**61.4**	65.7
Later than five years	**15.8**	21.0
	109.3	119.0

Strategic Report
Corporate Governance
Financial Statements
Additional Information

Notes to the Accounts – continued

A13. Income tax expense

The tax expense for the period comprises current and deferred tax.

Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

	2013 £m	Restated 2012 £m
Analysis of charge in the year		
UK Corporation tax at 23.25% (2012: 24.5%)	**5.1**	9.5
Overseas taxation	**28.8**	30.0
Adjustment in respect of previous periods	**4.0**	(10.3)
Total current tax	**37.9**	29.2
Deferred tax (credit)/charge	**(9.0)**	5.5
Deferred tax adjustment in respect of previous periods	**2.5**	(0.6)
Total deferred tax*	**(6.5)**	4.9
Total income tax expense	**31.4**	34.1
*The deferred tax (credit)/charge comprises movements on the following major components of deferred tax assets and liabilities (Note A14):		
Accelerated tax depreciation	**(1.5)**	7.3
Deferred tax on retirement benefit obligations	**5.7**	3.8
Unremitted overseas profits	**0.2**	(1.0)
Customer lists and other intangibles amortisation and impairment	**0.5**	(3.1)
Tax losses	**(12.2)**	(3.9)
Share-based payments	**0.4**	0.3
Other temporary differences	**0.4**	1.5
Deferred tax (credit)/charge	**(6.5)**	4.9
Tax on items charged to equity		
Deferred tax credit in respect of actuarial gain on defined benefit pensions	**(18.6)**	(19.4)
Total tax credited to equity	**(18.6)**	(19.4)

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

	2013 £m	Restated 2012 £m
Profit before income tax	**122.6**	107.7
Tax calculated at domestic tax rates applicable to profits in the respective countries	**31.4**	29.8
Adjustment in respect of previous periods	**6.5**	(10.9)
Deferred tax recognised on losses	**(16.0)**	–
Expenses not deductible for tax purposes – reorganisation costs and one-off items	**2.7**	9.0
Expenses not deductible for tax purposes – interest payable	**2.3**	1.8
Expenses not deductible for tax purposes – other	**2.3**	2.3
Income not subject to tax	**(1.5)**	(0.7)
Goodwill deduction for which no deferred tax asset was recognised	**(0.4)**	(0.4)
Utilisation of previously unrecognised tax losses	**(2.7)**	(0.7)
Deferred tax on unremitted overseas profits	**0.2**	–
Goodwill impairment	**0.6**	0.2
Overseas withholding tax suffered	**2.3**	2.4
Losses not relieved	**2.3**	1.7
Provisions utilised for which no deferred tax assets were recognised	**(1.4)**	(2.4)
Local business taxes	**2.7**	2.7
Other	**0.1**	(0.7)
Total tax expense	**31.4**	34.1

A deferred tax asset of £16.0m has been recognised in respect of UK tax losses carried forward as at 31 December 2013. This amount has been calculated by estimating the future UK taxable profits for 2014 to 2016, against which the UK tax losses will be utilised, and applying the tax rates (substantively enacted as at the balance sheet date) applicable for each year. Following the sale of City Link in April 2013 the group is expected to make taxable profits in the UK in the future. Remaining UK tax losses of £312.9m have not been recognised as at 31 December 2013.

As a substantial proportion of profits are generated outside the UK, the standard rate of tax has been determined as the weighted average of the standard rates of tax in each of the different countries where profits are generated. The relevant rates were approximately 27% (2012: 28%).

The 2013 Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) and both rate changes were substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

A14. Deferred income tax

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

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

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

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

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

	2013 £m	Restated 2012 £m
At 1 January	**(74.4)**	(88.5)
Exchange differences	**(1.4)**	1.1
Acquisition of companies and businesses	**(0.8)**	(2.3)
Disposal of companies and businesses	**(2.1)**	–
Transfers to current taxation	**0.1**	0.8
Credited/(charged) to the income statement	**6.5**	(4.9)
Credited to equity	**18.6**	19.4
At 31 December	**(53.5)**	(74.4)
Deferred taxation has been presented on the balance sheet as follows:		
Deferred tax asset within non-current assets	**9.2**	8.0
Deferred tax liability within non-current liabilities	**(62.7)**	(82.4)
	(53.5)	(74.4)

Notes to the Accounts – continued

The major components of deferred tax assets and liabilities at the year end (without taking into consideration the offsetting of balances within the same tax jurisdiction) are as follows:

	Customer lists/ intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Tax losses £m	Share-based payments £m	Other £m	Total £m
At 31 December 2012	18.6	55.3	17.6	4.8	(4.6)	(3.1)	(14.2)	74.4
Recognised in income statement	0.5	(1.5)	5.7	0.2	(12.2)	0.4	0.4	(6.5)
Recognised directly in equity	–	–	(18.6)	–	–	–	–	(18.6)
Exchange differences recognised in other comprehensive income	–	1.2	–	–	–	–	0.2	1.4
Transferred to current taxation	(0.1)	(0.1)	–	–	–	–	0.1	(0.1)
Acquired in business combinations	0.8	–	–	–	–	–	–	0.8
Released on business disposal	(1.1)	2.8	–	–	0.2	–	0.2	2.1
At 31 December 2013	18.7	57.7	4.7	5.0	(16.6)	(2.7)	(13.3)	53.5

At the balance sheet date the group has tax losses of £389.2m (2012: £443.0m) on which no deferred tax asset is recognised. Of the losses, £78.0m will expire at various dates between 2014 and 2033. In addition, there are capital losses carried forward of £288.1m (2012: £294.4m) on which no deferred tax asset is recognised. Other deferred tax assets relating to gross temporary timing differences of £9.8m (2012: £11.8m) have not been recognised due to the uncertainty regarding their utilisation.

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

B. Investing

B1. Business combinations

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

Costs directly attributable to business combinations made after 1 January 2010 are charged to the income statement as incurred. Costs directly attributable to business combinations prior to this date were included as part of the purchase price of the business combination.

The group purchased 100% of the share capital or the trade and assets of 12 smaller companies and businesses. The total consideration in respect of all acquisitions was £13.2m and the cash outflow from current period acquisitions, net of cash acquired, was £12.0m.

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

	2013 £m
Purchase consideration:	
– Cash paid	7.4
– Contingent and deferred consideration	2.3
– Business exchanged	3.5
Total purchase consideration	13.2
Fair value of net assets acquired	(10.6)
Goodwill from current year acquisitions	2.6

Goodwill represents the synergies, workforce and other benefits expected as a result of combining the respective businesses. None of the goodwill recognised is expected to be deductible for tax purposes.

Contingent consideration up to a maximum of £0.6m is payable over the next two years based on earn out conditions on revenue, profit and customer retention. Deferred consideration of £2.3m is payable over the next two years. The group incurred acquisition related costs of £nil in respect of the above acquisitions.

The provisional fair value[1] of assets and liabilities arising from acquisitions in the year are as follows:

	2013 £m
Non-current assets	
– Intangible assets	6.6
– Property, plant and equipment	3.0
Current assets[2]	3.3
Current liabilities	(1.6)
Non-current liabilities[3]	(0.7)
Net assets acquired	10.6

1 the provisional fair values will be finalised in the 2014 financial statements. The fair values are provisional since the acquisition accounting has not yet been finalised as a result of the proximity of many acquisitions to the year end
2 includes trade and other receivables of £2.9m which represents the gross and fair value of the assets acquired
3 includes £0.6m of deferred tax relating to acquired intangibles

The £6.6m of intangible assets acquired all relate to customer lists and relationships.

Notes to the Accounts – continued

Changes in fair values of acquired assets and liabilities and consideration in respect of provisional assets and liabilities recorded as at 31 December 2012 have been adjusted in the current year, as follows:

	2012 Adjustment £m
Purchase consideration:	
– Consideration	0.7
– Contingent consideration	(0.1)
Total purchase consideration	0.6
Fair value of net assets acquired	(0.4)
Goodwill on prior period acquisitions	0.2

The adjustments to fair value of assets and liabilities in respect of prior period acquisitions are as follows:

	2012 Adjustment £m
Non-current assets	
– Intangible assets	0.7
Current liabilities	(0.1)
Non-current liabilities (deferred tax)	(0.2)
Net assets acquired	0.4

	2013 £m
Total purchase consideration	**13.2**
Businesses exchanged	**(3.5)**
Consideration payable in future periods	**(2.3)**
Purchase consideration (paid in cash)	**7.4**
Cash and cash equivalents in acquired companies and businesses	**–**
Cash outflow on current period acquisitions	**7.4**
Deferred consideration from prior periods paid	**4.6**
Cash outflow on current and past acquisitions	**12.0**

From the dates of acquisition to 31 December 2013, these acquisitions contributed £6.0m to revenue and £0.5m to operating profit.

If the acquisitions had occurred on 1 January 2013, the revenue and operating profit of the combined entity would have amounted to £2,333.4m and £173.3m respectively.

B2. Discontinued operations and disposals

A discontinued operation is a component of an entity which has either been disposed of or 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.

On 26 April 2013 the group sold the City Link division. The division was not previously classified as held for sale or as a discontinued operation. The comparative consolidated income statement has been re-presented to show the discontinued operation separately from continuing operations. Management committed to a plan to sell this division early in 2013, following a decision to concentrate on the group's core international businesses in pest control, hygiene and workwear.

During the year the group also disposed of three smaller businesses that are not classified as discontinued operations.

The results of the discontinued operations are as follows:

	2013 £m	2012 £m
Revenue	**94.8**	319.6
Operating expenses	**(109.0)**	(349.8)
Operating loss	**(14.2)**	(30.2)
Income tax benefit	**2.7**	6.5
Operating loss, net of tax	**(11.5)**	(23.7)
Loss on sale of discontinued operation	**(41.0)**	–
Loss for the year	**(52.5)**	(23.7)
Basic earnings per share (Note A2)	**(2.89p)**	(1.30p)
Diluted earnings per share (Note A2)	**(2.89p)**	(1.30p)

The loss from discontinued operations of £52.5m (2012: £23.7m) is attributable entirely to the owners of the Company.

Details of cash flows from discontinued operations are as follows:

	2013 £m	2012 £m
Net cash used in operating activities	**(22.4)**	(32.0)
Net cash used in investing activities[1]	**(3.7)**	(5.9)
Effect on cash flows	**(26.1)**	(37.9)

1 includes a net cash outflow of £0.6m (2012: £5.9m) from capital expenditure included within operating cash flow – discontinued operations of £(23.0)m

Details of net assets disposed and disposal proceeds relating to all disposals are as follows:

	City Link £m	Belgian flat linen £m	Other disposals £m	Total £m
Non-current assets				
– Intangible assets	**4.9**	**–**	**–**	**4.9**
– Property, plant and equipment	**12.5**	**10.9**	**1.2**	**24.6**
– Deferred tax assets	**2.0**	**–**	**0.1**	**2.1**
Current assets	**46.8**	**–**	**2.7**	**49.5**
Current liabilities	**(38.9)**	**(0.7)**	**(1.7)**	**(41.3)**
Non-current liabilities	**(1.2)**	**–**	**(0.1)**	**(1.3)**
Net assets and liabilities	**26.1**	**10.2**	**2.2**	**38.5**
Costs of disposal	**14.9**	**–**	**–**	**14.9**
Consideration	**–**	**(9.1)**	**(2.1)**	**(11.2)**
Loss on disposal	**41.0**	**1.1**	**0.1**	**42.2**
Consideration	**–**	**9.1**	**2.1**	**11.2**
Businesses exchanged	**–**	**(3.5)**	**–**	**(3.5)**
Consideration payable in future periods	**–**	**(1.6)**	**–**	**(1.6)**
Cash and cash equivalents disposed of	**(3.1)**	**–**	**(1.0)**	**(4.1)**
Net cash (outflow)/inflow from discontinued operations	**(3.1)**	**4.0**	**1.1**	**2.0**

Notes to the Accounts – continued

B3. Disposal group held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that the carrying value will be recovered primarily through sale rather than through continuing use.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the group's other accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

At 31 December 2013 there were no disposal groups held for sale.

Assets of disposal group held for sale

	2013 £m	2012 £m
Property, plant and equipment	–	9.4
	–	9.4

Cumulative income or expense included in other comprehensive income

There is no cumulative income or expense included in other comprehensive income relating to the disposal group.

B4. Intangible assets

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

Intangible assets – indefinite useful lives

Goodwill

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

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

Intangible assets – finite useful lives

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

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

Customer lists and relationships	5 to 16 years
Brands and patents	2 to 15 years
Computer software	3 to 5 years
Product development	up to 5 years

The following are the main categories of intangible assets:

Customer lists and relationships

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

Brands

Brands 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 internally is recognised as an expense in the period incurred. Separate values are not attributed to internally generated brands.

Product development

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

Other development expenditure is recognised as an expense as incurred.

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

Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software, and is amortised over its estimated useful life. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development and employee costs.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Computer software development costs recognised as assets are amortised over their estimated useful lives.

	Goodwill £m	Customer lists and relationships £m	Brands £m	Reacquired franchise rights £m	Product development £m	Computer software £m	Total £m
Cost							
At 1 January 2012	515.0	480.1	27.1	25.4	0.1	63.1	1,110.8
Exchange differences	(6.5)	(9.3)	(0.8)	–	–	(0.8)	(17.4)
Additions	–	–	–	–	3.9	19.5	23.4
Disposals/retirements	–	–	–	–	–	(1.7)	(1.7)
Acquisition of companies and businesses	23.8	47.7	9.7	–	–	0.1	81.3
Disposal of companies and businesses	(0.6)	(1.3)	–	–	–	–	(1.9)
Reclassification to assets held for sale	–	–	–	–	–	(1.9)	(1.9)
At 31 December 2012	531.7	517.2	36.0	25.4	4.0	78.3	1,192.6
At 1 January 2013	**531.7**	**517.2**	**36.0**	**25.4**	**4.0**	**78.3**	**1,192.6**
Exchange differences	**(13.6)**	**(11.7)**	**(0.8)**	**–**	**–**	**(1.0)**	**(27.1)**
Additions	**–**	**–**	**–**	**–**	**5.9**	**21.7**	**27.6**
Disposals/retirements	**–**	**(0.8)**	**–**	**–**	**–**	**(5.7)**	**(6.5)**
Acquisition of companies and businesses	**2.8**	**7.3**	**–**	**–**	**–**	**–**	**10.1**
Disposal of companies and businesses	**(203.3)**	**(60.6)**	**–**	**(25.4)**	**–**	**(8.9)**	**(298.2)**
At 31 December 2013	**317.6**	**451.4**	**35.2**	**–**	**9.9**	**84.4**	**898.5**
Accumulated amortisation and impairment							
At 1 January 2012	(226.0)	(420.2)	(15.4)	(25.4)	–	(33.4)	(720.4)
Exchange differences	0.3	7.8	0.5	–	–	0.4	9.0
Disposals/retirements	–	–	–	–	–	1.5	1.5
Disposal of companies and businesses	0.3	1.3	–	–	–	–	1.6
Impairment charge	(1.3)	–	–	–	–	–	(1.3)
Amortisation charge	–	(21.8)	(2.1)	–	–	(8.9)	(32.8)
Reclassification to assets held for sale	–	–	–	–	–	1.9	1.9
At 31 December 2012	(226.7)	(432.9)	(17.0)	(25.4)	–	(38.5)	(740.5)
At 1 January 2013	**(226.7)**	**(432.9)**	**(17.0)**	**(25.4)**	**–**	**(38.5)**	**(740.5)**
Exchange differences	**0.8**	**11.2**	**0.6**	**–**	**–**	**0.8**	**13.4**
Disposals/retirements	**–**	**–**	**–**	**–**	**–**	**3.8**	**3.8**
Disposal of companies and businesses	**203.0**	**61.3**	**–**	**25.4**	**–**	**4.0**	**293.7**
Impairment charge	**(3.4)**	**–**	**–**	**–**	**–**	**(5.2)**	**(8.6)**
Amortisation charge	**–**	**(19.7)**	**(3.2)**	**–**	**(0.6)**	**(11.8)**	**(35.3)**
At 31 December 2013	**(26.3)**	**(380.1)**	**(19.6)**	**–**	**(0.6)**	**(46.9)**	**(473.5)**
Net book value							
At 1 January 2012	289.0	59.9	11.7	–	0.1	29.7	390.4
At 31 December 2012	305.0	84.3	19.0	–	4.0	39.8	452.1
At 31 December 2013	**291.3**	**71.3**	**15.6**	**–**	**9.3**	**37.5**	**425.0**

Amortisation of £35.3m (2012: £32.8m) has been charged to operating expenses.

Notes to the Accounts – continued

Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and reportable business unit. A summary of the 2013 goodwill allocation by reportable segment is shown below:

	2013 £m	2012 £m
France	**10.3**	9.7
Benelux	**14.6**	14.3
Germany	**32.2**	31.6
Pacific	**46.5**	54.8
East	**103.6**	110.4
North America[1]	**92.4**	93.1
UK & Ireland	**8.9**	8.8
Rest of World	**34.8**	36.4
West	**136.1**	138.3
Asia	**23.2**	27.9
Initial Facilities	**28.4**	28.4
Total	**291.3**	305.0

1 includes £82.7m (2012: £72.3m) relating to the US Pest Control CGU

Key assumptions

The recoverable amount of a CGU is determined based on the higher of value-in-use calculations using cash flow projections and fair value less costs to sell if appropriate. The cash flow projections are based on financial budgets and long-range plans approved by management and the Board covering a three-year period which are prepared as part of the group's normal planning process. Cash flows for years four and five use management's expectation of sales growth, operating costs and margin, based on past experience and expectations regarding future performance and profitability for each CGU. Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates.

The key assumptions used by individual CGUs for value-in-use calculations were long-term growth rates of between 2% and 4% (2012: 2% and 4%) and pre-tax discount rates of between 10% and 14% (2012: 10% and 14%). The key assumptions used by the US Pest Control CGU were a long-term growth rate of 3% (2012: 2%) and a pre-tax discount rate of 14% (2012: 14%). The growth rates used by individual CGUs are based on the long-term growth rates predicted for the relevant sector and country in which a business operates. They do not exceed the long-term average growth rate for that industry or country. The pre-tax discount rates are based on the group's weighted average cost of capital adjusted for specific risks relating to the relevant sector and country.

Impairment charges

	2013 £m	2012 £m
Asia	**3.4**	1.3
	3.4	1.3

All impairment charges have been recorded in the income statement within operating expenses.

Apart from the impaired business in Asia, which is not considered material to the group, all other CGUs are not considered to be sensitive to changes in inputs.

B5. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation, with the exception of freehold land and assets under construction which are not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items. During the year the group reclassified 3 freehold properties as investment properties as they are leased to a third party. Investment properties are recognised using the cost model.

Depreciation of 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:

Freehold buildings	50 to 100 years
Leasehold buildings	shorter of the lease term or estimated useful life
Vehicles	4 to 5 years
Plant and equipment (including service contract equipment)	3 to 10 years
Office equipment, furniture and fittings	3 to 10 years

Assets' residual values and useful lives are reviewed annually and amended as necessary. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may exceed its recoverable amount. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount exceeds the higher of its 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.

When assets are sold, the difference between sale proceeds and net book value is recognised in the income statement.

The category of service contract equipment represents the pool of assets used by the group in delivering contracted services to customers. Land and buildings comprise mainly factories and offices.

	Land and buildings £m	Service contract equipment £m	Other plant and equipment £m	Vehicles and office equipment £m	Total £m
Cost					
At 1 January 2012	184.8	693.5	275.2	242.7	1,396.2
Exchange differences	(3.9)	(17.0)	(5.5)	(6.5)	(32.9)
Additions	4.3	128.4	25.1	39.4	197.2
Disposals	(8.4)	(88.4)	(12.7)	(31.7)	(141.2)
Acquisition of companies and businesses	5.5	–	0.4	4.0	9.9
Disposal of companies and businesses	(0.3)	(0.7)	(0.2)	(0.2)	(1.4)
Reclassification to assets held for sale	(9.5)	(31.6)	(14.9)	(2.3)	(58.3)
Reclassification	–	0.8	(0.8)	–	–
At 31 December 2012	172.5	685.0	266.6	245.4	1,369.5
At 1 January 2013	**172.5**	**685.0**	**266.6**	**245.4**	**1,369.5**
Exchange differences	**1.5**	**(3.4)**	**3.2**	**(8.2)**	**(6.9)**
Additions	**7.5**	**134.1**	**25.5**	**39.4**	**206.5**
Disposals	**(5.8)**	**(101.4)**	**(10.6)**	**(37.2)**	**(155.0)**
Acquisition of companies and businesses	**–**	**2.7**	**0.2**	**0.1**	**3.0**
Disposal of companies and businesses	**(12.1)**	**(5.6)**	**(7.7)**	**(17.1)**	**(42.5)**
Reclassification to investment property	**(8.7)**	**–**	**–**	**–**	**(8.7)**
At 31 December 2013	**154.9**	**711.4**	**277.2**	**222.4**	**1,365.9**
Accumulated depreciation and impairment					
At 1 January 2012	(51.5)	(438.3)	(187.9)	(144.8)	(822.5)
Exchange differences	1.2	11.1	3.9	3.9	20.1
Disposals	2.3	85.7	9.9	29.4	127.3
Disposal of companies and businesses	0.3	0.6	0.1	0.2	1.2
Depreciation charge	(5.3)	(122.7)	(20.6)	(37.5)	(186.1)
Impairment[1]	(0.9)	(7.2)	–	–	(8.1)
Reclassification to assets held for sale	4.3	31.6	11.3	1.7	48.9
Reclassification	–	(0.7)	0.7	–	–
At 31 December 2012	(49.6)	(439.9)	(182.6)	(147.1)	(819.2)
At 1 January 2013	**(49.6)**	**(439.9)**	**(182.6)**	**(147.1)**	**(819.2)**
Exchange differences	**(0.1)**	**3.4**	**(2.2)**	**4.5**	**5.6**
Disposals	**3.4**	**99.1**	**9.9**	**32.9**	**145.3**
Disposal of companies and businesses	**6.4**	**3.1**	**5.5**	**12.0**	**27.0**
Depreciation charge	**(5.2)**	**(126.4)**	**(20.3)**	**(36.4)**	**(188.3)**
Reclassification to investment property	**0.8**	**–**	**–**	**–**	**0.8**
At 31 December 2013	**(44.3)**	**(460.7)**	**(189.7)**	**(134.1)**	**(828.8)**
Net book value					
At 1 January 2012	133.3	255.2	87.3	97.9	573.7
At 31 December 2012	122.9	245.1	84.0	98.3	550.3
At 31 December 2013	**110.6**	**250.7**	**87.5**	**88.3**	**537.1**

1 relates to impairment of the assets of the Belgian flat linen business unit to their recoverable value prior to classification as held for sale

Notes to the Accounts – continued

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.

The net carrying amounts of assets held under finance leases are as follows:

	2013 £m	2012 £m
Other plant and equipment	**0.5**	0.6
Vehicles and office equipment	**20.4**	16.8
Total	**20.9**	17.4

B6. Capital commitments

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

	2013 £m	2012 £m
Property, plant and equipment	**26.3**	20.1
Intangible assets	**1.4**	4.0
	27.7	24.1

B7. Investments in associated undertakings

	2013 £m	2012 £m
At 1 January	**13.9**	22.2
Exchange differences	**(3.4)**	(4.0)
Share of profit[1]	**4.3**	4.6
Dividends	**(1.8)**	(8.9)
At 31 December	**13.0**	13.9

1 share of profit is net of tax of £3.1m (2012: £3.4m)

Investments in associates at 31 December 2013 includes goodwill of £nil (2012: £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
2013						
Nippon Calmic Ltd	**Japan**	**22.8**	**(8.5)**	**35.6**	**4.3**	**49%**
2012						
Nippon Calmic Ltd	Japan	25.0	(10.0)	40.2	4.6	49%

C. Financing

Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through the income statement, loans and receivables, available-for-sale financial assets and other investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The group assesses at each balance sheet date whether there is objective evidence that financial assets are impaired.

All financial assets are held at amortised cost except for derivatives, which are classified as held for trading unless in a hedging relationship and certain assets classified as available-for-sale, which are held at fair value.

(a) Financial assets at fair value through the income statement
Assets are classified as current if they are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. Loans and receivables include trade and other receivables and cash and other equivalents. Loans and receivables are measured at amortised cost using the effective interest rate method, subject to impairment.

(c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale investments are fair valued and changes to market values are recognised in equity. On subsequent disposal or impairment, the accumulated gains and losses, previously recognised in equity, are recognised in the income statement as 'gains and losses from investment securities'. The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(d) Other investments
Other investments comprise financial investments with a maturity date of greater than three months on the date the investment was made. Investments with a maturity date more than one year from the balance sheet date are recorded as non-current.

Financial liabilities

All financial liabilities are stated at amortised cost using the effective interest rate method except for derivatives, which are classified as held for trading (except where they qualify for hedge accounting) and are held at fair value.

Financial liabilities held at amortised cost include trade payables, vacant property provisions, deferred consideration and borrowings.

Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities

(b) hedges of net investments in foreign operations

(c) cash flow hedges.

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

Notes to the Accounts – continued

Certain derivative instruments are not designated or do not qualify for hedge accounting. Typically the group will not designate financial instruments for hedge accounting where a perfect or near perfect offset is expected between the change in value of assets and liabilities. Changes in the fair value of any derivative instruments in this category are immediately recognised in the income statement.

(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) Cash flow hedge
The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. Any ineffective portion is immediately recognised in the income statement. The gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement. In the event the hedged item occurs or is no longer expected to occur, accumulated gains or losses held in the cash flow hedge reserve are immediately recognised in the income statement. In the event the hedged item is expected to occur but no longer meets the requirements of hedge accounting, accumulated gains or losses remain in equity and are only recognised in the income statement when the forecast transaction occurs or is no longer expected to occur.

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.

C1. Financial risk factors

The group operates a central treasury function which manages cash and borrows on behalf of the group, and provides finance to group companies in their home currencies.

The main financial risks faced by the group relate to the availability of funds to meet business needs, fluctuations in interest and foreign exchange rates, and credit risks relating to the risk of default by counterparties to financial transactions. The management of these risks is set out below.

Capital risk

The group is committed to maintaining a debt/equity structure which allows continued access to a broad range of financing sources and sufficient flexibility to pursue commercial opportunities in a timely manner as they present themselves, without onerous financing terms and conditions.

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, retained earnings and non-controlling interests in the group. Management monitor the return on capital as well as the level of dividends to ordinary shareholders.

Debt credit rating
The group's debt is rated by Standard & Poor's and the group targets a rating of BBB or above for debt issuance over the medium term. A rating of BBB- or above is an 'investment grade' rating. Financial markets which have been closed to new debt issues from certain borrowers at times since 2008 have been receptive to debt issuance for investment grade borrowers throughout this period. Currently the group is rated BBB– with a positive outlook.

Both the group's €500m 3.375% bond, maturing 24 September 2019, and the new €350m 3.25% bond, maturing 7 October 2021, contain a 'coupon step-up' increasing the coupon payable by 1.25% in the event that the group is downgraded to BB+ or below (sub-investment grade).

Financial covenants

The group has in issue bonds issued under its Medium Term Note Programme and Revolving Credit Facilities (see Note C4 for details). The group's Revolving Credit Facilities contain covenants requiring that EBITDA : Interest should be at least 4.0 : 1.0 and that Net Debt: Adjusted EBITDA should be no greater than 3.5 : 1.0 at each semi-annual reporting date. The group remains compliant.

Change of control

The group's Medium Term Notes may be recalled by its investors in the event of a change of control of the group, or within 120 days if:

(a) the group's debt is downgraded below investment grade or the rating is withdrawn; and

(b) the rating agency confirms in writing, either publicly or in writing to the issuer or the Trustee, that the rating action occurred either wholly or in part due to the change of control.

Liquidity risk

The group is committed to ensuring it has sufficient liquidity to meet its payables as they fall due. To achieve this, and in accordance with the liquidity ratio requirements of the credit rating agency Standard & Poor's, significant maturities are financed at least 12 months in advance, either through existing cash balances, forecast cash flows or new debt issuance. Management models financing requirements at least 12 months ahead and aims to maintain average headroom of at least £150m and minimum headroom of at least £100m. At 31 December 2013 the group had approximately £400m of bonds maturing in March 2014, available funds to meet this of £419.5m, and £270m of undrawn available committed headroom under its Revolving Credit Facilities (2012: £713m combined available funds and headroom).

Market risk

Interest rate risk

At the year end sensitivity to interest rate changes was limited as only €50m of the group's bond debt was held at floating rates which has subsequently been fixed.

Within net debt the group holds cash balances of £419.5m of which approximately £400m would be expected to be used to repay the €500m bond maturing in March 2014. As such, most of these balances are deposited at a fixed rate up to the maturity date of the bond. At 31 December 2013, net floating rate deposits, after deducting the €50m of floating rate debt, amounted to approximately £120m. Assuming this balance remains constant for the first 3 months of the year, a 1% increase in rates would result in an improvement in interest of £0.3m. From March onwards after the maturity of the €500m bond, net floating rate borrowings are expected to be £75m or less, meaning that a 1% rise in interest rates would result in an increase in interest payable of up to £0.6m. Assuming an interest rate rise/fall of 1% on 1 January 2014, the impact on interest payable would be an increase/decrease of £0.3m (2012: £1.6m).

The group entered into opposing interest rate swaps on €800m of its bonds (the €500m bond due in 2019 and €300m of the €350m bond due in 2021), which result in the group receiving fixed interest payments of approximately €9m in 2014 and making fixed repayments annually to 2021. In order to minimise the cost of this structure, a break clause has been included requiring the group to repay the present value of all outstanding payments in September and October 2015. The instruments are held at fair value on the balance sheet and a 1% rise/fall in interest rates would result in a decrease/increase of £0.2m shown in mark to market movements within interest.

The overall impact on interest in the income statement of a rise/fall in interest rates of 1% is therefore an increase/decrease of £0.1m.

As disclosed in Note C4 the group had outstanding debt at 31 December 2013 with a fair value of £1,466.2m. Market risk for fixed rate, long-term debt is estimated as the potential decrease in fair value resulting from a hypothetical 1% increase in interest rates and amounts to £54.4m at 31 December 2013. The income statement impact is nil as changes in interest rates do not change the expected cash flows on the bonds. However, in the event it is decided to redeem bonds early, it will be necessary to pay the fair value.

Foreign exchange risk

The group's primary exposure is to the sterling-euro exchange rate which impacts earnings, euro-denominated debt and intra-group borrowings.

At 31 December 2013 the group's net debt was approximately 70% euro (2012: 50%) reflecting that it is the group's principal cash flow exposure and the low cost of euro funding. The retranslation of the interest element of this euro debt provides a partial income statement offset to the retranslation of earnings. The group's earnings are also exposed to currency movements from its worldwide operations, including US dollars and emerging market currencies.

The group calculates the impact on the income statement and equity of a 10% shift in foreign exchange rates. The group's principal foreign currency exposure is to euro, and a 10% shift in £/€ would result in a £19.3m increase/decrease (2012: £17.2m) in adjusted operating profit, offset by a £2.6m decrease/increase (2012: £2.9m) in interest payable.

Where possible, currency cash flows are used to settle liabilities in the same currency in preference to selling currency in the market.

Foreign currency balances, including cash, debt and intra-group balances are hedged on a net basis. To the extent that balances naturally offset, retranslation gains and losses are recognised in the income statement. At 31 December 2013 a 10% shift in the £/€ rate would result in a net impact of nil, made up of a gain of £338.6m offset by an equal loss (2012: net impact of nil made up of a £205.4m gain offset by an equal loss).

Notes to the Accounts – continued

Foreign currency debt is designated for hedge accounting by the group as a hedge of its currency net assets, so reducing its net currency assets. Retranslation gains and losses are recognised in reserves rather than in the income statement. At 31 December 2013 a 10% shift in foreign exchange rates would decrease/increase equity reserves by £20.8m (2012: £14.8m).

Credit risk

The group has no significant concentration of credit risk. Sales are typically low value, high volume, spreading the risk across a number of customers. Policies are in place to ensure that sales are only made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions and there is no significant concentration of exposure to any single counterparty. The group monitors the creditworthiness of its derivative counterparties using a combination of credit ratings and other market indicators. The group's core bank group of 10 counterparties who lend to the group were all rated A- or above by Standard and Poor's. However, in some territories, particularly in emerging markets, the group has exposure to some lower rated banks who conduct limited local cash management. At 31 December 2013 the group had a total of £2.2m deposited with banks rated below A- by Standard and Poor's. The highest concentration with any single bank was £0.3m.

The group operates in some territories where there is increased exposure to trade credit risks and in those cases the group puts in place appropriate additional measures where possible to manage its credit exposure.

During the year the group's pension funding trade of £591.2m at 31 December 2012 which was invested with Barclays Bank plc was redeemed. The proceeds have been invested in UK gilts and in AAA-rated liquidity funds considered to have very low counterparty risk.

Treasury risk

The Company utilises financial instruments to manage known financial exposures in line with policies agreed by the Board and outlined above.

The Company does not enter into any speculative derivative contracts.

C2. 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.

	2013 £m	2012 £m
Cash at bank and in hand	**138.2**	160.5
Short-term bank deposits	**5.6**	6.1
	143.8	166.6
Cash and cash equivalents includes the following for the purposes of the cash flow statement:		
Cash and cash equivalents	**143.8**	166.6
Other investments – loans and receivables (Note C3)	**–**	56.1
Bank overdrafts (Note C4)	**(0.4)**	(3.8)
	143.4	218.9

Included within cash at bank and in hand is £16.5m (2012: £15.7m) of restricted cash. This cash is held in respect of specific contracts and can only be utilised in line with terms under the contractual arrangements. Available funds also include £292.1m (2012: £nil) of fixed rate cash deposits included within other investments (Note C3).

Offsetting financial assets and liabilities

	Gross amounts before offsetting £m	Gross amounts set off £m	Net amounts presented £m
At 31 December 2013			
Cash at bank and in hand	**1,778.2**	**(1,640.0)**	**138.2**
Bank overdraft	**(1,640.4)**	**1,640.0**	**(0.4)**
	137.8	**–**	**137.8**
At 31 December 2012			
Cash at bank and in hand	1,037.4	(876.9)	160.5
Bank overdraft	(880.7)	876.9	(3.8)
	156.7	–	156.7

Credit interest rates on bank balances range between 0% and 7.5% and debit interest rates range between 1.0% and 11.5%. As far as practical, cash balances are held centrally and are used first to repay borrowings under the group's Revolving Credit Facilities before being placed on deposit.

Cash

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

C3. Other investments

	2013 £m	2012 £m
At 1 January	**57.5**	3.5
Additions	**292.1**	56.1
Disposals	**(57.4)**	(2.1)
At 31 December	**292.2**	57.5
Less: non-current portion	**0.2**	56.5
Current portion	**292.0**	1.0
Financial assets include the following:		
Available-for-sale		
– UK Government gilts and US Treasury bonds	**–**	1.3
– Unlisted equity securities – Continental Europe	**0.1**	0.1
	0.1	1.4
Loans and receivables		
– Fixed rate cash deposits	**292.1**	56.1
	292.2	57.5

Other investments classified as available-for-sale financial assets are valued based on public price quotations as appropriate (fair value hierarchy level 1). Changes in fair values of available-for-sale financial assets are recorded directly in equity. Other investments classified as loans and receivables are held at amortised cost. Loans and receivables financial assets are deposits placed with counterparty banks receiving interest at a rate of 0.8% (2012: 0.5%) per annum. Other investments were not impaired in 2013 or 2012.

Fixed rate cash deposits also includes short-term deposit of £289.9m held centrally (2012: £56.1m). Fixed rate cash deposits include £1.2m (2012: £1.3m) invested with counterparty banks which are held by the group's insurance operations in accordance with local insurance regulations. These deposits are used to meet insurance liabilities as they fall due. The weighted average effective interest rate earned is 0.8% (2012: 5.3%) and the weighted average rate was fixed for 1.0 years (2012: 1.2 years).

	2013 £m	2012 £m
Financial assets are denominated in the following currencies:		
– Pounds sterling	**291.1**	1.0
– US dollar	**–**	0.3
– Euro	**0.1**	56.2
– Other	**1.0**	–
	292.2	57.5

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

Notes to the Accounts – continued

C4. Bank and other borrowings

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

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

	2013 £m	2012 £m
Non-current		
RCF and other bank borrowings	**0.2**	–
Bond debt	**1,008.6**	1,108.8
Finance lease liabilities	**13.7**	12.0
	1,022.5	1,120.8
Current		
Bank overdrafts (Note C2)	**0.4**	3.8
Bank borrowings	**0.5**	–
Bond debt	**402.7**	50.0
Bond accruals	**33.4**	30.7
Finance lease liabilities	**7.2**	6.9
	444.2	91.4
Total bank and other borrowings	**1,466.7**	1,212.2

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Non-current		
£300m bond due March 2016	Fixed 5.75%	Fixed 4.48%
€500m bond due September 2019	Fixed 3.375%	Fixed 3.56%
€350m bond due October 2021	Fixed 3.25%	Fixed 3.49%
£1.3m perpetual debentures	Fixed 5.00%	Fixed 5.00%
£0.3m perpetual debentures	Fixed 4.50%	Fixed 4.50%
Current		
€500m bond due March 2014	Fixed 4.625%	Fixed 5.09%
£50m bond paid September 2013	Floating 3 month LIBOR + 3.25%	Fixed 7.34%
Average cost of bond debt at year end rates		4.26%

The group has one committed Revolving Credit Facility (RCF) of £270m expiring in December 2016 which accrues interest at LIBOR for the period drawn plus a margin. The cost of borrowing under the group's RCF at the year end was 1.5%, however the facility was undrawn at that date.

The group's RCF, bank borrowings and bonds are held at amortised cost.

The carrying values and the fair values of the group's borrowings are shown below. Fair values are based on cash flows discounted at the current market rates:

	Carrying amount 2013 £m	Carrying amount 2012 £m	Fair value 2013 £m	Fair value 2012 £m
Non-current				
Bank borrowings	**0.2**	–	**0.2**	–
€500m bond (€14.5m repaid in 2012) due March 2014 (current in 2013)	**–**	392.5	**–**	411.3
£300m bond due March 2016[1]	**308.6**	312.4	**323.7**	326.5
€500m bond due September 2019	**412.4**	402.9	**430.2**	422.8
€350m bond due October 2021	**286.6**	–	**288.7**	–
£1.6m perpetual debentures	**1.0**	1.0	**1.7**	2.7
Finance lease liabilities	**13.7**	12.0	**13.7**	12.0
	1,022.5	1,120.8	**1,058.2**	1,175.3
Current				
€500m bond (€14.5m repaid in 2012) due March 2014 (non-current in 2012)	**402.7**	–	**406.2**	–
£50m bond due September 2013	**–**	50.0	**–**	50.8
Total	**1,425.2**	1,170.8	**1,464.4**	1,226.1

1 the £300m bond was revalued for changes in interest rates during the period March 2006 to April 2009, during which the group paid floating interest rates. At the end of this period, the group reverted to paying fixed interest rates and revaluation of the bond ceased as the hedge relationship ended. The bond is recorded in the financial statements at amortised cost and revaluation differences are amortised to the consolidated income statement over the life of the bond thus producing the effective rate indicated above

The bonds are level 1 and the debentures, finance lease and bank borrowings are level 2 of the fair value hierarchy.

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

In 2012 £31.4m of one-off costs were recognised in the income statement in respect of the following transactions:

In October 2012 the group repaid the £75m Puttable Callable Resettable floating rate bond, due in September 2033. The loan included an option, which gave the right to the investors to call the bond at fair value in September 2013. The bond was redeemed early, at a net cost of £28.7m, which has been recognised under 'one-off items – financing' in the income statement. As the 2013 bond was repaid, the group recycled £2.1m of accumulated losses, held in the cash flow hedge reserve, which were recognised under 'one-off items – financing' in the income statement, and hedge accounting was discontinued prospectively.

In October 2012 the group also repaid €14.5m of the €500m bonds due in March 2014 and recognised the associated premium cost of £0.6m (€0.7m) in 'one-off items – financing' in the income statement.

In 2013 a £1.5m one-off gain was recognised in the income statement in respect of the unwinding of historic gains and losses from equity on disposal of an available-for-sale asset.

Finance leases

Finance lease payments fall due as follows:

	2013 £m	2012 £m
Not later than one year	**7.2**	7.1
Between:		
– one and two years	**5.9**	5.1
– two and three years	**4.5**	3.7
– three and four years	**3.1**	2.4
– four and five years	**0.8**	1.2
– over five years	**–**	–
	21.5	19.5
Future finance charges on finance leases	**(0.6)**	(0.6)
Finance lease liabilities	**20.9**	18.9

Notes to the Accounts – continued

Undrawn committed borrowing facilities

The group's committed borrowing facilities comprise a £270m RCF maturing in December 2016. The group's committed borrowing also includes a £40m Letter of Credit facility maturing December 2016. At 31 December 2013, the RCF was undrawn (2012: undrawn) and £36.2m (2012: £33.6m) of letters of credit were in issue.

	2013 £m	2012 £m
Expiring within:		
– one year, or on demand	–	–
– one and two years	–	240.0
– two and three years	273.8	–
– three and four years	–	276.4
– four and five years	–	–
– over five years	–	–
	273.8	516.4

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

C5. Derivative financial instruments

	Fair value assets 2013 £m	Fair value assets 2012 £m	Fair value liabilities 2013 £m	Fair value liabilities 2012 £m
Interest rate swaps:				
– non-hedge	2.4	49.6	(0.3)	(38.2)
– cash flow hedge	–	–	–	(1.2)
– net investment hedge	0.8	–	–	–
Foreign exchange swaps:				
– non-hedge	0.4	0.2	(7.5)	(0.4)
– net investment hedge	–	0.7	–	–
Foreign exchange forwards:				
– non-hedge	–	–	–	(0.1)
	3.6	50.5	(7.8)	(39.9)
Analysed as follows:				
Current portion	3.4	2.4	(7.8)	(3.6)
Non-current portion	0.2	48.1	–	(36.3)
	3.6	50.5	(7.8)	(39.9)

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge') in accordance with IAS 39. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on cash flow hedges is taken directly to finance costs. There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship.

Cash flow hedge accounting was applied to floating to fixed interest rate swaps relating to the group's £50m bond which was repaid on 29 September 2013. There was no balance in reserves in regards to cash flow hedge accounting at the end of the year (2012: £1.2m).

The effective nominal value of foreign exchange swaps is £263.6m (2012: £97.3m) and foreign exchange forwards is £0.1m (2012: £20.3m).

The group had no outstanding commodity contracts at year end.

Fair value hierarchy of derivative financial instruments

For all financial instruments held by the group, those that are held at fair value are to be classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly as prices or indirectly through modelling based on prices;

Level 3 – inputs for the asset or liability that are not based on observable market data.

The group holds all derivatives at fair value using discounted cash flow models based on market rates which are observable; therefore all derivative financial instruments and available-for-sale assets held by the group fall into Level 2. Deferred and contingent consideration payable by the group falls into Level 3. It is valued based on the group's best estimate of the amount payable based on the future forecasts of the acquired businesses; discounted where the impact is considered material. No financial instruments have moved between levels in the year.

The following table analyses the group's derivative financial instruments, which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and so may not reconcile to the balance sheet.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2013					
Cross-currency swaps:					
– outflow	**(83.9)**	**–**	**–**	**–**	**(83.9)**
– inflow	**86.9**	**–**	**–**	**–**	**86.9**
Foreign exchange swaps:					
– outflow	**(373.4)**	**–**	**–**	**–**	**(373.4)**
– inflow	**366.1**	**–**	**–**	**–**	**366.1**
Foreign exchange forwards:					
– outflow	**(2.0)**	**–**	**–**	**–**	**(2.0)**
– inflow	**2.0**	**–**	**–**	**–**	**2.0**
Net inflow	**(4.3)**	**–**	**–**	**–**	**(4.3)**
At 31 December 2012					
Cross-currency swaps:					
– outflow	(209.6)	(84.6)	–	–	(294.2)
– inflow	210.7	85.0	–	–	295.7
Foreign exchange swaps:					
– outflow	(126.0)	–	–	–	(126.0)
– inflow	127.0	–	–	–	127.0
Foreign exchange forwards:					
– outflow	(20.3)	–	–	–	(20.3)
– inflow	20.3	–	–	–	20.3
Net inflow	2.1	0.4	–	–	2.5

C6. Financial liabilities

The table below analyses the undiscounted contractual cash flows of the group's financial liabilities, including interest payments.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2013					
Borrowings	**462.8**	**40.7**	**387.6**	**749.0**	**1,640.1**
Derivative financial instruments	**(7.7)**	**9.4**	**–**	**–**	**1.7**
Trade and other payables	**313.1**	**12.1**	**–**	**–**	**325.2**
Finance leases	**7.2**	**5.9**	**8.4**	**–**	**21.5**
Other	**21.4**	**9.5**	**16.0**	**8.1**	**55.0**
	796.8	**77.6**	**412.0**	**757.1**	**2,043.5**
At 31 December 2012					
Borrowings	104.4	443.5	375.6	433.4	1,356.9
Derivative financial instruments	212.8	85.0	–	–	297.8
Trade and other payables	364.5	12.5	–	–	377.0
Finance leases	7.1	5.1	7.3	–	19.5
Other	20.6	12.6	17.7	10.3	61.2
	709.4	558.7	400.6	443.7	2,112.4

Other includes £43.6m (2012: £46.3m) in respect of provisions related to underlying onerous lease contracts and £11.1m (2012: £14.9m) in respect of deferred consideration.

Notes to the Accounts – continued

The carrying amounts of the group's financial liabilities are denominated in the following currencies (before the effect of any derivatives used to transform the currency of the cash flows):

	Borrowings 2013 £m	Borrowings 2012 £m	**Trade payables and other 2013 £m**	Trade payables and other 2012 £m	**Total 2013 £m**	Total 2012 £m
Pounds sterling	**322.6**	376.9	**152.1**	205.9	**474.7**	582.8
Euro	**1,129.1**	821.9	**136.5**	135.7	**1,265.6**	957.6
US dollar	**13.9**	11.0	**44.8**	46.2	**58.7**	57.2
Other currencies	**1.1**	2.4	**46.5**	50.6	**47.6**	53.0
	1,466.7	1,212.2	**379.9**	438.4	**1,846.6**	1,650.6

Further information on the group's debt and foreign currency management policies is shown in Note C1.

C7. Reconciliation of total financial instruments

The table below reconciles the group's accounting categorisation of financial assets and liabilities (based on initial recognition) to the classes of assets and liabilities as shown on the face of the balance sheet.

	Fair value through income statement £m	Loans and receivables £m	Available-for-sale £m	Financial liabilities held at amortised cost £m	Not categorised as a financial instrument £m	Total £m	Non-current £m	Current £m
At 31 December 2013								
Assets								
Other investments	**–**	**292.1**	**0.1**	**–**	**–**	**292.2**	**0.8**	**291.4**
Trade and other receivables	**–**	**370.9**	**–**	**–**	**54.7**	**425.6**	**8.2**	**417.4**
Derivative financial instruments	**3.6**	**–**	**–**	**–**	**–**	**3.6**	**0.2**	**3.4**
Cash and cash equivalents	**–**	**143.8**	**–**	**–**	**–**	**143.8**	**–**	**143.8**
Liabilities								
Derivative financial instruments	**(7.8)**	**–**	**–**	**–**	**–**	**(7.8)**	**–**	**(7.8)**
Trade and other payables	**–**	**–**	**–**	**(336.2)**	**(169.6)**	**(505.8)**	**(13.0)**	**(492.8)**
Bank and other borrowings	**–**	**–**	**–**	**(1,466.7)**	**–**	**(1,466.7)**	**(1,022.5)**	**(444.2)**
At 31 December 2012								
Assets								
Other investments	–	56.1	1.4	–	–	57.5	56.5	1.0
Trade and other receivables	–	406.2	17.0	–	61.6	484.8	25.3	459.5
Derivative financial instruments	50.5	–	–	–	–	50.5	48.1	2.4
Cash and cash equivalents	–	166.6	–	–	–	166.6	–	166.6
Liabilities								
Derivative financial instruments	(39.9)	–	–	–	–	(39.9)	(36.3)	(3.6)
Trade and other payables	–	–	–	(391.9)	(186.1)	(578.0)	(14.7)	(563.3)
Bank and other borrowings	–	–	–	(1,212.2)	–	(1,212.2)	(1,120.8)	(91.4)

C8. Interest payable and similar charges

	2013 £m	2012 £m
Hedged interest payable on medium term notes issued[1]	**54.0**	45.6
Interest payable on bank loans and overdrafts[1]	**0.9**	0.7
Interest payable on revolving credit facility[1]	**4.1**	3.7
Interest payable on foreign exchange swaps	**10.1**	5.3
Interest payable on finance leases	**0.9**	0.9
Amortisation of discount on provisions	**0.7**	0.6
Fair value loss on other derivatives[2,3]	**0.2**	0.5
Total interest payable and similar charges	**70.9**	57.3

1 interest expense on financial liabilities held at amortised cost
2 loss on financial assets/liabilities at fair value through the income statement
3 the fair value loss on other derivatives comprises fair value losses relating to interest rate swaps of £0.2m (2012: £0.3m) and fixed price commodity contracts of £nil (2012: £0.2m)

C9. Interest receivable

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.

	2013 £m	2012 £m
Bank interest[1]	**1.5**	2.0
Interest receivable on foreign exchange swaps	**8.7**	5.2
Foreign exchange gain on translation of foreign denominated assets and liabilities[2]	**0.3**	1.1
Fair value gain on other derivatives[3,4]	**0.4**	0.4
Total interest receivable	**10.9**	8.7

1 interest income on loans and receivables
2 comprises retranslation gains on financing instruments of £59.7m offset by losses of £59.4m (2012: gains of £49.4m offset by losses of £48.3m)
3 gain on financial assets/liabilities at fair value through the income statement
4 the fair value gain on other derivatives includes fair value gains relating to interest rate swaps of £0.4m (2012: £0.4m)

C10. Dividends

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

	2013 £m	2012 £m
2011 final dividend paid – 1.33p per share	**–**	24.1
2012 interim dividend paid – 0.67p per share	**–**	12.1
2012 final dividend paid – 1.43p per share	**25.9**	–
2013 interim dividend paid – 0.70p per share	**12.7**	–
	38.6	36.2

An interim dividend of 0.70p per share was paid on 24 September 2013 amounting to £12.7m. A dividend in respect of 2013 of 1.61p (2012: 1.43p) per 1p share amounting to £29.2m (2012: £25.9m) is to be proposed at the annual general meeting on 14 May 2014. These financial statements do not reflect this recommended dividend.

Notes to the Accounts – continued

C11. 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.

	2013 £m	2012 £m
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid		
At 1 January and 31 December – 1,817,498,329 shares (2012: 1,814,831,011)	**18.2**	18.1

C12. Cash generated from operating activities

	2013 £m	2012 £m
Profit for the year	**38.7**	49.9
Adjustments for:		
– Loss on sale of discontinued operations, excluding costs of disposal	**26.1**	–
– Discontinued operations tax	**(2.7)**	(6.5)
– Tax	**31.4**	34.1
– Share of profit from associates	**(4.3)**	(4.6)
– One-off items – financing (Note C4)	**(1.5)**	31.4
– Net interest credit from pensions	**(5.5)**	(9.0)
– Interest income	**(10.9)**	(8.7)
– Interest expense	**70.9**	57.3
– Depreciation and impairment of tangible assets	**188.3**	194.2
– Impairment of investment properties	**3.5**	–
– Amortisation and impairment of intangible assets[1]	**26.9**	25.2
– Amortisation of computer software	**17.0**	8.9
– LTIP charges	**2.0**	3.9
– Other non-cash items	**0.7**	–
– Loss on sale of property, plant and equipment	**3.4**	4.7
– Loss on disposal/retirement of intangible assets	**1.9**	0.2
– Loss/(profit) on disposal of companies and businesses	**1.2**	(0.9)
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	**(11.5)**	0.2
– Trade and other receivables	**(0.6)**	(19.4)
– Trade and other payables and provisions	**(26.0)**	(3.6)
Cash generated from operating activities before special pension contributions	**349.0**	357.3
Special pension contributions	**(13.6)**	(12.5)
Cash generated from operating activities	**335.4**	344.8

1 excluding computer software

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

Net book value	**9.7**	13.9
Loss on sale of property, plant and equipment	**(3.4)**	(4.7)
Proceeds from sale of property, plant and equipment	**6.3**	9.2

C13. Reconciliation of net change in cash and cash equivalents to net debt

	2013 £m	2012 £m
Net (decrease)/increase in cash and cash equivalents	**(78.4)**	150.2
Movement on finance leases	**(2.3)**	(5.9)
Movement on other investments	**292.1**	–
Movement on loans	**(240.4)**	(222.5)
Increase in debt resulting from cash flows	**(29.0)**	(78.2)
Foreign exchange translation	**(17.0)**	15.3
Other non-cash movements	**0.7**	(7.6)
Movement on net debt in the year	**(45.3)**	(70.5)
Opening net debt	**(989.5)**	(919.0)
Closing net debt	**(1,034.8)**	(989.5)
Closing net debt comprises:		
Cash and cash equivalents	**143.8**	166.6
Other investments – loans and receivables	**292.1**	56.1
Fair value of debt related derivatives	**(4.0)**	–
Bank and other short-term borrowings	**(444.2)**	(91.4)
Bank and other long-term borrowings	**(1,022.5)**	(1,120.8)
Total net debt	**(1,034.8)**	(989.5)

Included within net increase in cash and cash equivalents is £5.7m received in cash settlement on debt related foreign exchange forward contracts (2012: £6.4m). Foreign exchange losses on debt therefore amount to £11.3m for 2013 primarily resulting from a strengthening of the euro by 3 cents (2012: gain of £21.7m).

The group's interest rate swaps and foreign currency derivatives, with a fair value of £4.0m, have been included within net debt for the first time in 2013 as this better reflects the underlying nature of these contracts.

Foreign exchange contracts are used to convert the group's bond debt to debt in different currencies, or where cash has been generated overseas, to convert it to sterling to either deposit or repay short-term debt. During the life of these contracts, which are typically short-term, they will be revalued and the gains or losses will be substantially the same as if the group held debt or cash in the foreign currency.

The group also includes fair value hedge accounted interest rate swaps and non-hedge accounted interest rate swaps in net debt. Interest rate swaps are used to transform the group's bonds from fixed to floating rate, or floating rate to fixed rate.

C14. Operating and free cash flow

	2013 £m	2012 £m
Cash generated from operating activities	**335.4**	344.8
Add back: special pension contributions	**13.6**	12.5
	349.0	357.3
Purchase of property, plant and equipment	**(201.1)**	(182.7)
Purchase of intangible fixed assets	**(27.6)**	(23.4)
Leased property, plant and equipment	**(10.3)**	(12.3)
Proceeds from sale of property, plant and equipment	**6.3**	9.2
Dividends received from associates	**1.9**	8.9
Operating cash flow (from continuing and discontinued operations)	**118.2**	157.0
Interest received	**10.6**	2.7
Interest paid	**(60.9)**	(46.0)
Interest element of finance lease payments	**(0.9)**	(0.9)
Income tax paid	**(37.2)**	(35.6)
One-off items – financing	**–**	(31.4)
Special pensions contributions	**(13.6)**	(12.5)
Disposal of available-for-sale investments	**1.2**	2.1
Free cash flow	**17.4**	35.4

Notes to the Accounts – continued

D. Other

D1. Contingent liabilities

The group has contingent liabilities relating to guarantees in respect of pensions, third parties, environmental issues, tax and litigation. The possibility of any significant loss in respect of these items is considered to be remote.

On 26 April 2013 the group disposed of its City Link business to Better Capital LLP. The group retained certain parent company guarantees against leasehold properties that continue to be occupied by City Link. At 31 December 2013 the total value of these guarantees is £19.5m. In the event that any of these guarantees were called, the group would seek to mitigate its liability through finding an alternative tenant.

D2. Related party transactions

The group's strategy and policy are managed by the Executive Leadership Team (executive directors and senior management as shown on pages 30 to 32). Their compensation and the compensation payable to the non-executive directors is shown below:

	2013 £m	2012 £m
Salaries and other short-term employee benefits	**5.6**	5.4
Post-employment benefits	**0.6**	0.4
Share-based payments	**0.9**	2.1
	7.1	7.9

Rentokil Initial (B) Sdn Bhd (85%) and Rentokil Delta Libya for Environmental Protection JSCO (65%) are non-wholly owned subsidiaries of Rentokil Initial plc. All transactions between these entities and the group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation. During the year the group disposed of its 50% share in Yu Yu Calmic Co Ltd.

Nippon Calmic Ltd (49%) was an associate during 2013 and 2012 and its balances are disclosed in Note B7. There are no significant transactions between Nippon Calmic Ltd and other group companies.

The group bears the costs of administration and independent pension advice of the Rentokil Initial Pension Scheme. The total amount of costs in the year ended 31 December 2013 was £2.2m (2012: £2.5m) of which £0.4m (2012: £0.3m) was recharged to the scheme.

In 2004 the group made a loan to a consortium of private investors which enabled them to purchase a 25.1% stake in the group's South African business. During the year the group repurchased the 25.1% stake for a consideration of ZAR 4.0m (£0.3m) plus the outstanding capital value of the loan at the execution date and a new special purpose entity was set up to enable colleagues in South Africa to benefit from the ownership of this stake by way of dividend payments. The group has accordingly removed the non-controlling interest in the balance sheet, derecognised the loan, and reversed the capital reserve recorded in equity at the time of the original transaction. The fair value adjustments taken to other comprehensive income on the available for sale loan have been recycled through one-off items – financing.

D3. Post balance sheet events

On 28 February 2014 the group sold the Initial Facilities business for consideration of £250.0m. The income statement for 2013 excluding the Initial Facilities business has been set out below. The performance of the group will be set out on this basis from H1 2014 onwards.

	2013 £m	Restated 2012 £m
Revenue	**1,791.4**	1,666.8
Operating expenses	**(1,630.9)**	(1,510.2)
Operating profit	**160.5**	156.6
Analysed as:		
Operating profit before amortisation and impairment of intangible assets[1], reorganisation costs and one-off items	**236.1**	217.6
Reorganisation costs	**(40.2)**	(22.7)
One-off items – operating	**(11.8)**	(16.2)
Amortisation and impairment of intangible assets[1]	**(23.6)**	(22.1)
Operating profit	**160.5**	156.6
Interest payable and similar charges	**(70.9)**	(57.3)
Interest receivable	**10.5**	7.8
Net interest credit from pensions	**5.5**	9.0
One-off items – financing	**1.5**	(31.4)
Share of profit from associates, net of tax of £3.1m (2012: £3.4m)	**4.3**	4.6
Profit before income tax	**111.4**	89.3
Income tax expense	**(28.9)**	(28.8)
Profit for the year from continuing operations	**82.5**	60.5
Discontinued operations:		
Loss for the year from discontinued operations	**(43.8)**	(10.6)
Profit for the year (including discontinued operations)	**38.7**	49.9

1 excluding computer software

Net assets for the disposed business at 31 December 2013 are set out below.

	2013 £m
Assets	
Non-current assets	
Intangible assets	**39.7**
Property, plant and equipment	**6.6**
	46.3
Current assets	
Inventory	**4.0**
Trade and other receivables	**99.4**
Cash and cash equivalents	**40.8**
	144.2
Liabilities	
Current liabilities	
Trade and other payables	**(85.8)**
Current tax liabilities	**(3.3)**
	(89.1)
Non-current liabilities	
Deferred tax liabilities	**(0.6)**
Provisions for other liabilities and charges	**(0.1)**
	(0.7)
Net assets	**100.7**

There were no other significant post balance sheet events affecting the group since 31 December 2013.

Principal Operating Subsidiary and Associated Undertakings

At 31 December 2013

Subsidiary undertakings

UK
Dudley Industries Ltd
Initial Catering Services Ltd
Initial Facilities Management Ltd
Initial Medical Services Ltd
Knightsbridge Guarding Ltd
Modus FM Ltd
Phoenix Fire Services Ltd
Rentokil Initial 1927 plc
Rentokil Initial Facilities Services (UK) Ltd
Rentokil Initial Holdings Ltd
Rentokil Initial Services Ltd
Rentokil Initial UK Ltd
Rentokil Insurance Ltd

Australia
Rentokil Initial Pty Ltd

Austria
Initial Austria GmbH
Initial Hygiene (Austria) GmbH
Rentokil Initial GmbH

Bahamas
Rentokil Initial (Bahamas) Ltd

Barbados
Rentokil Initial (Barbados) Ltd

Belgium
Ambius NV
Initial NV
Rentokil NV

Brazil
Asseio Saneamento Ambiental Ltda

Brunei
Rentokil Initial (B) Sdn Bhd (85%)

Canada
Rentokil Pest Control Canada Ltd

Czech Republic
Initial Ecotex sro

Denmark
Rentokil Initial A/S

Estonia
Rentokil Oü

Fiji
Rentokil Initial Ltd

Finland
Rentokil Initial Oy

France
Ambius SAS
CAFI SAS
Initial SAS
Rentokil Initial SAS
Technivap SAS

French Guiana
Rentokil Initial Guyane SARL

Germany
Initial Hygieneservice GmbH
Initial Textil Service GmbH & Co. KG
Medentex GmbH
Rentokil Initial GmbH

Greece
Rentokil Initial Hellas EPE

Guadeloupe
Rentokil Initial Guadeloupe Sarl

Guyana
Rentokil Initial Guyana Ltd

Hong Kong
Rentokil Initial Hong Kong Ltd

India
Rentokil India Pte Ltd

Indonesia
PT Calmic Indonesia
PT Rentokil Indonesia

Italy
Initial Italia Srl
Rentokil Italia Srl

Jamaica
Rentokil Initial (Jamaica) Ltd

Kenya
Rentokil Initial Kenya Ltd

Libya
Rentokil Delta Libya for Environmental Protection JSCO (65%)

Lithuania
UAB Dezinfa

Luxembourg
Initial Sàrl
R-Control Desinfections SA
Rentokil Luxembourg Sàrl

Malaysia
Rentokil Initial (M) Sdn Bhd

Martinique
Rentokil Initial Martinique Sarl

Mexico
Balance Urbano Contol de Plagas S.A. de C.V.

Netherlands
Ambius BV
Holland Herstel Groep/Ureco BV
Initial BV
Rentokil Initial BV

New Zealand
Rentokil Initial Ltd

Norway
Rentokil Initial Norge AS

People's Republic of China
Rentokil Tai Ming China Co Ltd

Philippines
Rentokil Initial (Philippines) Inc

Poland
Rentokil Initial Sp. z.o.o.

Portugal
Rentokil Initial Portugal – Serviços de Protecção Ambiental Lda

Republic of Ireland
Initial Medical Services (Ireland) Ltd
Rentokil Initial Ltd

Singapore
Rentokil Initial Singapore Pte Ltd

Slovak Republic
Initial Textile Services Sro

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

South Korea
Rentokil Initial Korea Ltd

Spain
Initial Facility Services SAU
Rentokil Initial España SA

Sweden
Ambius AB
Initial Sverige AB
Rentokil AB
Sweden Recycling AB

Switzerland
Initial Schweiz AG
Rentokil Schweiz AG

Taiwan
Initial Hygiene Co Ltd
Rentokil Ding Sharn Company Ltd

Thailand
Rentokil Initial (Thailand) Ltd

Trinidad
Rentokil Initial (Trinidad) Ltd

Tunisia
CAP Tunis

Turkey
Rentokil Initial Çevre Sağliği Sistemleri Ticaret ve Sanayi AS

UAE
Rentokil Initial Pest Control LLC

Uganda
Rentokil Initial Uganda Limited

USA
J.C. Ehrlich Co., Inc

Vietnam
Rentokil Initial (Vietnam) Company Ltd

Associated undertakings

Japan
Nippon Calmic Ltd (49%)

The activities of the major subsidiaries are referred to in the Business Review on pages 23 to 24.

Notes:

1 Rentokil Initial plc owns directly 100% of the shares of Rentokil Initial Holdings Ltd and indirectly 100% of the shares in all subsidiaries except where a lower percentage is shown
2 undertakings operate and are incorporated in the country underneath which each is shown
3 a full list of subsidiaries will be attached to the Company's annual return

Five-Year Summary

	2009 £m	2010 £m	2011 £m	Restated 2012 £m	**2013 £m**
Revenue from continuing operations	2,530.8	2,496.5	2,544.3	2,226.7	**2,327.1**
Operating profit/(loss) from continuing operations	119.3	61.5	(10.2)	174.1	**171.3**
Adjusted operating profit[1] from continuing operations	220.8	239.3	224.7	247.3	**261.9**
Profit/(loss) before income tax from continuing operations	65.0	14.5	(50.5)	107.7	**122.6**
Profit/(loss) for the year from continuing operations	48.9	(20.3)	(67.1)	73.6	**91.2**
Loss for the year from discontinued operations	–	–	–	(23.7)	**(52.5)**
Profit/(loss) for the year (including discontinued)	48.9	(20.3)	(67.1)	49.9	**38.7**
Profit/(loss) attributable to equity holders of the Company	47.6	(23.4)	(69.7)	47.6	**37.5**
Profit attributable to non-controlling interests	1.3	3.1	2.6	2.3	**1.2**
	48.9	(20.3)	(67.1)	49.9	**38.7**
Basic earnings per share:					
Continuing operations	2.63p	(1.29p)	(3.84p)	3.92p	**4.95p**
Continuing and discontinued operations	2.63p	(1.29p)	(3.84p)	2.62p	**2.06p**
Adjusted earnings per share[2] – continuing operations	6.61p	7.81p	7.48p	8.24p	**8.42p**
Dividends for the period per 1p share	–	–	1.33p	2.10p	**2.31p**
Gross assets	2,001.0	1,801.5	1,798.9	1,976.2	**1,994.0**
Gross liabilities	(2,151.1)	(1,926.7)	(1,903.1)	(2,103.4)	**(2,226.0)**
Net liabilities	(150.1)	(125.2)	(104.2)	(127.2)	**(232.0)**
Share capital	18.1	18.1	18.1	18.1	**18.2**
Reserves	(177.5)	(153.8)	(127.8)	(152.0)	**(250.3)**
Non-controlling interests	9.3	10.5	5.5	6.7	**0.1**
Capital employed	(150.1)	(125.2)	(104.2)	(127.2)	**(232.0)**

1 before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items
2 earnings per share before the after-tax effects of amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items and net interest credit on pensions
3 prior years' figures have not been restated for the effect of discontinued operations

Parent Company Balance Sheet

	Notes	2013 £m	2012 £m
Non-current assets			
Investments	4	**263.7**	262.5
Other investments	5	**–**	56.1
Derivative financial instruments (due after more than one year)	7	**0.2**	48.1
		263.9	366.7
Current assets			
Other investments	5	**254.9**	–
Debtors – amounts falling due within one year	6	**2,829.2**	278.8
Debtors – amounts falling due after more than one year	6	**–**	2,457.9
Derivative financial instruments (due within one year)	7	**3.0**	1.5
Short-term deposits and cash		**382.3**	117.3
		3,469.4	2,855.5
Creditors – amounts falling due within one year			
Creditors	8	**(934.2)**	(1,012.1)
Bank and other borrowings	9	**(813.2)**	(138.6)
Derivative financial instruments	7	**(0.3)**	(3.1)
		(1,747.7)	(1,153.8)
Net current assets		**1,721.7**	1,701.7
Creditors – amounts falling due after more than one year			
Bank and other borrowings	9	**(1,007.6)**	(1,107.8)
Derivative financial instruments	7	**–**	(36.3)
		(1,007.6)	(1,144.1)
Net assets		**978.0**	924.3
Equity capital and reserves			
Share capital	10	**18.2**	18.1
Share premium	11	**6.8**	6.8
Profit and loss account	12	**953.0**	899.4
Capital employed		**978.0**	924.3

The financial statements on pages 130 to 136 were approved by the Board of directors on 28 February 2014 and were signed on its behalf by:

Andy Ransom
Chief Executive

Jeremy Townsend
Chief Financial Officer

Notes to the Parent Company Accounts

1. Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivatives) and are in accordance with generally accepted accounting principles and standards in the UK (UK GAAP) and comply with the Companies Act 2006.

2. Principal accounting policies

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. In the opinion of the directors the value of such investments are not less than shown at the balance sheet date.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost (where hedge accounting is not applied); any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Where fair value hedge accounting is applied, the borrowings are subsequently revalued at each balance sheet date and the difference is offset against the fair value movement of the derivative (the hedging instrument) in the profit and loss account.

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

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable profits against 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 Trustee and the Company are currently discussing the results of the most recent actuarial valuation as at 31 March 2013. 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 Financing section of the notes to the consolidated financial statements. Disclosures have been made on financial instruments as required by the Companies Act 2006.

Share capital

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

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

Notes to the Parent Company Accounts – continued

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 A2 of the consolidated financial statements for details of dividends paid in the year.

3. Company profit and loss account

Under section 408 of the Companies Act 2006, a profit and loss account for the Company alone is not presented. The profit attributable to shareholders in the year was £89.2m (2012: £47.5m) which includes a special pension contribution of £12.5m (2012: £12.5m), a charge of £3.1m (2012: £1.3m charge) in respect of exchange adjustments and £0.4m (2012: £0.4m) in respect of audit fees.

4. Investments

	2013 £m	2012 £m
At 1 January	**262.5**	260.5
Share-based payments to employees of subsidiaries	**1.2**	2.0
At 31 December	**263.7**	262.5

The Company's sole subsidiary undertaking is Rentokil Initial Holdings Ltd. It has no other direct subsidiary undertakings.

5. Other investments

	2013 £m	2012 £m
At 1 January	**56.1**	–
Additions	**254.9**	56.1
Disposals	**(56.1)**	–
At 31 December	**254.9**	56.1
Loans and receivables financial assets include the following:		
– Fixed rate cash deposits	**254.9**	56.1

Other investments classified as loans and receivables are held at amortised cost. Loans and receivables financial assets are deposits placed with counterparty banks receiving interest at a rate of 0.8% per annum (2012: 0.5%). Other investments were not impaired in 2013 or 2012.

	2013 £m	2012 £m
Loans and receivables financial assets are denominated in the following currencies:		
– Pounds sterling	**254.9**	–
– Euro	**–**	56.1

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

6. Debtors

	2013 £m	2012 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**2,807.3**	269.3
Deferred tax	**20.0**	7.2
Other debtors	**1.9**	2.3
	2,829.2	278.8
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**–**	2,457.9

Amounts owed by subsidiary undertakings due within one year are made up of an interest bearing loan of £2,457.9m with an effective interest rate of 6.45%, and non-interest bearing loans repayable on demand.

7. Derivative financial instruments

	Fair value assets 2013 £m	Fair value assets 2012 £m	Fair value liabilities 2013 £m	Fair value liabilities 2012 £m
Interest rate swaps:				
– non-hedge	**2.4**	49.6	**(0.3)**	(38.2)
– cash flow hedge	**–**	–	**–**	(1.2)
– net investment hedge	**0.8**	–	**–**	–
	3.2	49.6	**(0.3)**	(39.4)
Analysed as follows:				
Current portion	**3.0**	1.5	**(0.3)**	(3.1)
Non-current portion	**0.2**	48.1	**–**	(36.3)
	3.2	49.6	**(0.3)**	(39.4)

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge') in accordance with FRS 26 – Financial Instruments: Measurement. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedges is taken directly to finance costs. There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship.

Cash flow hedge accounting was applied to floating to fixed interest rate swaps relating to the group's £50m bond which was repaid on 29 September 2013. There was no balance in reserves in regards to cash flow hedge accounting at the end of the year (2012: £1.2m).

The effective nominal value of foreign exchange swaps is £83.0m (2012: £283.5m).

The Company had no outstanding commodity contracts at year end.

8. Creditors – amounts falling due within one year

	2013 £m	2012 £m
Amounts due to subsidiary undertakings	**933.2**	1,011.8
Other creditors	**1.0**	0.3
	934.2	1,012.1

Notes to the Parent Company Accounts – continued

9. Bank and other borrowings

	2013 £m	2012 £m
Amounts falling due within one year	**813.2**	138.6
Amounts falling due after one year	**1,007.6**	1,107.8

Current and non-current loans include £436.1m (2012: £80.6m) and £1,007.6m (2012: £1,107.8m) respectively of notes issued under the Company's 2.5 billion Euro Medium Term Note programme.

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Non-current		
£300m bond due March 2016	Fixed 5.75%	Fixed 4.48%
€500m bond due September 2019	Fixed 3.375%	Fixed 3.56%
€350m bond due October 2021	Fixed 3.25%	Fixed 3.49%
Current		
€500m bond due March 2014	Fixed 4.625%	Fixed 5.09%
£50m bond paid September 2013	Floating 3 month LIBOR + 3.25%	Fixed 7.34%
Average cost of bond debt at year end rates		4.26%

The group has one committed Revolving Credit Facility of £270m expiring in December 2016 which accrues interest at LIBOR for the period drawn plus a margin. The cost of borrowing under the group's Revolving Credit Facilities at the year end was 1.5%; however the facility was undrawn at that date.

The group's RCF, bank borrowings and bonds are held at amortised cost.

10. Share capital

	2013 £m	2012 £m
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid:		
At 1 January and 31 December – 1,817,498,329 shares of 1p each (2012: 1,814,831,011)	**18.2**	18.1

At 31 December 2013 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	2004	2007–2014	152.000	1,252,635
				1,252,635

Performance Share Plan

The Company introduced a new share-based Performance Plan in 2006 and granted 13,264,216 shares at various dates throughout 2013.

Year of grant	Vesting year	Scheme interest at 1 January 2013	Shares awarded during 2013	Shares vested during 2013	Shares lapsed during 2013	Outstanding at 31 December 2013	Shares exercisable at 1 January 2013	Shares exercised during 2013	Shares exercisable at 31 December 2013
2008	2011	–	–	–	–	–	380,322	132,263	248,059
2010	2013	8,372,736	–	–	8,372,736	–	–	–	–
2011	2014	12,652,282	–	–	948,061	11,704,221	–	–	–
2012	2015	16,149,794	–	–	2,853,305	13,296,489	–	–	–
2013	2016	–	13,264,216	–	448,348	12,815,868	–	–	–

2008 Share Incentive Plan

In 2008 the Company also introduced a long-term incentive plan for the Chairman, Chief Executive and one other executive director and granted 22,500,000 shares during the year.

Year of grant	Exercise period	Scheme interest at 1 January 2013	Shares lapsed during 2013	Shares outstanding at 31 December 2013 and still subject to performance criteria	Shares exercisable at 1 January 2013	Shares released during 2013	Shares exercised during 2013	Shares exercisable at 31 December 2013	Shares vested but not yet exercisable at 31 December 2013
2008	2011–2013	14,753,250	14,753,250	–	5,236,970	2,764,982	2,667,318	5,334,634	–

For more information regarding the Company's share option schemes, Performance Share Plan and 2008 Share Incentive Plan see Note A10 of the consolidated financial statements.

11. Share premium

	2013 £m	2012 £m
At 1 January and 31 December	**6.8**	6.8

12. Profit and loss account

	2013 £m	2012 £m
At 1 January	**899.4**	877.1
Profit for the financial period (Note 3)	**89.2**	47.5
Share-based payments charged to profit and loss	**0.8**	1.9
Share-based payments debited to investments	**1.2**	2.0
Movement on cash flow hedge	**1.2**	1.9
Recycling of cash flow hedge reserve on settlement	**–**	2.1
Net exchange adjustments offset in reserves	**(0.2)**	3.1
Dividends paid to equity shareholders	**(38.6)**	(36.2)
At 31 December	**953.0**	899.4

Treasury shares of £11.1m (2012: £11.1m) have been netted against retained earnings. Treasury shares represent 6.0m (2012: 6.1m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2013 was £6.9m (2012: £5.9m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

Notes to the Parent Company Accounts – continued

13. Contingent liabilities

The Company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings. In addition, there are contingent liabilities in respect of litigation, none of which are expected to give rise to any material loss.

14. Employees

The Company has six employees (2012: six employees). For information on employee costs, see Note D2 of the consolidated financial statements. Services for finance, taxation, treasury, legal, HR and IT are provided by Rentokil Initial 1927 plc and recharged to the Company.

15. Pension commitments

At 31 December 2013 the RIPS pension asset under IAS 19R – Employee Benefits amounted to £70.6m (2012: £126.1m). The directors are of the opinion that there is no material difference between an FRS 17 – Retirement Benefits and an IAS 19R valuation. For more information on pension commitments, see Note A9 of the consolidated financial statements.

16. Share-based payments

Share-based payments for the financial period were £2.0m (2012: £3.9m) of which £0.8m (2012: £1.9m) was charged to the profit and loss account and £1.2m (2012: £2.0m) debited to investments. Share options relating to the Board are disclosed in the Directors' Remuneration Report and detailed share-based payment disclosures are shown in Note A10 of the consolidated financial statements.

17. Related party transactions

The Company has not undertaken any transactions with related parties during the year, other than transactions with wholly owned fellow members of Rentokil Initial plc. Such transactions are exempt from disclosure under FRS 8. There were no transactions with non-wholly owned fellow members of Rentokil Initial plc.

18. Post balance sheet events

There were no significant post balance sheet events affecting the Company since 31 December 2013.

Additional Information

Shareholder Information

2014 key dates

Preliminary results	28 February 2014
Q1 trading update	2 May 2014
Annual general meeting	14 May 2014
Interim results	1 August 2014
Q3 trading update	7 November 2014

Registrars
All enquiries relating to the administration of shareholdings should be directed to:

Capita Asset Services ('Capita')
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone (from the UK): 0871 664 0300
(Calls cost 10p per minute plus network extras, lines are open 8.30 a.m. to 5.30 p.m. Mon-Fri.)

Telephone (from overseas): +44 20 8639 3399
(Call charges depend on local network rates, lines are open 8.30 a.m. to 5.30 p.m. Mon-Fri.)

Email: shareholderenquiries@capita.co.uk

Capita share portal
An online service at www.capitashareportal.com gives shareholders access to detailed information including:

- Cast your proxy vote online
- View your holding balance, any movements on your holding and get an indicative valuation
- View the dividend payments you have received and register/change bank mandate instructions
- Update your address and contact details
- Elect to receive shareholder communications electronically

The Capita share portal has a dedicated helpline and email address for enquiries:

Telephone (from the UK): 0871 664 0391
(Calls cost 10p per minute plus network extras, lines are open 8.30 a.m. to 5.30 p.m. Mon-Fri.)

Telephone (from overseas): +44 20 8639 3367
(Call charges depend on local network rates, lines are open 8.30 a.m. to 5.30 p.m. Mon-Fri.)

Email: shareportal@capita.co.uk

Capita share dealing services
This service allows you to trade at 'real time' at a known price. You will need your full name, investor code, full postcode and date of birth. Please have the appropriate information to hand when you log on or call, so that Capita can verify your identity.

Capita provide the following two services for buying and selling shares:

- Telephone share dealing: 0871 664 0454 (Calls cost 10p per minute plus network extras, lines are open 8.00 a.m. to 4.30 p.m. Mon-Fri.)
- Online share dealing: www.capitadeal.com

ShareGift
Shareholders with small holdings in shares, whose value makes them uneconomical to sell, may wish to donate them to ShareGift (registered charity no. 1052686). Further information about ShareGift and the charities it supports may be obtained from their website www.sharegift.org or by calling +44 (0) 20 7930 3737 or emailing help@sharegift.org

Share price information and history
The primary listing is on the London Stock Exchange and the current price of the Company's shares is available on the Company's website at www.rentokil-initial.com

Mid-market price 31 March 1982 – 7.5375p*
(* adjusted for the 1983 bonus issue and the 1990, 1992, and 1997 share splits)

Mid-market price 31 December 2013 – 115.8p

2013 high/low – 0.87p/115.8p

Results and dividends
The adjusted operating profit before amortisation and impairment of intangibles, (excluding computer software), reorganisation costs and one-off items for the financial year ended 31 December 2013 was £261.9m (2012: £247.3m).

The directors recommend payment of a final dividend in respect of the year to 31 December 2013 of 1.61p per ordinary share which, subject to approval at the annual general meeting on 14 May 2014, will be paid on 21 May 2014 to shareholders on the register on 11 April 2014. When taken with the interim dividend of 0.70p per share paid on 24 September 2013 (2012: 0.67p) this gives a total dividend of 2.31p per share (2012: 2.10p).

Dividend reinvestment plan (DRIP)

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you would prefer to receive shares for your next dividend instead of cash, please complete an application online at www.capitashareportal.com or call the Capita IRG Trustees Limited on 0871 664 0381 from the UK. (Calls cost 10p per minute plus network extras, lines are open 9.00 a.m. to 5.30 p.m. Mon-Fri.) or +44 20 8639 3402 from overseas.

Dividend history

	Payment date	Payment rate	Record date	Year-end date
2013 Interim Dividend	24 Sept 2013	0.70p	23 Aug 2013	31 Dec 2013
2012 Final Dividend	21 May 2013	1.43p	19 Apr 2013	31 Dec 2012
2012 Interim Dividend	26 Oct 2012	0.67p	14 Sep 2012	31 Dec 2012
2011 Final Dividend	15 May 2012	1.33p	10 Apr 2012	31 Dec 2011
2010 Final Dividend	No Final Dividend	–	–	–
2009 Final Dividend	No Final Dividend	–	–	–
2008 Final Dividend	No Final Dividend	–	–	–
2008 Interim Dividend	17 Oct 2008	0.65p	12 Sep 2008	31 Dec 2008
2007 Final Dividend	23 May 2008	5.25p	18 Apr 2008	31 Dec 2007
2007 Interim Dividend	19 Oct 2007	2.13p	14 Sep 2007	31 Dec 2007
2006 Final Dividend	18 May 2007	5.25p	13 Apr 2007	31 Dec 2006
2006 Interim Dividend	27 Oct 2006	2.13p	29 Sep 2006	31 Dec 2006
2005 Final Dividend	02 Jun 2006	5.25p	05 May 2006	31 Dec 2005
2005 Interim Dividend	28 Oct 2005	2.13p	30 Sep 2005	31 Dec 2005

American depository receipts (ADR)

Rentokil Initial plc has an ADR programme that trades on the over-the-counter market in the United States. This is a sponsored Level 1 ADR programme for which the Bank of New York Mellon acts as depositary. Each ADR is equivalent to five Rentokil Initial plc ordinary shares. For shareholder enquiries, please contact:

BNY Mellon Shareowner Services
PO. Box 30170
College Station, TX 77842-3170
United States

Exchange: OTC (Over the counter)
Symbol: RTOKY
CUSIP: 760125104
Ratio (ADR: Ord) 1:5
Email: shrrelations@cpushareownerservices.com
www.mybnymdr.com
Freephone from the US: 1 888 269 2377
International Calls +1 201 680 6825

Indirect owners of shares with 'information rights'

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under s.146 Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to Capita Asset Services.

Share fraud warning (boiler room scams)

The Company is aware that Rentokil Initial shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers'. They target UK shareholders out of the blue and offer to buy existing shares at an inflated price or offer to sell your shares that often turn out to be worthless or non-existent. While high profits are promised, those who buy or sell shares in this way usually lose their money. These operations (mostly based abroad) are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive. If these calls persist, hang up.

Tips on protecting your shares:

- Get the correct name of the person and organisation contacting you
- Check that they are properly authorised by the Financial Conduct Authority (FCA) before getting involved by visiting the Financial Services register: **www.fca.org.uk/consumers/scams**
- Report the matter to the FCA helpline by calling 0800 111 6768 or complete the unauthorised firms reporting form at: **www.fca.org.uk/consumers/scams/investment-scams/share-fraud-and-boiler-room-scams/reporting-form**

Unsolicited mail

The Company is legally obliged to make its register of members available to the public, subject to a proper purpose test. As a consequence of this, some shareholders may receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service (MPS) at:

MPS FREEPOST LON20771
London W1E 0ZT
or call on 0845 703 4599
or online at **www.mpsonline.org.uk**

Shareholder Information – continued

Annual general meeting

To be held at the Sofitel London Gatwick (Desoutter Suite), North Terminal, Gatwick Airport, Crawley, West Sussex RH6 0PH on Wednesday 14 May 2014 at 12 noon. The notice of meeting is available on the Company's website: www.rentokil-initial.com

Published information

If you would like to receive a hard copy of this Annual Report or a copy in large print please contact the Group Company Secretariat at the Company's registered office. A PDF copy of this report can also be downloaded from our website.

Registered office and headquarters

Rentokil Initial plc, Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey GU17 9AB
Telephone: +44 (0) 1276 607444
Contact: investor@rentokil-initial.com
Company website: www.rentokil-initial.com
Registered in England and Wales: No. 5393279

Cover image
Ricardo Felix, a Rentokil Service Technician in Lisbon, Portugal embraces the challenge of eliminating pests that are difficult to catch

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C107262

This Report is printed on Chromomat paper and has been independently certified on behalf of the Forest Stewardship Council (FSC®). The inks used are all vegetable oil based.

Printed at Principal Colour Ltd, ISO14001 and FSC® certified.

Design
saslondon.com
Print
Principal Colour Ltd

rentokil-initial.com