

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

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