Rentokil Initial

Annual Report 2006

Reinvention and Regeneration

CONTENTS

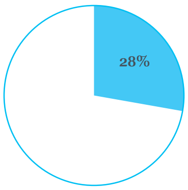
FINANCIAL HIGHLIGHTS 2006

	2006 £m	Increase/ (decrease) %	2005 £m
Revenue	**2,124.7**	12.7	1,885.2
Operating profit before amortisation of intangible assets[1]	**275.0**	(5.3)	290.3
Operating profit	**249.1**	(7.8)	270.1
Profit before income tax and amortisation of intangible assets (PBTA)[1]	**225.0**	(5.3)	237.6
Profit before income tax	**199.1**	(8.4)	217.4
Free cash flow	**128.6**	(19.8)	160.4
Basic earnings per share – continuing operations	**8.43p**	(2.0)	8.60p
Dividends paid and proposed per share	**7.38p**	–	7.38p

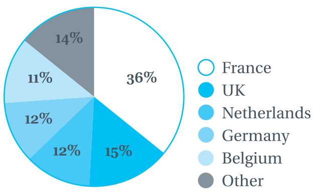
[1] Excluding computer software and development costs

Business Overview

Textiles and Washroom services



% group revenue



Geographical spread

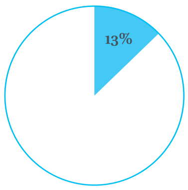
£597.4m
2006 revenue

0.6%
% change

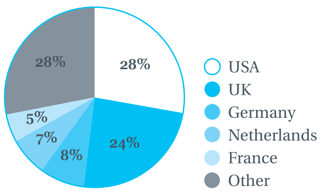
11,000
Employees

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

Pest Control



% group revenue



Geographical spread

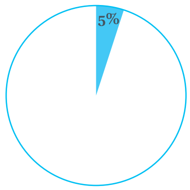
£280.0m
2006 revenue

33.7%
% change

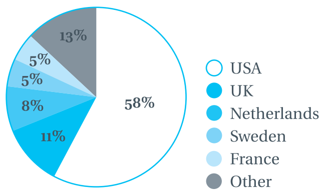
4,750
Employees

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

Tropical Plants



% group revenue



Geographical spread

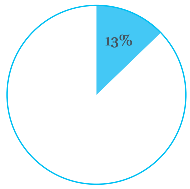
£106.6m
2006 revenue

4.1%
% change

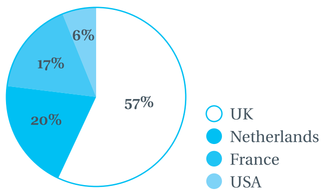
2,050
Employees

The Tropical Plants division provides interior landscaping, design installation and maintenance services in North America, the UK and continental Europe. In early 2007 the division is being rebranded as Ambius.

Electronic Security



% group revenue



Geographical spread

£282.1m
2006 revenue

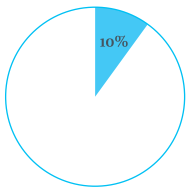
7.1%
% change

3,500
Employees

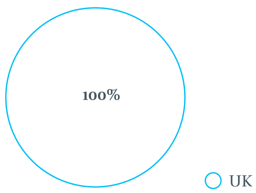
The Electronic Security division is a leading provider of electronic security services providing installation,maintenance and monitoring services for electronic security systems including intruder alarms, fire alarms, CCTV and access control. It also provides integrated security system solutions on more complex security projects.

All numbers at 2005 average exchange rates
and based on management divisional analysis

Parcel Delivery



% group revenue



Geographical spread

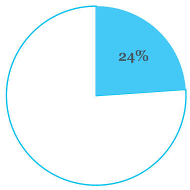
£213.3m
2006 revenue

70.0%
% change

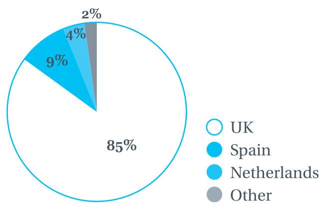
3,550
Employees

Under the name City Link, the division is a leading overnight parcel delivery service operating in the UK. In December 2006 it acquired Target Express to create the number two UK player.

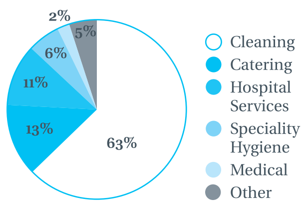
Facilities Services



% group revenue



Geographical spread



Activities

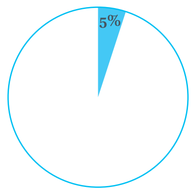
£519.6m
2006 revenue

10.6%
% change

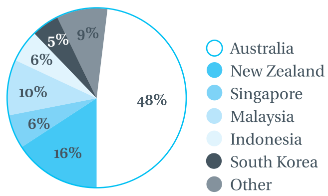
41,800
Employees

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

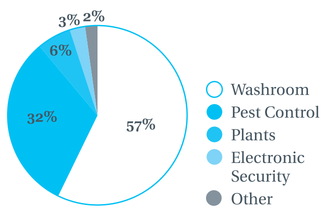
Asia Pacific



% group revenue



Geographical spread*



Activities

£103.6m
2006 revenue

15.6%
% change

3,650
Employees

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

*Excludes share of associate in Japan

Reinventing our company and Regenerating our success

Last year we called our annual report "New Beginnings". In this report – titled "Reinvention and Regeneration" – we look at the progress we are making on the demanding journey back to strong, sustainable growth. From transforming our relationships with customers to creating closer ties with employees; from rethinking business models to streamlining processes; 2006 saw our new management team address an array of challenges and carry out many decisive actions, with some success. Over the following pages we look at how far we have come. We assess the improvements made, the areas that remain difficult and the opportunities we see ahead.

Our Strategy

Our ambition is to be the brand of choice in every market that we serve and to be the trusted provider of services for our commercial and residential customers. We aim to be recognised as a leading international business, dedicated to outstanding customer service.

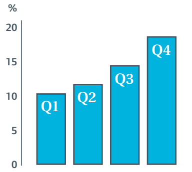
In 2006 we continued to progress the strategy we formulated in 2005 to redirect and re-energise Rentokil Initial and restore it to sustainable, profitable growth. 2005 was focused on developing a detailed plan to achieve these goals and to ensuring we had the right business structure and management team in place. 2006 has been a year of action to implement this plan based on a number of key themes:

- Fixing deep-seated operational problems in businesses such as UK Washroom and UK Pest Control.
- Improving the profitability of every business through productivity and process improvements.
- Reshaping the business portfolio to enhance shareholder value: building on strong market positions or exiting businesses worth more to others.
- Developing a more customer focused, outward looking and dynamic culture.
- Developing a talented and committed management team.

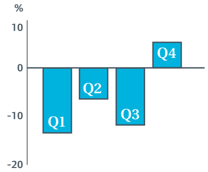
While simple to describe, this is a big agenda. The desirability of achieving each element is unarguable; the challenge is in achievability, the impact and how quickly it can be delivered – not everything can be completed in a year. As a board, we believe we are generally on track with where we set out to be at this stage, although some things have done better than we had anticipated whilst others have been slower.

The principal risks and uncertainties relating to our strategy are summarised below and discussed at greater length in the relevant parts of this review.

- Disruption in the businesses undergoing extensive organisational change.
- Ensuring acquisitions are integrated properly and meet the investment case.
- Resolving the challenges in the Textiles and Washroom Services division in some of its continental European markets.
- Retaining the management team.



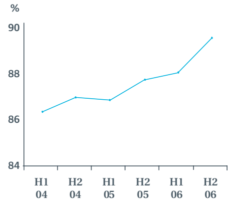
REVENUE GROWTH BY QUARTER 2006



ADJUSTED OPERATING PROFIT GROWTH BY QUARTER 2006

12.7%

REVENUE GROWTH



CUSTOMER RETENTION



MAKING PROGRESS

Doug Flynn (left), Chief Executive, and Brian McGowan (right), Chairman
"As a board, we believe we are generally on track with where we set out to be at this stage, although some things have done better than we had anticipated whilst others have been slower."

What we achieved in 2006

Fixing Operational Problems

We have continued to work on fixing the deep-seated operational problems in a number of specific businesses and progress was made in many of them during the year.

One example of this is UK Washroom, perhaps the most complex performance improvement programme we are undertaking. The first stage involved separating the washroom business from the linen and workwear activities, which were then closed. The second stage was integration of the former Rentokil and BET washroom operations – run separately since BET was acquired ten years ago – to build a new washroom business different from either of those it is replacing. Thirty branches have been closed and we now operate from 25 locations with plans to reduce to 20. You can read more about this on page 12.

UK Pest Control is another example of how we are tackling operational problems. Despite its leading market position, this business had suffered for some time from an erosion of customer contracts as a result of inadequate service performance and a one dimensional approach to winning new customers. A new management team is addressing these issues by using service knowledge and customer focus, combined with efficient delivery, to retain and win customers. Page 17 gives more details on this and the benefits we expect to gain.

Significant restructuring has also been carried out in the French textiles business. The new structure centralises the management of processing plants while retaining profit and loss responsibility at branch level. Sales management has been bolstered in an endeavour to improve sales productivity. The centralised management of processing should lead to a better approach to plant investment and capacity utilisation.

The three businesses in these examples together account for over 15% of total revenue from continuing operations and their success is therefore critical to the overall success of the company. In each case, a significant amount of organisational change is taking place affecting a large number of people in many different locations. To avoid the risk that the change programmes will not be executed as well or as quickly as anticipated, there are detailed plans in place which are monitored closely to ensure we can correct any deviations in an effective and timely manner.

Improving Profitability

Another key part of our strategy in 2006 was to improve the profitability of every business in the group. As well as dealing with operational challenges such as the ones described above, this centres on productivity and process improvements. Through this we can improve the quality and reduce the cost of what we do.

A great deal of progress can and is being made simply by challenging the way businesses are organised and processes are carried out. While technology investment has lagged and will help in the future, more can be done in the short to medium-term by “working smarter”. The benefits of the group’s work in this area will be realised over the next several years; it is not a question of quick wins.

There are clear opportunities to improve quality and customer responsiveness and reduce costs through the processes we employ. These opportunities are available in almost every area of what we do. They include new IT systems and the setting up of centralised services to increase administrative efficiency. In the UK, for example, a service centre is being created in Dudley. In some businesses, such as UK Pest Control, we have taken out layers of management. In others, we are rationalising processing plants, for example in Textiles in southern Germany. At the group’s head office, certain functions have been resized and headcount reduced by transferring responsibility for activities such as R&D and health & safety to the divisions to ensure these functions are aligned to business goals.

Reshaping the Business Portfolio

Our role as a board is to optimise the shape of the group as well as to oversee operational performance. We do not believe we can simply “fix the businesses” before we start to reshape the company. Clearly both are necessary and need to be addressed in parallel to ensure opportunities to create value are not overlooked. For example, had we waited until challenges in other divisions were resolved we would have missed out on the value-creating acquisition of Target Express.

In 2006 we acquired over 70 operations for a consideration of £429 million. At the same time we exited a number of businesses, generating disposal income of over £144 million.

All these transactions were based on our commitment to enhance shareholder value by building on strong market positions or exiting businesses which are worth more to others. In considering an acquisition we look at a number of important criteria; does it meet financial hurdles? can our management run the enlarged business? do we have a clear post-acquisition plan? is the acquisition capable of building a market leading position and of good growth? Ensuring that post-acquisition plans are tightly controlled is essential to ensuring that acquisitions are integrated so that they meet the goals set out in the approved investment case. This is particularly true for larger deals which could pose a significant integration risk like Ehrlich and Target Express. The board therefore regularly reviews the major integration plans and progress against them.

Acquisitions have focused on areas which have superior growth rates in terms of both our markets and our own businesses, particularly Pest Control, Parcel Delivery and Asia Pacific.

The acquisition of JC Ehrlich was highlighted in last year's annual report. Ehrlich and the existing US Rentokil pest control businesses have now been fully integrated and are performing well in the world's largest pest control market. Ehrlich's revenues grew by 9% in 2006, ahead of market growth of some 6%.

At the end of 2005 we began a process to transform City Link into an integrated parcel delivery business and moved a considerable way along this path in 2006. By the end of the year, we owned over 80% of the City Link network having bought nine franchises during 2006. Target Express, acquired in November for £213 million, will be integrated with City Link to create a leading overnight parcel delivery business with the number two position in the UK. They are highly complementary with similar business models and a shared passion for operational excellence and customer service. There are substantial synergies between City Link and both the acquired franchises and Target Express. It will take all of 2007 and 2008 to realise those synergies in full. With revenue growth rates approaching 10% in both City Link and Target Express in 2006, they easily outstripped market growth of around 4%.

Asia Pacific is also undergoing an acquisition-led transformation. Its markets are growing at an average of 5-6% a year, although there is some variation between the more established markets of Australasia and new markets of North Asia. In 2006, 25 acquisitions were completed in the region for a total of £47 million. Asia Pacific is rapidly becoming a powerhouse for growth within the group and we expect this to continue for the foreseeable future. The board is confident that the local management team which has been built in Asia Pacific in the past year has the skills and experience to manage this growth.

In the first half of 2006 we sold Manned Guarding in a series of transactions for a total of £150 million. In November, we announced that we were undertaking a strategic review of the Electronic Security division in Europe and the USA. As a result of that announcement, strong interest in purchasing this business has come from trade and private equity buyers. A formal sale process commenced in January 2007 and we expect resolution by the end of June 2007.

Building and Developing Our Team and Culture

The culture and the commitment of management and staff are extremely important to the success of the group. These are not easily measured and it is difficult for shareholders to appreciate the degree of improvement. However, without progress in these areas our overall success is impossible.

Our ability to recruit and assimilate a large number of new managers into a complex, fast moving environment and then retain them is of utmost importance to achieving our strategic and operational goals. Great emphasis is therefore placed on both

ACQUIRING THE LEAD IN ASIA PACIFIC

We completed 71 acquisitions in 2006 and the division with the highest number of deals was Asia Pacific.

Here, we completed 25 acquisitions spread across nine countries: from washroom services and pest control in Australia to dust mats in China, from tropical plants in New Zealand to electronic security in Singapore.

Some of the acquisitions enhanced existing strong market positions – such as Pink Healthcare, which consolidated our position as Australia's leading washroom services company.

£47m

2006 ACQUISITION SPEND

Other acquisitions provided entry into markets new to the group, including a number of deals made in China, our first steps into Vietnam and an entry into the electronic security market in Singapore.

The acquisition pipeline looks healthy for 2007 with further deals likely across the region. Indeed, we have already made progress with the acquisition of Campbell Brothers, which gives us an entry into residential pest control in Australia and Ding Sharn, through which we are now the number one pest control company in Taiwan.

recruitment and reward to ensure we have the right people and are able to keep them. We are delighted with the response of existing and new staff who are motivated by the scale of the challenges we face.

Many changes have been made to the company's senior management team and the influx of new people – together with the commitment of those who have been with the group for some time – is slowly bringing about a change in the culture of our company. We are leaving behind the inward focused, risk averse culture and moving towards a high performance, outward looking, innovative ethos.

Cultural change is being effected through strong leadership and by creating a climate where people are empowered to make decisions about their businesses and their careers. To do this, we must support our current leaders and in 2006 we introduced a group-wide leadership programme which provides our people with the tools to develop their skills. However, developing today's leaders is not enough; we must also identify and recognise the potential of future leaders. A talent management process, also introduced in the past year, is enabling us to understand better the performance and potential of our people so we can make the best use of these for both the business and each individual. There are more details about these programmes on page 8 and the Corporate Responsibility section starting on page 34 details some other workplace initiatives designed to enhance the working lives of our people.

Ensuring that rewards and incentives are aligned to the aims of the business – and ultimately the interests of our shareholders – is a key element of encouraging strong performance. We have introduced a performance review process to enable us to link reward and performance for all the group's managers, some 2,000 people. Shareholders approved a new long-term incentive plan for the top 500 or so senior people at the 2006 AGM, further information on which is provided in the directors' remuneration report starting on page 46.

As well as changes in operational management, there were a number of changes to the board in 2006. As mentioned in last year's annual report, Ron Spinney and Paul Mason stepped down from the board in May and we reiterate our thanks to them both. We were pleased to welcome two new non-executive directors, Alan Giles and Peter Bamford, who joined the board in May and July respectively. Alan and Peter's biographies are on page 39 and we are delighted with the contribution they are already making to the board.

How we measure achievement

The board uses a number of key performance indicators (KPIs) to judge progress towards strategic objectives. Although many of these KPIs are "output" measures – such as portfolio development, revenue and profit growth – in a complex company such as Rentokil Initial the board believes they are the most relevant way of demonstrating to shareholders progress on important issues such as customer satisfaction, service levels, staff satisfaction and innovation. This is because if we fail to move forward in the latter we will be unable to make sustainable progress in the former. A commentary on performance against KPIs at group and divisional level can be found in the review of performance.

For businesses with recurring revenue, KPIs relating to contract portfolio development are important, some because they are an inherent measure of the level of service we are providing to our customers and others because they are indicators of market strength. The contract portfolio represents the annualised value of our customer contracts and is a leading indicator of performance. We refer to the increase in the contract portfolio as "net gain" which

UNITED AT OLD TRAFFORD

At a time of change it is vital to get employee communications right.

In September 2006, Rentokil Pest Control in the UK organised a two-day conference for 750 of its managers, technicians and surveyors. The aim was to ensure that the company's employees received a clear briefing at first hand about the planned reorganisation programme and were given the opportunity to provide their input before the programme was carried out.

The changes agreed were wide ranging: 26 branches across the UK will fold into 11 area/regional offices, a new National Call Centre is to be introduced in Dudley and a new National Support Centre created in the Thames Valley, multiple local area service teams will be created and a new Technical Service team focused on the needs of high dependency customers is to be established.

The gathering at Old Trafford – home of Manchester United – was the first company conference in many years to include the entire front line pest control team.

is made up of a number of component KPIs. "New business wins" shows us how successful our sales activities are. "Customer retention" indicates how satisfied our customers are with the services we provide. Changes in the "as used" portion of contracts show variations in the amount of business existing customers give us under their contracts and the impact of price movements: as such they can often be an early indicator of market trends. For example, in some of the European textiles businesses, a decline in the "as used" portion of garments contracts (i.e. the actual number of garments we process for customers) is a reflection of a shift in manufacturing jobs to lower cost countries. For non-portfolio businesses such as Parcel Delivery, the equivalent KPIs are number of consignments and revenue per consignment.

After the portfolio, we look at growth in total and organic revenue. We then look at net margin which is a way to judge the success of performance and productivity improvement initiatives; improving efficiency in a sustained way is fundamental to first stabilising and then expanding margins.

Our profit KPI is operating profit (profit before interest, tax and amortisation). In 2006 we have reported operating profit both before and after one-off costs, referring to the latter as adjusted operating profit. We believe that to look at underlying trends we need to strip out these costs as they principally relate to one-time restructuring/rationalisation projects. As the level of one-off costs diminishes in the future, we will no longer need to use adjusted operating profit as a KPI.

For the overall group, we look at all these KPIs plus some which are only relevant to the group as whole. These are operating cash flow and free cash flow – which are measures of our ability to invest in our businesses and to pay dividends – and profit before tax and amortisation (PBTA). As with operating profit, in 2006 we have also used adjusted PBTA which excludes one-off costs.

What we expect to achieve in 2007

In 2007, shareholders can expect to see progress in those businesses which have been undergoing deep change to the extent that by the end of the year they will be back to "business as usual". In particular Pest Control and Washroom in the UK will both complete the transition to their final planned configurations.

The Pest Control division is now on a satisfactory growth path and with the completion of the UK changes during the year we are confident this sound business will return to profitable growth in 2007 and beyond.

Textiles and Washroom Services still has a number of operational issues to deal with and faces difficult market conditions in continental Europe which impacted our ability to recover higher costs in 2006, leading to margin erosion. The board believes that this division is the major challenge for the group and it is vital that progress is made in 2007. New divisional management is in place and shareholders will be kept informed of our plans as the year progresses.

Overall, we expect to achieve more in terms of both customer retention and new sales growth. We also expect to make progress in improving efficiencies. We are confident that productivity improvements can be made in most areas including administration, service and sales. Given the scope in this area we expect gains to be made over each of the next several years.

2007 will be an important year for those businesses that have been active acquirers as they progress integration and development plans; most particularly in Parcel Delivery and Asia Pacific. In Asia

REINVENTING CUSTOMER SERVICE

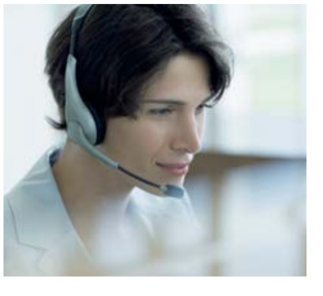
Putting customers at the centre of everything we do is essential for success.

Our research shows that customers who are happy with the way we manage their accounts and resolve any problems that occur are more likely to keep their business with us.

In the UK, individual branches have traditionally carried out account management. Now, a customer service centre is being established at Dudley, near Birmingham, to handle both customer facing and back office functions. The new operation builds on the infrastructure of a service centre which has been operated by the Facilities Services division with great success for some years.

By the second quarter of 2007 more than 400 staff will be in place dealing with customer enquiries, inbound and outbound telesales, accounts payable and receivable and payroll, together with HR administration and IT support, for the UK operations of Pest Control, Washroom Services, Facilities Services and Tropical Plants. Customers will benefit from longer opening hours and our ability to gain instant access to customer data and to follow-up to ensure issues have been dealt with, and swifter handling of new business enquiries.

As well as improving our responsiveness to customers, there will be an ongoing cost saving of around £3 million a year by the end of 2008.



Pacific, the integration plans for both larger acquisitions like Pink and Campbell Brothers (acquired in January 2007) and the smaller businesses are reasonably straightforward and should be largely completed within the year. Parcel Delivery requires a much more sophisticated process as it absorbs both the franchise network and combines with Target Express. The integration will be completed by the end of 2008.

The sale of Electronic Security is expected to be completed before the end of June. The proceeds of this sale will be used to pay down debt. Further acquisitions will be made, including the outstanding City Link franchises and additional deals in Asia Pacific. The board believes there may be some consolidation in the European textiles and washroom industry during 2007 and will monitor this situation to ensure we are able to take advantage of any opportunities that might arise to protect or enhance shareholder value.

Overall, the board expects 2007 to be a year of stabilisation, building on the progress made in 2006 in revenue growth – particularly organic growth – and improvements in contract retention rates. Profit before tax and amortisation will be in line with 2006 before the impact of costs associated with rationalisation projects and the integration of Target Express. Some regression is expected in the first quarter due to a number of specific factors, not least the declining trends in Textiles and Washroom Services which were still apparent in the fourth quarter of 2006. However, we have recently begun to see some improvements in contract portfolio development in this division and, if these trends continue, we would expect to improve on the position for the year.

The dividend policy is unchanged; we will continue to take a cautious approach to dividend growth until the recovery in the businesses is well established. However, the board does not believe there will be a need to reduce it from the 2006 level.

Summary

The board's intention is to create a group capable of sustained profit growth. Following the work we have done over the past two years, we expect several of our key businesses to achieve this in 2007, particularly Pest Control (in Europe and the USA), Parcel Delivery, UK Cleaning and Asia Pacific. This will come from a combination of organic growth – from better customer retention rates and higher new sales – and acquisitions. At the same time we do not underestimate the need to resolve the issues affecting Textiles and Washroom Services.

A need for a clear growth trajectory firstly in revenue and then in profit has been behind our thinking and actions in our business operations and acquisitions and disposals. A key part of that has been much greater focus on customers – on identifying their needs through customer segmentation and through improving service levels. Our marketing and selling is getting better and we are broadening our routes to markets.

Finally, we asked a lot from our people in 2006 and we are proud of the way they stepped up to the challenge. We extend our thanks to each of them for their hard work and continuing commitment.

Brian McGowan
Chairman

Doug Flynn
Chief Executive

14 March 2007

How we performed and what lies ahead

This Review of Performance takes a close look at each of our business areas – Textiles and Washroom Services, Pest Control, Tropical Plants, Electronic Security, Parcel Delivery, Facilities Services and Asia Pacific. In each case we report on market conditions, record our progress against key performance indicators, discuss the most important developments in 2006 and preview our plans for 2007.

Basis of Preparation

In all cases, references to operating profit are for continuing businesses before amortisation of intangible assets (other than computer software and development costs). References to adjusted operating profit and adjusted profit before tax and amortisation (PBTA) also exclude items of a one-off nature, totalling a net cost of £23.6 million (2005: £30.5 million) that have impacted the results for the period. They primarily relate to the group's restructuring programmes and consist of the profit on the sale of the former head office, consultancy, reorganisation and redundancy costs and a pension curtailment credit. These have been separately identified because they are not considered to be "business as usual" expenses and, although they are small, they are numerous and have a varying impact on different businesses and reporting periods. All references to intangible assets exclude computer software and development costs. This commentary reflects the management divisional structure and not the statutory segmental information (see note 1c). All comparisons are at constant 2005 full year average exchange rates.

Group Performance Review

	£m	Change vs 2005
Revenue	**£2,134.4**	+13.2%
Organic revenue		*+3.1%*
Operating profit	**£277.4**	–4.4%
Adjusted operating profit	**£301.0**	–6.2%
Net adjusted margin	**14.1%**	–2.9 percentage points
Contract portfolio net gain	**£158.8**	+11.6%
New business wins	***£178.0***	
Net additions/reductions	***£45.4***	
Acquisitions	***£93.6***	
Terminations	***£(158.2)***	
Retention rate	**88.5%**	+1.4 percentage points
Operating cash flow	**£209.1**	–27.1%
Free cash flow	**£128.6**	–19.8%
PBTA	**£227.8**	–4.1%
Adjusted PBTA	**£251.4**	–6.2%

Revenue from the group's continuing operations increased by 13.2% over last year. Organic revenue growth was 3.1%. Revenue was higher

LEADING THE WAY

Our determination to secure high performance across the organisation has created far-reaching plans for business improvement. At the heart of this is a strategic focus on ensuring our leaders are fully equipped with the skills and disciplines they need to achieve change.

We have introduced a new Performance Management process for our senior leaders that aligns individual objectives to business strategies. Achievement of 2007 objectives will be directly linked to reward in 2008. More than 300 leaders have participated in 21 global workshops run in five languages.

We have also introduced a Talent Process so that we understand the range of capability and potential we have in our most senior leaders. A 180-degree feedback process, based on our newly implemented Leadership Framework, was undertaken to benchmark our 61 most senior leaders. Our process will ensure we have an identified and effective talent and succession pipeline for critical senior roles over the next three to five years.

A new portfolio of leadership development programmes is being launched in 2007 to strengthen our leadership capability and to support our leaders in their critical business challenges. These programmes will provide focused, professional development for all of our senior leaders.

Ensuring we maintain the passion and energy we have in the business is critical to our success and we take employee engagement very seriously. To that end we surveyed more than 4,500 employees in one of our global divisions to ensure we understand what motivates our people and what they want from us. We were delighted that more than 93% responded to the survey and action plans have been instigated at all levels of management to ensure we respond to the issues raised. Our progress is being tracked and we will measure again in the autumn of 2007.

STRENGTHENING LEADERSHIP CAPABILITY

One of the 21 leadership workshops held around the world in 2006, which focused on our approach to energise, develop and embed the capability and behaviours we need to achieve a measurable change in business performance.

100 YEARS OF SERVICE

The name "Initial" goes back to the early 20th century when the wife of the owner of a towel rental service marked every customer's items with their initials, thus ensuring each customer only received their own towels.

One hundred years later, the principle remains the same. Here at the Initial Hokatex laundry at Alkmaar in the Netherlands, millions of garments are processed every year, each and every one bar-coded to an individual wearer.

year-on-year across all divisions and organic revenue growth was achieved in all businesses except Electronic Security. The highest increases in revenue were achieved by Parcel Delivery, Pest Control and Asia Pacific.

The contract portfolio, which is the annualised value of customer contracts, increased by 11.6% during the course of the year to £1,530.6 million. The group's customer retention rate of 88.5% was an improvement over the 87.1% achieved in 2005.

Operating profit from continuing operations before amortisation of intangible assets was £277.4 million. This represented a decline of 4.4% versus 2005. All businesses recorded lower operating profit with the exception of Parcel Delivery and Electronic Security. Operating profit numbers include significant one-off costs incurred during the course of the year. These one-off costs – which relate principally to reorganisation and rationalisation projects – totalled £23.6 million in 2006 (2005: £30.5 million). Excluding the impact of these one-off items, adjusted operating profit before amortisation of intangible assets fell by 6.2% for the year as a whole to £301.0 million.

Net margins came under pressure during the course of 2006 for a number of reasons. Firstly, market factors including competitive pressure and slowing demand affected businesses such as Textiles and Washroom Services where it was not always possible to increase prices to cover higher costs. In addition, in some divisions there has been a move towards lower margin activities. This includes Parcel Delivery, where margins are lower for the acquired franchise businesses than the original owned branch network, and Pest Control whose expanding US activities are lower margin than its established UK and European operations. Overall, the group's net adjusted margin was 14.1% in 2006 compared with 17.0% in 2005.

Profit before tax and amortisation of intangible assets fell by 4.1% to £227.8 million. Adjusted profit before tax – which excludes one-off items – of £251.4 million was 6.2% lower than last year. After amortisation of intangible assets, profit before tax of £199.1 million was 8.4% lower than last year. Profit after tax fell by 2.3% to £154.3 million. Profit for the year including discontinued operations, predominantly Manned Guarding, was down 23.8% at £247.1 million.

Basic earnings per share from continuing operations fell by 2.0% compared to last year to 8.43 pence per share. Basic earnings per share from total operations decreased by 23.8% to 13.57 pence per share. The dividend paid and proposed was unchanged at 7.38 pence per share.

Textiles and Washroom Services

Market conditions

The markets throughout Europe remained challenging in 2006 reflecting the continued decline of the traditional industrial base as manufacturing moves to lower cost countries. There is also some overcapacity in the continental European markets which impacted our ability to increase prices despite cost pressures (fuel, labour and costs relating to the more stringent legislation and regulations in the areas of health and safety and the environment).

Key performance indicators

	£m	Change vs 2005
Revenue	**£597.4**	+0.6%
Organic revenue		*+0.4%*
Operating profit	**£92.5**	–24.4%
Adjusted operating profit	**£108.8**	–18.7%
Net adjusted margin	**18.2%**	–4.4 percentage points
Contract portfolio net gain	**£9.5**	
New business wins	***£53.6***	
Net additions/reductions	***£11.1***	
Acquisitions	***£1.6***	
Terminations	***£(56.8)***	
Retention rate	**89.9%**	–1.3 percentage points

2006 review

The Textiles and Washroom Services division had a difficult year with adjusted operating profit down 18.7% in the full year on broadly flat revenue. The UK business, which accounts for 15% of divisional revenue, is being fundamentally restructured and tough market conditions in the major countries in western Europe have had a significant adverse effect on margins.

The UK business underwent a number of fundamental changes in the year to address some deep-seated operational issues. Although impacting on performance in 2006, these changes will create a platform for the development of a much stronger and more profitable business going forward. The loss-making linen and workwear activities were closed on 30 April 2006. The structure of the remaining washroom business was completely overhauled as the two legacy washroom businesses were integrated, a process which could not commence until linen and workwear had been separated out. At the start of the year the combined business had operated from 50 branches. By year end, this had transitioned to 25 multi-service centres with some key functions

REINVENTING OUR PRODUCTS

In the past year, Washroom Services has introduced a number of innovative new products which our customers have warmly welcomed. The Elite range is a stylish suite of co-ordinated washroom products designed to enhance any washroom environment.

Building on the success of the no-touch sanitact disposal unit, we have launched two additional no-touch products: a paper towel dispenser and a soap dispenser. The new products create a more hygienically clean washroom environment at the same time as reducing waste and overusage.

previously carried out at branch level being transferred to centralised customer handling and back office facilities. The action taken in the UK business in 2006 will reduce its cost base by £3 million per annum and the restructuring is expected to be completed by the end of 2007. The one-off costs incurred in the UK in 2006 were £5.1 million. Inevitably, such a high level of change negatively affected performance of the UK business. In particular, a high level of terminations was recorded in the second and third quarters from washroom customers who had previously also taken linen and workwear services, although this began to stabilise in the fourth quarter. As a result, revenue declined by 5.7% in the UK compared with the prior year and adjusted operating profit fell by £13.8 million.

In France, the industrial sector of the textiles business BTB was reorganised whereby processing is run centrally whilst profit and loss responsibility remains at branch level. The reorganisation aims to develop a more coherent approach to plant investment and capacity utilisation and a more active and professional sales management. However, the difficult market environment of soft demand and aggressive competition prevented the business from realising the full benefits of the structural change in 2006. Consequently although revenue in France grew by 1.3% in 2006, adjusted operating profit fell by 15.9%. During 2006, BTB received a formal complaint from the French Competition Council alleging that certain activities in a period between 1997 and 2002 infringed French competition law. After taking appropriate legal advice, the group has made a provision in respect of the possible regulatory fine to be imposed by the French authorities. While the provision represents our best estimate of the total liability that may arise, it is possible that the ultimate liability may be different from the amount of the provision currently recorded. The total amount of the provision is not disclosed to avoid prejudicing the group's position in this matter.

Revenue in the Netherlands fell by 3.1% compared with last year because strong competitive pressure in the second half of 2005 and first half of 2006 resulted in a net loss of portfolio. Our ability to control costs due to greater route density in this market limited the impact of lower revenue on adjusted operating profit, which declined by 3.6%.

In Germany, revenue increased by 3.4% in 2006. However adjusted operating profit was 7.1% lower as a result of continuing losses in the hospital services business and cost inflation in excess of the price increases we could achieve in the market. A plant review programme commenced during the year reflecting our desire to exit low margin activities in the south of Germany. It is anticipated that this will be completed by the fourth quarter of 2007. The estimated saving is £2.0 million per year which will be achieved in 2008.

Revenue increased in the division's business in Belgium by 1.2% over last year but again higher costs resulted in a decline in adjusted operating profit of 2.6%.

Most of the division's smaller European businesses recorded higher revenue in 2006, including strong double digit growth in Austria, Spain, Finland, Portugal and the Czech Republic and mid to high single digit growth in Denmark and Switzerland. Operating profit came under pressure due to rising costs – principally investment in sales and service capacity – and competitive pressure with only Austria, Portugal, Switzerland and Spain making progress against last year.

The integration of the two legacy washroom businesses moved ahead during 2006 in the majority of the European markets. As well as creating a more efficient structure and improving service performance, the aims of the integration include selling the full range of washroom services and mats to all markets.

A number of capital investment programmes commenced in Europe in 2006 for completion in 2007 which will either upgrade existing facilities or provide market entry. These include Amstetten

HAVE YOU CLICKED YET?

In the past, we had a rather limited approach to marketing with many businesses restricting their activities in this area to local advertising. Equally, our sales activities were one dimensional, mostly involving cold calling of potential customers offering in many cases a "one size fits all" service offering. This is changing.

Research suggests that the first port of call for many people looking to purchase the sort of services we provide is the Internet. In 2006, we launched two new portals for our Rentokil and Initial branded businesses.

38 COUNTRIES

For Pest Control, www.rentokil.com was launched in March and gives us a web connection to customers in 38 countries. Many are full service websites that provide users with information on our services, assistance in identifying the type of pests causing their problems, facts about many different types of pest and the ability to request a free survey or consultation.

24,000 UNIQUE VISITORS

Launched in October, www.initial.com provides a portal for our Initial branded businesses, principally Cleaning, Facilities Services and Textiles and Washroom Services but also Hospital Services, Medical Services, Building Services and a number of other activities. Available in six languages, the site includes detailed descriptions of the services we offer plus contact details for all Initial businesses across the world. In the first four months of operation, there have been more than 24,000 unique visitors to initial.com and on average traffic is increasing by some 14% per month.

TAKING A NEW ROUTE

Widening our routes to market took an important step forward in 2006 through the launch of www.rentokil.com for our pest control business and www.initial.com for our Initial branded activities.

CREATING A MAJOR PLAYER

We are now the fourth largest pest control company in the USA following the acquisition of JC Ehrlich. Based in Reading, Pennsylvania, Ehrlich has been the leader in its eastern seaboard market for decades, earning its place as the "911 of pest control". Ehrlich and the existing smaller Rentokil business in North America have been fully integrated and are performing ahead of expectations.

in Austria, Lokeren in Belgium, Brie-Comte Robert in France and Prague in the Czech Republic. The total investment associated with these projects is estimated to be £24 million, of which £10 million was spent in 2006 with the balance to follow in 2007.

2007 preview

2007 is an important year for the division and it is vital that progress is made in a number of key areas. These include improved cost recovery and higher productivity and efficiency throughout the division. We will explore cross-border structures to improve customer service and reduce costs in processing, service and management activities. At the same time, we will monitor developments in the wider market and evaluate opportunities to protect and/or create value as they arise.

The changes in the UK will be completed by the end of the year. By then, the business will be operating from its final 20 locations; it will have modern, efficient processing plants using new technology; the centralised back office facilities will be running at full strength, as will the new Oracle systems. The branch cost base will have reduced by £3 million. Overall, we anticipate improved customer retention rates and higher new business wins leading to higher organic revenue growth.

In France, there were positive trends in portfolio development at the end of 2006 which have continued into the early part of 2007. With this in mind, our aim in 2007 is to stabilise profits in the French business. Firstly, we must improve our ability to recover cost increases. In 2006, our costs rose by some 4% but price increases were less than 1%, a position which is clearly not sustainable. We are also aiming to improve sales productivity and continue to develop range selling, that is to say the number of products taken by each customer.

Elsewhere in continental Europe, cost recovery is also a high priority. In Germany, we expect to exit certain low margin activities in the south and also complete the washroom business integration. A pan-European plant and infrastructure review will be undertaken. We will be investing in new processing capacity in Belgium, France, Austria, the Czech Republic and Spain and looking for market entry in eastern European markets such as Poland.

Pest Control

Market conditions

Pest control markets are growing at around 1.5 times GDP. They are driven by increasing hygiene standards, legislation and awareness of the need to take an outsourced pest control service. Competition for large commercial customers remains keen with price as well as service quality being key. Smaller commercial and residential customers have a very wide range of choice of potential suppliers due to the large number of small, private operators who service a very local area.

Key performance indicators

	£m	Change vs 2005
Revenue	**£280.0**	+33.7%
Organic revenue		*+1.1%*
Operating profit	**£61.6**	–8.3%
Adjusted operating profit	**£68.4**	+4.4%
Net adjusted margin	**24.4%**	–6.9 percentage points
Contract portfolio gain	**£54.0**	
New business wins	***£31.4***	
Net additions/reductions	***£6.9***	
Acquisitions	***£47.8***	
Terminations	***£(32.1)***	
Retention rate	**84.7%**	+2.6 percentage points

2006 review

Improving the performance of the UK pest control business, which had revenue of £66 million in 2006, is an important part of the group's overall strategy. A new management team – largely recruited from outside the group – took charge in the UK in the first half of the year and major changes to the structure of this business are now underway with a focus on creating a more customer-centric organisation. The previous 26 branch structure is being replaced by: 84 field based sales and service teams focused on the smaller, local customer base; a team of technicians dedicated to meeting the demanding service needs of the high dependency segment (such as food manufacturers and national food retailers); and new business development via sector specific sales teams. Customer service functions have moved to a new national customer contact centre in Dudley and administration support has been regionalised.

The business has been de-layered with some 25% of management and administrative posts eliminated. The restructuring will be completed by the end of 2007. The one-off costs for this programme are £4-5 million and were largely incurred in the fourth quarter. They are expected to be recovered in less than three years on cost savings alone. Revenue in the UK fell by 3.9% in 2006 versus the prior year. The portfolio declined as the high, but improving, termination rate was offset by a weaker sales performance during a year of substantial organisational change. Lower revenue impacted adjusted operating profit, which fell by £4.5 million for the year. There was good progress in customer retention rates, from 76.3% at the start of the year to 80.3% at the end.

The division's operations in continental Europe continued to build on the progress made in 2005. Customer retention rates improved from 85.4% to 86.0% during the course of the year. Service performance increased and staff churn improved, particularly for technicians. Revenue for the European operations grew by 6.1% over the previous year with increases achieved by almost all countries. The key European markets of France, Germany and the Netherlands achieved high single digit revenue growth with Spain and Italy recording double digit growth. Adjusted operating profit was 8.8% higher than last year in continental Europe with all of the large operations coming in ahead of 2005.

In North America, 2006 was dominated by the acquisition of JC Ehrlich, which was completed at the beginning of March and established the division's US business as the fourth largest in its market. The assimilation of Ehrlich is now complete with integration costs of £0.9 million incurred in 2006. Cost synergies of some £0.8 million a year are anticipated and these will start to come through in the first half of 2007. The scale of the Ehrlich acquisition compared to the pre-existing US business makes revenue and operating profit comparisons with the previous year meaningless. However, the North American business performed well in 2006 and in line with our expectations; Ehrlich's 2006 revenues were 8% up on 2005.

2007 preview

In the UK, we will focus on bedding down the new structure and delivering IT systems to automate and simplify sales and service processes. Improving customer retention will continue to be very important. Staff turnover has been an issue in the past, so improving staff engagement and reducing headcount churn will have a high priority. Overall, we expect the UK business to achieve a modest increase in revenue and operating profit in 2007.

The European businesses will look to build on their good performance in 2006 with a strong focus on organic growth via improved sales performance and investment in marketing and sales capabilities. Growth will also come from bolt-on acquisitions in a number of key markets. Maintaining – and even surpassing – the high levels of customer retention achieved in 2006 will be key.

The strong organic growth performance seen in North America in 2006 is expected to continue in 2007. Bolt-on acquisitions in existing geographies will provide additional growth. We will continue to look for acquisitions to provide regional anchor positions in other geographies in order to expand our footprint in the region.

Tropical Plants

Market conditions

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

Key performance indicators

	£m	Change vs 2005
Revenue	**£106.6**	+4.1%
Organic revenue		*+0.9%*
Operating profit	**£7.5**	–21.1%
Adjusted operating profit	**£8.1**	–14.7%
Net adjusted margin	**7.6%**	–1.7 percentage points
Contract portfolio gain	**£4.0**	
New business wins	***£8.6***	
Net additions/reductions	***£3.3***	
Acquisitions	***£3.0***	
Terminations	***£(10.9)***	
Retention rate	**87.2%**	+1.7 percentage points

2006 review

The division's largest operation, representing 58% of 2006 revenue, is in the USA and 2006 was another strong year for the US business, which is the only player in its market able to offer a national service to large, multi-site organisations. US revenue increased by 4.6% in 2006 and adjusted operating profit increased by 4.1%. The portfolio grew by 5.4% with improved customer retention and a solid holiday/ Christmas performance in the fourth quarter.

STIMULATING THE SENSES

Rentokil and Initial Tropical Plants are creating a new brand which involves a name change to Ambius. Our new name is derived from the word ambience and invokes feelings of the special character of a place or the inspirational essence it seems to have.

Ambius is more than just a name change. It is a whole new brand with its own identity, character and personality. Our expanded products and services range from ambient scenting to fruit snack delivery or wellness programmes.

Ambius began with a simple belief that we needed a company name and brand that united us globally. From there, Ambius evolved into a vision we had to offer our customers more to stimulate their five senses, their people and their business. We aim to create surroundings that bring a sense of well-being and harmony to people's lives. Our new name, Ambius, reflects this.

ambius

FIRST CLASS DELIVERY

One night in the City Link hub in Wednesbury, UK in late November 2006. Over 250,000 parcels were handled that night. By mid-December, that number was approaching 500,000 parcels. Within a period of six hours, parcels arrive at the hub from the collection branches, are sorted and despatched to the delivery branches. City Link has recently been named 'UK Courier Company of the Year 2007' by the Institute of Transport Management in recognition of its "total quality management approach which results in the highest customer care satisfaction levels in the industry".


C

Tropical Plants' performance outside North America has generally disappointed. Although a relatively small business in group terms, it has the potential to do better and management changes have been made to facilitate this.

In the UK, revenue declined by 3.9% which had a significant impact on the profitability of the business with adjusted operating profit down 18.5%. The portfolio was affected by high terminations and weak sales performance, compounded by high sales headcount churn.

Continental Europe recorded revenue 5.5% higher than last year with increases achieved by many of the larger businesses including the Netherlands, Belgium, Sweden and Norway. Despite higher revenue, adjusted operating profit declined overall in continental Europe with all markets behind last year.

2007 preview

2007 will be an exciting year for the Tropical Plants division with the completion of a process which will create a single, international, focused business under the new brand of **Ambius**. The new brand – which you can see on page 19 – will be launched in the UK in March and rolled out to all other countries during the rest of the year. The UK restructuring will be completed which is expected to lead to improved customer retention and sales performance. We will seek to eliminate losses in some continental European countries to improve results in that region and continue to pursue acquisitions, primarily in North America.

Electronic Security

In November, the group announced that it was undertaking a strategic review of the Electronic Security business. A formal sale process commenced in January 2007 and completion is expected by the end of June.

Market conditions

The overall electronic security market is relatively mature. Although there are a large number of operators providing installation services, only a small number offer monitoring and maintenance services. There are a few large players and a few of intermediate size plus many very small operators.

Key performance indicators

	£m	Change vs 2005
Revenue	**£282.1**	+7.1%
Organic revenue		*–0.6%*
Operating profit	**£39.4**	+10.1%
Adjusted operating profit	**£40.4**	+8.6%
Net adjusted margin	**14.3%**	–0.2 percentage points
Contract portfolio gain	**£4.8**	
New business wins	***£8.1***	
Net additions/reductions	***£2.5***	
Acquisitions	***£4.3***	
Terminations	***£(10.1)***	
Retention rate	**89.8%**	+0.6 percentage points

2006 review

The division performed well in 2006. In the UK, revenue was 6.9% higher than last year with increases for both Fire & Security and Systems. Adjusted operating profit was also higher for both businesses resulting in an increase of 9.4% for the UK as a whole. UK Systems was impacted in the first half of the year by a delay in the start-up of business already won but this reversed to a certain extent in the second half. The UK portfolio increased, largely as a result of the two acquisitions made during the year but also due to higher retention. Specific programmes aimed at tackling terminations introduced in the second half helped to increase retention by one percentage point to 90.0%.

Revenue and adjusted operating profit increased by 9.9% and 8.5% respectively in the French business. Portfolio growth of £2.2 million came from organic net gain through the branch network and from acquisitions, of which five were made in 2006. Retention remained at a solid 91%.

The Netherlands, which has been the subject of a performance improvement programme for the past year, saw revenue fall by 4.1% as less profitable work was shed. Despite lower revenue, adjusted operating profit increased by 10.9% due to gross margin improvements and cost base reductions achieved by the performance improvement programme. The portfolio grew due to net gain and retention is the highest in the division at 93%.

In the small US business, strong revenue and operating profit increases were recorded, mostly as a result of acquisitions. Revenue was 63% higher and adjusted operating profit almost tripled.

2007 preview

With 2006 ending with a record level of work in hand, there is a good base for performance in 2007. The market environment is positive in our markets for 2007, particularly in France and the USA. Although margin pressure from price competition in installation is likely to continue, we are confident of our ability to mitigate gross margin pressure through productivity and efficiency savings. A sale process commenced in January 2007 with completion expected by the end of June.

Parcel Delivery

Market conditions

The UK market saw growth above GDP in 2006. There was a modest reduction in consignment prices. The sector is consolidating, there are some weak players and strong economies of scale for larger players.

Key performance indicators

	£m	Change vs 2005
Revenue	**£213.3**	+70.0%
Organic revenue		*+9.7%*
Operating profit	**£34.8**	+19.6%
Adjusted operating profit	**£36.1**	+21.1%
Net adjusted margin	**17.0%**	–6.8 percentage points
No. of consignments (m)	**35.7**	+ 10.7%
Revenue per consignment	**£7.26**	–2.4%

2006 review

Parcel Delivery volumes and revenue grew well above market rates, despite a decline in revenue per consignment experienced by the UK express parcels industry in general. Organic revenue growth was 9.7%. Adjusted operating profit performance was ahead of expectations as the business performed very strongly, despite the potential for disruption with the integration of acquired franchises and the acquisition of Target Express.

2006 saw the beginning of the transformation of City Link from a hub and trunking operation to a fully integrated parcel delivery service. There were two important strategic developments: the buy back of franchise businesses during the course of the year and the acquisition of Target Express in November.

Nine franchise businesses were acquired during 2006, representing 33 territories. The total acquisition consideration on franchises during the year was £51.2 million. By the end of the year, City Link owned 80% of its network, representing 57 of the 69 territories.

Target Express was acquired for £213 million in November. Target Express and City Link are highly complementary businesses with similar operating models and strong cultures based on customer service and operational excellence. Bringing them together will create a leading UK overnight parcel operator able to meet the increased demands of current and prospective customers in a dynamic marketplace. The integrated business is expected to continue to grow parcel volumes and revenues at an above-market rate. In addition, City Link management believes that synergies at an annual run rate of at least £10 million will be achieved by the end of 2008. These synergies will be realised through operational integration and investment in IT, resulting in improved network efficiencies and back office support functions. The integration cost of this investment is expected to be £12 million.

2007 preview

The focus for 2007 will be the integration of Target Express into a combined organisation which will be branded City Link. This is a complex process and, although it will not be completed in 2007, significant progress is expected during the year. Key deliverables

FIRST CLASS DELIVERY

We began the transformation of City Link from a hub and trunking operation to a fully integrated parcel delivery business in October 2005 when we announced our intention to buy back the outstanding franchises responsible for customer collection and delivery. By the end of 2006 City Link owned more than 80% of its network and the buy-back programme is likely to be completed during the course of 2007, ahead of plan.

In November we acquired Target Express for £213 million. Together, City Link and Target Express have a number two market position in the UK express parcel delivery sector and are in a strong position to challenge for market leadership. Both businesses are growing ahead of the market with organic revenue growth of around 10% in 2006. Acquiring Target Express was the right opportunity at the right price and we are delighted to welcome it to the group.

City Link and Target Express have much in common: outstanding management teams; a culture based on customer service and operational excellence; and similar operating models.

340,000

PARCELS HANDLED PER DAY BY COMBINED BUSINESS

The integrated business will provide a wider range of services including same day deliveries, overseas deliveries, international mail and fulfilment. Customers will also benefit from enhanced track and trace processes.

GETTING CLOSER TO THE CUSTOMER

Our cleaning business in the UK is leading the way in the introduction of daytime cleaning – the ideal solution for customers who recognise the need for clean premises right throughout the day, not just first thing in the morning, and want to enhance the environment for customers and staff alike.

include the commencement of operational integration of the two national networks and the implementation of a single sales proposition. A regional operating structure for the combined business will also be established. The first depot consolidation is expected to take place in August. Around half of the £12 million integration cost will be incurred in 2007 although synergies will not be realised until 2008. We will also continue to buy back the outstanding City Link franchises.

Facilities Services

Market conditions

Market conditions were tough and pricing competitive. Despite this, there was significant portfolio growth in the Cleaning businesses. Catering suffered from the introduction of the nutritional guidelines in the education segment. Anti-smoking legislation in various European countries is impacting the air filtration business within Specialist Hygiene.

Key performance indicators

	£m	Change vs 2005
Revenue	**£519.6**	+10.6%
Organic revenue		*+8.2%*
Operating profit	**£27.4**	–21.3%
Adjusted operating profit	**£31.2**	–12.4%
Net adjusted margin	**6.0%**	–1.6 percentage points
Contract portfolio gain	**£63.0**	
New business wins	***£60.0***	
Net additions/reductions	***£16.6***	
Acquisitions	***£17.5***	
Terminations	***£(31.1)***	
Retention rate	**91.2%**	+7.6 percentage points

2006 review

In Cleaning, solid revenue performance was achieved in all countries with overall revenue increasing by 20.9%. Adjusted operating profit for the Cleaning businesses fell marginally below last year reflecting continued margin pressure in a very competitive sector and infrastructure investment to support the increased size of the business. In the UK, the portfolio grew by 30% due to significant growth in the banking and transport sectors combined with the Insitu acquisition which strengthened presence in the shopping centre and leisure sectors. In Spain and the Netherlands, the portfolio grew by 11%, mainly in the transportation and office cleaning sectors.

The Catering business continued to suffer from problems in its education segment and also some contracts in the business and industry segment. As a result revenue and operating profit both fell, revenue by 10.5% and adjusted operating profit by £1.2 million. We were able to exit some unprofitable education contracts in 2006 but remain committed to others.

Hospital Services, which provides cleaning, catering and porterage services to NHS hospitals in the UK, recorded flat revenue with an increase in adjusted operating profit, as 2006 was less severely affected than 2005 by the Government's Agenda for Change initiative.

Specialist Hygiene, which comprises a number of different activities, recorded revenue at a similar level as last year but adjusted operating profit fell due to the impact of anti-smoking legislation which has undermined the air quality businesses in a number of countries.

Medical Services revenue showed moderate growth but adjusted operating profit declined due to margin pressure and the cost of growth initiatives.

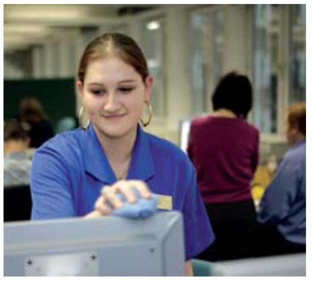
A smart way to clean

Smartclean daytime cleaning is as it says – cleaning throughout the working day. It is an exciting new initiative developed by Initial Facilities Services in the UK and more of our customers are realising the benefits by the day.

In fact, more than 100 customers have switched to daytime cleaning in the past year including major national retailers, a variety of corporate customers and a number of schools and colleges.

Smartclean has many benefits for our customers, our business and our employees:

- daytime cleaning improves staff retention because jobs with daytime hours are easier to fill and more people are willing to work "normal" hours;
- labour costs are reduced due to not having to pay unsocial hours of work;
- continuous cleaning means higher standards are maintained, with fewer, better trained full-time staff and less machinery;
- security and lighting savings are made due to staff being on site during normal working hours;
- building occupants tidy up after themselves because they respect the visible and skilful efforts of the cleaning team.



PUTTING OUR CUSTOMERS FIRST

In Malaysia, a programme called Destinasi 100 was introduced during 2006 which aims for 100% customer retention. Destinasi 100 is a powerful programme to revitalise and motivate all staff at all levels to be customer-centric and to work towards a common goal of achieving 100% customer retention. The programme has been so successful that it is now being rolled out to other countries in the Asia Pacific region.

2007 preview

In Cleaning, market conditions are expected to remain unchanged with pressure on margins continuing. Initiatives are in place to mitigate margin pressure in terms of Smartclean and Contract Management. Expanding group services into existing customers is also a major focus for 2007.

In Catering, the focus is on growth in the business and industry segment. We will continue to exit unprofitable education contracts.

Hospital Services will focus on growth outside of NHS hospitals. We will endeavour to exit any unprofitable contracts. Product innovation and technology will play a key role in this business.

Specialist Hygiene anticipates good revenue and profit growth, other than in air filtration.

Medical Services anticipates moderate revenue and profit growth as the initiatives start to payback.

Asia Pacific

Market conditions

The markets for all services remained favourable in 2006 reflecting the general growth in the economies in the Asia Pacific region as well as an increased focus on health and safety issues.

Key performance indicators

	£m	Change vs 2005
Revenue	**£103.6**	+15.6%
Organic revenue		*+5.7%*
Operating profit	**£20.8**	–10.7%
Adjusted operating profit	**£24.2**	+3.9%
Net adjusted margin	**23.4%**	–2.6 percentage points
Contract portfolio gain	**£22.2**	
New business wins	***£12.2***	
Net additions/reductions	***£3.2***	
Acquisitions	***£19.4***	
Terminations	***£(12.6)***	
Retention rate	**86.1%**	+2.5 percentage points

2006 review

All the division's businesses increased revenue in 2006, with strong double digit growth achieved in the largest markets of Australia, New Zealand, Indonesia, Singapore, Malaysia and Thailand, assisted by acquisition activity. Adjusted operating profit performance also improved in most markets including Australia, New Zealand, Singapore, Malaysia, Thailand, Indonesia and Hong Kong.

2006 saw a great deal of activity in Asia Pacific in terms of both building the management team and acquisitions. The division welcomed a number of new senior members of the team, which is now at full strength.

A total of 25 acquisitions were completed in the region during 2006 for a total consideration of £46.9 million. The largest transactions were Pink Healthcare (an Australian washroom business) and the pan-regional CWS branded washroom and dustmat business. Other notable acquisitions included the number one pest control player in Taiwan, various pest control and tropical plants businesses in New Zealand and market entry acquisitions in Vietnam and electronic security in Singapore.

The one-off items incurred in 2006 reflected significant management and business restructuring activities in Australia, New Zealand, Indonesia, Singapore, Malaysia, Hong Kong and Thailand, from which we are already seeing benefits.

2007 preview

The Asia Pacific division will move ahead in many markets during 2007 and we expect good organic growth in all our operations in the region as we realise the benefits of the acquisitions made in 2006. We have strong management in all our businesses to manage our growing activities and an experienced divisional team to support them.

In Australia, having turned the washroom services business around and integrated Pink Healthcare, good growth is expected in 2007. The acquisition of Campbell Brothers in January 2007 has provided an entry into the Australian residential pest control market, which makes up half of the pest control market in that country.

2007 will be an important year in the huge market of China with investment anticipated in both pest control and washroom services. We will also look to re-enter the pest control market in Japan and enter that market in Korea.

Productivity initiatives will be introduced in all our operations in Asia Pacific during 2007 which will increase operating efficiency. We will also be pursuing cost savings and efficiencies with regional procurement and IT.

Financial Review

Central Costs

Central costs, before one-off items, increased by 6.3% over the prior year. This primarily reflects inflation and the accounting costs of the new long-term incentive plan. Savings have been implemented in a number of head office functions although these will be offset in 2007 by the initial set-up costs of a UK shared service centre and other initiatives. Over the medium-term, these offer the prospect of improved administrative efficiency in many UK businesses.

In 2006, the principal one-off item was a £14.0 million curtailment credit arising out of the closure to future accrual of the UK defined benefit pension scheme at the end of August. In 2005, one-off costs largely related to defence of the approach from Raphoe. This had been treated as an exceptional cost but was reclassified this year as a one-off item to improve comparability. One-off items also included redundancy and restructuring charges in both years.

Profits

Operating profit from continuing operations before one-off items and amortisation of intangible assets reduced by £22.2 million to £298.6 million. Amortisation of intangible assets of £25.9 million (2005: £20.2 million) and one-off items of £23.6 million (2005: £30.5 million) resulted in operating profit of £249.1 million (2005: £270.1 million). At constant 2005 exchange rates, before one-off items and amortisation of intangible assets, operating profit fell by 4.4%.

Exceptional Items

Exceptional items recorded in the first quarter relating to the closure of the UK linen and workwear business in April 2006 have now been transferred to discontinued operations. In the year ended 31 December 2005, the costs of defending the takeover approach from Raphoe amounting to £10.9 million were treated as an exceptional item. This and other items shown in 2005 as exceptional items have also been transferred to discontinued operations or included as continuing operations and reclassified as one-off items as appropriate in order to improve comparability.

One-off Items

One-off items primarily relate to the group's restructuring programme and consist of the profit on the sale of the former head office, consultancy, reorganisation and redundancy costs and a pension curtailment credit. These have been separately identified because they are not considered to be "business as usual" expenses and, although many of them are small, they are numerous and have a varying impact on different businesses and reporting periods. Whilst not large enough to be classified as exceptional items, in aggregate they make it difficult to understand underlying trends in performance unless they are separately identified.

Across the group, the net cost of one-off items in 2006 was £23.6 million compared with £30.5 million in 2005. In 2006, the closure of the UK defined benefit scheme to future accrual resulted in a reduction of the scheme's liabilities by approximately 1.4% with the resultant non-cash credit of £14.0 million taken to operating profit in the second half of 2006 and treated as a one-off item. Excluding this credit, one-off items in 2006 totalled a net charge of £37.6 million, the bulk of which were incurred in the Textiles and Washroom Services division. This relates primarily to restructuring activities in UK Washroom and German Textiles. In addition, the Pest Control division incurred one-off costs of £6.8 million in 2006, mostly relating to redundancy and reorganisation activity in the UK.

Rationalisation costs of up to £10 million may be incurred during 2007 on initiatives underway or under consideration. This includes £1.5 million for the completion of the changes in UK Washroom and UK Pest Control. In addition, around half of the £12 million Target Express anticipated integration costs will be incurred in 2007, although synergy benefits will not be realised until 2008.

Discontinued Operations

Discontinued operations primarily represent the UK linen and workwear business plus the UK, Canadian, Belgian and US Manned Guarding businesses. Trading from these operations, together with a small adjustment for prior year disposals, produced losses after taxation of £3.1 million in the year. These were offset by profits on disposal of £95.9 million, leaving profit for the year from discontinued operations at £92.8 million (2005: £166.4 million).

UK linen and workwear was closed on 30 April 2006. The discontinued business incurred a trading loss of £3.8 million in the year net of profit on sale of surplus properties. The 2006 loss was reduced by some £3 million as a result of the reduced depreciation following the asset impairment charge recognised in 2005.

The sales of the four Manned Guarding businesses were completed during the year for a gross consideration of £150.0 million. These businesses made operating losses of £7.2 million up to the dates of disposal and produced a profit on disposal of £95.9 million.

Interest

The group's net interest charge for 2006 was £52.0 million compared with £54.9 million in 2005. Net interest on bank and bond debt and finance leases was £50.2 million compared with £52.0 million for the prior year. Average net debt in 2006 was £149 million lower than 2005 reflecting the proceeds from the sale of Style Conferences at the end of 2005 and the sale of Manned Guarding in the first half of 2006, although these proceeds were offset by the £200 million special contribution into the pension fund in December 2005. The purchase of Target Express for £213 million in November 2006 had only a limited impact on the interest charge for the year, although it will have a more significant effect in 2007. The effect of lower average net debt was offset by an increase in average interest rates as a result of the ten year sterling bond issue in March 2006 and the general upward trend in interest rates over the course of the year. This latter effect was, however, mitigated by the interest rate hedges that were in place during the year but the cost of debt is expected to rise in 2007. The balance of the interest charge reflects the notional net interest on pension scheme assets and liabilities and various mark-to-market adjustments on treasury transactions. Further details are given in notes 6 and 7 to the income statement.

Profit Before Tax

After interest of £52.0 million and one-off items totalling £23.6 million (2005: £30.5 million), pre-tax profit reduced by £18.3 million to £199.1 million.

Tax

The income statement tax charge for the year was £44.8 million (2005: £59.4 million) representing an effective tax rate of 22.5% compared with 27.3% for 2005. However, the reported tax charge for both years was affected by the release of tax provisions in respect of previous periods which are no longer required following agreement of the relevant liabilities with fiscal authorities. The underlying effective tax rate, before such provision releases, was 29.9% in 2006 compared with 32.7% in 2005, the decrease mainly due to a reduction in disallowable costs.

The weighted headline tax rates appropriate to the countries in which the group operated was 30.7% for 2006 compared with 30.9% in 2005. It exceeds the UK rate of 30% as substantial profits are earned in France, Belgium and Germany where tax rates range from 34% to 38%.

Earnings Per Share and Dividends

Profit for the year attributable to equity holders was £245.1 million (2005: £321.5 million). At 8.43 pence, basic earnings per share for continuing businesses were 2% lower than 2005. Basic earnings per share for total operations were down 24% on 2005 at 13.57 pence per share.

An interim dividend of 2.13 pence per share was paid on 27 October 2006. A final dividend of 5.25 pence per share will be proposed at the Annual General Meeting in May 2007, maintaining the full year dividend at 7.38 pence per share. This is in line with the statement made in the 2005 preliminary results announcement and subsequently that a cautious approach would continue to be taken to dividend growth until it was clear that the recovery in the businesses was well established.

Cash Flow

Operating cash flow for the year of £211.0 million (2005: £287.0 million) was £76.0 million below last year with operating profit before depreciation, amortisation, impairment charges and non-cash items accounting for £95.2 million of the reduction. Working capital outflows accounted for another £11.0 million with a large part of this due to the higher level of business in the last quarter. Capex was £30.2 million below last year, reflecting the disposal of the Manned Guarding businesses earlier in the year, the relatively capital intensive Style Conferences business sold in the fourth quarter of 2005 and the disposal of surplus properties following the closure of the UK linen and workwear business.

Lower tax cash flows, as a result of lower profits and pension payments, partly compensated for the lower operating cash flows to leave free cash flow £31.8 million below last year at £128.6 million. Net debt increased by £247.9 million over the year reflecting the relatively high acquisition spend primarily for Target Express, JC Ehrlich, the Asia Pacific division and the acquisition of City Link franchises.

Shareholders' Funds

Consolidated equity shareholders' funds at the end of 2006 were negative £540.0 million, compared to negative £666.6 million at the end of 2005. The principal cause of this movement was the profit for the year attributable to shareholders of £245.1 million offset by dividends paid to ordinary shareholders of £133.3 million.

Financial Risk Management Policies

The board has approved the following financial risk management policies. These policies cover those financial risks that are material to the company's operations and financial results. The board has set appropriate delegated authorities, treasury financing parameters and reporting procedures to ensure compliance with such policies at all times. The effect of the company's treasury activities is reflected in the disclosures in notes 17, 22, 23 and 24.

Capital Structure and Financing Strategy (liquidity risk)

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

The company is committed to maintaining a debt/equity capital structure that is sufficiently robust so as to ensure the continued access to a broad range of financing sources and thus be able to maintain sufficient flexibility to pursue commercial opportunities, in a timely manner as they present themselves, without the imposition of onerous financing terms and conditions.

The company will maintain a minimum financing headroom of £200 million, when measured against its latest forecast/anticipated cash flows over a rolling nine-month time horizon.

The company's sources of finance should be structured in a manner so as to minimise potential refinancing risk particularly arising from a bunching of debt/note facility maturities.

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

In Autumn 2005, the group's credit rating from Standard & Poor's was reduced from BBB+ with negative outlook to its current level of BBB with stable outlook. This reflected the group's weaker than expected business risk and financial risk profiles following weakened operating performance over the past few years.

We continue to target a stable BBB+ rating in the medium-term as we believe that this strikes an appropriate balance between an efficient capital structure (as represented by a low weighted average cost of capital), liquid access to the capital markets and reasonable pricing. The board believes that a key priority must be to retain sufficient financing flexibility to fund its business turnaround strategy. Therefore, over the short to medium-term we do not have surplus capital that could be returned to shareholders if a minimum BBB credit rating is to be maintained with an appropriate degree of headroom to avoid further ratings pressure.

At 31 December 2006, the group had approximately £274 million of undrawn committed bank credit facilities. The company is in compliance with the financial and other covenants within its committed bank credit facilities as well as all obligations relating to the notes issued under the Euro Medium Term Note (EMTN) programme.

In 2006 the group lengthened the maturity profile of its debt. This was achieved through the successful issuance of a £300 million ten year bond in March and the establishment of new £500 million five year syndicated bank credit facilities in October. Both financing transactions were well received by the market, having been well over subscribed.

The company's credit rating from Standard & Poor's has remained BBB with stable outlook throughout 2006. This rating was most recently reaffirmed on 30 November 2006 following the company's announcements that it had both acquired the Target Express parcel delivery business for £213 million and decided to undertake a strategic review of its Electronic Security business.

Market Price Risk

The company and its reported results are exposed to financial market price movements. These risks principally arise from the interest and foreign exchange rate markets. In addition, through its UK defined benefit pension scheme ("the scheme" – see note 26), the company also has exposure to equity market price movements. The trustee directors are responsible for setting the risk management strategy for this scheme. During the year this scheme's exposure to equity market price movements has markedly reduced. In early April 2006 the scheme's assets were switched from being predominantly in equities (80%/20% equities/bonds) to being mostly in corporate bonds (20%/80% equities/bonds). A 10% movement in equity prices in any one year would give rise to a +/–£20 million movement in scheme assets and thus a corresponding movement in the underlying scheme deficit. Shortly after this asset switch, the scheme also undertook inflation and interest rate hedging actions. These actions, together with the closure of the scheme to future accrual with effect from 31 August 2006, were undertaken so as to increase the likelihood that the scheme's assets (together with the company's agreed future contributions) would be sufficient to meet its anticipated financial commitments to existing and future pensioners.

The company remains committed to funding the scheme's existing IAS 19 pension scheme deficit, which at 31 December 2006 stood at £108 million (2005: £170 million). The company agreed a schedule of future company contributions with the scheme's trustee in December 2005 that would eliminate this deficit by 2012.

Interest Rate Risk

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

Some 98% of the group's net borrowings are currently at fixed rates of interest for 2007. Thereafter, in the event that interest rates rise or fall by 1% p.a. simultaneously across the group's borrowings, the net interest payable by the group would then correspondingly increase or reduce by approximately £12.9 million on an annualised basis.

Foreign Exchange Risk

Foreign exchange risk can arise as follows:

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

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

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

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

Credit Risk

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

- strictly limited to the management of known or anticipated financial exposures which arise from the company's existing or planned commercial operations;
- only undertaken by suitably qualified or experienced group treasury staff;
- undertaken only after efforts have been taken to avoid the need for use of such derivative instruments to manage the group's financial exposures;
- limited to the management of interest rate or foreign exchange exposures (i.e. no equity related or commodity hedging shall be undertaken without specific board approval);

- undertaken only after the preparation of clear documentation which explains the purpose for the use of the specific derivative and its proposed financial accounting treatment;
- capped by the maximum approved counterparty limit for that transaction; and
- subject where relevant to detailed "hedge effectiveness" testing by group treasury, through to maturity of the transaction, if designated and documented as a "hedge" at the outset of the transaction.

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

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

Acquisitions

The group acquired 71 businesses in the year for a net consideration of £429 million.

Details of the businesses acquired and the revenue and operating profit therefrom are set out in note 32 to the accounts. By consideration value, the most significant transactions undertaken during the year were:

– J.C. Ehrlich Co. Inc., the fourth largest pest control company in the USA, for a consideration of £75.0 million.
– The washroom businesses of CWS (Asia) and SGS Pink in Asia Pacific for £12.9 million and £25.3 million respectively.
– The purchase of the next day parcel delivery business Target Express for £213.3 million.
– Nine City Link franchises for total consideration of £51.2 million.

Pensions

The IAS 19 pension deficit was £118.8 million at the end of 2006 compared with £182.3 million in December 2005. The group has a number of small defined benefit schemes but the principal liability relates to the UK Scheme (the "Scheme") which had a deficit of £108 million at December 2006 compared with £170 million a year ago. The principal reason for the reduction in the deficit is the £14 million reduction in the Scheme's liabilities following the cessation of accrual and an increase in the value of the Scheme's assets as a result of favourable market movements in the early part of the year. During 2006, a series of interest and inflation rate hedges were executed by the Scheme and its investment mix changed from approximately 80% equities/20% fixed interest to the new asset allocation of 20% equities/80% fixed interest. The effect of the hedging will be to reduce the exposure of the Scheme's assets and liabilities to market movements by linking the cash flow profile of the bond investments to the Scheme's liabilities. In addition, an interim review by the Scheme's actuaries resulted in an £11 million increase in the Scheme's liabilities to reflect the differences between some valuation assumptions made previously and recent experience.

At 30 June 2006, the UK Scheme's IAS 19 deficit was estimated at £76 million. The £32 million increase in the deficit since that date reflects the impact of updated actuarial assumptions following the interim review performed in the second half, the scheme closure effects and changes to IAS 19 interest and inflation assumptions.

Accounting Standards

The financial statements included in this annual report have been prepared and presented under IFRS as adopted by the EU. The group's accounting policies are set out on pages 61 to 71.

Amendments to IAS 21, "The effects of changes in foreign exchange rates", IAS 39, "Financial Instruments: Recognition and Measurement", IFRC 4, "Determining whether an arrangement contains a lease" and IFRIC 6, "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment" have been implemented in 2006 with no material effect on either the current or prior periods.

Amendments to IFRS 1, "First-time adoption of International Financial Reporting Standards" and IFRS 6, "Exploration for and evaluation of Mineral Resources" and interpretation IFRIC 5, "Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" have become applicable in the year but are not relevant to the group's operations.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2007 or later periods but which the group has not early adopted. We have identified IFRS 7, "Financial Instruments: Disclosure" (effective 1 January 2007) and IFRS 8, "Operating Segments" (effective 1 January 2009) as being relevant to its business. The impact on the group's operations is currently being assessed.

Corporate Responsibility

Rentokil Initial operates an integrated approach to corporate responsibility. It links group-wide policies on matters such as health and safety with local ownership and implementation of initiatives in every country in which it operates.

The company considers that for corporate responsibility to be effective, it must be aligned to business strategy in each country. Consequently, businesses have the flexibility to develop their own initiatives to provide strategic advantage and reflect the local environment and culture.

The chief executive, Doug Flynn, is the board director responsible for corporate responsibility matters. The board reviews progress as part of its agenda.

The company introduced group-wide health and safety and environmental policies in 1999 with broader policies since 2001. These can be found on the corporate website, www.rentokil-initial.com, together with the 2006 corporate responsibility annual review.

The information in the review demonstrates the range and depth of the company's activities. It represents ongoing work, demonstrating that these activities are part of normal business practice.

In 2006, for the second year running Rentokil Initial was in the top 100 companies within the *Business in the Community Corporate Responsibility Index*. The company was ranked 84th – an improvement on the previous year's position of 91st.

In addition, Rentokil Initial continued to be ranked in the top ten companies out of the 70 worldwide companies included in the support services sector of the *Dow Jones Sustainability Index*.

Workplace Initiatives

Much of the company's focus in 2006 was on improving health and safety management. Within the UK, RIDDOR accidents have reduced by 16%. To ensure there is a worldwide focus, a new scorecard reporting process for businesses has been designed to manage health and safety more effectively. This will be rolled out throughout the group in 2007. Also, in the UK a central accident reporting scheme called *Success Is No Accident* was introduced for the reporting of employee accidents and near misses. This provides greater information, with management control for both managers and customers, and enables early effective medical support to employees who may have been injured.

For the first time, the company introduced a survey of employees' attitudes – starting with the global pest control and tropical plants businesses. Responses averaged overall a very high 93% – in the USA over 97%, 74% and 79% in the Netherlands and the UK, respectively.

TOWARDS BEST PRACTICE

Initial Facilities Services employs 30,000 people, 55% of whom are women. It operates in an industry tarnished by a reputation for low skills and poor labour practices. Our business has set itself an objective to be the employer of choice in its industry.

During 2006 work continued on developing Basic Skills amongst employees who are disadvantaged in this area. Relationships have been formed with the Learning and Skills Council and other partners to provide training in basic skills such as numeracy and literacy.

Leading learning and skills

At the same time, Initial Hospital Services developed a new training programme called Initial First. This features courses with BICSc, National Vocational Qualifications, food hygiene qualifications, qualifications for supervisors and the UK's first accredited qualification into the understanding and prevention of MRSA and other healthcare-acquired infections.

A number of other workplace initiatives are underway, including:
- employee benefit schemes;
- employee opinion surveys; and
- improved employee communications.

LOOKING TO THE FUTURE

Rentokil Initial Australia is helping to improve the natural environment by supporting Rainforest Rescue, a not-for-profit organisation set up to protect and restore Australia's priceless rainforest areas. So far this initiative has purchased an area of land equivalent to the size of 35 modern suburban blocks between a State Reserve and the Daintree Park, helping to conserve endangered plants, animals and birds. We also provide a school grants scheme which aims to support schools and their communities in the areas of environmental improvement and protection.

This year also saw the launch of the talent development programme, a major training and development initiative targeted at 350 managers worldwide. Work continues also in the general development of Basic Skills amongst the company's hourly paid employees.

Environment Initiatives

We recognise the importance of managing all aspects of our environmental impacts. In particular, the management of energy and water usage has been a long-term focus, particularly within the major textiles laundry plants. These achieved reductions in CO_2 emissions of 21% between 2000 and 2005.

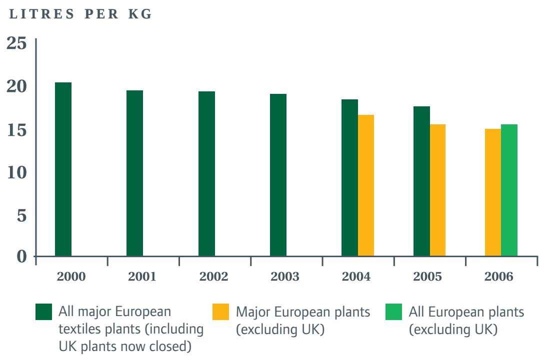
This year, for the first time, the company has collated actual or estimated energy usage from around 95% of its worldwide operations. Of this, over 80% is actual data with the remainder being realistic estimates.

In 2006, the company's total CO_2 emissions were 271 million kilogrammes, equating to 3,870 kilogrammes per employee. Within these figures is vehicle fuel consumption – the company has a fleet of nearly 16,000 vehicles worldwide, split roughly 50:50 between cars and light vans. In 2006 all UK service vehicles were diesel and, on a worldwide basis, 71% of the company's vehicle fuel consumption was diesel.

Roughly one third of all the company's CO_2 emissions emanate from its textiles plants. In the first graph, emissions of the major textiles plants in France, the Netherlands, Germany and Belgium are shown – representing an improvement of 12.4% year on year. In addition, the graph shows the total emissions for 2006 for all European textiles plants, including the smaller plants in Austria, the Czech Republic and Spain.

As with CO_2 emissions, previous years' water usage measurement has been derived from the textiles laundry plants, based on verifiable data. Between 2000 and 2005 a 14% improvement in water usage was recorded across all major textiles plants. In 2006, a further 5.7% year on year improvement was achieved.

The following graph shows data from previous years, together with comparable three year data for major European plants – France, Germany, Belgium and the Netherlands. Also shown is the combined water usage of all European textiles plants (including Austria, Spain and the Czech Republic). A significant reduction in 2006 arose as a result of the closure of the UK laundry plants.



TOWARDS BEST PRACTICE

Efficient energy and water use has always been important for textiles laundry plants. However, in 2006 our European textiles operations began to take a more radical approach to improvement in environmental impact.

Initial Textiles Services is building a new industrial laundry complex in Lokeren, Belgium. With an investment of €15,300,000 – the largest investment ever made in a textiles laundry plant by Rentokil Initial. The complex will consist of the laundry, together with warehousing, dispatching and administrative areas.

A key focus for the new operation is water usage. In particular, the laundry plant will have an environmentally friendly water treatment installation, using a membrane bio reactor, to permit the reuse of up to 50% of pumped water.

The company is also supporting customers to reduce water usage. For instance, in December 2006 the company acquired Enviro-Fresh – an innovative company which has developed a product for urinals called SaniSleeve which, together with its EnviroFlush system, reduces flush water usage by up to 90%.

Marketplace Initiatives

The responsibility for relationships with customers and suppliers is now largely the responsibility of individual businesses. The company has developed Good Practice Guides to support them in their dealings with their customers and suppliers.

One of the company's most significant responsibilities is product stewardship, particularly related to pest control products. In 2005/2006, an authorised products list was produced for all businesses, followed by information on product training and directions, with a requirement to produce labels and instructions in the local language. This was complemented in 2006 by the businesses recording and auditing product use and product disposal together with packaging waste classification. More details of this activity are included in the "Towards Best Practice" box below.

Within company procurement activity, about 30% of purchased products and services are bought or co-ordinated centrally, with regular supplier assessments including social, environmental and ethical issues. In 2006, the company introduced a Supplier Code of Conduct to help our supply chain understand what is expected.

Community Initiatives

Rentokil Initial regards its responsibilities to the communities in which it operates and its employees live as particularly important. An extensive range of activities took place in 2006, including:

- In **Indonesia**, employees and the company provided support to help those affected by the Java earthquake, including improving hygiene and sanitation in the area.
- In **Singapore**, the business has continued its support for the ongoing drive to fight Dengue Fever.
- In **Hong Kong**, the business was proclaimed *Caring Company 2005/06* for its participation in community services.
- In **France**, the Tropical Plants business continued its support for "Les Enfants de la Terre", a charity that helps disadvantaged children.
- In the **USA**, the Tropical Plants business worked with New York's ProjectFIND, a non-profit organization dedicated to helping older adults in New York City, to establish the Grassroots Senior Healing Programme.

The company's support for community investments includes a programme to support rainforest conservation in Australia, support for the Safer London Foundation in the UK and our HIV/AIDS programme in South Africa.

In another section of this report, the company declares the amount of charity donations. It should be noted that this figure does not take into account provision of gifts in kind or of employee and management support.

TOWARDS BEST PRACTICE

Product stewardship is rightly receiving increasing attention from governments and NGOs. It addresses the impact of a product's lifecycle – including issues such as labelling to ensure safe customer use and the elimination of hazardous materials – which may have effects beyond the product's direct purpose.

The pest control business is at the forefront of its business sector in respect of product stewardship and has been influential in guiding the industry down responsible routes.

- Rentokil was highly influential in a new scheme regarding the management of one of the most hazardous compounds in use in the industry - phosphine gas. The scheme – the Register of Authorised Metallic Phosphide Stockists – restricts the availability of metallic phosphide fumigant gases to correctly trained personnel with managed access to this material through approved distributors.
- In the UK it helped establish a campaign to encourage responsible rodenticide use, known as the Campaign for the Responsible Use of Rodenticides. This is intended to reduce the incidents of secondary poisoning to wildlife due to consumption of treated rodents by other animals.
- In addition, the business has also restricted the potential misuse of chloralose baits against wildlife by reformulating an re-packaging the product. Previous products were phased out during 2006.

MOVING OUR COMPANY FORWARD

"In 2006 we continued to progress the strategy we formulated in 2005 to redirect and re-energise Rentokil Initial and restore it to sustainable profitable growth. 2005 was focused on developing a detailed plan and to ensuring we had the right business structure and management team in place. 2006 has been a year of action to implement this plan."

Directors and Secretary

01 Ian Harley
Non-Executive Director
Aged 56. Chartered Accountant. Appointed a director in March 1999. A director of British Energy Group plc and Remploy Limited. Past president of the Chartered Institute of Bankers. Formerly chief executive of Abbey National plc. An independent non-executive director.

05 Peter Bamford
Non-Executive Director
Aged 52. Formerly chief marketing officer and director of Vodafone Group plc having held senior executive roles at Vodafone, including as chief executive of Northern Europe, Middle East and Africa operations and chief executive of Vodafone UK. Appointed a director in July 2006. An independent non-executive director.

02 Doug Flynn
Chief Executive
Aged 57. Appointed a director and chief executive in April 2005. He was previously chief executive of Aegis Group plc, having joined the board as a non-executive director in 1999. Prior to this, he spent 13 years with the News Corporation Limited in the UK and Australia, latterly as managing director of News International Plc. Before joining News Corporation Limited he was with ICI for ten years, working in Australia and Hong Kong in various management roles.

06 Duncan Tatton-Brown
Non-Executive Director
Aged 42. Chartered Management Accountant. Appointed a director in July 2005. Group finance director of Kingfisher plc, having been previously finance director of B&Q plc. He was previously chief financial officer of Virgin Entertainment Group. An independent non-executive director.

03 Brian McGowan
Chairman
Aged 62. Chartered Accountant. Appointed a director in October 1996 and non-executive chairman in July 2004. Chairman of UMECO plc and Catalyst Corporate Finance LLP. Formerly chief executive of Williams plc and chairman of House of Fraser plc.

07 Andrew Macfarlane
Chief Financial Officer
Aged 50. Chartered Accountant. Appointed a director in August 2005. He was previously group finance director of Land Securities Group plc. Prior to that he was chief financial officer of Bass Hotels and Resorts. Formerly a non-executive director of Invensys plc.

04 Peter Long
Non-Executive Director
Aged 54. Chartered Management Accountant. Appointed a director in October 2002. Chief executive of First Choice Holidays PLC. Non-executive director of Debenhams PLC. Formerly chief executive of Sunworld Limited. The senior independent non-executive director.

08 Alan Giles
Non-Executive Director
Aged 52. Appointed a director in May 2006. A director of Wilson Bowden Plc. Formerly chief executive of HMV Group plc and managing director of Waterstone's and a member of the board of WH Smith PLC and a non-executive director of Somerfield plc. An independent non-executive director.

Paul Griffiths
Secretary

Senior Management

Andy Hobart
Divisional Managing Director, Pest Control and Tropical Plants
Aged 44. Joined in December 2005. Previously managing director of RAC/RBS Joint Venture company Lex Transfleet and prior to that held a number of senior management positions within the BOC Group.

Andy Kemp
Group HR Director
Aged 56. Appointed Group HR Director in October 2005. Previously Group HR Director of Aegis Group plc, News International, TDG and Bovis International. Before joining Bovis held a number of HR appointments at the rank of captain and major in the British Army.

Michael Cooke
Managing Director, Parcel Delivery
Aged 52. Joined in 1980 and has held various management positions in the UK, continental Europe, Africa and North America. Appointed managing director of City Link in 1998.

David Liu
Regional Managing Director, Asia Pacific
Aged 52. Joined in November 2005. Previously headed Aegis Media, Asia Pacific which had operations in 14 countries across the region. Before this held positions with Saatchi and Saatchi, Bozell and McCann-Erickson.

Peter Lloyd
Divisional Managing Director, Facilities Services
Aged 56. Joined in 1986 having sold his retail cleaning company to the group in 1985. Prior to current role, appointed managing director of UK Cleaning in 2002.

Mark Boyle
Group Strategy and Development Director
Aged 46. Joined in 2005. Formerly Corporate Development Director of Compass Group PLC having previously spent 14 years in banking with Lloyds Bank International and Kleinwort Benson.

Clive Hayton
Managing Director, Electronic Security
Aged 49. Joined in 1996 when Shorrock was acquired as part of BET. After being head of Initial Electronic Security Systems and Initial Electronic Security, was appointed managing director of the group's whole electronic security business in 2002.

Henry Chandler
Divisional Managing Director, Textiles & Washroom Services
Aged 46. Appointed Divisional Managing Director in November 2006 having previously held executive responsibility for Electronic Security, City Link and Facilities Services. Joined in 1996 when Style Conferences was acquired as part of BET.

Directors' Report

Principal activities

The company is the holding company of a group which through its operating businesses in some 44 countries provides a range of, principally, business to business support services. During the year under review the company disposed of its interests in manned guarding. In 2007, the company has indicated that it is seeking to exit the electronic security sector in Europe and the United States. A summary description of the company's activities is given on the inside front cover and a more detailed description is contained within the review of performance on pages 8 to 28. The principal subsidiary undertakings and joint ventures of the company are shown on page 116.

Business review

The business review, which is contained within the letter to shareholders on pages 1 to 7 forms part of this report, and the review of performance on pages 8 to 28 report on the group's activities during the year and on likely future developments. The business review describes the key performance indicators used by the board to monitor progress against strategy, together with disclosures of the principal risks and uncertainties affecting the business. The review of performance does not seek to comply with the Accounting Standards Board's reporting statement on operating and financial reviews.

Results and dividend

The consolidated profit before income tax for 2006 was £199.1 million (the tax on this was £44.8 million). Dividends declared and recommended out of 2006 profits amount to £133.3 million. Net consolidated capital employed is negative £533.6 million compared to negative £659.6 million last year.

An interim dividend of 2.13p per share, amounting to £38.5 million, was paid on 27 October 2006. The board recommends the declaration of a final dividend of 5.25p, amounting to £94.8 million (adjusted for the waiver of dividend in respect of the shares held by the trustee of the Rentokil Initial Employee Share Trust). The total distribution for 2006 would then be 7.38p per share (2005: 7.38p) amounting to £133.3 million. Subject to shareholders approving the recommended dividend at the annual general meeting, the dividend will be paid on 18 May 2007 to shareholders on the register at the close of business on 13 April 2007.

Substantial interests and share capital

The company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements in operation which may at a subsequent date result in a change in control of the company. As at 14 March 2007, the following shareholders had indicated that they were interested in 3% or more of the company's issued share capital. The interests of 3% or more total 26.90% (March 2006: 26.72% excluding Silchester and UBS).

Britel Fund Trustees Ltd.	4.29%
Franklin Resources Inc.	8.74%
Legal and General Investment Management Ltd.	3.51%
Silchester International Investors Ltd.	*4.39%
UBS AG	*5.97%

* previously an interest not required to be disclosed

Details of movements in the company's ordinary shares during the period are provided in note 27 to the consolidated financial statements.

Authority for the company to make purchases of its own shares of up to 90.69 million was obtained at the annual general meeting on 18 May 2006. No purchases of its shares were made by the company in 2006. The authority is normally renewable annually and approval will be sought from shareholders at the 2007 annual general meeting to renew the authority for a further year.

Electronic communications

The consent of shareholders will be sought at the annual general meeting in 2007 to give the company authority under the Companies Act 2006 to communicate with shareholders or anyone with an indirect interest in shares by making such communication available on its website, in accordance with Schedule 5 of the Act.

Board

Biographical information on the current directors of the company, including their ages and their dates of appointment, is shown on page 39.

Edward Brown, an executive director, resigned from the board on 5 January 2006. On 18 May 2006, Ron Spinney retired as deputy chairman and as a director and Paul Mason resigned as a non-executive director upon his becoming chief executive of Somerfield plc.

Alan Giles and Peter Bamford were appointed to the board on 18 May 2006 and 10 July 2006, respectively, and under the company's articles of association will offer themselves for re-appointment at the annual general meeting on 3 May 2007. Neither has a service contract with the company.

The directors retiring by rotation will be the chairman Brian McGowan and Ian Harley, who are eligible and offer themselves for re-election at the 2007 annual general meeting. Details of the chairman's contractual arrangements with the company are set out in the remuneration report. Ian Harley does not have a service contract with the company.

Board committees

The board has reviewed its procedures and practices and, in particular, the terms of reference of the board committees. The principal board committees are as follows:

Audit committee

The terms of reference of the committee reflect the Smith Guidance which is appended to the Combined Code. Its members are Ian Harley (chairman), Duncan Tatton-Brown, Peter Bamford and Alan Giles, all of whom are independent non-executive directors. A report on its activities is set out below.

Nomination committee

This committee is responsible for recommending board appointments. Its terms of reference reflect the Higgs Guidance which is appended to the Combined Code. Its members are Brian McGowan, Doug Flynn, Peter Long and Ian Harley. The nomination committee met on two occasions in 2006 to consider non-executive director appointments which ultimately led to the appointments of Alan Giles and Peter Bamford as non-executive directors. It also met at the end of the year to review succession planning for non-executive directors.

Remuneration committee

The terms of reference of the remuneration committee reflect the Higgs Guidance. The directors' remuneration report is set out on pages 46 to 53. The members of the remuneration committee are Peter Long (chairman), Duncan Tatton-Brown and Alan Giles, all of whom are independent non-executive directors.

The remuneration committee has reviewed its effectiveness during the year and concluded that it had continued to operate effectively.

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

Directors' interests

The interests of the directors and their families in the share capital of the company on 1 January 2006, or their date of appointment if later, and 31 December 2006 are set out on pages 50 and 52. The only director who has received an award under the company's performance share plan introduced during the year is Andrew Macfarlane, details of which are shown in the remuneration report on page 49. No director had any beneficial interest in the shares of any of the company's subsidiaries on those dates.

Changes in the interests of the directors and their families in the company and its subsidiary companies during the period from the end of the financial year to 14 March 2007 are described in the directors' remuneration report.

Directors' indemnity and insurance

The company has granted indemnities in favour of its directors as is permitted by the Companies (Audit Investigations and Community Enterprise) Act 2004. It has also purchased cover for the directors against liabilities arising in relation to the company, as permitted by the Companies Act 1985.

Interests of directors in contracts

During 2006, no director had any material interest in any significant contract to which the company or any subsidiary was a party.

Related party transactions

Other than in respect of arrangements relating to employment, details of which are provided in the remuneration report, or as set out in note 36 to the consolidated financial statements on page 115 there is no material indebtedness owed to or by the company to any employee or any other person considered to be a related party.

Employees

The company attaches considerable importance to communicating with employees. Internal communications take place at a group, divisional, business and team level in order to ensure that employees receive accurate information in a timely manner.

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 quarterly electronic magazine called "The Bigger Picture" which features interviews with senior executives about major initiatives and performance. A DVD of the 2006 leadership conference was made available to all businesses to support the communication of company strategy.

Divisional communications use a wide range of channels such as email, divisional intranets, electronic newsletters and quarterly magazines. Great importance is placed on face-to-face team meetings.

The Asia Pacific division has developed its own magazine called "Rising" as a means of drawing together its entire staff across the region. This includes insights into business activities, examples of building service excellence, information about community initiatives and introductions of new employees.

In Europe, the company meets its European Forum (EWC) at least once a year to communicate with employee representatives from across the continent. It maintains an open dialogue with the Forum at times of change.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with Rentokil Initial continues and that appropriate training is arranged. It is the policy of Rentokil Initial that the training, career development and promotion of disabled persons should, as far as possible, be identical with those of other employees.

Post balance sheet events

Post balance sheet events are shown in note 37 to the accounts on page 115.

Policy in relation to payment of suppliers

Rentokil Initial has a variety of payment terms with its suppliers in various countries. These are either negotiated along with other contract terms or conform to standard terms applied either by the relevant group company or by the supplier. It is the company's policy to pay suppliers in accordance with either negotiated or standard terms, provided that the relevant invoice is properly presented and is not the subject of dispute.

At 31 December 2006 the trade creditors of the group represented 59 days of annual purchases and the UK businesses' trade creditors represented 58 days of purchases; UK trade debtors represented 58 days of turnover. During the year the parent company did not have any trade creditors.

Corporate responsibility and charitable donations

As described in the corporate responsibility review on pages 34 to 37, the group seeks continually to identify best corporate practices within the group in relation to employees, customers, suppliers and the communities on which we have an impact and to celebrate and encourage the highest standard of responsible behaviour as well as continually to seek to operate the business in ways which are most sympathetic to our environment. The company publishes a corporate responsibility report annually which is available to download from the company's website, www.rentokil-initial.com.

The company takes account of social, environmental and ethical considerations when managing the business and when contemplating new activities. In 2002 the board adopted a range of corporate responsibility policies. In addition to the existing policies and procedures in respect of the environment and health and safety, they comprise policies on ethics, the fundamental rights of employees, equal opportunities and diversity, employee remuneration, training and employee development, job security and wealth creation, relationships with customers and suppliers and community involvement. The chief executive, Doug Flynn, is the director responsible for corporate responsibility matters.

The company views the processes in place to manage risk and to motivate and incentivise managers described in the report as equally relevant to an analysis of social, environmental and ethical matters. The ongoing evaluation of systems and procedures is intended to ensure that the management system (including the internal control framework) is effective in ensuring that issues of a social, environmental or ethical nature are identified and acted upon. The company's internal control verification systems cover corporate responsibility matters to ensure that businesses report periodically on their progress towards compliance with the company's corporate responsibility policies.

Donations for UK charitable purposes in 2006 amount to £116,000 and a further £82,000 was donated in other countries. There were no payments to political organisations. Payments are made to a wide range of charitable organisations both in the UK and overseas. Encouragement is given to a matched giving scheme whereby the company matches donations made by employees.

Research and development

The company invests in an active programme of research and development in support of its major international business streams. This programme includes the conception, design, testing and manufacture of new products to enhance the quality and safety of the company's services and minimise their environmental impact. Where appropriate, work is sponsored at universities with expertise in specific relevant areas. The company's total research and development expenditure in 2006 was £3.1 million (2005: £3.0 million).

Financial instruments

The company's financial risk management objectives and policies are set out within the financial review on pages 29 to 33, which includes the policy for hedging certain forecast financial transactions. The review and notes 17, 22, 23 and 24 to the accounts also detail the company's exposure to price, credit and liquidity risks. The company is not materially exposed to cash flow risks arising from cross-border trading transactions.

Corporate governance

The company complies with the Code of Corporate Governance issued by the Financial Reporting Council on 23 July 2003 ("the Combined Code") save insofar as an explanation of a failure to do so is given below. The following specific disclosures are now made in accordance with Schedule C to the Combined Code.

1. Effective board

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

The board meets routinely eight times a year and additionally when necessary and follows an agreed formal schedule of matters which are considered at individual meetings. In 2006 the board met on ten occasions. Peter Bamford, Alan Giles, Ian Harley, Peter Long and Paul Mason were each unable to attend one meeting during the year because of other unavoidable commitments.

2. Composition of the board

Information on directors is set out on page 39.

3. Board committees

Details on the audit, nomination and remuneration committees are set out on page 41.

4. Independent non-executive directors

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

5. Further significant commitments of the chairman

The external commitments of Brian McGowan have remained the same since his appointment as chairman in July 2004.

6. Performance evaluation

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

Individual director evaluation showed that each director (including those seeking election or re-election at the AGM in 2007) continues to demonstrate commitment to and effectiveness in the role. The non-executive directors, led by the senior independent director, carried out a performance evaluation of the chairman after taking account of the views of the executive directors. The board intends to carry out further performance evaluations but will keep under review the method and frequency.

7. Dialogue with major shareholders

The chief executive and chief financial officer hold regular meetings with analysts and institutional shareholders to discuss the company's strategy and financial performance. In the first half of the year the board commissioned Makinson Cowell to conduct an audit of leading shareholders in the UK, continental Europe and the USA to gauge their views on strategy, performance, future expectations and corporate governance. In November 2006, the company held a series of presentations and question and answer sessions for shareholders over a full day which involved senior managers from operating businesses. Feedback from this and other more routine meetings with major shareholders is reported to other members of the board. The board is regularly provided with an analysis of the company's shareholder base and with commentary on market views and sentiment. The company has sought the views of major UK-based shareholders on how members of the board and, in particular, the non-executive directors, should develop an understanding of the views of major shareholders about the company. As a result the chairman and, if so requested, non-executive directors will make themselves available for discussions with shareholders at the time of the release of the preliminary results and on other occasions if requested by shareholders.

8. Accountability and audit

The audit committee assists the board on matters concerning accountability and audit, information on which is contained within the audit committee report on pages 44 and 45.

9. Going concern

After reviewing group and company cash balances, borrowings and projected cash flows, the directors believe that the group and company have adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

10. Auditors' independence

The company has reviewed its relationship with its auditors, PricewaterhouseCoopers LLP, and concluded that there are sufficient controls and processes in place to ensure the required level of independence. Consequently there are no plans to replace PricewaterhouseCoopers LLP, whose re-appointment is proposed as set out in the notice of AGM which accompanies the annual report.

Auditors and disclosure of information to auditors

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

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the annual general meeting to be held on 3 May 2007.

Statement of Directors' Responsibilities

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

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

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

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

Safe Harbour Statement

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

Annual general meeting

The annual general meeting of the company will be held at No 4 Hamilton Place, London W1J 7BQ on 3 May 2007 at 11 a.m. A separate letter to shareholders containing the notice of the annual general meeting and information on the resolutions to be proposed as special business accompanies this annual report.

By order of the board.

Paul Griffiths
Secretary
14 March 2007

Audit committee report

The audit committee's terms of reference are available on the company's website and were updated at the beginning of 2004 to reflect the Smith Guidance. The principal oversight responsibilities of the committee cover: financial reporting, internal control and risk management, various matters concerning the external auditors including their appointment, scope of their duties, their independence and monitoring and receiving reports from the internal audit function. The committee reviewed its terms of reference towards the end of 2006 and concluded that they remain appropriate.

The members of the committee at the end of the year were Ian Harley (chairman), chartered accountant, Duncan Tatton-Brown, chartered management accountant, Peter Bamford and Alan Giles. In order to fulfil its terms of reference, the committee reviews, challenges and approves, as the case may be, presentations or reports from senior management, consulting as necessary with the external auditors. During the year the committee had a satisfactory level of dialogue with the company's auditors and did not find it necessary to seek external advice.

The audit committee met six times in 2006. The meetings were fully attended other than four occasions when Messrs, Mason, Giles, Harley and Bamford were each unable to attend a meeting due to an unavoidable prior commitment. Three of the meetings included an element without executive management present.

In February 2006 the committee considered the following: proposed changes in narrative reporting requirements, draft financial statements for 2005, the preliminary announcement and related auditors' reports, fees for audit and non-audit work, plans for reviewing the internal control and risk framework, a tax policy, the internal audit activity in 2005 and plans for 2006 and plans to consolidate all subsidiary audits on the company's auditors, PricewaterhouseCoopers LLP.

In March 2006 the committee considered the following: the report and accounts including IFRS disclosures and related reports from the auditors and reports on the internal control framework, half-yearly report on whistleblowing, external auditor effectiveness including a report on an internal survey used as a measurement tool.

In August 2006 the committee considered the following: half year results and related audit reports, half-yearly report on whistleblowing, internal audit activity report for the first half and the proposed audit strategy for 2007.

In May and November 2006 the committee considered the first and third quarter trading updates and related auditor reviews.

In December 2006 the committee considered the following: internal audit resource plans, an amended risk management policy and related amended procedures, outline of content for the 2006 business review, review of the effectiveness of the internal audit function and a review of the committee's terms of reference.

Auditor independence was considered at a number of meetings. The committee invites the chief executive, the chief financial officer, director – corporate accounting and control, director – corporate internal audit and representatives of the external auditors to attend its meetings. The company secretary attends meetings in his role as secretary of the committee.

Internal controls

The annual report provides information on and an assessment of the company's business, operations, financial position and prospects. The board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance controls and risk management, and reviews the effectiveness of the system at least annually in order to safeguard shareholders' investments and the company's assets. The system is designed to manage, rather than eliminate, risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

The audit committee assists the board in the performance of its responsibilities by reviewing the board procedures for review of internal controls, internal and external auditors' reports on internal control issues and reports on internal controls and risk management systems.

The board's procedures for the review of internal controls, contained within its manual on procedures and practices, provide the framework for the group's risks and how they are assessed, managed and monitored. The risk identification and management process has been in place during the whole of 2006 (and up to 14 March 2007, the date of the approval of the audited 2006 accounts) and during that time the board, with the assistance of the committee, has reviewed the process.

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

The committee receives reports from the internal audit department, covering financial, operational and information technology risks and controls and reviews the performance of the department against its terms of reference.

Changes in the management structure introduced in 2005 and an increased level of delegated authority to the divisions and operating businesses introduced changes in the control environment which needed to be monitored and tested to ensure that the group's internal controls and risk management procedures continued to be effective. During 2006 a review was undertaken of the existing internal control framework which was found to be generally good, although capable of improvement in some areas, and action plans were put in place to improve systems and procedures where appropriate.

An updated risk management policy was incorporated into the board's policies and procedures at the end of 2006. This revised risk management policy introduced a new assurance process which will be implemented during 2007. The board considers that the revised policy and the associated review process will provide further assurance on the adequacy of the system of internal control.

Approved by the board of directors on 14 March 2007 and signed on its behalf by

Ian Harley
Audit committee chairman

Directors' Remuneration Report

Remuneration Committee

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

The committee consists wholly of independent non-executive directors. Ron Spinney and Paul Mason ceased to be directors and members of the committee on 18 May 2006 on which date Duncan Tatton-Brown joined the committee as did Alan Giles on his appointment as a director. Peter Long replaced Ron Spinney as chairman of the committee. The committee met five times in 2006 and in addition was consulted on various remuneration issues between formal meetings. Meetings were fully attended, except on three occasions when Messrs. Mason, Giles and Tatton-Brown were each unable to attend a meeting due to an unavoidable prior commitment.

None of the members of the committee participates in company incentive arrangements or has any personal interest (other than as shareholders) in the matters under consideration, any conflicts of interest arising from cross-directorships or any day-to-day involvement in running the business. No director plays a part in any discussion about his own remuneration. Throughout the year, Peter Long has acted as chairman of Rentokil Initial Pension Trustee Limited and in addition has participated in the activities of the pension trustee company's investment committee. His fees include an amount of £25,000 per annum in respect of his participation in pension scheme trustee matters.

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

The committee principally uses two independent external consultants, Watson Wyatt Limited and Deloitte LLP. Watson Wyatt was appointed by the committee to provide advice on the measurement of the company's total shareholder return for historic awards under the old discretionary share option schemes. Watson Wyatt also advised the company on its UK pension arrangements. Deloitte has been retained by the committee to provide advice on executive remuneration and on the Performance Share Plan approved by shareholders at the annual general meeting in May 2006. Deloitte also advised the company on acquisition and risk process consulting and tax matters. During the year, the committee has also received advice from Hewitt Bacon & Woodrow Limited who are the actuaries appointed by the pension scheme trustees.

A resolution to approve the directors' remuneration report will be put to the annual general meeting on 3 May 2007.

Approach to remuneration

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

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

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

The new Performance Share Plan, introduced during 2006, was developed in keeping with this policy. Awards have been made under the plan to some 500 key senior executives in over 40 countries around the world, enabling us to bring together a large number of Rentokil Initial people under a new global incentive structure. The pursuit of shareholder value creation is supported by the performance conditions attached to these awards, the development of performance management processes internationally and the increased level of share ownership through the plan.

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

Components of remuneration

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

Each executive director's total remuneration consists of the above elements and other benefits described on page 52. The total remuneration of each executive director should comprise a balance between fixed and variable performance-related remuneration, the latter comprising elements of both short-term financial performance and long-term shareholder value creation.

The table below shows the approximate mix between fixed and variable pay for on-target performance in respect of 2006 remuneration for the current executive directors. The policy, currently and in future years, is that a significant proportion of the total remuneration should be performance-related.

	On-target performance	
	Chief executive	Chief financial officer
Base salary	45%	50%
Pensions	10%	10%
Annual incentive	20%	25%
Long-term incentive	25%	15%

Base Salaries

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

Bonuses

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

With regard to the Senior Executive Bonus Scheme 2006, approximately 500 senior executives were eligible to participate in the scheme. The performance measures related to group/divisional/business profit and turnover, as appropriate, as well as non-financial personal objectives. Threshold performance levels must be achieved for bonuses to be payable. Cash bonus entitlements under this scheme were subject to a maximum of 50% of basic salary; 80% for members of the CEB; and 100% for the chief executive. Bonuses are typically awarded in March following the end of the financial year to which they relate. The maximum bonus for the chief financial officer, who is an executive director, has been increased for 2007 to 100% of basic salary.

Long-term Incentives

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

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

TSR performance conditions:

- Rentokil Initial's TSR performance is compared against two different groups of companies established at the date of the award:
  – 75% of the TSR part of the award is based on a comparison against the constituents of the FTSE 100, excluding financial services and resources companies.
  – 25% of the TSR part is based on a comparison with a selected group of international support services companies. For awards made in 2006, these companies are: Brambles Industries, The Capita Group, Compass Group, The Davis Service Group, Group 4 Securicor, Hays, MITIE Group, Prosegur Compañia de Seguridad SA, Rexam, Serco Group, Securitas AB, SGS SA and Sodexho Alliance SA.
- TSR will be calculated in accordance with the rules of the plan by the committee's advisers and approved by the committee.
- The TSR part of an award is subject to the following vesting schedule:

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

EPS performance conditions:

- For awards made in 2006, and for awards made in future years unless the committee decides otherwise, the EPS part of awards will vest depending on the cumulative annual growth in EPS over a three year period as follows:

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

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

The committee will periodically review the performance conditions when making new awards to ensure they remain appropriately stretching in respect of each grant.

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

	Date of award	Plan	Market price at award	At 1 Jan 2006 or appointment date	Shares awarded during 2006	Market price of awarded shares	**At 31 Dec 2006**
Andrew Macfarlane	31/05/06	2006 PSP	143.25p	Nil	351,832	143.25p	**351,832**
Doug Flynn	4/04/05	On appointment	166p	2,609,263	nil	n/a	**2,609,263**

1 Awards made under the 2006 Performance Share Plan will vest on 1 June 2009, subject to performance conditions described above.
2 An award over shares with a value of five times base salary was made as a "transformation incentive award" on Doug Flynn's appointment as chief executive (as disclosed in the 2005 remuneration report). The award was made on the basis that TSR performance will be measured from 1 January 2005 and the award would vest in three equal tranches based on performance to 31 December 2007, 2008 and 2009. Following the introduction of the PSP in 2006, the vesting horizon for this award has been extended to coincide with the performance cycles that will apply for other participants and the award will therefore vest in three tranches, subject to TSR performance over the periods 1 January 2006 – 31 December 2008; 1 January 2007 – 31 December 2009; and 1 January 2008 – 31 December 2010. The TSR comparator groups and vesting schedule that apply are consistent with those disclosed in relation to the PSP described above. If Mr Flynn ceases employment as a 'good leaver' (broadly defined as compassionate circumstances), then awards would vest at that time, pro-rated for time and performance. In the event of a change of control, the award would vest to the extent that performance conditions have been satisfied.
3 On 6 March 2007, awards were made under the 2007 Performance Share Plan under which Mr Flynn received an award of 921,502 and Mr Macfarlane an award of 401,365. The market price at the date of award was £1.465.

Contractual awards on appointment (as disclosed in 2005):

Chief executive (appointed 4 April 2005): An award of £2.4 million was made in compensation for awards forfeited on cessation with his previous employer. This has been paid one third in cash and two thirds in Rentokil Initial shares. The unconditional cash element of the award (£0.8 million) was paid in two equal amounts, with the first due after six months in employment and the second due after 12 months in employment. The share element of the award (1,036,952 shares) vests, subject to continued employment, in three equal tranches, on the first, second and third anniversaries of the award being made. The first tranche (over 345,650 shares) vested on 4 April 2006 when the share price was £1.595.

Chief financial officer (appointed 9 September 2005): A one-off award was made to facilitate his recruitment over shares with a value of £600,000, vesting (subject to continued employment) in three annual tranches of one quarter, one quarter and one half on the first, second and third anniversaries of the award being made. The first tranche (over 101,667 shares) vested on 9 September 2006 when the share price was £1.506.

These contractual awards have no related performance conditions.

Pensions

The company announced on 19 December 2005 that, subject to consultation with active members, it proposed to close the defined benefit sections of the Rentokil Initial Pension Scheme in the UK to future accrual for active members. The committee approved a proposal for a new defined contribution structure which was the subject of consultation.

Following consultation with active members, the UK defined benefit scheme was closed to future accrual for all active members (other than those subject to TUPE provisions) on 31 August 2006. All active members were invited to join a replacement defined contribution scheme. The costs to the company are broadly similar to the costs of the defined benefit scheme. The new defined contribution scheme was introduced on 1 September 2006.

Chairman and non-executive directors

The chairman, Brian McGowan, has a letter of appointment dated 24 August 2004. He assumed the position of executive chairman in August 2004. In 2005, he received fees in that capacity at the annual rate of £750,000. At the beginning of May 2005, Doug Flynn took day-to-day responsibility for the running of the company, at which time Brian McGowan reverted to a non-executive role at an annual rate of £350,000. Mr McGowan's appointment as chairman may be ended by the giving of six months' notice by either party. Mr McGowan will be offering himself for re-election at the annual general meeting and information on this is provided in the directors' report.

All non-executive directors have specific terms of engagement and their remuneration is determined by the board on the recommendation of the non-executive directors' fees committee of the board within the limits set by the articles of association and based on independent surveys of fees paid to non-executive directors of similar companies. The level of fees was reviewed with the benefit of the advice of Deloitte in 2005. The basic fee paid to each non-executive director is £45,000 which is considered to remain competitive. The chairmen of the remuneration and audit committees are each paid an additional £10,000 per annum. Peter Long is chairman of the board of Rentokil Initial Pension Trustee Limited, a subsidiary, which acts as trustee of the UK pension schemes and as such he receives fees at the rate of £25,000 per annum. Non-executive directors do not have service contracts and they do not participate in any of the company's incentive schemes nor are they eligible to join the company's pension scheme.

Non-executive directors fees are set out below. The following table has been audited.

	2006 £000	2005 £000
Brian McGowan (chairman)	**350**	483
Alan Giles (from 18 May 2006)	**28**	–
Peter Bamford (from 10 July 2006)	**21**	–
Ian Harley (audit committee chairman)	**55**	48
Peter Long (remuneration committee, pension trustee company chairman and senior independent director)	**80**	48
Paul Mason (to 18 May 2006)	**19**	40
Ron Spinney (to 18 May 2006)	**27**	58
Duncan Tatton-Brown	**45**	21
	625	698

Set out below are the interests in shares of non-executive directors who were directors at 31 December 2006. The following table has been audited.

Rentokil Initial plc ordinary shares of 1p each	31 December 2006 Beneficial Interests number	1 January 2006 Beneficial Interests number
Brian McGowan	**5,000***	5,000
Alan Giles	**2,000**	–
Peter Bamford	**50,000**	–
Ian Harley	**2,000**	2,000
Peter Long	**2,000**	–
Duncan Tatton-Brown	**2,000**	–

*Since the end of the year Mr McGowan has acquired a further 20,000 shares at a price of 148.25p

Executive directors

Contracts

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

The company's policy in respect of the notice periods for the termination of executive directors' contracts conforms with the Combined Code. The committee is fully aware that under the Combined Code it should take a robust line in reducing compensation to reflect departing directors' obligations to mitigate loss. On termination, executive directors are entitled to base pay and the value of benefits only, for the duration of the notice period.

Executive directors are entitled to accept one non-executive directorship or similar appointment outside the company, provided that the board's permission is obtained and to retain the fees in connection with such appointment. Mr Flynn does not hold any external appointments. Mr Macfarlane was a non-executive director of Invensys plc until August 2006 when he relinquished the appointment. During the year he received and retained fees of £33,442.

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

Pensions

Defined contribution arrangements

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

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

	2006 Pension contributions £000	2005 Pension contributions £000
Doug Flynn	**185**	132
Andrew Macfarlane	**96**	35
Total	**281**	167

Defined benefit arrangements

Edward Brown, who was a director until 5 January 2006, accrued benefits under the defined benefit scheme during the year details of which are set out below. The following table has been audited.

	Additional accrued benefits earned in the year £000 pa	Accrued entitlement at 31 December 2006 £000 pa	Transfer value at 31 December 2006 £000	Transfer value at 31 December 2005 £000	Increase in transfer value less director's contributions £000
Edward Brown	7	244	4,339	3,504	816

	Additional accrued pension earned in the year (excluding inflation) £000 pa	Accumulated total accrued pension at 31 December 2006 £000 pa	Transfer value of increase in accrued pension less director's contributions £000
Edward Brown	(3)	244	(63)

Notes on defined benefit arrangements

1 The additional accrued benefit earned over the year is the difference between the total accrued benefit at the end of the year and the equivalent amount at the beginning of the year. The figures in brackets have been adjusted to allow for inflation during the year.

2 The above transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values represent the value of the assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits.

3 The figures under Increase in transfer value less director's contributions are compliant with the Listing Rules and are the transfer value of the increase in each director's benefit over the year to 31 December 2006 (again net of the director's contributions).

4 Members also have the option to pay additional voluntary contributions. Neither these contributions nor resulting benefits are included in the above table.

5 Mr Brown ceased to be a member of the defined benefit section of the company's pension scheme on when it closed to future accrual on 31 August 2006. He then became a member of the company sponsored money purchase scheme and the contributions to this during the period 1 August 2006 to 31 December 2006 were £39,105.67.

Bonus

The chief executive participates in a cash bonus arrangement with a maximum bonus entitlement of 100% of base salary. The chief financial officer's maximum for 2006 is 80% of base salary. The committee has reviewed and assessed performance in 2006 based on the progress that has been made against the strategy for the business formulated in 2005. In particular, the committee (and the board) is pleased with progress that has been made in respect of: the significant acquisitions and disposals programme from which we are building both strong and integrated market positions; progress in restructuring the UK pest control and UK washrooms businesses which brings greater operational efficiency and renewed focus on our customers; and improved customer relations and contract portfolio growth which have, in turn, led to strong revenue growth. These achievements are discussed in greater detail in the letter to shareholders on pages 1 to 7.

The committee recognises that there is more to do, but considers that the achievements in the year merit bonus payments at 'target' levels. The chief executive and chief financial officer have therefore both been allocated a bonus payment at 50% of base salary (in 2005, maximum bonus payments were made).

Total pay and benefits for executive directors

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

	Salary £000	Bonus £000	Compensatory award £000	Benefits £000	Total £000	2005 £000
Doug Flynn	840	420	–	72	1,332	2,151
Andrew Macfarlane	437	230	–	26	693	319
Edward Brown	4	–	–	–	4	377
2006	1,127	650	–	98	2,029	–
2005	1,467	740	800	213	–	3,220

Notes

1 Executive directors are provided with private health cover and a company car. The value of the benefits is included under "Benefits" in the above table.
2 The "Benefits" referred to in the above table include the sum of £36,000 (exclusive of VAT) in respect of fees for legal and tax advice which was paid by the company on behalf of Mr Flynn, in connection with the development of his service agreement and the structuring of his employment and pension arrangements.
3 The company provides a car and driver for the business use of Mr Flynn, other directors and senior executives and for the limited private use of Mr Flynn. The cost of provision of the car and driver in the year ended 31 December 2006 was in the order of £93,000 (2005: £42,000 - 8 months) and is not included in the above table.
4 In addition to the amounts shown in the table, Doug Flynn and Andrew Macfarlane, as a part of their employment terms, have received shares the vesting of which is conditional upon their continued employment. Further details are set out above.
5 Mr Brown resigned as a director on 5 January 2006.

Interests in shares

The following table sets out the interests of executive directors, who were directors on 31 December 2006, in the shares of the company – the table has been audited:

Rentokil Initial plc ordinary shares of 1p each	31 December 2006 Beneficial Interests number	1 January 2006 Beneficial Interests number
Doug Flynn	345,650	–
Andrew Macfarlane	59,984	–

Notes

1 Mr Flynn's interest in shares shown above represents his vested beneficial interest in a total of 1,036,952 shares which comprises the share element of the compensatory award which vests in three equal tranches, on the first, second and third anniversary of the award being made. The vesting of the remainder of the award is dependent on continued employment.
2 Mr Macfarlane's interest in shares shown above represents his vested beneficial interest in one quarter of his appointment award comprising 101,667 shares, acquired on 6 December 2006, less 41,683 disposed on the same day at a price of £1.4725, to meet the related tax liability.
3 Since the end of the year Mr Flynn and Mr Macfarlane have each acquired a further 20,000 shares at a price of 148.25p.
4 Mr Edward Brown resigned as a director on 5 January 2006 and had an interest in 392,203 shares on 1 January 2006 and as at the date of his resignation.

Share option schemes

The introduction of the Performance Share Plan in 2006 replaced all previous long-term incentive schemes, under which no further awards will be made. Edward Brown received an award in 2005 and the details of his awards held at the time of his cessation as a director are as follows. This table has been audited:

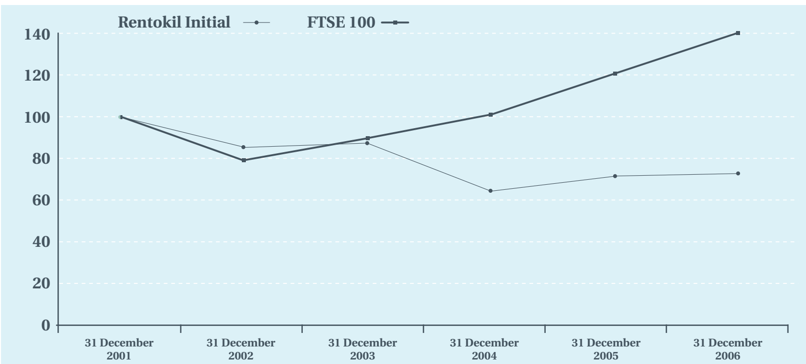
	Date of grant	Earliest exercise date	Expiry date	Price per share	Number at 1 January 2006	Granted/ lapsed in the year	Exercised	Number at 31 December 2006*
Edward Brown*	29.05.96	29.05.99	28.05.06	201.135	60,674	(60,674)	0	0
	18.04.97	18.04.00	17.04.07	204.634	96,824	0	0	96,824
	20.04.98	20.04.01	19.04.08	371.670	145,000	0	0	145,000
	14.05.99	14.05.02	13.05.09	270.000	250,000	0	0	250,000
	10.05.00	10.05.03	09.05.10	156.500	425,299	0	0	425,299
	01.03.01	01.03.04	28.02.11	205.250	355,318	0	0	355,318
	01.03.02	01.03.05	28.02.12	266.750	170,571	0	0	170,571
	29.08.03	29.08.06	28.08.13	204.500	155,169	0	0	155,169
	31.08.04	31.08.07	30.08.14	152.000	215,027	0	0	215,027
	24.03.05	24.03.08	23.03.15	160.500	203,639	0	0	203,639
					2,077,521	**(60,674)**	**0**	**2,016,847**

*Mr Brown ceased to be a director on 5 January 2006 and information on his interests in share options did not change between 1 January 2006 and 5 January 2006. In accordance with the rules of the schemes, the interests shown above will lapse on 30 June 2008 unless previously exercised.

For further details of performance conditions attached to share option schemes see note 28 of the financial statements.

TSR performance graph

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



Preparation

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

Approval

Approved by the board of directors on 14 March 2007 and signed on its behalf by

Peter Long
Remuneration committee chairman

Report of the Auditors

Independent Auditors' Report to the Shareholders of Rentokil Initial plc

We have audited the group financial statements of Rentokil Initial plc for the year ended 31 December 2006, which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and the related notes. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Rentokil Initial plc for the year ended 31 December 2006 and on the information in the directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the group financial statements. The information given in the directors' report includes that specific information presented in the letter to shareholders from the chairman and chief executive and the review of performance that is cross-referenced from the business review section of the directors' report. In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the letter to shareholders from the chairman and chief executive, the review of performance, the financial review, the statement of corporate responsibility, the directors' report and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the group financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
14 March 2007

Consolidated Income Statement

For the year ended 31 December

	Notes	2006 £m	2005 £m
Continuing operations:			
Revenue	1	**2,124.7**	1,885.2
Operating expenses	2	**(1,875.6)**	(1,615.1)
Operating profit		**249.1**	270.1
Analysed as:			
Operating profit before amortisation of intangible assets[1]		**275.0**	290.3
Amortisation of intangible assets[1]		**(25.9)**	(20.2)
Operating profit		**249.1**	270.1
Interest payable and similar charges	6	**(113.2)**	(114.5)
Interest receivable	7	**61.2**	59.6
Share of profit from associates, net of tax of £1.6m (2005: £1.5m)		**2.0**	2.2
Profit before income tax		**199.1**	217.4
Income tax expense[2]	8	**(44.8)**	(59.4)
Profit for the year from continuing operations		**154.3**	158.0
Discontinued operations:			
Profit for the year from discontinued operations	9	**92.8**	166.4
Profit for the year (including discontinued operations)		**247.1**	324.4
Attributable to:			
Minority interests		**2.0**	2.9
Equity holders of the company		**245.1**	321.5
		247.1	324.4
Basic earnings per share			
– Continuing operations	10	**8.43p**	8.60p
– Discontinued operations	10	**5.14p**	9.22p
– Continuing and discontinued operations	10	**13.57p**	17.82p
Diluted earnings per share			
– Continuing operations	10	**8.43p**	8.59p
– Discontinued operations	10	**5.14p**	9.22p
– Continuing and discontinued operations	10	**13.57p**	17.81p

[1] Excluding computer software and development costs

[2] Taxation includes £25.5m (2005: £47.0m) in respect of overseas taxation

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December

	Notes	2006 £m	2005 £m
Profit for the year (including discontinued operations)		**247.1**	324.4
Net exchange adjustments offset in reserves	27	**(10.1)**	(0.6)
Actuarial gain/(loss) on defined benefit pension plans	26	**44.6**	(60.6)
Revaluation of available-for-sale investments	27	**0.1**	(0.8)
Tax on items taken directly to reserves		**(13.1)**	1.0
Net profit/(loss) not recognised in income statement		**21.5**	(61.0)
Total recognised income for the year	27	**268.6**	263.4
Attributable to:			
Minority interests		**2.0**	2.9
Equity holders of the company		**266.6**	260.5
	27	**268.6**	263.4

Consolidated Balance Sheet

At 31 December

	Notes	2006 £m	2005 £m
Assets			
Non-current assets			
Intangible assets	12	**559.1**	180.3
Property, plant and equipment	13	**513.1**	497.5
Investments in associated undertakings	14	**8.6**	9.2
Other investments	15	**6.8**	6.8
Deferred tax assets	25	**7.1**	74.0
Trade and other receivables	16	**24.7**	28.3
Derivative financial instruments	17	**–**	16.9
		1,119.4	813.0
Current assets			
Inventory	18	**46.9**	43.8
Trade and other receivables	16	**482.6**	460.5
Derivative financial instruments	17	**8.0**	0.4
Cash and cash equivalents	19	**135.1**	240.3
		672.6	745.0
Liabilities			
Current liabilities			
Trade and other payables	20	**(553.2)**	(533.8)
Current tax liabilities		**(103.6)**	(115.1)
Provisions for other liabilities and charges	21	**(22.3)**	(31.1)
Bank and other short-term borrowings	22	**(446.0)**	(108.5)
Derivative financial instruments	17	**(4.6)**	(1.0)
		(1,129.7)	(789.5)
Net current liabilities		**(457.1)**	(44.5)
Non-current liabilities			
Trade and other payables	20	**(15.8)**	(12.0)
Bank and other long-term borrowings	22	**(877.3)**	(1,072.1)
Deferred tax liabilities	25	**(45.0)**	(43.3)
Retirement benefits	26	**(118.8)**	(182.3)
Provisions for other liabilities and charges	21	**(128.6)**	(116.9)
Derivative financial instruments	17	**(10.4)**	(1.5)
		(1,195.9)	(1,428.1)
Net liabilities		**(533.6)**	(659.6)

Consolidated Balance Sheet

At 31 December

	Notes	2006 £m	2005 £m
Equity			
Capital and reserves attributable to the company's equity holders			
Called up share capital	27	**18.1**	18.1
Share premium account	27	**6.2**	5.3
Other reserves	27	**(1,728.6)**	(1,714.1)
Retained profits	27	**1,164.3**	1,024.1
		(540.0)	(666.6)
Minority interests	27	**6.4**	7.0
Total equity		**(533.6)**	(659.6)

The financial statements on pages 56 to 115 were approved by the board of directors on 14 March 2007 and were signed on its behalf by:

Doug Flynn

D R Flynn
Chief Executive

A. E. Macfarlane

A E Macfarlane
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2006 £m	2005 £m
Cash flows from operating activities			
Cash generated from operating activities before special pension contribution	29	**369.5**	476.5
Special pension contribution		**–**	(200.0)
Cash generated from operating activities		**369.5**	276.5
Interest received		**13.1**	19.8
Interest paid		**(54.7)**	(63.4)
Income tax paid		**(38.5)**	(80.5)
Net cash generated from operating activities		**289.4**	152.4
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		**(176.3)**	(183.8)
Purchase of intangible fixed assets		**(6.3)**	(9.2)
Proceeds from sale of PPE		**42.5**	21.9
Proceeds from sale of intangible assets		**–**	0.1
Acquisition of companies and businesses, net of cash acquired	32	**(406.5)**	(42.0)
Proceeds from disposal of companies and businesses	9	**134.9**	323.3
Dividends received from associates		**1.0**	1.0
Net cash flows from investing activities		**(410.7)**	111.3
Cash flows from financing activities			
Issue of ordinary share capital		**0.9**	5.7
Treasury shares purchased		**(1.9)**	–
Dividends paid to equity shareholders	11	**(133.3)**	(124.7)
Dividends paid to minority interests		**(1.8)**	(2.6)
Interest element of finance lease payments		**(2.3)**	(2.5)
Capital element of finance lease payments		**(19.5)**	(19.1)
Proceeds on disposal of Ashtead loan note		**–**	129.8
New loans/(repayments)		**221.0**	(226.7)
Net cash flows from financing activities		**63.1**	(240.1)
Net (decrease)/increase in cash and bank overdrafts	30	**(58.2)**	23.6
Cash and bank overdrafts at beginning of year	19	**170.7**	145.3
Exchange gains on cash and bank overdrafts		**6.3**	1.8
Cash and bank overdrafts at end of the financial year	19	**118.8**	170.7

Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union as at 31 December 2006.

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).

Amendments to IAS 21, "The effects of changes in foreign exchange rates", IAS 39, "Financial Instruments: Recognition and Measurement", IFRIC 4, "Determining whether an arrangement contains a lease" and IFRIC 6, "Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment" have been implemented in 2006 with no material effect on either the current or prior periods.

Amendments to IFRS 1, "First-time adoption of International Financial Reporting Standards", IFRS 6, "Exploration for and evaluation of Mineral Resources" and interpretation IFRIC 5, "Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" are applicable in the year but are not relevant to the group's operations.

Consolidation

(a) Subsidiaries

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

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

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

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

(b) Associates

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

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

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

Segment reporting

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

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised as a separate component of equity.

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

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

Property, plant and equipment

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

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

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

Assets' residual values and useful lives are reviewed annually and amended as necessary. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of the asset's fair value less cost to sell or value-in-use.

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

Business combinations

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method ("acquisition accounting"). The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued by the acquirer and any costs directly attributable to the business combination. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. An intangible asset, such as customer relationships, brands, patents and royalties, is recognised if it meets the definition of an intangible asset in IAS 38, "Intangible Assets" and its fair value can be measured reliably. The intangible assets identified in all acquisitions made since 1 January 1998 are goodwill, customer lists and relationships and contract portfolios. Consideration in excess of net identifiable assets acquired in respect of minority interests in existing subsidiary undertakings is taken directly to reserves.

Intangible assets

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

Intangible assets – indefinite useful lives

Goodwill

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

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

Intangible assets – finite useful lives

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

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

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

The following are the main categories of intangible assets.

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

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

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

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

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

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

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

Other development expenditure is recognised as an expense as incurred.

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

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

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

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

Share capital

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

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost (where hedge accounting is not applied); any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Where fair value hedge accounting is applied, the borrowings are subsequently revalued at each balance sheet date and the difference is offset against the fair value movement of the derivative (the hedging instrument) in the income statement.

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

Deferred income tax

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

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

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

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

Employee benefits

(a) Defined benefit pension obligations

The group operates a number of pension schemes throughout the world. The principal scheme is the UK scheme, which has a number of defined benefit sections, which are now closed to new entrants (other than the Initial No2 section, accounting for 0.5% of the total scheme's liabilities, which remains open) and a defined contribution section. The defined benefit scheme is funded through payments to a trustee-administered fund, determined by periodic actuarial calculations. A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee-administered funds or insurance companies. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

The 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.

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

(b) Defined contribution pension plans

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

(c) Other post-employment obligations

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

(d) Share-based compensation

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

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

(e) Termination benefits

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

(f) Profit-sharing and bonus plans

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

(g) Holiday pay

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

Provisions

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

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

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

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

Revenue recognition

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

(a) Service revenue

Revenue excludes VAT and other similar sales based taxes, rebates and discounts and represents the amounts receivable for services rendered and goods sold outside the group.

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

(b) Rental income

Rental assets such as tropical plants, washroom equipment, garments, linen, security equipment etc which are owned by group entities or where at least substantially all the risks and rewards of ownership of such equipment is retained by group entities are capitalised as fixed assets and depreciated over their estimated useful lives.

All rental income received or receivable in respect of rental assets is accounted for on an operating lease basis. Income from the rental of these assets is credited to revenue on a strict time-apportioned basis.

(c) Franchise income

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

(d) Interest income

Interest income is recognised on a time-apportioned basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders. Interim dividends are recognised when paid.

Risk management

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

(a) Market risk

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

(b) Credit risk

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

(c) Liquidity risk

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

(d) Cash flow interest rate risk

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

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

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

Occasionally, the group also enters into fixed-to-floating interest rate swaps to hedge the fair value interest rate risk arising where it has borrowed at fixed rates.

Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Financial assets

The group classifies its investments in the following categories: financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The group assesses at each balance sheet date whether there is objective evidence that financial assets are impaired.

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

Derivatives are categorised as held for trading unless they are designated as hedges. Assets are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(c) Held-to-maturity investments

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

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale investments are marked to market 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. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method, subject to impairment.

Financial liabilities

Non derivative financial liabilities are stated at amortised cost using the effective interest rate method.

Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or (2) hedges of net investments in foreign operations. The group does not operate any cash flow hedging activities.

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

(a) Fair value hedge

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

(b) Net investment hedge

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

(c) Derivatives that do not qualify for hedge accounting

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

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.

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

Critical accounting estimates and assumptions

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

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

(a) Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated on page 63. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions consistent with the most up-to-date budgets and plans that have been formally approved by management. Refer to note 12 for the key assumptions used for the value-in-use calculations.

(b) Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Provision for vacant property and environmental restoration

Significant judgement is required in determining the worldwide provision for vacant property and environmental restoration. Vacant property and environmental restoration tend to be long-term in nature and the required use of an appropriate market discount rate and forecast future utilisation based upon management's best estimate determines the level of provision required at the balance sheet date. The phasing and actual cash spend may be different from the original forecast utilisation spend.

(d) Retirement benefits

Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions. Significant judgement is required in determining these actuarial assumptions. Refer to note 26 for the principal assumptions used for the Rentokil Initial Pension Scheme in the United Kingdom.

Exceptional items

Exceptional items are defined as significant items (that are non-recurring in nature) that fall within the ordinary trading activities of the group and which individually, or if of a similar type in aggregate, are shown on the face of the consolidated income statement.

Discontinued operations

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

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2007 or later periods but which the group has not early adopted. Management has identified IFRS 7, "Financial Instruments: Disclosure" (effective 1 January 2007) and IFRS 8, "Operating Segments" (effective 1 January 2009) as being relevant to its business. The impact on the group's operations is currently being assessed.

Notes to the Accounts

1. Segment information

(a) Primary reporting format – business segments

At 31 December 2006, the group is organised on a worldwide basis into six main business segments: Textiles and Washroom Services, Pest Control, Tropical Plants, Electronic Security, Parcels Delivery and Facilities Services. There are immaterial sales between the business segments. The segment results for the years ended 31 December 2006 and 31 December 2005 are shown below:

	Revenue	Revenue	**Operating profit**	Operating profit
	2006 £m	2005 £m	**2006 £m**	2005 £m
Continuing operations				
Textiles and Washroom Services	**671.4**	661.8	**106.8**	136.3
Pest Control	**319.3**	246.9	**61.9**	73.9
Tropical Plants	**116.5**	112.9	**6.6**	7.2
Electronic Security	**281.5**	263.4	**34.6**	32.8
Parcels Delivery	**213.3**	125.5	**32.6**	29.1
Facilities Services	**522.7**	474.7	**28.7**	36.5
Central items	–	–	**(22.1)**	(45.7)
	2,124.7	1,885.2	**249.1**	270.1
Interest payable and similar charges	**–**	–	**(113.2)**	(114.5)
Interest receivable	**–**	–	**61.2**	59.6
Share of profit of associates (net of tax)				
– Textiles and Washroom Services	**–**	–	**2.0**	2.2
Profit before income tax	**–**	–	**199.1**	217.4
Income tax expense	**–**	–	**(44.8)**	(59.4)
Total for the year from continuing operations	**2,124.7**	1,885.2	**154.3**	158.0
Discontinued operations (after income tax)				
Textiles and Washroom Services	**13.6**	52.1	**3.0**	(26.0)
Facilities Services[1]	**121.9**	381.5	**88.3**	5.8
Discontinued business segments[2]	**–**	83.7	**1.5**	186.6
Total for the year from discontinued operations	**135.5**	517.3	**92.8**	166.4
Total for the year (including discontinued operations)	**2,260.2**	2,402.5	**247.1**	324.4

[1] Profit from the Facilities Services segment for the year to 31 December 2006 represents the profit on disposal (after tax) of the Manned Guarding businesses of £95.9m (see note 9).

[2] Discontinued business segments predominantly consists of the conferencing segment, which was discontinued in the second half of 2005. Profit for the year to 31 December 2005 in this segment includes profit on disposal (after tax) of the conferencing segment of £170.3m.

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

	Depreciation 2006 £m	Depreciation 2005 £m	Amortisation 2006 £m	Amortisation 2005 £m
Continuing operations				
Textiles and Washroom Services	**107.6**	87.7	**11.7**	10.3
Pest Control	**14.2**	11.7	**6.1**	2.0
Tropical Plants	**10.2**	9.4	**2.2**	4.0
Electronic Security	**5.8**	5.4	**5.9**	4.0
Parcels Delivery	**5.7**	3.9	**2.3**	–
Facilities Services	**11.2**	26.5	**1.2**	2.6
Central items	**1.9**	1.4	**1.2**	0.5
Total for the year from continuing operations	**156.6**	146.0	**30.6**	23.4
Discontinued operations				
Textiles and Washroom Services	**0.5**	14.1	**–**	–
Facilities Services	**0.3**	2.1	**1.6**	3.2
Discontinued business segments[1]	**–**	6.2	**–**	–
Total for the year from discontinued operations	**0.8**	22.4	**1.6**	3.2
Total for the year (including discontinued)	**157.4**	168.4	**32.2**	26.6

[1] Discontinued business segments predominantly consists of the conferencing segment, which was discontinued in the second half of 2005.

During 2006, property, plant and equipment impairment losses of £0.3m and £0.7m were recognised in the Textiles and Washrooms Services and Facilities Services segments respectively. In 2005, property, plant and equipment and intangible asset impairment losses of £31.2m and £2.9m respectively and an inventory impairment loss of £1.0m were recognised in the Textiles and Washroom Services segment.

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

The consolidated segment operating assets and liabilities at 31 December 2006 and 31 December 2005 and capital expenditure for the years then ended are as follows:

	Assets	Assets	**Liabilities**	Liabilities	**Capital expenditure**	Capital expenditure
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Continuing operations						
Textiles and Washroom Services[1]	**592.3**	456.9	**197.0**	154.5	**182.8**	120.0
Pest Control	**211.4**	101.3	**77.2**	52.2	**118.0**	16.8
Tropical Plants	**69.7**	66.6	**21.1**	19.7	**19.4**	17.9
Electronic Security	**182.8**	165.4	**105.9**	104.5	**21.7**	38.0
Parcels Delivery	**368.6**	36.5	**59.3**	11.8	**285.4**	5.5
Facilities Services	**169.5**	238.8	**87.0**	106.3	**23.2**	31.2
Central items	**55.5**	79.5	**306.2**	381.4	**7.4**	8.6
Total from continuing operations	**1,649.8**	1,145.0	**853.7**	830.4	**657.9**	238.0
Discontinued operations						
Textiles and Washroom Services	**–**	15.8	**–**	9.9	**0.6**	8.4
Facilities Services	**–**	82.9	**–**	38.3	**1.0**	10.3
Discontinued business segments[2]	**–**	–	**–**	–	**–**	10.2
Total from discontinued operations	**–**	98.7	**–**	48.2	**1.6**	28.9
Total (including discontinued)	**1,649.8**	1,243.7	**853.7**	878.6	**659.5**	266.9
[1] Includes associates						
– Continuing operations	**8.6**	9.2	**–**	–	**–**	–

[2] Discontinued business segments predominantly consists of the conferencing segment, which was discontinued in the second half of 2005.

Reconciliation of segment assets/liabilities to total assets/liabilities

	Assets	Assets	**Liabilities**	Liabilities
	2006 £m	2005 £m	**2006 £m**	2005 £m
Segment assets/liabilities as above	**1,649.8**	1,243.7	**853.7**	878.6
Deferred tax assets	**7.1**	74.0	**–**	–
Cash and cash equivalents	**135.1**	240.3	**–**	–
Current tax liabilities	**–**	–	**103.6**	115.1
Bank and other short-term borrowings	**–**	–	**446.0**	108.5
Bank and other long-term borrowings	**–**	–	**877.3**	1,072.1
Deferred tax liabilities	**–**	–	**45.0**	43.3
Total assets/liabilities	**1,792.0**	1,558.0	**2,325.6**	2,217.6

Segment assets primarily consist of property, plant and equipment, investments, intangible assets, inventories and receivables. Segment liabilities primarily consist of payables and provisions for other liabilities and charges. Cash and cash equivalents and bank and other short/long-term borrowings are managed by group treasury and therefore it is not considered appropriate to analyse these by business or geographic segment. Assets and liabilities are allocated to business and geographic segments on a specific basis.

Capital expenditure comprises additions to property, plant and equipment (note 13) and intangible assets (note 12), including additions resulting from acquisitions through business combinations (note 32).

(b) Secondary reporting format – geographical segments

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

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

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

	Revenue	Revenue	**Total assets**	Total assets	**Capital expenditure**	Capital expenditure
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Continuing operations						
United Kingdom	**994.9**	863.7	**691.0**	318.5	**343.2**	52.8
Continental Europe	**829.5**	804.2	**627.2**	606.5	**134.3**	140.9
North America	**166.4**	93.9	**149.0**	66.2	**99.5**	19.0
Asia Pacific[1]	**102.1**	89.6	**112.9**	57.1	**69.2**	12.5
Africa	**31.8**	33.8	**14.2**	17.2	**4.3**	4.2
	2,124.7	1,885.2	**1,594.3**	1,065.5	**650.5**	229.4
Central items	**–**	–	**55.5**	79.5	**7.4**	8.6
Total from continuing operations	**2,124.7**	1,885.2	**1,649.8**	1,145.0	**657.9**	238.0

	Revenue 2006 £m	Revenue 2005 £m	Total assets 2006 £m	Total assets 2005 £m	Capital expenditure 2006 £m	Capital expenditure 2005 £m
Discontinued operations						
United Kingdom	**35.6**	263.7	**–**	41.4	**0.7**	19.1
Continental Europe	**17.9**	55.3	**–**	13.3	**0.4**	0.5
North America	**82.0**	197.5	**–**	44.0	**0.5**	9.2
Asia Pacific[1]	**–**	–	**–**	–	**–**	–
Africa	**–**	0.8	**–**	–	**–**	0.1
Total from discontinued operations	**135.5**	517.3	**–**	98.7	**1.6**	28.9
Total (including discontinued)	**2,260.2**	2,402.5	**1,649.8**	1,243.7	**659.5**	266.9
[1] Includes associates						
– Continuing operations	**–**	–	**8.6**	9.2	**–**	–

Analysis of revenue by category

	Continuing operations 2006 £m	Continuing operations 2005 £m	Discontinued operations 2006 £m	Discontinued operations 2005 £m
Contract service revenue (including rental income)	**1,520.7**	1,447.4	**109.3**	338.4
Non contract service revenue	**526.4**	335.0	**26.2**	178.8
Franchise income	**32.8**	54.2	**–**	–
Sales of goods	**44.8**	48.6	**–**	0.1
	2,124.7	1,885.2	**135.5**	517.3

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

The commentary in the review of performance reflects the management divisional structure and not the segmental information presented above. For statutory purposes, the businesses within the geographic divisions of Asia Pacific and South Africa (Other) have been reallocated back to the relevant business segment in line with the requirements of IAS 14, "Segmental Reporting". In addition, the commentary in the review of performance is presented at constant exchange rates and before the amortisation of intangible assets*. The tables that follow reconcile the segmental information presented above to the divisional performance referred to in the review of performance on pages 8 to 28.

	Statutory basis	**Asia Pacific and Other**	**Foreign exchange**	**Management basis**	Management basis
	2006 £m	**2006 £m**	**2006 £m**	**2006 £m**	2005 £m
Revenue from continuing operations					
Textiles and Washroom Services	671.4	(76.0)	2.0	597.4	593.7
Pest Control	319.3	(41.0)	1.7	280.0	209.4
Tropical Plants	116.5	(10.7)	0.8	106.6	102.4
Electronic Security	281.5	–	0.6	282.1	263.4
Parcel Delivery	213.3	–	–	213.3	125.5
Facilities Services	522.7	(3.5)	0.4	519.6	470.0
Asia Pacific	–	102.1	1.5	103.6	89.6
Other	–	29.1	2.7	31.8	31.2
	2,124.7	–	9.7	2,134.4	1,885.2

	Statutory basis	**Asia Pacific and Other**	**Amortisation of intangible assets***	**Foreign exchange**	**Management basis**	Management basis
	2006 £m	**2006 £m**	**2006 £m**	**2006 £m**	**2006 £m**	2005 £m
Operating profit from continuing operations						
Textiles and Washroom Services	106.8	(24.4)	9.7	0.4	92.5	122.3
Pest Control	61.9	(7.2)	6.7	0.2	61.6	67.2
Tropical Plants	6.6	(1.3)	2.1	0.1	7.5	9.5
Electronic Security	34.6	–	4.8	–	39.4	35.8
Parcel Delivery	32.6	–	2.2	–	34.8	29.1
Facilities Services	28.7	(1.7)	0.4	–	27.4	34.8
Asia Pacific	–	20.2	–	0.6	20.8	23.3
Other	–	11.8	–	1.1	12.9	12.7
Central items	(22.1)	2.6	–	–	(19.5)	(44.4)
	249.1	–	25.9	2.4	277.4	290.3

* Excluding computer software and development costs.

2. Operating expenses by nature

	Continuing operations 2006 £m	Continuing operations 2005 £m	Discontinued operations 2006 £m	Discontinued operations 2005 £m	Total 2006 £m	Total 2005 £m
Employee benefit expense (note 3)	**983.9**	842.2	**109.8**	373.3	**1,093.7**	1,215.5
Depreciation – owned assets	**147.1**	134.1	**0.5**	20.4	**147.6**	154.5
– under finance leases	**9.5**	11.9	**0.3**	2.0	**9.8**	13.9
Profit on disposal of PPE	**(4.5)**	(12.0)	**(16.8)**	(0.1)	**(21.3)**	(12.1)
Amortisation – intangible assets[1]	**25.9**	20.2	**1.6**	2.8	**27.5**	23.0
– computer software and development costs	**4.7**	3.2	**–**	0.4	**4.7**	3.6
Audit and non-audit services (note 4)	**3.5**	5.1	**–**	–	**3.5**	5.1
UK textiles impairment	**–**	–	**–**	31.3	**–**	31.3
Bid defence costs (note 5)	**–**	10.9	**–**	–	**–**	10.9
Other impairment of PPE	**1.0**	3.8	**–**	–	**1.0**	3.8
Curtailment and past service credits[2]	**(17.0)**	–	**(2.2)**	–	**(19.2)**	–
Cost of inventories recognised as an expense	**82.5**	68.5	**0.5**	2.1	**83.0**	70.6
Hire of machinery and equipment	**8.6**	10.4	**0.5**	1.4	**9.1**	11.8
Other operating lease rentals	**30.5**	27.2	**1.0**	3.9	**31.5**	31.1
Net foreign exchange losses	**0.1**	0.1	**–**	–	**0.1**	0.1
Research and development costs (external)	**3.1**	3.0	**–**	–	**3.1**	3.0
Other expenses	**596.7**	486.5	**49.8**	83.4	**646.5**	569.9
Operating expenses	**1,875.6**	1,615.1	**145.0**	520.9	**2,020.6**	2,136.0

1 Excluding computer software and development costs.
2 Includes £3m in respect of the change in assumptions arising from 'A day'.

3. Employee benefit expense

	Continuing operations 2006 £m	Continuing operations 2005 £m	Discontinued operations 2006 £m	Discontinued operations 2005 £m	Total 2006 £m	Total 2005 £m
Wages and salaries	837.3	704.9	97.4	331.5	934.7	1,036.4
Social security costs	124.9	111.7	12.0	40.5	136.9	152.2
Share based payments	–	3.2	–	–	–	3.2
Pension costs – defined contribution plans	13.1	9.2	0.1	0.7	13.2	9.9
Pension costs – defined benefit plans (note 26)	8.6	13.2	0.3	0.6	8.9	13.8
	983.9	842.2	109.8	373.3	1,093.7	1,215.5

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

	Number	Number	Number	Number	Number	Number
Service	61,667	54,644	12,141	25,820	73,808	80,464
Selling	3,549	3,398	69	235	3,618	3,633
Administration	5,618	5,200	341	799	5,959	5,999
	70,834	63,242	12,551	26,854	83,385	90,096

Emoluments of directors of Rentokil Initial plc are included in staff costs above and in the key management compensation table in note 36. Further details are also given in the remuneration report on pages 46 to 53.

4. Audit and non-audit services

	2006 £m	2005 £m
Fees payable to the company's auditors for the audit of the parent company and group accounts	0.5	0.5
Fees payable to the company's auditors and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	1.6	1.3
Other services pursuant to legislation	0.3	0.2
Tax services	0.3	0.2
Corporate finance transactions	0.6	1.5
All other services	0.2	1.4
	3.5	5.1

In addition to the above services, the group's auditors acted as auditors to the Rentokil Initial Pension Scheme. The appointment of auditors to the group's pension scheme and the fees paid in respect of the audit are agreed by the trustees of the scheme, who act independently from the management of the group. The aggregate fees paid to the group's auditors for audit services to the pension scheme during the year were £55,000 (2005: £46,000).

5. Exceptional items

In the year ended 31 December 2005, the costs of defending the takeover approach from Raphoe amounting to £10.9m were treated as an exceptional item. In order to improve comparability, these costs have been reclassified as a one-off item and are included within operating expenses on the face of the income statement.

6. Interest payable and similar charges

	2006 £m	2005 £m
Interest payable on bank loans and overdrafts	**18.8**	26.6
Interest payable on medium term notes issued	**49.6**	38.5
Net interest receivable on fair value hedges	**(6.7)**	(6.9)
Interest on defined benefit plan liabilities	**48.4**	46.8
Interest payable on finance leases	**2.3**	2.4
Foreign exchange gain on translation of foreign denominated loans	**(0.3)**	(0.8)
Amortisation of discount on provisions	**2.0**	2.0
Fair value loss on write off of Ashtead option	**–**	4.6
Net ineffectiveness of fair value hedges	**(0.1)**	(0.8)
Fair value (gain)/loss on derivatives not designated in a hedge relationship*	**(0.8)**	2.1
Total interest payable and similar charges (continuing operations)	**113.2**	114.5

* The fair value (gain)/loss on derivatives not designated in a hedge relationship includes fair value losses relating to forward rate agreements of £2.0m (2005: £0.5m).

7. Interest receivable

	2006 £m	2005 £m
Bank interest	**13.8**	8.6
Other interest*	**–**	11.3
Return on defined benefit plan assets	**47.4**	39.7
Total interest receivable (continuing operations)	**61.2**	59.6

*Other interest income represents interest income in respect of the Ashtead loan note.

8. Income tax expense

	2006 £m	2005 £m
Analysis of charge in the year		
UK Corporation tax at 30% (2005: 30%)	**23.9**	13.1
Double tax relief	**(17.6)**	(5.4)
	6.3	7.7
Overseas taxation	**38.9**	53.1
Adjustment in respect of previous periods	**(17.3)**	(13.1)
Total current tax	**27.9**	47.7
Deferred tax*	**16.9**	11.7
Total income tax expense (continuing operations)	**44.8**	59.4

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

	2006 £m	2005 £m
Profit before income tax (continuing operations)	**199.1**	217.4
Tax calculated at domestic tax rates applicable to profits in the respective countries	**59.7**	67.1
Adjustment in respect of previous periods	**(14.7)**	(11.7)
Expenses not deductible for tax purposes – other	**4.7**	7.9
Income not subject to tax	**(2.4)**	(1.7)
Goodwill deduction for which no deferred tax asset was recognised	**(0.3)**	(1.9)
Utilisation of previously unrecognised tax losses	**(1.6)**	(2.7)
Deferred tax on unremitted (losses)/profits	**(0.4)**	1.5
Other	**(0.2)**	0.9
Total income tax expense (continuing operations)	**44.8**	59.4

Adjustments in respect of previous periods represent the release of tax provisions in respect of previous periods which are no longer required following agreement of the relevant liabilities with fiscal authorities.

As a substantial proportion of profits are generated outside the UK, the standard rate of tax has been determined as the weighted average of the standard rates of tax in each of the different countries where profits are generated. The relevant rates were 30.7% in 2006 and 30.9% in 2005. The decrease is caused by a change in the profitability of the group's subsidiaries in the respective countries and a reduction in overseas tax rates.

*The deferred tax charge comprises:	**2006 £m**	2005 £m
Accelerated tax depreciation	**(2.2)**	0.6
Deferred tax on retirement benefit obligations	**19.7**	13.8
Unremitted overseas (losses)/profits	**(0.4)**	1.5
Other temporary differences	**(0.2)**	(4.2)
Deferred tax charge	**16.9**	11.7
Tax on items charged to equity		
Deferred tax debit/(credit) in respect of actuarial loss on defined benefit pensions	**13.1**	(1.0)
Total tax debited/(credited) to equity	**13.1**	(1.0)

9. Discontinued operations

Included within discontinued operations are the UK linen and workwear business, which was closed on 30 April 2006, and the manned guarding businesses in the United Kingdom, Canada, Belgium and the USA, which were disposed on 7 March 2006, 10 March 2006, 21 April 2006 and 20 July 2006 respectively, for gross proceeds of £156.9m, £151.7m after costs paid of £5.2m.

The group also disposed of four smaller businesses and a portfolio of vacant properties for gross proceeds of £6.6m, £4.8m after costs paid of £1.8m, the results of which are included within continuing operations.

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

	Discontinued operations £m	**Other disposals £m**	**2006 £m**
Non-current assets			
– Intangible assets	**13.6**	**–**	**13.6**
– Property, plant and equipment	**6.5**	**2.2**	**8.7**
Current assets	**81.7**	**16.1**	**97.8**
Current liabilities	**(41.5)**	**(12.7)**	**(54.2)**
Non-current liabilities	**(7.1)**	**(0.3)**	**(7.4)**
Net assets disposed	**53.2**	**5.3**	**58.5**
Profit/(loss) on disposal	**98.5**	**(0.5)**	**98.0**
Consideration	**151.7**	**4.8**	**156.5**
Consideration deferred to future periods	**(0.5)**	**(0.3)**	**(0.8)**
Consideration deferred from prior periods	**0.2**	**–**	**0.2**
Costs deferred to future periods	**0.4**	**0.2**	**0.6**
Costs deferred from prior periods	**(2.9)**	**–**	**(2.9)**
Cash disposed	**(8.0)**	**(10.7)**	**(18.7)**
Cash inflow from disposals of companies and businesses	**140.9**	**(6.0)**	**134.9**

The profit on disposal above of £98.0m excludes translation exchange losses of £5.7m, which are recycled to the income statement, giving a total post-tax profit on disposal of subsidiary net assets of £95.2m.

Financial performance of discontinued operations

	Manned guarding £m	UK linen and workwear £m	Other[2] £m	2006 £m	2005 £m
Revenue	121.9	13.6	–	135.5	517.3
Operating expenses	(129.1)	(17.4)	1.5	(145.0)	(520.9)
Operating (loss)/profit	(7.2)	(3.8)	1.5	(9.5)	(3.6)
Finance costs – net	(0.1)	–	–	(0.1)	(0.8)
(Loss)/profit before income tax	(7.3)	(3.8)	1.5	(9.6)	(4.4)
Taxation	(0.3)	6.8	–	6.5	1.1
(Loss)/profit after income tax from discontinued operations	(7.6)	3.0	1.5	(3.1)	(3.3)
Profit on disposal of net assets of companies and businesses	98.5	–	–	98.5	171.3
Taxation	(8.5)	–	–	(8.5)	–
Cumulative translation exchange gain/(loss)[1]	5.9	–	–	5.9	(1.6)
Total profit after income tax on disposal of net assets of companies and businesses	95.9	–	–	95.9	169.7
Profit on disposal of discontinued operations	88.3	3.0	1.5	92.8	166.4

[1] The cumulative translation exchange gain of £5.9m (2005: £1.6m loss) relating to discontinued operations has been recycled out of exchange reserves to the consolidated income statement.
[2] Release of provision in respect of prior year disposals.

Net cash flows from discontinued operations

	2006 £m	2005 £m
Operating	(20.0)	17.9
Investing	20.4	(10.2)
Financing	(0.2)	(0.2)
Total net cash flows*	0.2	7.5

* Excludes proceeds on disposal of discontinued operations of £134.9m (2005: £323.3m).

On 30 November 2006, the group announced its intention to commence a strategic review of its Electronic Security division. This strategic review remained ongoing at 31 December 2006. The Electronic Security division represents a separate major line of business for the group in accordance with IAS 14. The business has been classified within continuing operations in the income statement and the assets have not been classified as held for sale as a disposal was not highly probable at 31 December 2006. An impairment review of the carrying values of the Electronic Security businesses was performed at 31 December 2006 and no impairment recorded as the estimated recoverable amount of the business was higher than the carrying values of the total net assets of the business.

Since the year end date the group has announced its intention to dispose of the Electronic Security division and has initiated discussions with prospective purchasers. Initial bids were received in February 2007 and a second round of bids is expected in March 2007. The group considers that it is highly probable that the businesses will be disposed of during 2007 and in accordance with IFRS 5 the division will be treated as discontinued operations in the group's financial statements for the year ending 31 December 2007.

10. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of shares in issue during the year, excluding those held in the Rentokil Initial Employee Share Trust for UK employees (note 27), which are treated as cancelled.

	2006 £m	2005 £m
Profit from continuing operations attributable to equity holders of the company	**152.3**	155.1
Profit from discontinued operations attributable to equity holders of the company	**92.8**	166.4
Weighted average number of ordinary shares in issue	**1,806.5**	1,803.7
Basic earnings per share from continuing operations	**8.43p**	8.60p
Basic earnings per share from discontinued operations	**5.14p**	9.22p
Basic earnings per share from continuing and discontinued operations	**13.57p**	17.82p

Diluted

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

	2006 £m	2005 £m
Profit from continuing operations attributable to equity holders of the company	**152.3**	155.1
Profit from discontinued operations attributable to equity holders of the company	**92.8**	166.4
Weighted average number of ordinary shares in issue	**1,806.5**	1,803.7
Adjustment for share options and deferred shares	**–**	1.1
Weighted average number of ordinary shares for diluted earnings per share	**1,806.5**	1,804.8
Diluted earnings per share from continuing operations	**8.43p**	8.59p
Diluted earnings per share from discontinued operations	**5.14p**	9.22p
Diluted earnings per share from continuing and discontinued operations	**13.57p**	17.81p

11. Dividends

	2006 £m	2005 £m
2004 final dividend paid – 4.78p per share	–	86.2
2005 final dividend paid – 5.25p per share	94.8	–
2005 interim dividend paid – 2.13p per share	–	38.5
2006 interim dividend paid – 2.13p per share	38.5	–
	133.3	124.7

A dividend in respect of 2006 of 5.25p (2005: 5.25p) per 1p share amounting to £94.8m (2005: £94.8m) is to be proposed at the Annual General Meeting on 3 May 2007. These financial statements do not reflect this recommended dividend.

12. Intangible assets

	Goodwill £m	Customer lists and relationships £m	Brands, patents and reacquired franchise rights £m	Computer software £m	Development costs £m	Total £m
Cost						
At 1 January 2005	69.7	181.6	–	29.8	2.1	283.2
Exchange differences	1.0	2.3	–	0.4	0.2	3.9
Additions	–	–	–	8.7	0.7	9.4
Disposals	–	–	–	(1.8)	–	(1.8)
Acquisition of companies and businesses	10.1	37.7	0.3	–	0.2	48.3
Disposal of companies and businesses	–	–	–	(2.0)	–	(2.0)
At 31 December 2005	80.8	221.6	0.3	35.1	3.2	341.0
At 1 January 2006	80.8	221.6	0.3	35.1	3.2	341.0
Exchange differences	(10.1)	(10.4)	(0.8)	(0.5)	–	(21.8)
Additions	–	–	–	6.0	0.4	6.4
Disposals	–	–	–	(2.0)	–	(2.0)
Acquisition of companies and businesses	269.6	135.6	29.9	0.1	–	435.2
Disposal of companies and businesses	(3.9)	(24.2)	–	(3.8)	(2.7)	(34.6)
Reclassification	–	–	–	0.1	(0.1)	–
At 31 December 2006	336.4	322.6	29.4	35.0	0.8	724.2
Accumulated amortisation and impairment						
At 1 January 2005	–	(113.6)	–	(18.1)	(1.4)	(133.1)
Exchange differences	–	(1.3)	–	0.1	(0.2)	(1.4)
Disposals	–	–	–	1.7	–	1.7
Disposal of companies and businesses	–	–	–	1.6	–	1.6
Impairment charge	–	–	–	(2.9)	–	(2.9)
Amortisation charge	–	(23.0)	–	(3.3)	(0.3)	(26.6)
At 31 December 2005	–	(137.9)	–	(20.9)	(1.9)	(160.7)

	Goodwill £m	Customer lists and relationships £m	Brands, patents and reacquired franchise rights £m	Computer software £m	Development costs £m	Total £m
At 1 January 2006	–	(137.9)	–	(20.9)	(1.9)	(160.7)
Exchange differences	–	5.7	(0.1)	0.4	–	6.0
Disposals	–	–	–	0.8	–	0.8
Disposal of companies and businesses	–	15.7	–	2.6	2.7	21.0
Amortisation charge	–	(25.2)	(2.3)	(3.7)	(1.0)	(32.2)
At 31 December 2006	–	(141.7)	(2.4)	(20.8)	(0.2)	(165.1)
Net Book Value						
At 1 January 2005	69.7	68.0	–	11.7	0.7	150.1
At 31 December 2005	80.8	83.7	0.3	14.2	1.3	180.3
At 31 December 2006	336.4	180.9	27.0	14.2	0.6	559.1

Amortisation of £32.2m (2005: £26.6m) and impairment of £nil (2005: £2.9m) has been charged to operating expenses. The impairment charge in 2005 of £2.9m arose due to the linen and workwear business within the UK being written down to its recoverable amount. There was no impairment charge in 2006.

Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and business segment. A summary of the 2006 goodwill allocation by business segment is shown below:

	UK £m	Europe £m	North America £m	Asia Pacific £m	Africa £m	Total £m
Textiles and Washroom Services	6.7	42.3	–	23.3	–	72.3
Pest Control	–	0.4	38.6	2.2	–	41.2
Tropical Plants	–	2.4	10.0	0.6	0.2	13.2
Electronic Security	12.5	4.1	4.8	–	–	21.4
Parcel Delivery	186.8	–	–	–	–	186.8
Manned Guarding	–	–	–	–	–	–
Facilities Services	1.5	–	–	–	–	1.5
	207.5	49.2	53.4	26.1	0.2	336.4

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

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

The growth rates used by individual CGUs are based on the long-term growth rates predicted for the relevant sector and country in which a business operates. They do not exceed the long-term average growth rate for that industry or country. The pre-tax discount rates are based on the group's weighted average cost of capital adjusted for specific risks relating to the relevant sector and country.

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

13. Property, plant and equipment

	Land and buildings £m	Plant, equipment and tropical plants £m	Vehicles and office equipment £m	Total £m
Cost				
At 1 January 2005	316.1	778.8	254.0	1,348.9
Exchange differences	(1.6)	(8.7)	0.4	(9.9)
Additions	14.4	127.7	54.2	196.3
Disposals	(4.1)	(117.4)	(40.0)	(161.5)
Acquisition of companies and businesses	4.1	7.0	1.8	12.9
Disposal of companies and businesses	(162.6)	(48.0)	(6.7)	(217.3)
Reclassification	–	(0.2)	0.2	–
At 31 December 2005	166.3	739.2	263.9	1,169.4
At 1 January 2006	**166.3**	**739.2**	**263.9**	**1,169.4**
Exchange differences	**(3.4)**	**(17.6)**	**(8.2)**	**(29.2)**
Additions	**12.8**	**123.2**	**56.1**	**192.1**
Disposals	**(12.2)**	**(201.8)**	**(47.6)**	**(261.6)**
Acquisition of companies and businesses	**7.7**	**5.1**	**13.0**	**25.8**
Disposal of companies and businesses	**(3.2)**	**(9.0)**	**(12.9)**	**(25.1)**
At 31 December 2006	**168.0**	**639.1**	**264.3**	**1,071.4**

	Land and buildings £m	Plant, equipment and tropical plants £m	Vehicles and office equipment £m	Total £m
Accumulated depreciation and impairment				
At 1 January 2005	(62.5)	(478.8)	(145.9)	(687.2)
Exchange differences	0.4	4.9	(0.2)	5.1
Disposals	1.6	115.3	34.8	151.7
Disposal of companies and businesses	21.7	31.9	4.5	58.1
Reclassification	–	1.0	(1.0)	–
Impairment charge	(0.1)	(30.6)	(0.5)	(31.2)
Depreciation charge	(5.3)	(122.6)	(40.5)	(168.4)
At 31 December 2005	(44.2)	(478.9)	(148.8)	(671.9)
At 1 January 2006	**(44.2)**	**(478.9)**	**(148.8)**	**(671.9)**
Exchange differences	**1.1**	**10.2**	**4.2**	**15.5**
Disposals	**1.9**	**199.5**	**38.7**	**240.1**
Disposal of companies and businesses	**1.5**	**7.0**	**7.9**	**16.4**
Impairment charge	**–**	**(1.0)**	**–**	**(1.0)**
Depreciation charge	**(3.6)**	**(109.8)**	**(44.0)**	**(157.4)**
At 31 December 2006	**(43.3)**	**(373.0)**	**(142.0)**	**(558.3)**
Net Book Value				
At 1 January 2005	253.6	300.0	108.1	661.7
At 31 December 2005	122.1	260.3	115.1	497.5
At 31 December 2006	**124.7**	**266.1**	**122.3**	**513.1**

The impairment charge in 2005 is made up as follows:

UK textiles (Textiles and Washroom Services)	0.1	26.8	0.5	27.4
Other (Textiles and Washroom Services)	–	3.8	–	3.8
	0.1	30.6	0.5	31.2

The impairment charge of £1.0m in 2006 is included within Textiles and Washroom Services (£0.3m) and Facilities Services (£0.7m) operating expenses within continuing operations. The UK textiles impairment charge of £27.4m in 2005 is included within the profit for the year from discontinued operations (see note 9) on the face of the income statement. This impairment charge was recognised in the UK linen and workwear business as its net assets had been written down to their recoverable amount. The other impairment charge of £3.8m is included in operating expenses within continuing operations.

	Land and buildings £m	Plant, equipment and tropical plants £m	Vehicles and office equipment £m	Total £m
The net carrying amounts of assets held under finance leases are as follows:				
At 31 December 2005	18.2	0.9	26.8	45.9
At 31 December 2006	**17.7**	**0.8**	**26.0**	**44.5**

The category of plant, equipment and tropical plants includes equipment leased by the group to third parties under operating leases with the following carrying amounts:

	2006 £m	2005 £m
Cost at 1 January	**489.3**	497.4
Accumulated depreciation at 1 January	**(312.6)**	(298.9)
Exchange differences	**(5.8)**	(2.0)
Additions	**98.6**	103.5
Disposals	**(2.1)**	(1.3)
Acquisition of companies and businesses	**2.8**	3.2
Disposal of companies and businesses	**(0.8)**	(1.4)
Impairment charge	**(1.0)**	(18.8)
Depreciation charge	**(89.7)**	(105.0)
Net book amount	**178.7**	176.7

14. Investments in associated undertakings

	2006 £m	2005 £m
At 1 January	**9.2**	9.5
Exchange differences	**(1.6)**	(0.2)
Share of profit[1]	**2.0**	2.2
Disposals in the year	**–**	(1.3)
Dividends	**(1.0)**	(1.0)
At 31 December	**8.6**	9.2

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

Investments in associates at 31 December 2006 includes goodwill of £nil (2005: £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
2006						
Nippon Calmic Ltd (49%)	**Japan**	**15.8**	**(7.2)**	**18.8**	**2.0**	**49%**
2005						
Nippon Calmic Ltd (49%)	Japan	18.3	(9.1)	18.8	2.2	49%

15. Other investments

	2006 £m	2005 £m
At 1 January	**6.8**	6.7
Disposals	**(0.2)**	–
Acquisition of companies and businesses	**0.2**	0.1
At 31 December	**6.8**	6.8
Less: non-current portion	**6.8**	6.8
Current portion	**–**	–
Available-for-sale financial assets include the following:		
– UK Government gilts and US Treasury bonds	**6.4**	6.6
– Unlisted equity securities – continental Europe	**0.2**	0.2
– Unlisted equity securities – North America	**0.2**	–
	6.8	6.8

All other investments are classified as available-for-sale financial assets. All revaluations of investments have been taken to equity. Changes in fair values of available-for-sale financial assets are recorded directly in equity. Other investments were not impaired in 2005 or 2006. See note 24 for the maturity profile and effective interest rate.

16. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**422.5**	401.0
Less: provision for impairment of receivables	**(12.5)**	(12.3)
Trade receivables – net	**410.0**	388.7
Other receivables	**47.4**	46.5
Prepayments	**49.9**	53.6
Total	**507.3**	488.8
Less non-current portion:		
Other receivables	**24.7**	28.3
	24.7	28.3
Current portion	**482.6**	460.5

Book value approximates fair value because of the short-term nature of the receivable and the low interest environment.

There is limited concentration of credit risk with respect to trade receivables due to the group's customer base being large and diverse.

The group has recognised a loss of £5.8m (2005: £5.0m) for the impairment of its trade receivables during the year ended 31 December 2006. The loss has been included within operating expenses in the income statement.

Other receivables consist primarily of a South African loan note and deferred consideration received in respect of business disposals. The South African loan note of £13.5m, relating to the sale of a minority interest in a South African subsidiary, has been classified as available-for-sale. The loan note has been revalued at 31 December 2006, using a discounted cash flow model, and the revaluation gain of £0.2m (2005: £0.8m loss) has been taken directly to reserves and disclosed on the face of the statement of recognised income and expense. The South African loan note has an effective interest rate of 9.0%.

Other receivables include £16.0m of interest bearing and £1.0m of non-interest bearing notes (with effective interest rates varying between 7.3% and 9.0%) and deferred consideration received in respect of business disposals. The notes/deferred consideration have final maturities between 2007 and 2014, although earlier repayments may be precipitated under the terms of the respective disposal notes/sale agreements. Apart from the South African loan note (described above), deferred consideration/disposal notes are classified as originated loans and receivables. See note 24 for the maturity profile.

17. Derivative financial instruments

	Fair value assets	Fair value assets	**Fair value liabilities**	Fair value liabilities
	2006 £m	2005 £m	**2006 £m**	2005 £m
Interest rate swaps:				
– non-hedge	**–**	–	**–**	–
– fair value hedge	**6.9**	16.7	**(10.4)**	(0.8)
Forward rate agreements:				
– non-hedge	**1.0**	0.4	**–**	(1.0)
Cross-currency interest rate swaps:				
– non-hedge	**–**	0.2	**(0.5)**	–
– fair value hedge	**–**	–	**(2.7)**	(0.7)
Foreign exchange swaps:				
– non-hedge	**0.1**	–	**(0.9)**	–
– fair value hedge	**–**	–	**(0.5)**	–
	8.0	17.3	**(15.0)**	(2.5)
Analysed as follows:				
Current portion	**8.0**	0.4	**(4.6)**	(1.0)
Non-current portion	**–**	16.9	**(10.4)**	(1.5)
	8.0	17.3	**(15.0)**	(2.5)

Fair value hedge accounting has been applied to related derivatives (marked as "fair value hedge") in accordance with IAS 39. Where no hedge accounting has been applied, related derivatives have been marked as "non-hedge". The related derivative and the hedged notes (described in note 22) are both marked-to-market and the ineffective portion of the hedge is taken directly to finance costs.

The group has ?500m, £300m and £250m fixed to floating (LIBOR plus spread) interest rate swaps for which hedge accounting is sought and whose critical terms match those of the bonds disclosed in note 22. Fair value hedge accounting is also sought for a JP¥3bn/£15.4m fixed to floating (LIBOR plus spread) cross-currency interest rate swap whose critical terms match the bond disclosed in note 22.

The group also has $10m/£5.6m floating to floating (LIBOR plus margin) cross-currency interest rate swaps whose critical terms match the Notes disclosed in note 22 but for which hedge accounting is not sought.

The group has outstanding forward rate agreements maturing in approximately six months with nominal values of £225m and ?720m attracting average fixed interest rates of 5.36% and 3.74% respectively and a further £225m and ?220m of six month forward rate agreements maturing in 12 to 13 months, attracting average fixed interest of 5.36% and 3.89% respectively.

18. Inventory

	2006 £m	2005 £m
Raw materials	**8.7**	13.1
Work in progress	**3.2**	4.7
Finished goods	**35.0**	26.0
	46.9	43.8

There were no inventory impairment charges in 2006. In 2005 an inventory impairment charge of £1.0m arose due to the linen and workwear business in the UK being written down to its recoverable amount.

19. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	**90.2**	134.0
Short-term bank deposits	**44.9**	106.3
	135.1	240.3

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	2006 £m	2005 £m
Cash and cash equivalents	**135.1**	240.3
Bank overdrafts (note 22)	**(16.3)**	(69.6)
	118.8	170.7

Interest is receivable and payable at rates of interest varying between 0.6% and 6.1%. £3.4m of the cash balance is held in trust and is not available for general use by the group.

20. Trade and other payables

	2006 £m	2005 £m
Trade payables	**134.3**	125.9
Social security and other taxes	**75.3**	78.8
Other payables	**93.4**	90.3
Accruals and deferred income	**251.1**	244.0
Deferred consideration on acquisitions	**14.9**	6.8
Total	**569.0**	545.8
Less non-current portion:		
Other payables	**15.8**	11.9
Deferred consideration on acquisitions	**–**	0.1
	15.8	12.0
Current portion	**553.2**	533.8

21. Provisions for other liabilities and charges

	Vacant properties £m	Environmental £m	Self insurance £m	Other £m	Total £m
At 1 January 2005	45.5	35.7	45.4	16.3	142.9
Exchange differences	–	1.2	1.9	0.1	3.2
Additional provisions	4.3	0.2	17.4	–	21.9
Unused amounts reversed	–	–	–	(1.0)	(1.0)
Unwinding of discount on provisions	1.3	0.7	–	–	2.0
Used during the year	(4.8)	(2.0)	(13.6)	(0.6)	(21.0)
At 31 December 2005	46.3	35.8	51.1	14.8	148.0

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

Provisions analysed as follows:

	2006 £m	2005 £m
Non-current	128.6	116.9
Current	22.3	31.1
	150.9	148.0

Vacant properties

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

Environmental

The group owns a number of properties in the UK, Europe and the USA where there is land contamination and provisions are held for the remediation of such contamination.

Self insurance

The group purchases external insurance from a portfolio of international insurers for its key insurable risks in order to limit the maximum potential loss that could be suffered in any one year. Individual claims are met in full by the group up to agreed self insured limits in order to limit volatility in claims.

The calculated cost of self insurance claims, based on an actuarial assessment of claims incurred at the balance sheet date, is accumulated as claims provisions. The annual review of these provisions by external actuaries resulted in a decrease in the reserves and in the insurance charge to the income statement in the year of £2.8m (2005: £0.3m).

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.

During 2006, Initial BTB SA, a group subsidiary operating in France, received a Statement of Objections from the French Competition Council (Conseil de la Concurrence) alleging that certain of the company's activities in a period between 1997 and 2002 have infringed French competition laws. After taking appropriate legal advice, the group has recorded a provision in respect of the possible regulatory fine to be imposed by the French authorities. At 31 December 2006, this provision represents the group's best estimate of the total liability that may arise. It is possible that the ultimate liability may be different from the amount of the provision currently recorded. The total amount of the provision is not disclosed as this may prejudice the group's position in this matter.

22. Bank and other borrowings

	2006 £m	2005 £m
Non-current		
Bank borrowings	**254.1**	409.9
Other loans	**603.1**	640.4
Finance lease liabilities	**20.1**	21.8
	877.3	1,072.1
Current		
Bank overdrafts	**16.3**	69.6
Bank borrowings	**30.5**	6.8
Other loans	**383.3**	15.3
Finance lease liabilities	**15.9**	16.8
	446.0	108.5
Total bank and other borrowings	**1,323.3**	1,180.6

Bank borrowings of £nil (2005: £nil) are secured on certain assets of the group. Other non-current loans and other current loans include £603.1m (2005: £640.4m) and £383.3m (2005: £15.3m) respectively of notes issued under the company's m 2.5bn Euro Medium Term Note programme. The above book values approximate fair values.

The group operated the following medium term notes under its ?2.5bn Euro Medium Term Note programme for the years ended 31 December 2006 and 31 December 2005:

Currency/Amount	IAS 39 hedging	Interest Coupon	Maturity date
¥2,000m	FV	Fixed rate – 0.40% pa	matured
m 20m	NH	Floating rate – 3 month EURIBOR +0.20%	matured
$10m	NH	Floating rate – 3 month USD LIBOR +0.24%	matured
m 150m	NH	Floating rate – 3 month EURIBOR +0.35%	matured
£15m	NH	Floating rate – 6 month GBP LIBOR +0.35%	matured
¥3,000m	FV	Fixed rate – 0.60% pa	13.04.07
$10m	NH	Floating rate – 3 month USD LIBOR +0.35%	17.05.07
m 500m	FV, NIH	Fixed rate – 5.75% pa	21.05.07
m 100m	NH	Floating rate – 3 month EURIBOR +0.28%	03.07.08
£250m	FV	Fixed rate – 6.125% pa	19.11.08
£300m	FV	Fixed rate – 5.75% pa	31.03.16

Key: FV – Fair value hedge accounting applied
NH – Hedge accounting not applied
NIH – Designated for Net Investment Hedging

The medium term notes detailed above are subject to a deed of guarantee issued by Rentokil Initial 1927 plc on 9 December 2005.

The effective interest rate on the ?500m note is 5.9%. The effective interest rates on the £250m and £300m notes are 6.20% and 5.82% respectively. For all other bonds the effective interest rate approximates to the coupon. The floating rate bonds that are not designated as hedges in accordance with IAS 39 are carried on the balance sheet at amortised cost and retranslated at the period end rate. The related swap (a derivative) is marked-to-market at the period end date. The exchange effect on the bond and the movement on the swap revaluation are both reported within finance costs and act as a natural hedge.

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

The group has no significant fixed rate debt except for the fixed rate bonds disclosed above. These bonds are designated in fair value hedges which convert them to floating interest rates. The group's floating rate exposure is managed using forward rate agreements which all mature within one year, except for contracts with a nominal value of £225m and £220m which mature within 13 months.

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

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

Net investment hedging

The group has designated the ?500m note as a hedge of the net investment in its subsidiaries in the eurozone. The fair value of the euro note at 31 December 2006 was £349.8m (2005: £364.7m). In the prior year, the Japanese Yen bank borrowings with a fair value of £6.4m were designated as a hedge of the net investment in the group's subsidiaries in Japan. In the current year, this relationship was replaced by cross-currency swaps referred to below. The group has entered into cross-currency swaps to convert GBP debt into synthetic Yen, USD and AUD debt. The notional amounts of cross-currency swaps designated as hedges of the net investment in subsidiaries at 31 December 2006 were £5.5m (2005: £nil), £22.0m (2005: £nil) and £12.2m (2005: £nil) respectively. The foreign exchange gain of £8.8m (2005: £0.2m) on translation of the borrowings into sterling has been recognised in exchange reserves. Where net investment hedging has been applied to the medium term notes, the related note has been marked with a "NIH".

Finance lease payments fall due as follows:

	2006 £m	2005 £m
Not later than one year	**16.1**	17.5
Between		
– one and two years	**11.7**	12.3
– two and three years	**6.6**	7.3
– three and four years	**2.5**	2.7
– four and five years	**0.4**	0.5
– over five years	**0.8**	1.1
	38.1	41.4
Future finance charges on finance leases	**(2.1)**	(2.8)
Present value of finance lease liabilities	**36.0**	38.6

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

23. Maturity profile of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities, other than current trade payables, other payables and finance leases, was as follows:

	Loans	Loans	**Other**	Other	**Total**	Total
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Within one year, or on demand	**430.1**	91.7	**8.6**	5.4	**438.7**	97.1
Between						
– one and two years	**318.0**	561.4	**13.6**	4.0	**331.6**	565.4
– two and three years	**0.1**	255.0	**6.4**	3.9	**6.5**	258.9
– three and four years	**0.1**	0.1	**3.7**	3.8	**3.8**	3.9
– four and five years	**251.0**	233.6	**4.6**	3.4	**255.6**	237.0
– over five years	**288.0**	0.2	**35.3**	21.8	**323.3**	22.0
	1,287.3	1,142.0	**72.2**	42.3	**1,359.5**	1,184.3

Other financial liabilities include £72.2m (2005: £42.3m) in respect of vacant property provisions related to underlying onerous lease contracts and environmental provisions.

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

	Loans	Loans	**Other**	Other	**Total**	Total
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Pound sterling	**829.7**	586.3	**72.2**	42.3	**901.9**	628.6
Euro	**415.8**	413.3	**–**	–	**415.8**	413.3
US dollar	**14.0**	93.3	**–**	–	**14.0**	93.3
Other currencies	**27.8**	49.1	**–**	–	**27.8**	49.1
	1,287.3	1,142.0	**72.2**	42.3	**1,359.5**	1,184.3

Foreign currency risk

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

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

The group had the following undrawn committed borrowing facilities available at 31 December 2006 and 31 December 2005 in respect of which all continuing conditions precedent had been met at that date.

	2006 £m	2005 £m
Expiring within		
– one year, or on demand	**–**	–
– one and two years	**44.3**	323.0
– two and three years	**–**	–
– three and four years	**–**	–
– four and five years	**230.0**	500.6
– over five years	**–**	–
	274.3	823.6

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

24. Maturity profile of financial assets

The maturity profile of the carrying amount of the group's financial assets at 31 December 2006 was as follows:

	Cash	**Deferred consideration/ loan notes**	**Derivatives**	**Investments**	**Total**
	2006 £m	**2006 £m**	**2006 £m**	**2006 £m**	**2006 £m**
Within one year, or on demand	**135.1**	**2.3**	**7.4**	**3.9**	**148.7**
Between					
– one and two years	**–**	**0.2**	**0.6**	**2.5**	**3.3**
– two and three years	**–**	**1.0**	**–**	**–**	**1.0**
– three and four years	**–**	**–**	**–**	**–**	**–**
– four and five years	**–**	**–**	**–**	**–**	**–**
– over five years	**–**	**13.5**	**–**	**0.4**	**13.9**
	135.1	**17.0**	**8.0**	**6.8**	**166.9**

The maturity profile of the carrying amount of the group's financial assets at 31 December 2005 was as follows:

	Cash	Deferred consideration/ loan notes	Derivatives	Investments	Total
	2005 £m	2005 £m	2005 £m	2005 £m	2005 £m
Within one year, or on demand	240.3	1.1	0.4	–	241.8
Between					
– one and two years	–	1.1	16.9	3.9	21.9
– two and three years	–	0.1	–	2.5	2.6
– three and four years	–	1.4	–	–	1.4
– four and five years	–	–	–	–	–
– over five years	–	16.9	–	0.4	17.3
	240.3	20.6	17.3	6.8	285.0

Cash

Floating rate cash earns interest at commercial rates in line with local market practice. Central treasury companies invest all significant cash surpluses in major currencies (£, US$ and euro) at money market rates. Short-term deposits are placed with banks usually for maturities of up to six months and earn interest at market rates related to the currency and the sums invested.

Investments

Fixed rate cash deposits include £6.4m (2005: £6.6m) invested in UK and US Government bonds which are held by the group's insurance operations in accordance with local insurance regulations and are used to meet insurance liabilities as they fall due. The weighted average effective interest rate earned is 6.4% (2005: 4.2%) and the weighted average rate is fixed for 1.4 years (2005: 2.3 years).

Refer to notes 16 and 17 for the interest profile of deferred consideration/loan notes and derivatives.

25. Deferred income tax

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

	2006 £m	2005 £m
At 1 January	**30.7**	30.6
Exchange differences	**0.2**	1.6
Acquisition of companies and businesses	**(35.1)**	(7.2)
Disposal of companies and businesses	**–**	6.1
Transfers to current taxation	**0.1**	0.1
Charged to the income statement*	**(20.7)**	(1.5)
(Charged)/credited to equity	**(13.1)**	1.0
At 31 December	**(37.9)**	30.7

* Includes deferred tax of £3.8m (2005: (£10.2m)) in respect of discontinued operations.

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

	2006 £m	2005 £m
Deferred tax asset within non-current assets	**7.1**	74.0
Deferred tax liability within non-current liabilities	**(45.0)**	(43.3)
	(37.9)	30.7

The major components of deferred tax assets and liabilities at the year end (without taking into consideration the offsetting of balances within the same tax jurisdiction) is as follows:

	Customer lists/ intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Other £m	Total £m
At 31 December 2005	9.8	42.3	(80.6)	11.8	(14.0)	(30.7)
At 31 December 2006	**50.3**	**33.6**	**(47.1)**	**10.5**	**(9.4)**	**37.9**

Unprovided deferred tax assets in respect of unutilised tax losses amount to £4.2m (2005: £10.3m). The losses will expire at various dates between 2007 and 2025. Capital losses carried forward amount to £84.4m (2005: £88.6m). Other deferred tax assets amounting to £17.9m (2005: £17.9m) have not been recognised due to the uncertainty regarding their utilisation.

Deferred tax liabilities have not been recognised in respect of withholding tax and other taxes that would be payable on unremitted earnings of certain subsidiaries as such amounts are permanently reinvested. If these earnings were remitted, tax of £26.4m (2005: £19.7m) would be payable.

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

26. Retirement benefit obligations

Apart from the legally required social security state schemes, the group operates a number of pension schemes around the world covering many of its employees. The major schemes are of the defined benefit type with assets held in separate trustee administered funds.

The principal scheme in the group is the Rentokil Initial Pension Scheme ("RIPS") in the United Kingdom, which has a number of defined benefit sections which are now closed to new entrants (other than the Initial No2 Section, accounting for 0.5% of the total schemes liabilities, which remains open). On 19 December 2005, a detailed consultation began between the company and the active members of the RIPS on the freezing of the future accrual of benefits for active members. Following this consultation, future accrual ceased as from 31 August 2006 and defined benefit members moved into new defined contribution arrangements, resulting in a curtailment credit of £14.0m. Actuarial valuations of the UK scheme are carried out every three years. The most recent full valuation was at 31 March 2005 with an interim valuation performed at 31 August 2006 which was used as the basis for the IAS 19 valuation in these financial statements.

These defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19 requirements. The principal assumptions used for the UK RIPS scheme are shown below.

	2006	2005
Weighted average %		
Discount rate	**5.1%**	4.7%
Expected return on plan assets	**5.5%**	6.3%
Future salary increases	**3.8%**	3.6%
Future pension increases	**3.1%**	2.8%

Mortality assumptions

For current pensioners, standard tables PMA92 and PFA92 projected to 2016 using the medium cohort projection and for future pensioners, standard table PMA92 and PFA92 projected to 2026 using the medium cohort projections have been assumed for 2006 and 2005. The mortality rates are increased by 25% for "non-executive" members. This equates to a man retiring at age 65 living a further 20.7 years if he is a "staff" member, or 22.3 years if he is an "executive" member. The corresponding figures for women are 23.4 and 25.1 years respectively.

Pension benefits

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

	2006	2006	2006	2005	2005	2005
	UK RIPS £m	**Other[1] £m**	**Total £m**	UK RIPS £m	Other[1] £m	Total £m
Present value of funded obligations	**(1,012.2)**	**(21.6)**	**(1,033.8)**	(1,029.2)	(20.6)	(1,049.8)
Fair value of plan assets	**903.9**	**17.2**	**921.1**	859.4	15.4	874.8
	(108.3)	**(4.4)**	**(112.7)**	(169.8)	(5.2)	(175.0)
Present value of unfunded obligations	**–**	**(6.1)**	**(6.1)**	–	(7.3)	(7.3)
Liability in the balance sheet.	**(108.3)**	**(10.5)**	**(118.8)**	(169.8)	(12.5)	(182.3)

The amounts recognised in the income statement are as follows:

	2006 UK RIPS £m	2006 Other £m	2006 Total £m	2005 UK RIPS £m	2005 Other £m	2005 Total £m
Current service cost[2]	**8.1**	**0.8**	**8.9**	12.6	1.2	13.8
Prior service cost[3]	**(3.0)**	**–**	**(3.0)**	–	–	–
Curtailment	**(16.2)**	**–**	**(16.2)**	–	–	–
Interest cost[2]	**47.7**	**0.7**	**48.4**	45.9	0.9	46.8
Amount charged to pension liability	**36.6**	**1.5**	**38.1**	58.5	2.1	60.6
Expected return on plan assets[2]	**(46.7)**	**(0.7)**	**(47.4)**	(39.1)	(0.6)	(39.7)
Total pension cost	**(10.1)**	**0.8**	**(9.3)**	19.4	1.5	20.9

1 Other retirement benefit plans are predominantly made up of defined benefit plans situated in Ireland, Germany, Australia and Belgium.
2 Service costs are charged to operating expenses and interest cost and return on plan assets to interest payable and receivable.
3 Change in assumptions arising from 'A day'.

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

	2006	2006	2006	2005	2005	2005
	UK RIPS £m	**Other £m**	**Total £m**	UK RIPS £m	Other £m	Total £m
At 1 January	**859.4**	**15.4**	**874.8**	569.5	15.4	584.9
Exchange differences	**–**	**(0.6)**	**(0.6)**	–	(0.1)	(0.1)
Expected return on plan assets	**46.7**	**0.7**	**47.4**	39.1	0.6	39.7
Actuarial gain/(loss) during the year	**18.7**	**1.4**	**20.1**	74.5	(1.4)	73.1
Contributions received from employees	**3.6**	**0.6**	**4.2**	4.8	0.6	5.4
Contributions received from employer	**8.3**	**0.5**	**8.8**	209.0	1.8	210.8
Benefits paid	**(32.8)**	**(0.8)**	**(33.6)**	(37.5)	(1.5)	(39.0)
At 31 December	**903.9**	**17.2**	**921.1**	859.4	15.4	874.8

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

	2006	2006	2006	2005	2005	2005
	UK RIPS £m	**Other £m**	**Total £m**	UK RIPS £m	Other £m	Total £m
Equity instruments	**177.2**	**9.0**	**186.2**	531.5	7.9	539.4
Debt instruments	**700.8**	**6.5**	**707.3**	129.2	6.8	136.0
Property	**–**	**0.8**	**0.8**	–	0.5	0.5
Cash	**–**	**0.9**	**0.9**	198.7	0.2	198.9
Swaps	**25.9**	**–**	**25.9**	–	–	–
Total plan assets	**903.9**	**17.2**	**921.1**	859.4	15.4	874.8

Pension plan assets include the company's ordinary shares with a fair value of £0.7m (2005: £2.2m).

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

	2006	2006	2006	2005	2005	2005
	UK RIPS £m	**Other £m**	**Total £m**	UK RIPS £m	Other £m	Total £m
At 1 January	**1,029.2**	**27.9**	**1,057.1**	872.0	24.7	896.7
Exchange differences	**–**	**(0.8)**	**(0.8)**	–	(0.2)	(0.2)
Total expense charged in the income statement	**36.6**	**1.5**	**38.1**	58.5	2.1	60.6
Actuarial (gain)/loss during the year	**(24.4)**	**(0.1)**	**(24.5)**	131.4	2.3	133.7
Contributions received from employees	**3.6**	**0.6**	**4.2**	4.8	0.6	5.4
Benefits paid	**(32.8)**	**(1.4)**	**(34.2)**	(37.5)	(1.6)	(39.1)
At 31 December	**1,012.2**	**27.7**	**1,039.9**	1,029.2	27.9	1,057.1

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

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

The group made a special contribution in December 2005 of £200m to the UK defined benefit scheme and contributed a further £30m in January 2007.

The expected return on plan assets is based on market expectations at the beginning of the year. The actual return on plan assets was £67.5m (2005: £112.8m).

The cumulative actuarial loss recognised in the statement of recognised income and expense was £119.8m (2005: £164.4m). An actuarial gain of £44.6m (2005: £60.6m loss) was recognised during the year.

27. Statement of changes in equity

	Attributable to equity holders of the company						
	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Other reserves £m	Retained earnings £m	Minority interest £m	Total equity £m
At 1 January 2005	18.1	49.5	19.7	8.4	(906.9)	10.1	(801.1)
Total recognised income for the year	–	–	–	(1.4)	264.8	–	263.4
Dividends paid to ordinary shareholders	–	–	–	–	(124.7)	–	(124.7)
Cost of share options	–	–	–	–	3.2	–	3.2
New share capital issued	–	5.7	–	–	–	–	5.7
Minority interest share of profit	–	–	–	–	(2.9)	2.9	–
Cumulative exchange recycled to income statement on disposal of foreign subsidiary	–	–	–	1.6	–	–	1.6
Dividends paid to minority interests	–	–	–	–	–	(2.6)	(2.6)
Purchase of minority interest in French Textiles business	–	–	–	–	(1.7)	(3.4)	(5.1)
Capital reorganisation*	–	(49.9)	(19.7)	(1,722.7)	1,792.3	–	–
At 31 December 2005	18.1	5.3	–	(1,714.1)	1,024.1	7.0	(659.6)
At 1 January 2006	**18.1**	**5.3**	**–**	**(1,714.1)**	**1,024.1**	**7.0**	**(659.6)**
Total recognised income for the year	**–**	**–**	**–**	**(10.0)**	**278.6**	**–**	**268.6**
Dividends paid to ordinary shareholders	**–**	**–**	**–**	**–**	**(133.3)**	**–**	**(133.3)**
New share capital issued	**–**	**0.9**	**–**	**–**	**–**	**–**	**0.9**
Deferred shares issued	**–**	**–**	**–**	**–**	**(1.9)**	**–**	**(1.9)**
Transfer to other reserves	**–**	**–**	**–**	**1.2**	**(1.2)**	**–**	**–**
Minority interest share of profit	**–**	**–**	**–**	**–**	**(2.0)**	**2.0**	**–**
Cumulative exchange recycled to income statement on disposal of foreign subsidiary	**–**	**–**	**–**	**(5.7)**	**–**	**–**	**(5.7)**
Currency translation difference on minority interest	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Dividends paid to minority interests	**–**	**–**	**–**	**–**	**–**	**(1.8)**	**(1.8)**
At 31 December 2006	**18.1**	**6.2**	**–**	**(1,728.6)**	**1,164.3**	**6.4**	**(533.6)**

Treasury shares of £11.1m (2005: £11.1m) have been netted against retained earnings. Treasury shares represent 7.4m (2005: 7.4m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2006 was £12.3m (2005: £12.1m). Dividend income from, and voting rights on, the shares held by the Trust have been waived. There are a further 0.7m (2005: nil) shares held in trust for the benefit of the chief executive. See the remuneration report starting on page 49. The market value of these shares at 31 December 2006 was £1.2m (2005: £nil).

	Other reserves				
	Capital reduction reserve £m	Legal £m	Translation reserve £m	Available-for-sale £m	Total £m
At 1 January 2005	–	9.2	(0.8)	–	8.4
Net exchange adjustments offset in reserves	–	–	(0.6)	–	(0.6)
Available-for-sale investments marked to market	–	–	–	(0.8)	(0.8)
Total recognised expense for the year	–	–	(0.6)	(0.8)	(1.4)
Capital reorganisation*	(1,722.7)	–	–	–	(1,722.7)
Cumulative exchange recycled on disposal of foreign subsidiary	–	–	1.6	–	1.6
At 31 December 2005	(1,722.7)	9.2	0.2	(0.8)	(1,714.1)
At 1 January 2006	**(1,722.7)**	**9.2**	**0.2**	**(0.8)**	**(1,714.1)**
Net exchange adjustments offset in reserves	**–**	**–**	**(10.1)**	**–**	**(10.1)**
Available-for-sale investments marked to market	**–**	**–**	**–**	**0.1**	**0.1**
Total recognised income/(expense) for the year	**–**	**–**	**(10.1)**	**0.1**	**(10.0)**
Cumulative exchange recycled on disposal of foreign subsidiary	**–**	**–**	**(5.7)**	**–**	**(5.7)**
Transfer from retained reserves	**–**	**1.2**	**–**	**–**	**1.2**
At 31 December 2006	**(1,722.7)**	**10.4**	**(15.6)**	**(0.7)**	**(1,728.6)**

* On 20 June 2005, the High Court (the "Court") approved the scheme of arrangement (the "Scheme") of Rentokil Initial plc ("Old Rentokil Initial") under section 425 of the Companies Act 1985 to introduce a new listed group holding company, Rentokil Initial 2005 plc ("New Rentokil Initial"). The Scheme became effective on 21 June 2005 and New Rentokil Initial changed its name to Rentokil Initial plc and Old Rentokil Initial changed its name to Rentokil Initial 1927 plc at that time. Under the terms of the Scheme, holders of Old Rentokil Initial shares received one New Rentokil Initial share for each Old Rentokil Initial share.

On 22 June 2005, the Court approved the reduction of capital of Rentokil Initial plc, whereby the nominal value of each ordinary share was reduced from 100p to 1p. The reduction of capital became effective on 23 June 2005. As shown above, the effect of the scheme of arrangement and the subsequent reduction in capital has increased distributable reserves by £1,792.3m. The capital reorganisation transaction has been treated as a reverse acquisition in the consolidated financial accounts.

	2006 £m	2005 £m
Share capital		
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid		
At 1 January – 1,813,839,693 shares (2005: 1,810,116,908)	**18.1**	18.1
Share options exercised – 593,268 shares (2005: 3,722,785)	**–**	–
At 31 December – 1,814,432,961 shares (2005: 1,813,839,693)	**18.1**	18.1

28. Share-based payments

The company has share option schemes for approximately 500 senior executives worldwide. The exercise price for share options is the mid-market closing price immediately preceding the date of grant. Share options are equity settled.

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

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

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

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

Deferred share schemes: shares have been offered to executive directors and divisional managing directors to compensate for loss of bonuses or share options in their previous employment on joining the group during 2005. Deferred shares are awarded to members based upon being in continued employment at the time of meeting the various grant dates in the future. As at 31 December 2006, 4.5m shares have been granted in respect of the deferred share scheme and 1,138,619 shares have been issued to members during the financial year then ended. Refer to the remuneration report on pages 46 to 53 for details of the chief executive's and chief financial officer's share awards.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Weighted average exercise price	Number of share options
	p per share	000
Outstanding at 1 January 2005	212.172	45,472
Granted	160.500	6,115
Exercised	153.349	3,740
Expired	227.147	9,003
Outstanding at 31 December 2005	**206.230**	**38,844**
Granted	**–**	**–**
Exercised	**156.493**	**593**
Expired	**215.406**	**6,336**
Outstanding at 31 December 2006	**205.333**	**31,915**

Out of the 31.9m outstanding options, 15,277,767 options were exercisable. Options exercised during the period resulted in 593,268 shares being issued at 1p each. The related weighted average price at the time of exercise was 156.493p per share.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Granted	Exercise period	Exercise price (p)	Number of shares
Savings-related scheme (UK)	2001	2004 – 2007	204.000	105,345
Executive schemes	1997	2000 – 2007	204.634	1,789,786
	1998	2001 – 2008	371.670	2,176,001
	1999	2002 – 2009	270.000	2,665,800
	2000	2003 – 2010	156.500	4,015,968
	2001	2004 – 2011	205.250	3,911,313
	2002	2005 – 2012	266.750	3,121,423
	2003	2006 – 2013	204.500	3,491,654
	2004	2007 – 2014	152.000	5,151,915
	2005	2008 – 2015	160.500	5,591,390
				32,020,595

Performance Share Plan

The company introduced a new share based Performance Plan in 2006 and granted 9,521,516 shares on 31 May 2006.

Year of Grant	Exercise period	Number 31 December 2005	Granted	Lapsed	Number 31 December 2006
2006	2009 - 2016	–	9,521,516	6,910	9,514,606

The performance conditions for these awards are earnings per share ("EPS") growth for 50% of an award and total shareholder return ("TSR") for the remaining 50% of an award. For 75% of the TSR portion of an award, performance is measured by comparing the company's relative TSR performance to that of constituents of the FTSE 100 (excluding financial services companies). For the remaining 25% of the TSR portion of an award, the company's TSR performance is measured against the constituents of an international group of support services companies. Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period.

The fair value of the above awards is charged to the income statement over the vesting period based on values derived using an option pricing tool which is a closed-form solution operating on similar principles to a Monte Carlo simulation. The significant inputs into the model were a share price of 145p at the date of grant, an expected share price volatility of 22%, an expected life of 3 years (i.e. commensurate with the vesting period) and an expected correlation of 18% and 19% for the respective comparator groups. The share price volatility and the correlation assumptions are based on statistical analysis of historical daily share prices. As participants are entitled to dividend equivalents during the vesting period, the expected dividend yield and the assumed risk-free rate of return have no impact on the fair value of the awards.

The total net charge for the year relating to equity settled share-based payment plans was £nil (2005: £3.2m). The nil charge in the year represents £1.0m for the performance share plan, £1.6m in respect of deferred share awards and a credit of £2.6m representing the reversal of prior years' charges for level 1 share options now not expected to vest.

29. Cash generated from operating activities

	2006 £m	2005 £m
Profit for the year	**247.1**	324.4
Adjustments for:		
– Profit on sale of discontinued operations	**(98.5)**	(171.3)
– Taxation on profit on sale of discontinued operations	**8.5**	–
– Cumulative translation exchange (gain)/loss recycled on discontinued operations	**(5.9)**	1.6
– Loss on sale of continuing operations	**0.5**	–
– Cumulative translation exchange loss recycled on continuing operations	**0.2**	–
– Discontinued operations tax and interest	**(6.4)**	(0.3)
– Tax	**44.8**	59.4
– Share of profit from associates	**(2.0)**	(2.2)
– Interest income	**(61.2)**	(59.6)
– Interest expense	**113.2**	114.5
– Depreciation	**157.4**	168.4
– Amortisation of intangible assets*	**27.5**	23.0
– Amortisation of computer software and development costs	**4.7**	3.6
– Pension curtailment and past pension credits	**(19.2)**	–
– Other non-cash items	**1.0**	38.3
– Profit on sale of property, plant and equipment	**(21.3)**	(12.1)
– Loss on disposal of intangible assets	**1.2**	–
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	**(2.8)**	(3.6)
– Trade and other receivables	**(47.6)**	(37.9)
– Trade and other payables and provisions	**28.3**	30.3
Cash generated from operating activities before special pension contribution	**369.5**	476.5
Special pension contribution	**–**	(200.0)
Cash generated from operating activities	**369.5**	276.5

* Excluding computer software and development costs

	2006 £m	2005 £m
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount	**21.2**	9.8
Profit on sale of property, plant and equipment	**21.3**	12.1
Proceeds from sale of property, plant and equipment	**42.5**	21.9

Non-cash transactions

Non-cash items relate to impairment charges of £1.0m (2005: £31.3m asset impairment charges relating to UK textiles, other impairment charge of £3.8m and share-based payment charges of £3.2m).

30. Reconciliation of net (decrease)/increase in cash and bank overdrafts to net debt

	2006 £m	2005 £m
Net (decrease)/increase in cash and bank overdrafts	(58.2)	23.6
Movement on finance leases	1.9	2.2
Movement on loans	(221.0)	226.7
(Increase)/decrease in debt resulting from cash flows	(277.3)	252.5
Acquisition of companies and businesses	(11.3)	(13.8)
Disposal of companies and businesses	9.3	0.5
Revaluation of net debt	11.3	8.1
Net debt translation differences	20.1	1.5
Movement on net debt in the year	(247.9)	248.8
Opening net debt	(940.3)	(1,189.1)
Closing net debt	**(1,188.2)**	(940.3)
Closing net debt comprises:		
Cash and cash equivalents	135.1	240.3
Bank and other short-term borrowings	(446.0)	(108.5)
Bank and other long-term borrowings	(877.3)	(1,072.1)
Total net debt	**(1,188.2)**	(940.3)

31. Free cash flow

	2006 £m	2005 £m
Net cash flows generated from operating activities	289.4	152.4
Add back: special pension contribution	–	200.0
	289.4	352.4
Purchase of property, plant and equipment (PPE)	(176.3)	(183.8)
Purchase of intangible fixed assets	(6.3)	(9.2)
Leased property, plant and equipment	(17.6)	(16.9)
Proceeds from sale of PPE and intangible assets	42.5	22.0
Dividends received from associates	1.0	1.0
Dividends paid to minority interests	(1.8)	(2.6)
Interest element of finance lease payments	(2.3)	(2.5)
Free cash flow	**128.6**	160.4

32. Business combinations

The group purchased 100% of the share capital of Target Express Ltd ("Target"), a large parcel delivery company in the UK, on 30 November 2006, J.C. Ehrlich Co. Inc. ("Ehrlich"), a large pest control company in the USA, on 1 March 2006, Pink Healthcare, a washroom services company in Australia, on 30 June 2006 and CWS-branded, a washroom services operations in Australia, Hong Kong, South Korea, Malaysia, the Philippines and Singapore on 1 September 2006. The group also purchased 100% of the share capital or the trade and assets of 67 smaller companies and businesses as detailed below. The total consideration for all acquisitions during the year was £428.8m and after adjusting for deferred consideration, cash and debt acquired resulted in a cash outflow of £406.5m.

Name of business acquired	Country	Date
Textiles and Washroom Services		
Tampereen Mattopesupalvelu	Finland	30.04.06
Sanitensia	Sweden	05.06.06
Tampereen Vuokratoimi	Finland	04.07.06
Mattolinja	Finland	04.07.06
Mattrek AB	Sweden	10.07.06
Ahitex	Spain	12.09.06
EnviroFresh Ltd	UK	22.12.06
Textiles and Washroom Services total purchase consideration = £13.3m		
Pest Control		
Kidwell Pest Control	USA	28.02.06
Yingst Pest Control	USA	30.03.06
FinpestControl	Finland	05.05.06
Gantner	Germany	01.06.06
The Exterminator Inc	Canada	01.07.06
CWS Biokill	Switzerland	01.10.06
P&G Pest Control	USA	01.10.06
Treser	Spain	02.11.06
Micro Biotic	Austria / Germany	03.11.06
Deranet Service	France	13.11.06
Du-Right Pest Control	USA	01.12.06
Pest Control total purchase consideration = £79.2m		
Tropical Plants		
Plantdekor	Norway	20.02.06
Klaver	Netherlands	05.07.06
Beach McLeod	Canada	31.07.06
Sydfyns	Denmark	23.08.06
Diversifolia	USA	01.09.06
Blomsterkraft	Sweden	01.10.06
Planteriors	USA	01.10.06
Decorative Plant Services	USA	01.10.06
Tropical Plants total purchase consideration = £4.3m		
Electronic Security		
Siemens	France	28.04.06
Calertho	Netherlands	28.06.06
Securitec	France	04.07.06

Electronic Security (continued)		
Hawk	UK	28.07.06
Proxim	France	15.09.06
Semme	France	03.10.06
Barry Security	USA	10.10.06
Hallmark	UK	27.11.06
Electronic Security total purchase consideration = £14.3m		
Parcel Delivery		
Sanctum Transport Ltd	UK	01.01.06
Speedlink Express Ltd	UK	22.02.06
A&K	UK	18.04.06
Poulter	UK	15.05.06
ATS	UK	23.06.06
Hallamgate	UK	11.09.06
Tiger Haulage	UK	22.09.06
Greenway Bird	UK	29.09.06
Abbott	UK	29.09.06
Parcel Delivery total purchase consideration = £264.5m		
Facilities Services		
Wittmann GmbH	Germany	15.09.06
Insitu	UK	30.09.06
Facilities Services total purchase consideration = £5.8m		
Asia Pacific		
Oki Dust Mat	China	31.05.06
Pest Free Service Ltd	New Zealand	20.04.06
Akarana	New Zealand	19.06.06
Wuhan Kangzhou	China	30.06.06
Killing Pest Control	Hong Kong	30.06.06
ASAP/Affirmative	Australia	03.07.06
Advice & Action	New Zealand	24.07.06
Valley Pest	Australia	01.08.06
Total Pest Management	New Zealand	01.08.06
Pacific Quarantine	New Zealand	01.09.06
Capital	Australia	03.10.06
Pest Corp	Australia	31.10.06
McKill	Malaysia	15.11.06
TQM	Fiji	20.11.06
Te Ling	China	30.11.06
Bioterm	Australia	30.11.06
Bugsaway	New Zealand	07.12.06
GRC	Australia	15.12.06
Lease-A-Plant	New Zealand	08.03.06
Morgan & Pollard	New Zealand	18.11.06
Plantation	Australia	30.11.06
Chemasia	Singapore	31.07.06
Asia Pacific total purchase consideration = £47.4m		

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

	Target £m	Ehrlich £m	Pink £m	CWS £m	Other £m	2006 £m
Purchase consideration:						
– Cash paid	210.7	68.4	22.9	12.3	91.2	405.5
– Direct costs relating to the acquisition	0.4	2.3	1.4	0.4	3.4	7.9
– Consideration deferred to future periods	–	4.3	0.9	0.2	7.7	13.1
– Direct costs deferred to future periods	2.2	–	0.1	–	–	2.3
Total purchase consideration	213.3	75.0	25.3	12.9	102.3	428.8
Fair value of net assets acquired	52.8	30.2	9.9	5.0	61.3	159.2
Goodwill	160.5	44.8	15.4	7.9	41.0	269.6

In common with the majority of the previous acquisitions made by the group, goodwill of £269.6m represents synergies, both in increased revenues and reduced costs, expected to be realised in all current year acquisitions.

In addition to the synergies above, the goodwill which arose from the premium paid for the acquisition of Target Express represents further cost savings expected to be obtained from the integration of Target's branch network and hubs with the network of the group's existing parcel delivery business, City Link.

A portion of the goodwill arising on acquisition of JC Ehrlich represents a premium paid by the group to gain a substantial presence in the US pest control market and to allow the group to benefit from further potential synergies available through further acquisition and integration of smaller pest control businesses in the USA.

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

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

	Target £m	Ehrlich £m	Pink £m	CWS £m	Other £m	2006 £m
Non-current assets						
– Computer software	0.1	–	–	–	–	0.1
– Property, plant and equipment	5.8	3.2	1.8	2.6	12.6	26.0
– Other investments	–	0.2	–	–	–	0.2
Current assets	25.0	10.4	0.3	0.7	41.2	77.6
Current liabilities	(18.5)	(12.0)	(1.9)	(0.3)	(25.9)	(58.6)
Non-current liabilities	(2.8)	(6.8)	–	–	(4.5)	(14.1)
Net assets acquired	9.6	(5.0)	0.2	3.0	23.4	31.2

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

	Target £m	Ehrlich £m	Pink £m	CWS £m	Other £m	2006 £m
Non-current assets						
– Intangible assets[1]	61.7	35.2	12.6	3.6	52.4	165.5
– Computer software	–	–	–	–	–	–
– Property, plant and equipment	–	–	0.5	–	(0.7)	(0.2)
Current assets	–	–	–	–	(0.3)	(0.3)
Current liabilities	–	–	(0.4)	–	(1.7)	(2.1)
Non-current liabilities	(18.5)	–	(3.0)	(1.6)	(11.8)	(34.9)
Net assets acquired	43.2	35.2	9.7	2.0	37.9	128.0

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

	Target £m	Ehrlich £m	Pink £m	CWS £m	Other £m	2006 £m
Non-current assets						
– Intangible assets[1]	61.7	35.2	12.6	3.6	52.4	165.5
– Computer software	0.1	–	–	–	–	0.1
– Property, plant and equipment	5.8	3.2	2.3	2.6	11.9	25.8
– Other investments	–	0.2	–	–	–	0.2
Current assets	25.0	10.4	0.3	0.7	40.9	77.3
Current liabilities	(18.5)	(12.0)	(2.3)	(0.3)	(27.6)	(60.7)
Non-current liabilities	(21.3)	(6.8)	(3.0)	(1.6)	(16.3)	(49.0)
Net assets acquired	52.8	30.2	9.9	5.0	61.3	159.2

1 Excluding computer software and development costs.
2 The provisional fair values will be finalised in the 2007 financial statements.

	Target £m	Ehrlich £m	Pink £m	CWS £m	Other £m	2006 £m
Total purchase consideration	213.3	75.0	25.3	12.9	102.3	428.8
Consideration payable in future periods	–	(4.3)	(0.9)	(0.2)	(7.7)	(13.1)
Direct costs deferred to future periods	(2.2)	–	(0.1)	–	–	(2.3)
Purchase consideration (paid in cash)	211.1	70.7	24.3	12.7	94.6	413.4
Cash and cash equivalents in acquired companies and businesses	(5.8)	(0.3)	–	–	(5.4)	(11.5)
Cash outflow on current year acquisitions	205.3	70.4	24.3	12.7	89.2	401.9
Deferred consideration from prior periods paid	–	–	–	–	4.6	4.6
Cash outflow on current and past acquisitions	205.3	70.4	24.3	12.7	93.8	406.5

From the dates of acquisition to 31 December 2006 these acquisitions contributed £139.2m to revenue and £8.0m to operating profit (after amortisation of customer lists acquired of £7.8m).

If the acquisitions had occurred on 1 January 2006, these acquisitions would have contributed £375.2m to revenue and £24.0m to operating profit (after amortisation of customer lists acquired of £19.6m).

33. Contingent liabilities

The group has contingent liabilities of £0.9m (2005: £2.0m) relating to guarantees in respect of third parties. In addition there are contingent liabilities in respect of environmental issues, tax and litigation, none of which are expected to give rise to any significant loss.

Litigation proceedings have been initiated against our former Manned Guarding business in the USA by former employees in respect of certain employment practices of that business. The group has indemnified the acquirers of that business against any potential settlement arising from these proceedings. The group has taken legal advice and does not believe that the action will succeed. However, as the outcome of the case is uncertain and as a potential obligation exists no provision has been made for this contingent liability in accordance with IAS 37. If the claim were successful, the potential exposure is in the range of $0m to $40m.

34. Capital commitments

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

	2006 £m	2005 £m
Property, plant and equipment	**40.0**	13.2
Intangible assets	**1.0**	1.1
	41.0	14.3

35. Operating leases

The group leases properties, vehicles, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement during the year is disclosed in note 2.
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2006 £m	2005 £m
Not later than one year	**6.8**	5.6
Later than one year and not later than five years	**24.4**	20.0
Later than five years	**17.3**	14.3
	48.5	39.9

36. Related party transactions

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

	2006 £m	2005 £m
Salaries and other short-term employee benefits	**4.6**	5.4
Post-employment benefits	**0.7**	0.4
Termination benefits	**1.1**	0.1
Share-based payments	**1.8**	1.8
	8.2	7.7

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

Nippon Calmic Ltd (49%) was an associate during 2006 and its balances are disclosed in note 14. There are no significant transactions between Nippon Calmic Ltd and other group companies.

The group recharges the Rentokil Initial Pension Scheme with costs of administration and independent pension advice borne by the group. The total amount of recharges in the year ended 31 December 2006 was £2.3m (2005: £1.6m).

The group has a loan to a consortium of private investors which enabled them to purchase a 25.1% stake in the South African business. The group has a receivable from this consortium of £13.5m (2005: £16.8m) at the end of the year. It is anticipated that the loan will be repaid over a ten year period. The repayment of the loan will be dependent upon the future dividends generated by the business.

37. Post-balance sheet events

The following events have occurred since the end of the year:

On 31 January 2007, the group made a further contribution of £30m to the UK Pension Scheme.

The group has acquired a further 20 companies and businesses for a gross consideration of £66m, including the acquisition of Campbell Bros. in Australia for a gross consideration of £20m.

A final dividend of 5.25p (2005: 5.25p) has been recommended by the board of directors.

Principal Operating Subsidiary and Associated Undertakings

At 31 December 2006

Subsidiary undertakings

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

Australia
Rentokil Initial Pty Ltd

Austria
Rentokil Initial GmbH
Textilservice Pointner GmbH

Bahamas
Rentokil Initial (Bahamas) Ltd

Barbados
Rentokil Initial (Barbados) Ltd

Belgium
Initial Textiles NV
Rentokil Initial NV

Canada
Rentokil Pest Control Canada Ltd
Initial Tropical Plants Canada Ltd

Czech Republic
Initial Ecotex sro

Denmark
Rentokil Initial A/S

Fiji
Rentokil Initial Ltd

Finland
Oy Rentokil Initial AB

France
Initial BTB SA
Initial Delta Sécurité SA
Rentokil Initial SA
Rentokil Plantes Tropicales SA

France – Overseas Region
Rentokil Initial Martinique Sarl

Germany
Initial Textile Service GmbH and Co KG
Rentokil Initial GmbH

Greece
Rentokil Initial Hellas EPE

Guernsey, C.I.
Felcourt Insurance Co Ltd

Guyana
Rentokil Initial Guyana Ltd

Hong Kong
Rentokil Initial Hong Kong Ltd

Hungary
Intial Textile Services Kft

Indonesia
PT Calmic Indonesia
PT Rentokil Indonesia

Italy
Rentokil Initial Italia SpA

Jamaica
Rentokil Initial Jamaica Ltd

Kenya
Rentokil Initial Kenya Ltd

Luxembourg
Initial Textile Luxembourg Sarl
Rentokil Luxembourg Sarl

Malaysia
Rentokil Initial (M) Sdn Bhd

Netherlands
Initial Dienstverlening Nederland BV
Initial Hokatex BV
Initial Varel Security BV
Rentokil Initial BV
Rentokil Tropical Plants BV

New Zealand
Rentokil Initial Ltd

Norway
Rentokil Initial Norge AS

Peoples Republic of China
Rentokil Initial (Shanghai) Ltd

Philippines
Rentokil Initial (Philippines) Inc

Portugal
Rentokil Initial Portugal-Serviços de Protecção Ambiental Lda

Republic of Ireland
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
Yu Yu Calmic Co Ltd (50%)

Spain
Initial Gaviota SA
Limpiezas Initial SA
Rentokil Initial España SA

Sweden
Rentokil Initial AB

Switzerland
Rentokil Initial AG

Taiwan
Rentokil Initial Singapore Pte Ltd (Taiwan Branch)

Thailand
Rentokil Initial (Thailand) Ltd

Trinidad
Rentokil Initial (Trinidad) Ltd

USA
Initial Tropical Plants Inc
Initial Electronics Inc
J.C. Ehrlich Inc

Associated undertakings

Japan
Nippon Calmic Ltd (49%)

The activities of the major subsidiaries are referred to in the review of performance on pages 8 to 28.

Notes
1. Rentokil Initial plc owns directly 100% of the shares of Rentokil Initial 1927 plc and indirectly 100% of the shares in all subsidiaries except where a lower percentage is shown.
2. Undertakings operate and are incorporated in the country underneath which each is shown.
3. The group's 50% interest in Yu Yu Calmic Co Ltd is consolidated as a subsidiary to reflect the group's control over this company because of its shareholding and its involvement in the management and because the business is conducted under licence from the group.

Five Year Summary

	2002 £m	2003 £m	2004 £m	2005 £m	**2006 £m**
Revenue from continuing operations	2,310.8	2,426.2	2,181.4	2,301.2	**2,124.7**
Operating profit from continuing operations	438.6	452.6	308.5	243.3	**249.1**
Profit before income tax from continuing operations	390.5	409.2	256.7	190.1	**199.1**
Profit for the year from continuing operations	285.9	304.0	186.9	138.6	**154.3**
Profit for the year from discontinued operations	(0.2)	(12.4)	5.2	185.8	**92.8**
Profit for the year (including discontinued)	285.7	291.6	192.1	324.4	**247.1**
Profit attributable to equity holders of the company	284.6	290.1	190.4	321.5	**245.1**
Profit attributable to minority interest	1.1	1.5	1.7	2.9	**2.0**
	285.7	291.6	192.1	324.4	**247.1**
Basic earnings per share:					
Continuing operations	15.01p	16.51p	10.24p	7.52p	**8.43p**
Continuing and discontinued operations	15.00p	15.83p	10.53p	17.82p	**5.14p**
Dividends per 1p share	5.53p	6.10p	6.71p	7.38p	**7.38p**
Gross assets	1,744.1	1,807.6	1,770.6	1,558.0	**1,792.0**
Gross liabilities	(2,461.4)	(2,432.2)	(2,554.6)	(2,217.6)	**(2,325.6)**
Net liabilities	(717.3)	(624.6)	(784.0)	(659.6)	**(533.6)**
Share capital	18.6	18.2	18.1	18.1	**18.1**
Reserves	(742.2)	(649.3)	(812.2)	(684.7)	**(558.1)**
Minority interest	6.3	6.5	10.1	7.0	**6.4**
Capital employed	(717.3)	(624.6)	(784.0)	(659.6)	**(533.6)**

Notes:
1. The results for 2004, 2005 and 2006 have been prepared under International Financial Reporting Standards. Earlier years have not been restated and are as published under UK GAAP.
2. The results for 2002 and 2003 are as published as comparatives in the 2003 and 2004 annual reports respectively and the results from 2004 and 2005 are as published in the 2005 annual report. The results from continuing and discontinued operations for these years have not been restated for the effect of subsequent disposals.

Parent Company Balance Sheet

At 31 December

	Notes	2006 £m	2005 £m
Fixed assets			
Investments	4	**2,458.2**	2,460.0
Current assets			
Other debtors	5	**543.6**	63.4
Derivative financial instruments (due within one year)	6	**8.0**	–
Derivative financial instruments (due after more than one year)	6	**–**	16.9
Short term deposits and cash		**59.9**	–
		611.5	80.3
Creditors – amounts falling due within one year			
Creditors	7	**(203.1)**	(232.4)
Bank and other borrowings	8	**(546.1)**	(53.3)
Derivative financial instruments	6	**(4.6)**	–
		(753.8)	(285.7)
Net current liabilities		**(142.3)**	(205.4)
Creditors – amounts falling due after more than one year			
Bank and other borrowings	8	**(854.1)**	(640.7)
Derivative financial instruments	6	**(10.4)**	(1.5)
		(864.5)	(642.2)
Net assets		**1,451.4**	1,612.4
Equity capital and reserves			
Share capital	9	**18.1**	18.1
Share premium	10	**6.2**	5.3
Profit and loss account	11	**1,427.1**	1,589.0
Capital employed		**1,451.4**	1,612.4

The financial statements on pages 118 to 125 were approved by the board on 14 March 2007 and were signed on its behalf by:

D R Flynn
Chief Executive

A E Macfarlane
Chief Financial Officer

Notes to the Parent Company Accounts

1. Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivatives) and are in accordance with generally accepted accounting principles and standards in the United Kingdom and comply with the Companies Act 1985.

2. Principal accounting policies

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. In the opinion of the directors the value of such investments are not less than shown at the balance sheet date.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost (where hedge accounting is not applied); any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Where fair value hedge accounting is applied the borrowings are subsequently revalued at each balance sheet date and the difference is offset against the fair value movement of the derivative (the hedging instrument) in the income statement.

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

Deferred income tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable profits which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold. Neither is deferred tax recognised on overseas profits where there is no commitment to remit those profits to the UK.

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension commitments

Rentokil Initial plc is the sponsoring company of a multi-employer defined benefit pension scheme, Rentokil Initial Pension Scheme (RIPS).

An actuarial valuation of the defined benefit scheme is carried out every three years. The most recent actuarial valuation was at 1 April 2005. It was carried out using the projected unit credit method and the principal assumptions made by the independent professional actuary are disclosed in the consolidated financial statements of Rentokil Initial plc.

As the company is unable to identify its share of the underlying assets and liabilities in RIPS, it treats the scheme on a defined contribution basis.

Financial instruments and risk management

The company and group's policy in respect of financial instruments and risk management are disclosed in the Accounting Policies section of the consolidated financial statements.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

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

Share-based compensation

The company operates a number of equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the profit and loss account equivalent to the fair value of the benefit awarded. The fair value of options over the company's shares awarded to employees of subsidiary companies is treated as a capital contribution, resulting in an increase in investments. The fair value is determined by reference to option pricing models, principally Monte Carlo and adjusted Black-Scholes models. The charge is recognised in the profit and loss account over the vesting period of the award. At each balance sheet date, the company revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimates is reflected in the profit and loss account with a corresponding adjustment to equity immediately to the extent it relates to past service and the remainder over the rest of the vesting period.

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

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the company's shareholders. Interim dividends are recognised when paid.

3. Company profit and loss account

Of the loss attributable to shareholders, a deficit of £35.5m (2005: £156.9m) is dealt with in the accounts of Rentokil Initial plc. The deficit includes a special pension contribution of £nil (2005: £200m), tax credits of £15.6m (2005: £63.4m), audit fees of £0.3m (2005: £0.4m) and a credit of £0.8m (2005: £1.2m) in respect of derivatives. Under section 230 of the Companies Act 1985, a profit and loss account for the company alone is not presented.

4. Investments

	2006 £m	2005 £m
At 15 March 2005		–
At 1 January 2006	**2,460.0**	
Acquisition of Rentokil Initial 1927 plc[1]	**–**	1,810.4
Transfer of medium term notes held in Rentokil Initial 1927 plc[2]	**–**	647.5
Share-based payments to employees of subsidiaries	**(1.8)**	2.1
At 31 December	**2,458.2**	2,460.0

1 With effect from 21 June 2005 the company acquired the entire share capital of Rentokil Initial 1927 plc by way of share exchange. One ordinary share of £1 in Rentokil Initial plc was exchanged for one ordinary share of 1p in Rentokil Initial 1927 plc. The mid-market price of Rentokil Initial plc shares on 21 June was 157.5p.

2 On 21 December 2005, the Medium Term Notes held in Rentokil Initial 1927 plc were transferred to Rentokil Initial plc by way of a capital contribution.

The company has no other direct subsidiary undertakings.

5. Other debtors

	2006 £m	2005 £m
Amounts owed by subsidiary undertakings	**463.3**	–
Other debtors	**1.3**	–
Corporation tax asset	**48.7**	18.4
Deferred tax asset*	**30.3**	45.0
	543.6	63.4

*The deferred tax comprises the timing difference on the 2005 special contribution to the Rentokil Initial Pension Scheme.

6. Derivative financial instruments

	Fair value assets		Fair value liabilities	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Interest rate swaps:				
– fair value hedge	**6.9**	16.7	**(10.4)**	(0.8)
Forward rate agreements:				
– non-hedge	**1.0**	–	**–**	–
Cross-currency interest rate swaps:				
– non-hedge	**–**	0.2	**(0.5)**	–
– fair value hedge	**–**	–	**(2.7)**	(0.7)
Foreign exchange swaps:				
– non-hedge	**0.1**	–	**(0.9)**	–
– fair value hedge	**–**	–	**(0.5)**	–
	8.0	16.9	**(15.0)**	(1.5)
Analysed as follows:				
Due within one year	**8.0**	–	**(4.6)**	–
Due after more than one year	**–**	16.9	**(10.4)**	(1.5)
	8.0	16.9	**(15.0)**	(1.5)

Fair value hedge accounting has been applied to related derivatives (marked as "fair value hedge") in accordance with FRS 26, "Financial Instruments: Measurement". Where no hedge accounting has been applied, related derivatives have been marked as "non-hedge". The related derivative and the hedged notes are both marked-to-market and the ineffective portion of the hedge is taken directly to finance costs. Further details are provided in the consolidated financial statements.

7. Creditors – amounts falling due within one year

	2006 £m	2005 £m
Other creditors	**1.6**	–
Amounts due to subsidiary undertaking	**201.5**	232.4
	203.1	232.4

8. Bank and other borrowings

	2006 £m	2005 £m
Amounts falling due within one year	**546.1**	53.3
Amounts falling due after one year	**854.1**	640.7

Current and non-current loans include £383.3m (2005: £15.3m) and £603.1m (2005: £640.4m) respectively of notes issued under the company's ?2.5bn Euro Medium Term Note programme.

The company operated the following medium term notes under its ?2.5bn Euro Medium Term Note programme for the year ended 31 December 2006 and the period ended 31 December 2005:

Currency/Amount	FRS 26 hedging	Interest coupon	Maturity date
£15m	NH	Floating rate – 6 month GBP LIBOR +0.35%	matured
¥3,000m	FV	Fixed rate – 0.60% pa	13.04.07
$10m	NH	Floating rate – 3 month USD LIBOR +0.35%	17.05.07
?500m	FV, NIH	Fixed rate – 5.75% pa	21.05.07
?100m	NH	Floating rate – 3 month EURIBOR +0.28%	03.07.08
£250m	FV	Fixed rate – 6.125% pa	19.11.08
£300m	FV	Fixed rate – 5.75% pa	31.03.16

Key: FV – Fair value hedge accounting applied
NH – Hedge accounting not applied
NIH – Designated for Net Investment Hedging

The medium term notes detailed are subject to a deed of guarantee issued by Rentokil Initial 1927 plc on 9 December 2005.

The effective interest rate on the ?500m note is 5.9%. The effective interest rates on the £250m and £300m notes are 6.20% and 5.82% respectively. For all other bonds the effective interest rate approximates to the coupon. The floating rate bonds (and the related cross-currency swaps) that are not designated as hedges in accordance with FRS 26 are carried on the balance sheet at amortised cost and retranslated at the period end rate. The related swap (a derivative) is marked-to-market at the period end date. The exchange effect on the bond and the movement on the swap revaluation are both reported within finance costs and act as a natural hedge.

Other borrowings of £413.8m (2005: £38.3m) represent bank loans and overdrafts and are held at amortised cost. Further details are provided in the consolidated financial statements.

9. Share capital

	2006 £m	2005 £m
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid		
At 15 March 2005 – 2 shares of £1 each		–
At 1 January 2006 - 1,813,839,693 shares of 1p each	**18.1**	
Issue of new share capital – nil shares of £1 each (2005: 1,810,429,096)	**–**	1,810.4
Reduction in nominal value of shares from £1 to 1p	**–**	(1,792.3)
Share options exercised – 593,268 shares of 1p each (2005: 3,410,595)	**–**	–
At 31 December – 1,814,432,961 shares of 1p each (2005: 1,813,839,693)	**18.1**	18.1

The company was incorporated on 15 March 2005 with an authorised share capital of £4,100,050,000 comprising 4,100,000,000 ordinary shares of £1 each and 50,000 fixed rate redeemable preference shares of £1 each. Two ordinary shares were allotted for cash, and fully paid, on incorporation. By a special resolution passed on 22 March 2005, all 50,000 fixed redeemable preference shares were allotted for cash and were paid up as to one-quarter (by virtue of the holder giving an undertaking to pay up each share to such amount, pursuant to section 738(2) of the Companies Act 1985). The balance of the amounts due was paid up on 23 June 2005 and on the same day these fixed redeemable preference shares were redeemed at par and cancelled.

On 21 June the company issued 1,810,429,096 shares of £1 each in exchange for 1,810,429,096 ordinary shares in Rentokil Initial 1927 plc. On 23 June 2005, the nominal value of the ordinary shares was reduced from £1 each to 1p each by way of a Court approved capital reduction scheme in accordance with section 135 of the Companies Act 1985.

At 31 December 2006 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
Savings-related scheme (UK)	2001	2004 - 2007	204.000	105,345
Executive schemes	1997	2000 – 2007	204.634	1,789,786
	1998	2001 – 2008	371.670	2,176,001
	1999	2002 – 2009	270.000	2,665,800
	2000	2003 – 2010	156.500	4,015,968
	2001	2004 – 2011	205.250	3,911,313
	2002	2005 – 2012	266.750	3,121,423
	2003	2006 – 2013	204.500	3,491,654
	2004	2007 – 2014	152.000	5,151,915
	2005	2008 – 2015	160.500	5,591,390
				32,020,595

The company received total consideration of £0.9m (2005: £5.3m) during 2006 on the exercise of share options.

Performance Share Plan

The company introduced a new share-based Performance Plan in 2006 and granted 9,521,516 shares on 31 May 2006. See note 28 of the group financial statements for more information regarding the company's share option schemes and performance plans.

Year of Grant	Exercise Period	Number 31 December 2005	Granted	Lapsed	Number 31 December 2006
2006	2009-2016	–	9,521,516	6,910	9,514,606

For more information regarding the company's share option schemes and Performance Share Plan, see note 28 of the group consolidated financial statements.

10. Share premium

	2006 £m	2005 £m
At 15 March 2005		–
At 1 January 2006	**5.3**	
Premium on shares issued during the year under the share option schemes	**0.9**	5.3
At 31 December	**6.2**	5.3

11. Profit and loss account

	2006 £m	2005 £m
At 15 March 2005		–
At 1 January 2006	**1,589.0**	
Reduction in nominal value of shares	**–**	1,792.3
Own shares transferred from Rentokil Initial 1927 plc	**–**	(11.1)
Loss for the financial period (note 3)	**(35.5)**	(156.9)
Dividend paid	**(133.3)**	(38.5)
Deferred shares issued	**(1.9)**	–
Share-based payments charged to profit and loss	**1.8**	1.1
Share-based payments (credited)/charged to investments	**(1.8)**	2.1
Exchange adjustments	**8.8**	–
At 31 December	**1,427.1**	1,589.0

Treasury shares of £11.1m (2005: £11.1m) have been netted against retained earnings. Treasury shares represent 7.4m (2005: 7.4m) shares held by the Rentokil Initial Employee Share Trust. The market value of those shares at 31 December 2006 was £12.3m (2005: £12.1m). Dividend income from, and voting rights on, the shares held by the Trust have been waived. There are a further 0.7m (2005: nil) shares held in trust for the benefit of the chief executive. See the remuneration report on pages 46 to 53. The market value of these shares at 31 December 2006 was £1.2m (2005: £nil).

12. Contingent liabilities

The company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings.

In addition, there are contingent liabilities in respect of litigation, none of which are expected to give rise to any material loss.

13. Pension commitments

At 31 December 2006, the RIPS pension deficit under IAS 19, "Employee Benefits" amounted to £108.3m (2005: £169.8m). The directors are of the opinion that there is no material difference between an FRS 17, "Retirement Benefits" and an IAS 19 valuation. As sponsoring company, Rentokil Initial plc reached an agreement with the pension Trustees and made a special contribution of £200m in December 2005 to reduce the pension deficit and a further £30m was contributed in January 2007. The remaining deficit will be met by a series of payments ending no later than January 2012.

14. Share-based payments

Share-based payments for the financial period were £nil (2005: £3.2m) of which £1.8m (2005: £1.1m) was charged to the profit and loss account and £1.8m credited to investments. Share options relating to the board are disclosed in the directors' remuneration report and detailed share-based payment disclosures are shown in note 28 of the consolidated financial statements.

15. Related party transactions

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

16. Post-balance sheet events

A final dividend of 5.25p (2005: 5.25p) has been recommended by the board of directors.

On 31 January 2007, the parent company made a further contribution of £30m to the UK pension scheme.

Independent Auditors' Report to the Shareholders of Rentokil Initial plc

We have audited the parent company financial statements of Rentokil Initial plc for the year ended 31 December 2006 which comprise the balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

We have reported separately on the group financial statements of Rentokil Initial plc for the year ended 31 December 2006.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the parent company financial statements. The information given in the directors' report includes that specific information presented in the letter to shareholders from the chairman and chief executive and the review of performance that is cross-referenced from the business review section of the directors' report. In addition we report to you if in our opinion the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the letter to shareholders from the chairman and chief executive, the review of performance, the financial review, the statement of corporate responsibility, the directors' report and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006;
- the parent company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
14 March 2007

Shareholder Services

The Share Portal

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

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

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

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

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

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

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

To make use of any of the above facilities, please log on to www.capitaregistrars.com/shareholders and follow the links to the Share Portal. Should you have any queries in respect of the above facilities, please do not hesitate to contact the Capita Share Portal helpline on 0870 162 3191 (outside the UK +44 20 8639 3367) or by e-mail at shareportal@capita.co.uk

Share Dealing Services

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

To deal on line or by telephone all you need is your surname, shareholder reference number, full postcode and your date of birth. Your shareholder reference number can be found on your latest statement or certificate where it will appear as either a ‘folio number’ or ‘investor code’. Please have the appropriate documents to hand when you log on or call, as this information will be needed before you can buy or sell shares.

For further information on this service, or to buy and sell Rentokil Initial shares, please contact www.capitadeal.com (on-line dealing) or 0870 458 4577 (telephone dealing).

Shareholder information

Results
2006 Half year – 24 August 2006
2006 Full year – 22 February 2007
2007 Half year – 23 August 2007

Annual general meeting
To be held at No. 4 Hamilton Place, London, W1J 7BQ on 3 May 2007 at 11 am. Web www.4hp.org.uk. The notice of the annual general meeting is contained in a separate letter to shareholders, which accompanies these accounts.

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Dividends
2006 Interim 2.13p (2005: 2.13p) – Paid on 27 October 2006
2006 Final (proposed) 5.25p (2005: 5.25p) – Pay date 18 May 2007
(to shareholders on the register on 13 April 2007)

Capital history
Mid market price 31 March 1982 – 7.5375p*
Mid market price 31 December 2006 – 166.25p
2006 high/low – 168.25p/140.25p
* adjusted for the 1983 bonus issue and the 1990, 1992, and 1997 share splits.

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