Rentokil Initial

Annual Report 2005

New beginnings

Contents

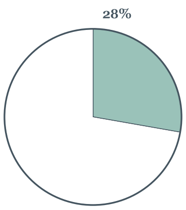
Financial highlights 2005

	2005 £m	Increase/ (decrease) %	2004 £m
Revenue	**2,301.2**	5.5	2,181.4
Operating profit before amortisation of customer lists and exceptional items	**308.5**	(13.4)	356.4
Operating profit	**243.3**	(21.1)	308.5
Profit before income tax, amortisation of customer lists, exceptional items and share of profits from associates (PBTA)	**255.3**	(16.2)	304.6
Profit before income tax	**190.1**	(25.9)	256.7
Free cash flow	**160.4**	(33.4)	241.0
Basic earnings per share – continuing operations	**7.52p**	(26.6)	10.24p
Dividends paid and proposed per share	**7.38p**	10.0	6.71p

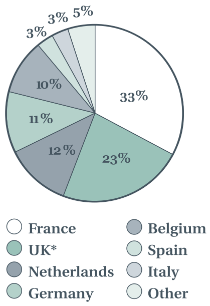
Business Overview

Textiles and Washroom Services

% Group Revenue



Geographical spread



2005 Turnover

£639.8m

% change

1.8%

Employees

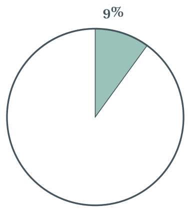
12,270

Principal activities:

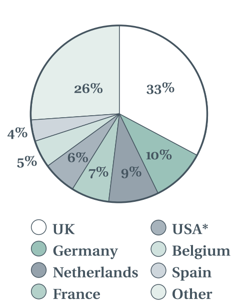
workwear rental
flat linen rental
washroom equipment and consumables
floor mats

Pest Control

% Group Revenue



Geographical spread



2005 Turnover

£208.2m

% change

2.2%

Employees

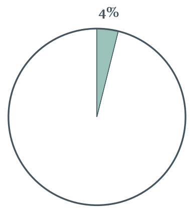
4,230

Principal activities:

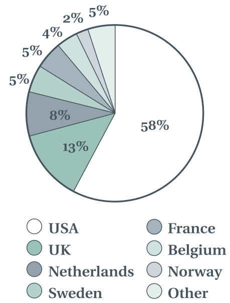
pest control for commercial, industrial and residential customers

Tropical Plants

% Group Revenue



Geographical spread



2005 Turnover

£101.6m

% change

6.5%

Employees

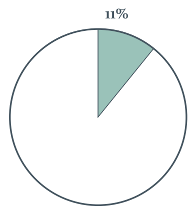
2,490

Principal activities:

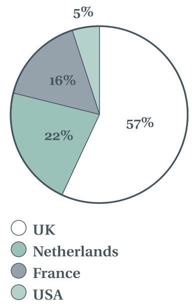
supply and maintenance of plants, design and installation of interior landscaping

Electronic Security

% Group Revenue



Geographical spread



2005 Turnover

£262.7m

% change

8.4%

Employees

3,500

Principal activities:

access control
intruder alarms
fire alarms
CCTV
monitoring

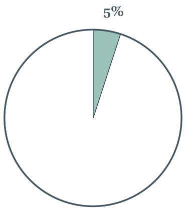
*Includes UK linen and workwear: £53m in 2005

*Excludes J.C. Ehrlich

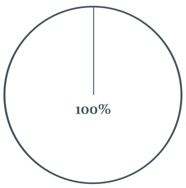
All numbers at 2004 constant exchange rates and based on management divisional analysis.

City Link

% Group Revenue



Geographical spread



- UK

2005 Turnover
£125.5m

% change
10.7%

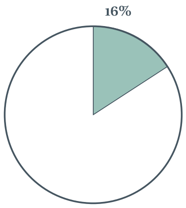
Employees
2,450

Principal activities:
premium express
delivery of parcels

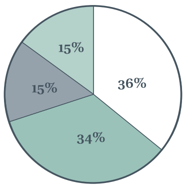
Facilities Services

Manned guarding

% Group Revenue



Geographical spread



- UK
- USA
- Belgium
- Canada

2005 Turnover
£359.9m

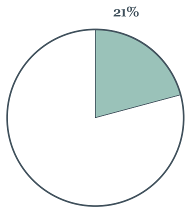
% change
8.5%

Employees
21,700

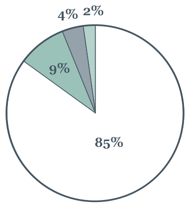
Principal activities:
cleaning
catering
hospital services
integrated services
manned guarding

Other services

% Group Revenue

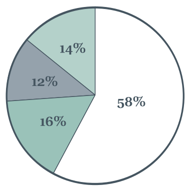


Geographical spread



- UK
- Spain
- Netherlands
- Other

Divisional split



- Cleaning
- Catering
- Hospital Services
- Other

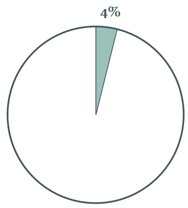
2005 Turnover
£469.5m

% change
3.4%

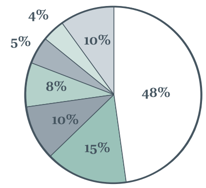
Employees
39,630

Asia Pacific

% Group Revenue

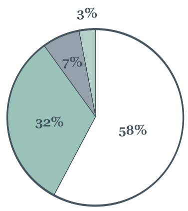


Geographical spread



- Australia
- New Zealand
- Malaysia
- Indonesia
- Singapore
- South Korea
- Other

Divisional split



- Textiles and Washroom Services
- Pest Control
- Tropical Plants
- Facilities Services

2005 Turnover
£86.8m

% change
5.5%

Employees
3,760

Note: excludes share of associates in Japan of £19.2m in 2005

Dear shareholder

At the beginning of 2005, I was still temporarily executive chairman of the group. However, as stated in last year's annual report, Doug Flynn joined us on 4 April as chief executive and I reverted to non-executive chairman.

I explained in last year's report how the board believed that Doug's proven qualities and experience were those required at Rentokil Initial. Much has happened in the last twelve months so I have left the majority of this letter for Doug to explain the actions he has taken since April 2005 and how he sees our company's future.

There were other board changes during the year. Roger Payne, finance director, retired and we warmly welcomed his successor Andrew Macfarlane as chief financial officer. Andrew joined us in August from Land Securities Group plc where he had been group finance director. The board was also pleased that Duncan Tatton-Brown, group finance director of Kingfisher plc, agreed to become a non-executive director in July. In October, Ted Brown announced that he would be retiring as an executive director at the end of 2005 after nearly 25 years with the company and I would like to thank him for his significant contribution over many years.

I have also to announce that Ron Spinney, deputy chairman, and Paul Mason, non-executive director, have indicated that they intend to step down from the board at the AGM on 18 May 2006. Ron has been a non-executive director since 1997 and deputy chairman since 2004. I would like to thank Ron on behalf of the board for his nine years' commitment to Rentokil Initial and personally for the invaluable support he has given me during the challenging times the company has faced in recent years. Paul, who joined the board in 2003, has recently been appointed chief executive of Somerfield Limited and feels with this new appointment he will no longer be able to devote sufficient time to the company. We wish both Ron and Paul well in their future activities and, in the meantime, the board is looking to appoint additional non-executive directors.

Finally, before I hand over to Doug I must comment on the unwelcome approach made by Raphoe in the second half of last year. Raphoe proposed that existing shareholders give them for free approximately £70 million worth of Rentokil Initial shares in return for them replacing the existing management. Not surprisingly, the approach came to nothing. However, the financial cost and in particular the considerable amount of management time which needed to be diverted was unhelpful to say the least.

Thank you Brian. Our company is at an interesting and exciting junction; a company with some strong market positions, a new senior team, part way through a turnaround programme.

How did we get into this position? The company did not suddenly stop growing and then see profit decline. The problems and their sources have been there for a long time. Like the little boy who said "the emperor has no clothes", the message was not well received at first. Brian, in the period that he was acting chief executive, articulated some of the fundamental problems but as he was only in the role for an interim period was somewhat restricted in the actions he could start. He did, however, identify and address several issues. In particular he pursued four key subjects: the need to rebuild service capabilities and sales capabilities; the need to be more innovative; and the need to be better marketers of our services. The underinvestment in systems was also recognised.

Directionally, all of these were unarguably correct and investment in these areas – most particularly in sales and service – went into the costs from the end of 2004 onwards. There is no doubt that the increases in sales and service capability have contributed to the increasing turnover, restarting portfolio growth and improving contract retention rates that we have seen this year. But much more needs to be done to return the company to sustainable, profitable growth.

We commenced a strategic review of the company within a month of my joining. We started that review with one precondition: we would do the review with a completely open mind about what would maximise shareholder value. The review sought to analyse the deep rooted problems that the company faced. If confirmed the board's opinion that many of these problems had been self-inflicted as a result of underinvestment, lack of management focus and a risk-averse culture.

The key specific outcomes from the review were that:

- we were in too many businesses – but we had strong positions to build from in a number of them
- we were underinvested in systems and inefficient in our back office and administrative processes
- service was a key factor the company was falling short on
- sales and marketing was one dimensional and not as effective as it could be
- a number of key businesses were in decline and performance needed to be reversed
- the structure of the organisation did not support business objectives

In the broad the company needed to be redirected and re-energised.

At the interim results back in August 2005, we talked about our criteria for success under three headings: strategy, people and structure and operations. We said our progress should be measured by the end of 2006 against the following objectives:

Strategy:

- Clearer strategic focus and investment priorities
- Stronger strategic positions

People and structure:

- Properly aligned business structure
- Progressively strengthened management team

Operations:

- Performance improvement in priority businesses
- Improvement in contract retention rates
- Revenue growing at least at market rates

Brian McGowan
Chairman

Aged 61. Chartered Accountant. Appointed a director in October 1996 and non-executive chairman in July 2004. Chairman of UMECO plc and Catalyst Corporate Finance (UK) Limited. Formerly chief executive of Williams plc and chairman of House of Fraser plc.

Doug Flynn
Chief Executive

Aged 56. 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.

New CEO
Doug Flynn appointed
on 4 April

Brian McGowan
Chairman

Doug Flynn
Chief Executive

A letter from the Chairman and CEO (continued)

I admit these aims are largely qualitative but they are fundamental to reshaping the company and getting it back on the right track. There are three key points to note here: first, the problems that exist are largely within our control to solve; second, we cannot ignore market realities of tough competition in relatively modestly growing sectors; and third, we have several strong market positions from which to build. It is these businesses which have the potential to create the most shareholder value because they have or can build international leadership positions in their markets, can sustain profitable growth and add value through being part of the group. In addition, we have other businesses with strong country or regional positions which can also contribute to shareholder value. Taking the company's circumstances together, we believe we can add considerable value to what we have.

Out of the review came a detailed plan to revive and refresh the company and we are now well into the implementation phase of this plan. The scope, scale and ambition of what our company is undertaking should not be underestimated. Progress against the plan became apparent as 2005 unfolded: revenue increased in every quarter; the rate of profit deceleration slowed as the year progressed; the portfolio was up and customer terminations down. We expect this to continue throughout 2006 and beyond. However, a complete turnaround will take time, with revenues improving ahead of profits which, in turn, I expect to precede margin improvement.

This brings me to the first of the three areas we have been focusing on: strategy. Having identified our key businesses, we are aiming to provide clear strategic focus and investment priorities within the group and to build stronger strategic positions within our businesses. Acquisitions are an important part of this and in 2005 we acquired an Austrian textiles business, which has enabled us to introduce our existing strong European textiles model into that country, and 39 small bolt-ons. Most recently we acquired J.C. Ehrlich, the largest independently owned and fourth largest overall pest control company in the USA. Ehrlich has an excellent reputation and a strong position in the growing US pest control industry and provides a platform for growth in this important market. At $141.8 million, Ehrlich was by far the largest acquisition the company had undertaken since BET in 1996. With a changing marketplace and a somewhat awkward franchise agreement, the progress of City Link has been hindered over the last few years. To improve strategic and operational flexibility, we announced in October that we would be ending franchising arrangements within a maximum of five years by buying back the franchises.

It had been hoped that we would be able to dispose of the loss-making linen and workwear activities of our UK textiles business but after exploring all possible options, we regretfully concluded that closure was the only option. This decision was not taken lightly but a sale was not feasible due to the serious risk of regulatory intervention and the consequent uncertainty in terms of timing, costs and eventual exit. The unsatisfactory position of the UK linen and workwear activities has not, however, dented our continuing enthusiasm and commitment to our textiles business in continental Europe. We are also now able to move forward the UK washroom activities, the progress of which had been hindered for some time by the long and complex process of disentangling it from linen and workwear.

High access cleaning
Safe, well planned and managed high access cleaning is just one of many specialist services that the Facilities Services division offers to customers in the provision of total property maintenance and care.

We are actively managing our portfolio of businesses to ensure each business within our company can appropriately contribute to creating value. If we believe a business is likely to do better with alternative ownership, we will seek to divest it. Thus in 2005 we disposed of Style Conferences for £325 million. More recently have sold our manned guarding activities in the UK and Canada for a total of £105 million and at the time of writing we are still in discussion on the US and Belgian guarding businesses. These were profitable, well-run businesses but better owned by others and we achieved good prices in each case. Separately, our company had collected an array of small entities of no strategic relevance which have been, or are being, disposed of.

The second area of focus is people and structure. I am particularly pleased with the progress made in 2005 in this area. I firmly believe that turning this company around is all about the people within it. The best plans will come to nothing without the committed people to execute them.

In 2005, I think we have put together a talented and dedicated senior management team. Andrew Macfarlane joined us as chief financial officer, Andy Kemp as group HR director and Catherine Brown as head of the Change Programme Office. We have two new divisional managing directors: Andy Hobart at Pest Control and Tropical Plants and David Liu in Asia Pacific. Including myself and Mark Boyle, who joined as group director of strategy and development shortly before my appointment, seven of the eleven most senior positions in the company are new recruits.

In 2006, the senior team, which includes existing divisional managers Henri Hendrickx, Henry Chandler and Clive Ward, will focus on developing their own teams, introducing new talent and upgrading skills where needed.

When I joined the company, it was organised on a rather eclectic mix of business activities and regional territories. This has now been changed and each business is now wholly under the leadership of one member of the senior team. The new structure is designed to execute the strategy and drive growth and facilitates the sharing of market knowledge and core competences. It makes us more responsive to changes in both customer needs and the marketplace. The one exception to the business segment based structure is Asia Pacific. Here, we have formed a new division which will lead all our activities in the region to take full advantage of the opportunity the emerging markets in Asia Pacific represent for us.

Also within the area of people and structure are the issues of measurement and rewards. These have been reviewed at all levels in the company. In many businesses there has been an unacceptably high rate of turnover of service and sales personnel. A significant contributor to this has been the level of base pay. In 2005, improvement was made where it was most required and over time we will continue to ensure that we are paying competitive rates of pay. Additionally, greater attention is being made to recruitment and training processes.

Management incentives have been another element in need of some work. For the company to be regenerated and create value for shareholders, we have to be able to attract and motivate new and existing management. Bonus plans and long-term incentives have been overhauled. For the first time bonuses were included within challenging but achievable budgets for 2006.

No long-term incentive plan (LTIP) currently exists as the previous share option scheme was made redundant by the corporate restructuring undertaken in 2005 to create a new holding company for the group and re-establish distributable reserves. Shareholder approval will be sought at the AGM for a new LTIP based on performance shares with performance hurdles split between total shareholder return and earnings per share. We believe the new plan aligns the interests of shareholders and management.

Finally in the area of people and structure is the UK pension scheme. This is an emotive issue which has attracted considerable attention both in general and specifically for Rentokil Initial in recent months. The adoption of more conservative mortality assumptions saw the UK scheme's deficit grow to £349 million, on an accounting basis, by the end of November. We had one of the highest ratios of deficit to pension assets of any FTSE 100 company, one of the more generous defined benefit (DB) schemes and pension assets that were 80% invested in equities.

We agreed with the Trustees of the DB section of the UK pension scheme to take steps to protect pensions already accrued by active members, deferred pensioners and pensioners but also to close for further accrual in 2006 after a consultation period. We injected £200 million into the scheme in December with a commitment to eliminate the deficit no later than 2012. A programme of consultation with affected staff members is underway which we expect to complete by late summer. Active members of the DB scheme will be offered membership of a defined contribution (DC) scheme. The Trustees have also agreed to reduce the risk profile of the investments of the pension scheme significantly so as to limit the possibility of further deficits arising in the future.

Mummies de-bugged
Rentokil Pest Control's unique carbon dioxide 'bubbles' eradicate destructive insect infestations in priceless historical artefacts safely, without harming the objects or the environment.

The net result of the changes will be a modest annual saving to the company, all eligible UK staff will be part of the same DC scheme which will be competitive within the UK market, past pension obligations will be much more secure, the long-term exposure to the company will have been reduced and the investment risks will have been considerably reduced.

The last of our three areas is operations. There is an array of issues: some affect our businesses broadly and some relate to the detailed, granular plans we are executing to turn our most challenged businesses around. Our principal operational focus in 2005 was our work on these turnarounds. Our success in this regard will have the most immediate effect on our performance.

The main turnaround plans are in UK pest control, UK washroom, French textiles and European washroom. We have set targets for each in terms of revenue and/or margin development over the next three years and we have every expectation of reaching them.

It is not just about turnarounds however. All our businesses are capable of delivering higher revenue and profitability and in 2006 growth plans will be developed for each and every one of them and cascaded down into the businesses.

Another important area of attention is our administration efficiency and our responsiveness to customers. We are in the early stages of planning process changes to make the company more efficient in terms of its administration costs. We believe that we can improve responsiveness to customers and the quality of our processes, meaning less errors, at the same time as reducing costs. While a significant part of this will be enabled by a better use of technology, there is quite a bit that can be achieved by questioning and modifying the way we do things now.

Market conditions in 2006 are unlikely to be helpful in the group's major European markets. Revenue growth and contract retention are both expected to improve in 2006 as the operational turnarounds take effect and the investment made in sales and service begins to bear fruit. There will be significant organic investment and one-off costs in the first half of the year which will impact prior year comparisons. Although we do not expect to achieve full year adjusted PBTA growth before 2007, we do expect to exit 2006 on a rising trend in the second half. We are unlikely to increase the dividend in 2006. Beyond 2006, we expect to take a cautious approach to dividend growth until a recovery is well established.

While continuing to run the business and improve customer and business performance we have asked our managers to take on a massive project load as we seek to turnaround the company's performance. I have said that turning our company around is all about people and I want to thank all our people for their hard work and dedication during the year.

As you can see, we have a lot to do. We are fully engaged and I firmly believe it can be done.

Brian McGowan
Chairman

Doug Flynn
Chief Executive

29 March 2006

Group performance overview

Revenue from the group's continuing operations increased by 4.8% over last year at constant exchange rates to £2,286.1 million and was 5.5% higher at £2,301.2 million at actual exchange rates. Organic growth was 2.8%. Revenue was higher year-on-year across all divisions at both constant and actual exchange rates. The highest increases in revenue were achieved by City Link, Manned Guarding and Electronic Security. Textiles and Washroom Services recorded the lowest increase in revenue but this was impacted by the decision to cease selling new business in the UK linen and workwear activities in the fourth quarter.

The contract portfolio, which is the annualised value of customer contracts, increased by 7.0% during the course of the year to £1,870.4 million. The portfolio moved ahead for all divisions which record it (City Link is not a portfolio business). Strongest portfolio growth was achieved by Electronic Security, Facilities Services (both Manned Guarding and Other Facilities Services) and Tropical Plants.

Operating profit from continuing operations before amortisation of customer lists and exceptional items was £306.1 million at constant exchange rates and £308.5 million at actual exchange rates. This represented a decline of 14.1% at constant rates and 13.4% at actual rates compared to the prior year. All businesses recorded lower operating profit with the exception of Manned Guarding, which was flat year-on-year, and Other (principally South Africa) which recorded a modest increase. Comparisons with the prior year are impacted by the progressive introduction of additional costs, amounting to £35 million on an annualised basis, from the last quarter of 2004 onwards. Excluding the impact of one-off items, adjusted operating profit before amortisation of customer lists and exceptional items fell by 9.4% for the year as a whole at constant exchange rates to £325.9 million. The decline in adjusted operating profit reduced significantly as the year progressed. Having fallen by 14.4% in the first half, it was 8.3% lower in the third quarter and 0.4% behind last year in the fourth quarter.

Profit before tax, amortisation of customer lists and exceptional items fell by 17.0% at constant exchange rates to £252.9 million and by 16.2% at actual exchange rates to £255.3 million. After amortisation of customer lists and exceptional items, profit before tax of £190.1 million was 25.9% lower than last year. Profit after tax fell by 25.8% to £138.6 million. Profit for the year including discontinued operations, predominantly the disposal of Style Conferences, was up 68.9% at £324.4 million.

Basic earnings per share, from continuing operations, fell by 26.6% compared to last year to 7.52 pence per share. Basic earnings per share from total operations increased by 69.2% to 17.82 pence per share. The dividend paid and proposed increased by 10.0% to 7.38 pence per share.

Andrew Macfarlane
Chief Financial Officer

Aged 49. Chartered Accountant. Appointed a director in August 2005. A non-executive director of Invensys plc. He was previously group finance director of Land Securities Group plc. Prior to that he was chief financial officer of Bass Hotels and Resorts.

Basis of commentary

The group management structure was reorganised as of 1 September 2005 and the performance reviews on pages 10 to 21 are based on the divisional structure which is based upon the way the businesses are now managed. In all cases, unless otherwise stated, references to operating profit and profit before tax are for continuing businesses before amortisation of customer lists and exceptional items. References to adjusted operating profit and adjusted profit before tax also exclude items of a one-off nature totalling a net cost of £19.8 million (2004: £3.3 million) that, in addition to exceptional items and amortisation of customer lists, have impacted the results for the year. These principally relate to reorganisation and redundancy costs, other asset impairments, profit on the sale of land and buildings and professional and other costs in the group centre. All comparisons, unless otherwise stated, are at constant 2004 exchange rates. See note 1 on page 72.

New CFO
Andrew Macfarlane appointed
on 9 September

Andrew Macfarlane
Chief Financial Officer

Textiles and Washroom Services

2005 review

The Textiles and Washroom Services division comprises the washroom, linen hire, garment rental, floorcare and wipers activities in the UK and continental Europe. In 2005 the division accounted for 28% of group revenue and 39% of group adjusted operating profit. Revenue for the year was up 1.8% at £639.8 million. Operating profit fell by 15.5% to £114.7 million. Excluding one-off items of £11.6 million (2004: £1.2 million), adjusted operating profit fell by 7.7% to £126.3 million. The portfolio grew by 1.9% during the course of the year with new business wins broadly equivalent to terminations and a small increase from acquisitions.

Performance of the UK business continued to be impacted by the process of exiting the linen and workwear activities. The complex and lengthy programme to separate UK linen and workwear from the washroom and dustmat activities, which are being retained, was completed in December. This programme resulted in operational inefficiencies, due particularly to adverse route economics, and additional costs. The closure of linen and workwear was announced in January 2006 and an exceptional impairment charge of £31.3 million has been recognised to write down the assets held in the business to their recoverable amount. Overall, UK revenue declined by 5.2% year-on-year in 2005 and adjusted operating profit fell by 27.9%. Revenue for linen and workwear was essentially unchanged but the operating loss increased to £9 million. The revenue and operating profit of the retained washroom and dustmat activities were impacted by substantial restructuring and investment to build a strong platform for future growth.

In continental Europe, market conditions remained challenging with the dual pressures of competition and weak economic performance in most markets constraining growth. In spite of this background, revenue growth was achieved and for the year as a whole increased by 4.1%. Continued investment in the sales force is generating revenue growth in a number of businesses, notably the textiles businesses in Germany, Spain and the Czech Republic as well as the washroom units in Spain, Denmark, Finland and Portugal. In French textiles – the group's largest single business unit which accounted for 9% of total group revenue in 2005 – revenue grew by 1% for the year. Continental European operating profit declined by 9.7% year-on-year. Profit was adversely impacted by the costs of reorganising the business and an asset impairment in Germany of £3.8 million. The Austrian textiles business acquired during the first half of 2005 continues to perform well.

Henri Hendrickx
Divisional Managing Director,
Textiles and Washroom Services

Aged 49. Henri joined Rentokil when Hokatex (Netherlands), part of BET, was acquired in 1996. He was managing director of Initial Hokatex from 1994 to 2001 and was appointed head of Initial Textiles and Washroom Services in Europe in 2001. Prior to his time with Hokatex he spent 11 years in different management roles with Ahold, Internatio Müller, KWW and Coopers & Lybrand.

New Structure
Lingen, Germany

Christel Schulte
Operator, Garments

Sylvia May
Operator, Garments

Henri Hendrickx
Divisional Managing Director,
Textiles and Washroom Services

Textiles and Washroom Services (continued)

2006 preview

As the largest division in profit terms, the performance of Textiles and Washroom Services will be vital to the overall success of the group in 2006. The focus will be on progressing and completing the turnaround projects which commenced in 2005. Broad themes for the year are improving customer retention through better response to customer needs and increasing the share of customer spend by range selling.

In the UK, having finally completed the separation of the washroom activities from the linen and workwear activities in December 2005, the focus in 2006 will be on integrating the newly combined washroom and dustmat businesses on to a new service platform. It is envisaged that additional cash closure costs of £13 to £18 million will be incurred in 2006 in relation to UK linen and workwear. It is anticipated that in cash terms these costs will be significantly offset by the sale of surplus property during 2006 and 2007. Efficiency gains will be achieved in the washroom business by reducing the number of branches and by implementing route density and route optimisation systems. This business will be the first in which new customer relationship management and other new systems are implemented and this is scheduled for completion in October.

The first phase of the performance improvement initiative in the French textiles business, which involved moving from a geographic structure to one organised around core processes, took effect from 1 January 2006. Business winning and keeping, service and delivery and processing are now under central leadership. The next phase includes systems integration and rationalising the branch network. A number of key management appointments will be made and action taken to reduce staff churn.

The integration of the washroom activities in continental Europe into the management structure of the textiles business has now been substantially completed. The new model will be fully operational in Austria, Denmark, Finland, Norway, Portugal, Spain and Sweden in the first quarter of 2006 and in France, Germany and Italy in the second quarter. The expected benefits come from a greater opportunity to cross sell our products as well as an enhanced range of products and services in most markets, for example the introduction of mats into Scandinavia, should become apparent in the second half of 2006.

Garment folding

Folding and packing newly laundered workwear for delivery to the customer, just part of a complete workwear management system offered by Initial Textiles in Europe.

Pest Control

2005 review

In 2005, Pest Control accounted for 9% of group revenue and 20% of group adjusted operating profit. Revenue increased by 2.2% over the prior year to £208.2 million. Operating profit fell by 5.9% year-on-year to £66.7 million. Adjusting for the impact of a one-off credit of £1.7 million, being the profit on the sale of surplus property partly offset by some reorganisation costs, adjusted operating profit fell by 8.3% to £65.0 million. The portfolio ended the year 2.4% higher, with some 25% of this increase due to acquisitions.

The UK business, which is the subject of one of the group's major operational improvement programmes, saw revenue fall by 1.3%. Operating profit declined by 15.9% due to lower revenue and, more particularly, higher investment in both sales and service capabilities as the business addresses customer termination levels and implements its turnaround. There was some improvement in retention during the year, although customer terminations in the UK remain well above the division's average. Overall, the UK portfolio fell by 0.5%.

Revenue in continental Europe was 2.2% higher than last year. Growth was recorded in many of the European markets, including France, Belgium, Spain and Portugal. Revenue growth was achieved in Germany for the first time in four years. However, revenue fell year-on-year in Norway, Italy, Switzerland and Sweden. Operating profit grew overall in continental Europe by 0.4% over the prior year. Revenue growth and solid cost control resulted in operating profit growth in Portugal, Belgium, the Netherlands, Ireland and Finland. Operating profit fell in France and Germany, the region's largest countries of operation, despite revenue growth. In France this was due to margin pressure arising out of greater competitor activity, increased investment in service expenditure aimed at reducing customer terminations and in direct selling. Although higher investment in service in Germany impacted operating profit year-on-year, it is having a positive effect on termination rates which fell during 2005. The portfolio grew in the European markets as a whole during the year, with particularly strong growth in Spain due to acquisitions.

Eliminating bird fouling
Fouling by birds on new and old buildings can be prevented relatively easily by installing a wire spike system, which prevents the birds perching on ledges without harming them.

North America performed well in 2005. Revenue was 16.5% higher than last year, aided in part by the full year impact of a 2004 acquisition in the USA which also helped to deliver a 24.0% increase in operating profit year-on-year. The small Caribbean businesses grew in terms of both revenue and operating profit.

2006 preview

In 2006 the division aims to improve performance by increasing its focus on customers, building on the investment in service quality and sales efficiency made in 2005. A division-wide customer retention programme will seek to reduce customer termination rates through improved customer handling. This includes improved administrative and response procedures and better staff training.

To enhance sales and marketing capabilities, a new website has been developed with improved functionality and expanded training and educational content. This website, www.rentokil.com, is part of a wider programme to increase the division's e-presence and was launched in March 2006. Target marketing is also a priority for 2006 to support the division's efforts to win business in the important food and pharmaceutical sectors. The division's presence in the USA has been significantly increased by the acquisition of J.C. Ehrlich Co. Inc. in the early part of 2006 and this new business will be integrated with the existing US pest control activities during the year. Ehrlich is the fourth largest pest control company in the USA and was the largest independently owned one. It had revenues of $124 million in 2005 and was acquired for a consideration of $142 million (£80 million).

Tropical Plants

2005 review

The smallest of the group's businesses, Tropical Plants represented 4% of group revenue in 2005 and 3% of adjusted operating profit. Revenue for 2005 of £101.6 million was 6.5% ahead of last year. Operating profit fell by 4.1% to £9.4 million. Acquisitions helped the portfolio to grow by 9.2% during the course of 2005.

North America is the largest region accounting for over 58% of revenue. Here, revenue grew strongly in 2005, up 10.3% year-on-year, largely due to the impact of acquisitions which added some £5.5 million to the contract portfolio. Operating profit also grew with higher revenue and was 5.6% above last year. The seasonally important fourth quarter was up on last year due to strong sales of holiday season decorations. Margins were maintained, despite an increase in sales and marketing costs designed to promote further growth. The portfolio grew due to acquisitions and a reduction in termination levels.

In the UK, there was a marginal decline in revenue. The portfolio grew slightly but customer terminations increased over the prior year and are now the subject of a turnaround initiative.

Performance in continental Europe was mixed. Overall, revenue was 2.7% higher year-on-year largely due to acquisition-led growth in Belgium and the Netherlands. In contrast, France, Germany, Norway, Greece and Denmark reported lower revenue. Operating profit for the region fell by 29.0% despite growth in Belgium and the minor businesses in Ireland and Finland. This was largely a result of declines in Sweden and, in particular, Norway where lower revenue and a drop in margins due to competitor activity caused a 50% drop in operating profit compared to last year. Operating profit also fell in France due to lower revenue and increased investment in sales capacity, although this business is showing positive signs of a turnaround; margins have improved as a result of tight cost control and the portfolio has stabilised following a prolonged period of decline.

Andy Hobart
Divisional Managing Director,
Pest Control and Tropical Plants

Aged 43, Andy joined Rentokil Initial in December 2005 as divisional managing director, Pest Control and Plants. He was previously managing director of the RAC/RBS Joint Venture company, Lex Transfleet and prior to that held a number of senior management positions within the BOC Group. Andy has a degree in Engineering Science from Oxford University and an MBA from Harvard University.

2006 preview

In 2006 growth opportunities will come from better customer retention, efficiency gains and marketing initiatives, especially in the important US market.

A major marketing initiative has been introduced in the USA, the key themes of which are target marketing and customer segmentation, e-marketing, telemarketing, national accounts, customer satisfaction surveys and redevelopment of sales training. Initiatives to reduce customer terminations in the USA were successful in 2005 and will be continued in 2006. These include a programme that ensures continuity of service personnel for customers and incentives which specifically reward service personnel who achieve a 90% customer retention target.

The UK, which appointed a new general manager in December 2005, has embarked upon a programme of performance improvement initiatives including the re-engineering of routes to reduce mileage, increase chargeable time and match employee and site locations more effectively.

New Growth
Duiven, Netherlands

Jan Maus
Plant Arranger

Andy Hobart
Divisional Managing Director,
Pest Control and Tropical Plants

Electronic Security

2005 review

Representing 11% of both group revenue and adjusted operating profit in 2005, revenue grew by 8.4% in 2005 to £262.7 million. Operating profit fell by 7.0% to £35.8 million and, excluding one-off items of £1.4 million (2004: nil), adjusted operating profit of £37.2 million was 3.4% lower than last year. The portfolio grew by 11.9% over the year largely due to acquisitions.

UK revenue was 6.6% higher than last year with increases recorded by both the Fire & Security and Systems sectors. Operating profit for the UK Fire & Security sector grew in line with higher revenue but the Systems sector was curtailed by a shift in mix towards lower margin activity, which depressed margins, and by reorganisation costs. Additional investment in sales and marketing also had a negative impact on profitability. As a result, UK operating profit fell by 4.0%. Revenue was up 5.7% in the Netherlands. However, downward margin pressure, coupled with the costs of a productivity improvement programme and the implementation of a new IT system, resulted in operating profit falling by 20.8% compared to last year. In France, revenue grew by 10.3% over last year but margins fell due to a shift in revenue mix and competitive pressures on pricing. In addition, infrastructure investment resulted in higher costs and as a result operating profit fell by 9.3% year-on-year. The USA performed strongly with revenue up 57.6% over the prior year. Operating profit rose by 14.4% despite increased investment in infrastructure and post-acquisition reorganisation costs.

2006 preview

Electronic Security became a standalone division in September 2005, creating opportunities for a strong central senior management team to focus on driving both systems and service offerings. It also facilitates the leveraging of competencies and industry leading propositions across the entire division. Acquisitions will be a key priority in the UK, France and USA in 2006. In the UK, the focus will be on integrating businesses acquired last year, strengthening the brand and service awareness and seeking to develop integration benefits through further acquisitions. In France and the UK, acquisitions will be targeted to achieve or deepen national coverage and in the USA to develop a stronger and larger business in existing and adjacent markets. The performance improvement programme in the Netherlands will continue in 2006, focusing on the effectiveness of the current service structure. A new IT system is being rolled-out to increase customer relationship management and service capability.

City Link

2005 review

City Link, the parcels delivery division, accounted for 5% of group revenue and 9% of adjusted operating profit in 2005. The division performed well in 2005. Revenue was 10.7% higher than last year, aided by the introduction of enhanced marketing and sales activity. In addition, changes in practices in the distribution hub and system have secured enhanced quality and performance capabilities. Operating profit was affected by substantial pressure on pricing within the market and by the impact of taking back loss-making franchises and, as a result, was 4.3% lower than 2004 at £29.1 million. Excluding one-off items of £0.7 million, adjusted operating profit grew by 1.4% over last year. In October it was announced that the division will, over time, cease to operate on a franchise basis.

2006 preview

A key focus in 2006 will be to buy back and integrate franchise activities. Overall this will be a 2-3 year programme. As this occurs, we will be better placed to capitalise on national business opportunities, economies of scale and operational efficiencies. Development of the division's sales and marketing strategy will continue in 2006 in order to build stronger and more integrated customer relationships, including further enhancements to systems, practices and procedures.

Henry Chandler
Divisional Managing Director, City Link and Electronic Security

Aged 45. Henry was a board member of Style Conferences when it was acquired as part of BET by Rentokil Initial in 1996. He was appointed managing director of Rentokil Initial's conferencing division in 1998. Before joining Style he held a number of private sector management posts in hospitality and services businesses.

Michael Cooke
Managing Director, City Link

Aged 51. Michael joined Rentokil in 1980 and has held various management positions within a number of the group's operating divisions in the UK, Continental Europe, Africa and North America. He was appointed managing director of City Link in 1998.

Clive Hayton
Area Managing Director, Electronic Security

Aged 48. Clive joined Rentokil Initial in 1996 when Shorrock was acquired as part of BET. He was appointed head of Initial Electronic Security Systems and in 2000 became managing director of Initial Electronic Security (Initial Fire and Security). Clive was appointed area managing director for all Electronic Security in 2002.

New Opportunities
Sorting Hub, Wednesbury

Michael Cooke
Managing Director,
City Link

Henry Chandler
Divisional Managing Director,
City Link and Electronic Security

Clive Hayton
Managing Director,
Electronic Security

Facilities Services

Manned Guarding

2005 review

Manned guarding represented 16% of group revenues and 4% of group adjusted operating profit in 2005. A steady performance in all regions resulted in an 8.5% increase in revenue over the prior year to £359.9 million. Operating profit was flat year-on-year at £14.0 million. Excluding one-off items of £0.2 million (2004: nil), adjusted operating profit of £14.2 million was up 1.4%. The USA includes two bolt-on acquisitions which partially offset increased state unemployment insurance and healthcare costs. Canada benefited from a significant temporary work win and the positive impact of price increases in the Eastern region of the country. The UK gained sizeable new business in the second half of the year and customer retention improved following a strengthening of the management team with further investment in sales resources and training capability. New business wins and acquisitions contributed to portfolio growth of 11.5%.

2006 preview

Manned guarding is a high quality business with good market positions and a strong management team. However the company believes that there may be other parties whose strategic focus and/or investment priorities will mean they are able to realise the full potential of this business. To this end, the UK and Canadian manned guarding activities were sold in March 2006 and the future of the US and Belgian activities remains under review.

Clive Ward
Divisional Managing Director, Facilities Services

Aged 58. Clive started his commercial career with Rentokil Property Care in 1979 after serving in the armed forces. In 1982 he returned to the Middle East. He rejoined Rentokil in 1990 as head of its Office Machine business and was appointed to the company executive board in 1998. Clive sits on two external boards, the Safer London Foundation and Asset Skills.

Other Facilities Services

2005 review

Other Facilities Services comprise primarily the group's catering, cleaning and hospital services activities and in 2005 represented 21% of group revenues and 11% of adjusted operating profit. Revenue for the division as a whole was £469.5 million, an increase of 3.4% over the prior year. Amongst the larger businesses, cleaning in the UK and Spain reported revenue up by 10.4% and 4.6% respectively and hospital services was up by 11.6%. Revenue for UK catering was 6.2% lower, largely due to adverse publicity concerning the education meals sector impacting the take-up of school meals. Managed services recorded a 25% drop in revenue although this regression had been expected due to the termination of some difficult contracts. Overall, operating profit for the other facilities services sector of £34.8 million fell by 11.2% compared with last year. It was impacted by "Agenda for Change" (the non-recoverable provision for wage increases within NHS contracts) and the much reduced volume of school meals impacting a relatively fixed cost base. Excluding one-off items of £0.8 million (2004: £0.2 million), adjusted operating profit fell by 9.6%. Over the year the portfolio grew by 12.2% due to strong new business wins, particularly in UK cleaning.

2006 preview

Good portfolio growth in the second half of 2005 provides an excellent platform for 2006. Resources and capabilities in cleaning and catering will continue to receive the necessary investment to sustain growth. The impact of "Agenda for Change" on NHS work will be resolved in the early part of 2006. We expect many of the issues related to the education meals sector will also reduce.

Opportunities will also be pursued in some of the division's smaller businesses, mostly specialist hygiene services, which are driven by legislation, insurance requirements and the ever increasing demands for higher standards of hygiene and cleanliness. This includes medical services and air quality activities.

New Standards
Retail cleaning, London

Rodrigo Saucedo
Cleaning Operative

Clive Ward
Divisional Managing Director,
Facilities Services

Evelin Ferrufino
Cleaning Operative

Asia Pacific

2005 review

2005 marked a new era for Rentokil Initial in Asia Pacific with the creation of a new Asia Pacific division under the direction of regional managing director David Liu. The region represents a significant opportunity for the group due to the emergence of strong economies with some of the fastest economic growth rates in the world. The new division will allow the group to focus on developing its business and driving growth in Asia Pacific and will have responsibility for the group's full range of activities in the countries in which it operates.

In 2005 Asia Pacific accounted for 4% of group revenue and 7% of group adjusted operating profit.

The largest activity in Asia Pacific in 2005 was Textiles and Washroom Services, which represented 58% of revenue in 2005. Pest Control represented 32% of 2005 revenue, Tropical Plants 7% and Facilities Services 3%.

Australia is the largest country of operation at 48% of revenue, followed by New Zealand at 15%, Malaysia at 10% and Indonesia at 8%.

The division's revenue of £86.8 million rose 5.5% in 2005 over the previous year. Increases were achieved in most countries of operation. Operating profit fell by 10.7%, largely due to a drop in operating profit in the Australian washroom business which faced strong pressure from competitors.

2006 preview

Following the creation of the division in late 2005, building management infrastructure will be an important focus in 2006 and strong progress has already been made.

Operationally, plans for 2006 include pursuing initiatives to improve operating efficiencies and strengthening sales and marketing efforts to increase market share. We will look for suitable acquisitions to integrate into our existing activities. Opportunities in new markets will also be explored, in particular India, China and Vietnam. We will also seek opportunities to build higher margin businesses not currently respresented in Asia Pacific, such as electronic security.

David Liu
Regional Managing Director,
Asia Pacific

Aged 51. David joined Rentokil Initial at the beginning of November 2005 as regional managing director, Asia Pacific. He previously headed Aegis Media, Asia Pacific, which has operations in 14 countries across the region. Prior to Aegis, David held positions with Saatchi and Saatchi, Bozell and McCann-Erickson in various markets across the Asia Pacific region.

New Division
Hong Kong Island

David Liu
Regional Managing Director,
Asia Pacific

Central Costs

Central costs exclude divisional management costs which are now charged against the results of the relevant divisions. Costs for 2005 were £13.7 million higher than 2004 primarily due to formation costs of the new holding company, costs associated with the business review and additional IT, HR, acquisition and IFRS transition costs.

Central costs for 2006 are expected to continue above 2005 levels as the full effects of organisational changes introduced in 2005 come through, coupled with the introduction of new incentive schemes and the relocation of the group's head office to London and Gatwick.

Profits

Operating profit from continuing operations before exceptional items and amortisation of customer lists reduced by £47.9 million to £308.5 million. Amortisation of customer lists of £23.0 million (2004: £22.2 million) and exceptional charges of £42.2 million (2004: £25.7 million) resulted in profit before interest of £243.3 million (2004: £308.5 million). At constant 2004 exchange rates, before exceptional items and amortisation of customer lists, operating profit fell by 14.1%.

Exceptional Items

The group incurred considerable expense in relation to the approach by Raphoe. Some £10.9 million defence costs were incurred in 2005. These, together with a £31.3 million impairment charge associated with the closure of UK linen and workwear, announced on 25 January 2006, constitute the £42.2 million of exceptional costs shown separately, as part of operating profit, in the income statement.

One-off Items

Operating profit is stated after charging a number of one-off items which increased considerably in 2005 to £19.8 million (2004: £3.3 million). This excludes exceptional items which are reported separately. The majority of one-off items relate to reorganisation and redundancy costs, asset impairments, profits on the sale of real estate and professional and other costs. Of the £19.8 million, the main components were £11.6 million reorganisation costs related to the Textiles and Washroom Services division and £6.5 million of one-off central costs. One-off items have been separately identified because, although as individual items they are small, there is a large number of them and they have a varying impact on different businesses and reporting periods. Although not large enough to be classed as exceptional items, in aggregate they make it difficult to understand underlying trends in performance without excluding them.

Discontinued Operations

Discontinued operations are principally Style Conferences, which was sold in December 2005. Style had a profit of £22.7 million in 2005 and a profit on sale of £170.3 million. Other discontinued operations had an aggregate profit of £0.2 million and profit on sale of £1.0 million. Including the impact of recycled foreign exchange and tax, profit from discontinued operations was £185.8 million in 2005 (2004: £5.2 million).

Interest

Net interest payable for the year of £55.4 million was £1.8 million higher than 2004 with the adverse effect of the IAS 19 pension interest increase more than offsetting the benefit of lower average debt across the periods. The year-on-year impact of the loan note due from Ashtead was largely neutral. The note was repaid in 2005 and the £4.6 million write-off of the associated equity option was offset by the write-back of the discount on the note.

Profit Before Tax

After interest and exceptional items, pre-tax profit reduced by 25.9% to £190.1 million at actual exchange rates and by 26.8% to £188.0 million at constant exchange rates.

Taxation

The blended headline tax rate in 2005 was 31.1% (2004: 30.9%). This represents the weighted headline tax rates appropriate to the countries in which the group operates. 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%. The actual tax charge for 2005 was 27.1% of profit before tax, down slightly from the rate of 27.2% in 2004. The principal factor that caused the effective tax rate to be lower than the blended rate is the release of prior year provisions that are no longer required following the resolution of a number of prior year tax issues. In cash terms, the group will obtain tax relief for the £200 million special pension contribution from 2005 for four years in equal amounts.

Earnings Per Share and Dividends

Profit for the year attributable to equity holders was £321.5 million (2004: £190.4 million). At 7.52 pence, basic earnings per share for continuing businesses was 26.6% lower than 2004. Basic earnings per share for total operations was up 69.2% on 2004 at 17.82 pence per share.

An interim dividend of 2.13 pence per share was paid on 28 October 2005. The board is recommending the declaration of a final dividend of 5.25 pence per share, bringing the full year dividend to 7.38 pence per share, a 10.0% increase over 2004. For the future, it is intended that the dividend will be increased in line with the medium-term trend in earnings provided that cash resources are available. However, in the short-term, a more cautious approach to dividend growth may be taken until it is clear that the recovery in the business is well established and broadly based. It is therefore unlikely that the board will recommend an increase in dividend for 2006.

Free Cash Flow

Free cash flow is defined as cash from operations after capital expenditure, tax and interest but before dividends, acquisitions, special pension payments and financing activities. A reconciliation of net cash flows generated from operating activities to free cash flow is set out in note 31 on page 109. In 2005, it fell from £241.0 million in 2004 to £160.4 million due to lower operating profit and an adverse movement in working capital. Free cash flow conversion (being the ratio of free cash flow to profit after tax adjusted for non-cash exceptional items and amortisation of customer lists) was 83%, (2004: 103%). This was principally due to a swing in working capital from a £19.1 million inflow in 2004 to a £11.2 million outflow in 2005 as a result of strong fourth quarter trading in manned guarding and City Link as well as operational challenges in UK catering and UK textiles.

During the year, the group received £129.8 million from the redemption of the Ashtead loan note and £323.3 million from disposals, principally Style Conferences. These cash inflows, together with the free cash flow, were used to fund a £200 million special contribution to the UK defined benefit pension scheme, fund acquisitions and reduce net debt by £249 million.

Shareholders' Funds

Consolidated equity shareholders' funds at the end of 2005 were negative £666.6 million, compared to negative £794.1 million at the end of 2004. The principal cause of this movement was the profit for the year of £324.4 million offset by dividends paid to ordinary shareholders of £124.7 million and the actuarial loss on defined benefit pension plans of £60.6 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 £200million, 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 November 2005, the group's credit rating from Standard & Poor's was reduced from BBB+ with negative outlook to BBB with stable outlook, reflecting the group's weaker than expected business risk and financial risk profiles following weakened operating performance over the past few years.

Subject to future conditions in the debt markets, in the medium-term we expect to continue to target a stable BBB+ rating 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 combination of our high payout ratio, and the requirement to fund the pension deficit over the short to medium-term, means that in our view the group does not currently have surplus capital which 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 2005, the group had approximately £820 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 will seek to lengthen the maturity profile of its debt.

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 (see note 26), the company also has exposure to equity market price movements. The trustees are responsible for setting the risk management strategy for this scheme.

The board has set the following policies in these areas:

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 9 months forward. Additionally in the event that the company's interest cover (measured by the ratio of adjusted operating income to net interest payable) is forecast to fall below 5 times, any remaining un-hedged interest rate exposures for the forthcoming 12-month period should be immediately fixed (or capped).

The majority of the group's net borrowings are currently at fixed rates of interest for 2006. Beyond that period, 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 £9.2 million on an annualised basis.

Foreign Exchange Risk

Foreign exchange risk can arise as follows:

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

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

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

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

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 40 businesses in the year, together with the acquisition of a minority interest in the French textiles business, for a gross consideration of £49.7 million. For the proportion of the year these acquisitions were owned by the group, they contributed £36.9 million to revenue, £3.5 million to operating profit before amortisation of customer lists and £2.3 million to profit before tax and amortisation of customer lists.

Details of the businesses acquired and the revenue and operating profit therefrom are set out in note 32 to the accounts. In the first quarter of 2006, the group acquired J.C. Ehrlich Co. Inc., the fourth largest pest control company in the USA, for a consideration of $141.8 million (£80.1 million).

Pensions

The group announced on 19 December 2005 that it was proposing to close the UK defined benefit (DB) pension scheme to future accrual for active members with a view to reducing its exposure to future shortfalls. Final decisions will be taken once a consultation period with active members has been completed later in 2006. It is planned to offer existing active members a replacement defined contribution (DC) scheme. It is not envisaged that the costs of the new DC scheme will be significantly different from the service costs of the DB scheme.

It is too early in the consultation process to assess reliably the impact of the closure on the scheme's liabilities. It has therefore been decided to continue to reflect the scheme's deficit on the group's balance sheet on a continuing basis until this review has been substantially completed and the impact of the closure more reliably assessed. However, it is anticipated that any potential curtailment benefits in the income statement will be largely offset by the cost of switching the scheme's investments from primarily equities to primarily bonds. We hope to provide further details of the likely impact of the closure of the DB scheme in May 2006 in the first quarter trading update.

Total retirement liabilities of the group as at 31 December 2005 were £182.3 million (2004: £311.8 million). This includes £169.8 million in respect of the main UK DB pension scheme which fell from £302.5 million at the end of 2004 following the payment of the £200 million special contribution in December 2005. Agreement has been reached with the Trustees to address the remaining deficit by 2012.

Accounting Standards

Prior to 1 January 2005, the group prepared its consolidated accounts under UK Generally Accepted Accounting Policies (UK GAAP) and was required to adopt and present group results under International Financial Reporting Standards (IFRS) as adopted for use in the EU with effect from 1 January 2005.

The group began a detailed study in 2003 to review the changes required to move from UK GAAP to IFRS and published a preliminary summary of the anticipated impacts of transition to IFRS. A "Transition Document", published on the group's website in July 2005, provided more detail and showed the changes required to restate the primary financial statements from a UK GAAP basis to a pro-forma IFRS basis. The balance sheet for 31 December 2004 in these accounts differs from that in the Transition Document to reflect information now available from the triennial pension fund valuation. A summary of the impacts of transition to IFRS is included on pages 114 to 117. 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 59 to 69.

New Holding Company

On 24 February 2005, the group announced its proposal to implement a corporate reorganisation, by way of a Court-approved scheme of arrangement under section 425 of the Companies Act 1985, to introduce a new listed holding company for the group, which would acquire the existing group and then implement a reduction of capital to create additional distributable reserves.

A circular detailing the proposed scheme and reduction in capital was sent to shareholders on 26 April 2005 and was subsequently approved by shareholders at an EGM on 26 May 2005.

The Court approved the reduction of capital on 22 June 2005 and it became effective the following day when dealing commenced in the new shares on the London Stock Exchange. The former holding company was renamed Rentokil Initial 1927 plc. We have elected to continue to prepare the entity accounts of Rentokil Initial plc, the group holding company, under UK GAAP.

In December 2005, Rentokil Initial plc became the primary obligor for notes previously issued under the former Rentokil Initial 1927 plc EMTN programme.

Report of the Directors

Directors

Mr R Payne, finance director, and Mr E Brown, an executive director, resigned from the board on 9 September 2005 and 5 January 2006 respectively.

All directors submit themselves for re-election once every three years. The directors retiring by rotation will be Mr D Flynn and Mr P Long, who are eligible and offer themselves for re-election at the 2006 annual general meeting. Details of Mr Flynn's contractual arrangements with the company are set out in this report. As a non-executive director, Mr Long has made a major contribution to the board and to the audit and remuneration committees on which he sits. During 2005, Mr Long additionally took on the role of chairman of the pension trustee company in which capacity he has contributed extensively through a challenging period. The board sees his continued involvement as important to the overall effectiveness of the board. Mr Long does not have a service contract with the company.

Mr D Tatton-Brown and Mr A Macfarlane were appointed to the board on 14 July 2005 and 8 August 2006 respectively and under the company's Articles of Association offer themselves for election at the 2006 AGM. The terms of Mr Macfarlane's contract were approved by the remuneration committee and details are set out in the remuneration report on page 46.

Mr P Mason has informed the board that he wishes to resign at the end of the AGM and therefore will not be seeking re-election. Mr R Spinney has served on the board for nine years and therefore he will be resigning at the end of the AGM and will not be seeking re-election.

Notice of annual general meeting

The notice of the AGM and information on the proposed Performance Share Plan are set out in a separate document that accompanies this annual report.

New holding company

As explained in the Financial Review on page 27, a new holding company was established in June 2005. For the purposes of this report, no distinction is made between the period before and after the introduction of the new holding company.

Board committees

Following the introduction of the Code of Corporate Governance by the Financial Reporting Council on 23 July 2004, the board reviewed its procedures and practices and, in particular, updated 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. The report of the audit committee is set out on pages 36 to 39. Its members are Mr Harley (chairman), Mr Long, Mr Mason and Mr Tatton-Brown, all of whom are independent non-executive directors.

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 Mr McGowan, Mr Flynn, Mr Harley and Mr Spinney.

Remuneration committee

The terms of reference of the committee reflect the Higgs Guidance. The Remuneration Report is set out on pages 40 to 51. The members of the remuneration committee are Mr Spinney (chairman), Mr Long and Mr Mason, all of whom are independent non-executive directors.

The terms of reference of the 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's department at the company's head office.

B D McGowan Chairman
Aged 61. Chartered Accountant. Appointed a director in October 1996 and non-executive chairman in July 2004. Chairman of UMECO plc and Catalyst Corporate Finance (UK) Limited. Formerly chief executive of Williams plc and chairman of House of Fraser plc.

D R Flynn Chief Executive
Aged 56. 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.

A E Macfarlane
Chief Financial Officer
Aged 49. Chartered Accountant. Appointed a director in August 2005. A non-executive director of Invensys plc. He was previously group finance director of Land Securities Group plc. Prior to that he was chief financial officer of Bass Hotels and Resorts.

I Harley Non-Executive Director
Aged 55. Chartered Accountant. Appointed a director in March 1999. A director of British Energy plc and Remploy Limited. Past president of the Chartered Institute of Bankers. Formerly chief executive of Abbey National plc. An independent non-executive director.

P J Long Non-Executive Director
Aged 53. Chartered Management Accountant. Appointed a director in October 2002. Chief executive of First Choice Holidays PLC. Formerly chief executive of Sunworld Limited. An independent non-executive director.

P Mason Non-Executive Director
Aged 46. Appointed a director in May 2003. Chief executive of Somerfield Limited and formerly president of Levi-Strauss & Co. Europe. Formerly president and managing director of Asda Wal-Mart UK and chief executive of Matalan plc. An independent non-executive director.

R R Spinney Deputy Chairman
Aged 64. Chartered Surveyor. Appointed a director in November 1997. Chairman of Hanover Real Estate Investment Management Limited, a Crown Estates Commissioner and a non-executive director of Homestyle Group plc, Fuller, Smith & Turner plc, Kennington Oval Limited and Rockspring Property Investment Managers Limited. Formerly chairman of Hammerson plc. The senior independent non-executive director.

D Tatton-Brown
Non-Executive Director
Aged 41. 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.

R Ward-Jones Secretary

New Team
Belgrave House, London

Ian Harley
Non-Executive Director

Peter Long
Non-Executive Director

Andrew Macfarlane
Chief Financial Officer

Doug Flynn
Chief Executive

Brian McGowan
Chairman

Ron Spinney
Deputy Chairman

Duncan Tatton-Brown
Non-Executive Director

Paul Mason
Non-Executive Director

Directors' interests

The interests of the directors and their families in the share capital of the company, other than in relation to share options, on 1 January 2005, or their date of appointment if later, and 31 December 2005 are set out on page 51.

The only directors who have been granted share options in the year by the company are Mr Payne and Mr Brown, who served as executive directors, details of whose option holdings 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.

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 29 March 2006 have not changed.

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 2005, no director had any material interest in any significant contract to which the company or any subsidiary was a party.

Interest in share capital

On 29 March 2006, the following were registered as being interested in the company's issued share capital.

The disclosed interests of 3% and above total 26.72% (March 2005: 27.41%).

Franklin Resources Inc.	14.03%
Fidelity International Ltd	5.03%
Britel Fund Trustees Ltd	4.01%
Legal and General Investment Management Ltd	3.65%

Employees

The company attaches considerable importance to keeping its employees informed of matters affecting their jobs and the progress of the business. As well as the company's intranet there is a UK magazine and a number of other in-house publications in the UK and other countries covering local and divisional matters. In Autumn 2005 a global e-zine was introduced, which is available to all employees via the company's intranet and also through the internet on the company's website.

Employees have frequent opportunities to meet and have discussions with their managers. Senior executives from the UK make regular visits overseas for meetings with managers and staff. A European Forum has been established under the European Works Council Directive as a means of informing, communicating and consulting with employees across Europe which currently covers employees in all current member countries of the European Union, Norway and Switzerland.

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 113.

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 2005 the trade creditors of the group represented 58 days of annual purchases and the UK businesses' trade creditors represented 59 days of purchases; UK trade debtors represented 54 days of turnover. During the year the parent company did not have any trade creditors.

Corporate social responsibility

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 social responsibility (CSR) 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.

Following the resignation of Mr Brown on 5 January 2006, the chief executive, Mr Flynn, became the director responsible for corporate social responsibility matters.

We regularly review our progress on CSR as part of the board's agenda. We believe we have made good progress on raising the profile of corporate responsibility issues but recognise that we still have a long journey to make in the arena of CSR. Nevertheless, an important step has been the improved quality in our submissions to the major worldwide CSR indices. In our submission for the 2004 Business in the Community (BitC) Corporate Responsibility Index, we achieved a ranking of 91st – the first time we have been included in the top 100 companies. Similarly, our 2005 submission to the Dow Jones Sustainability Index (DJSI) improved in both the quality and the scope of our content, to the extent that for the first time we have been included in the DJSI – being ranked in the top ten support services companies out of the 70 worldwide companies included in this sector of the DJSI World Index.

Our attention over the year has been to focus on those CSR matters that represent business-critical issues. Our global procurement team has improved its evaluation of major suppliers, including the extension of supplier screening to incorporate relevant aspects of their handling of social and environmental issues.

Similarly, towards the end of the year, additional guidance was distributed to operating companies worldwide to improve the practical understanding of the company's policies on ethical business conduct.

In countries around the world, Rentokil Initial businesses compete predominantly with local companies of varying size and sophistication. As an international company Rentokil Initial has a particular duty to ensure that its corporate ethical standards have practical application. The guidance circulated last year was intended to reinforce the prominence of the company standards and to provide more specific guidance that will facilitate better measurement of compliance.

In an equally important area, human resources teams in key business areas have focused on the need to develop basic skills for front-line staff, developing programmes with bodies such as the Learning Skills Council in the UK to improve literacy and numeracy and the use of English as a second language, as well as advanced vocational qualifications.

The company's third annual CSR report will be available in early May 2006 in the CSR section on the company's website, www.rentokil-initial.com, as is other information on CSR including copies of policies and good practice guides. The examples of corporate responsibility actions given within the annual CSR report for 2005 will illustrate the extent to which the various parts of Rentokil Initial have taken on board the CSR issues relating to their business.

In our web-based CSR report for 2004 (available on the website) we identified the key challenges we believed we faced in the CSR arena. Since that time, we have regularly reviewed all areas of impact, including those where we believe we have significant opportunities to make positive impacts, especially with our workforce and community stakeholders. Any shareholder without access to the website who would like to have further information on CSR matters should contact the company at the address shown on the inside back cover of this report.

Over the last year, we continued to take action through our management processes in relation to the following risks: health and safety (occupational road risk); environmental (operational impact on the community through the further development of non-toxic pesticide procedures); workplace (developing integrity of service delivery through employee development with the development of basic skills training in UK Cleaning and in South Africa); marketplace (maintaining fair and open dealings with customers and suppliers and securing best value bought-in products or services to the standards required through the enhancement of procurement management systems) and community (various initiatives).

We will continue to focus attention on areas where our impact on our stakeholders is most beneficial by: delivering an improved and more secure environment for our employees, customers and the communities in which they and we operate; providing strong and developing career opportunities for all our employees, based on merit; and operating ethically as an international business to the benefit of the customers and suppliers in the communities where we operate.

Delivering against each of these has to be set against meeting our shareholders' expectations and our being satisfied that a good business case exists for the promotion of corporate responsibility initiatives. The directors believe firmly that behaving responsibly is key to protecting and enhancing the reputation and value of our brands for the benefit of all stakeholders.

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 CSR policies.

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 spend in 2005 was £3.0 million (2004: £2.9 million).

Principal activities

A description of the company's activities is given on the inside front cover.

Review of the year and future developments

The review of the company's affairs and comments on future developments are set out on pages 1 to 21.

Dividends

An interim dividend of 2.13p per share, amounting to £38.5 million, was paid on 28 October 2005. 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 trustees of the Rentokil Initial Employee Share Trust), payable on 2 June 2006. The total distribution for 2005 would then be 7.38p per share (2004: 6.71p) amounting to £133.3 million.

Consolidated accounts

The consolidated profit before taxation for 2005 was £190.1 million (the tax on this was £51.5 million). Dividends declared and recommended out of 2005 profits amount to £133.3 million. Net consolidated capital employed is negative £659.6 million compared to negative £784.0 million last year.

Financial instruments

The company's financial risk management objectives and policies are set out within the Financial Review on pages 22 to 27, which includes the policy for hedging forecasted transactions for which hedge accounting is used. The Financial Review and notes 22 to 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 nine times a year and additionally when necessary and follows an agreed formal schedule of matters which are considered at individual meetings. In 2005 the board met on 15 occasions, at which all directors were present, other than for Messrs Long, Spinney and Mason, who each did not attend three meetings, and Mr Brown, who did not attend two meetings.

2 Composition of the board

Information on directors and membership of the board's committees is set out on page 28.

3 Board committees

Details on the audit, nomination and remuneration committees are set out on page 28. The nomination committee met twice in 2005 to consider the appointments of Mr Flynn as chief executive and Mr Macfarlane as chief financial officer. The nomination committee has been involved in succession planning for non-executive directors.

4 Independent non-executive directors

The board regards Messrs Spinney, Harley, Long, Mason and 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 Mr McGowan have remained the same since his appointment as chairman in May 2004, although as referred to in the Remuneration Report on page 47 he reverted to the role of non-executive chairman from 1 May 2005 when Mr Flynn took responsibility for the day-to-day running of the company.

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 detailed appraisals on matters relevant to board, committee and director performance. A report was presented to and reviewed by the 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 re-election at the AGM in 2006) continues to demonstrate commitment to the role. The non-executive directors, led by the senior independent director, carried out a performance evaluation of the chairman after taking account of the views of the executive directors. The board intends to carry out further performance evaluations but will keep under review the method and frequency.

7 Dialogue with major shareholders

The chief executive and chief financial officer hold regular meetings with analysts and institutional shareholders to discuss the company's strategy and financial performance. The 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, with the result that 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 specifically 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 36 to 39.

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 annual general meeting.

11 Exceptions to compliance with the Combined Code

The board identified the following exception to full compliance with the Combined Code in 2005: the offices of chairman and chief executive were combined in the person of Mr McGowan following the stepping-down of Mr J C F Wilde as chief executive in July 2004. The board believed that it was important that Mr McGowan should take on executive responsibilities to provide the necessary leadership for the company while an active search for a new chief executive was undertaken. Mr McGowan reverted to his role of non-executive chairman when Mr Flynn took day-to-day responsibility for the running of the company on 1 May 2005.

Charitable and political donations

Donations for UK charitable purposes in 2005 amounted to £254,000 and a further £45,000 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.

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the AGM to be held on 18 May 2006.

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 accounts, 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 accounts comply with the Companies Act 1985. 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.

The Performance Share Plan

The approval of shareholders is sought to the adoption of a performance share plan for executives, a summary of the terms of which is set out in the separate document containing the notice of annual general meeting which accompanies this annual report.

Authority to make purchases of own shares

Authority for the company to make purchases of its own shares of up to 181 million was obtained at an EGM of the company on 13 April 2005. However, no purchases of its shares were made by the company in 2005.

The company intends to seek an authority to purchase up to 5% of its issued shares at the AGM on 18 May 2006. The proposed authority is dealt with in resolution 8 contained in the notice of AGM. If given, it will replace the existing authority.

The minimum price payable per share under the proposed authority in resolution 8 is 1p (the nominal amount of each share) and the maximum price (exclusive of expenses) is 5% above the average market price per share for the five business days immediately preceding any purchase.

In the event that the board uses this authority, purchases would be made only from funds not required for other purposes and in the light of prevailing market conditions. No purchases would be made unless the board was of the opinion that it would result in an increase in earnings per share. The board would also take into account the company's cash resources and bank facilities, the effect on gearing and other possible investment opportunities before deciding whether to exercise this authority. Any purchase of shares pursuant to this authority would be made on market. Shares purchased would be cancelled and would not be available for reissue.

Audit Committee Report and Remuneration Report

The Audit Committee and Remuneration Reports, which have been adopted by the board, are set out on pages 36 to 39 and 40 to 51 respectively. The Audit Committee Report includes a review of the internal control environment, risk assessment procedures and internal audit activity.

Recommendation

The board believes that the proposed resolutions to be put to the annual general meeting to be held on 18 May 2006 as set out in the accompanying document are in the best interests of shareholders as a whole and, accordingly, recommends that shareholders vote in favour of the resolutions, as the directors intend to do in respect of their own beneficial shareholdings in the company.

By order of the board.

R Ward-Jones
Secretary
29 March 2006

Documents available for inspection

A copy, or a memorandum of the terms, of every service contract or letter of engagement between the company or any of its subsidiaries and any director of the company is available for inspection at the company's registered office during normal business hours on any weekday (public holidays excepted) until 18 May 2006 and will also be available for inspection at the place of the AGM for at least 15 minutes prior to and during the meeting.

Note regarding shares

As at the close of business on 29 March 2006, there were options remaining to be satisfied by subscription for shares in the company in respect of 39 million shares, which represents 2.2% of the current issued share capital of the company. This would represent 2.6% of the issued share capital of the company after the purchase and subsequent cancellation of both the remaining 181 million shares, which as at 29 March 2006 the company had authority to purchase under the authority referred to above granted on 13 April 2005 and the maximum 90 million shares which the company would then have authority to purchase under the authority being proposed in resolution 8.

Audit Committee Report

Terms of reference

The company's audit committee (the "committee") is constituted in accordance with the recommendations of the Combined Code and its terms of reference were updated at the beginning of 2004 to reflect the Smith Guidance. The terms of reference of the committee 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's department at the company's head office.

The committee is authorised by the board to investigate any activity within its terms of reference and to seek any information that it requires from any employee of the company and its subsidiaries and all employees are directed to co-operate with any request made by the committee. The committee has the right to consult the company's professional advisors or, if it is not satisfied with the advice received, seek further independent professional advice at the company's expense in the furtherance of its duties.

Members

The members of the committee during the year were Mr I Harley (chairman), Chartered Accountant, Mr P Long, Chartered Management Accountant, and Mr P Mason. Mr D Tatton-Brown, Chartered Management Accountant, was appointed to the committee in October 2005.

The nomination committee reviews membership of the committee and recommendations are made by it to the board. The committee is normally comprised of three or more independent non-executive directors and two members constitute a quorum.

In common with other members of the board, the members of the committee are provided with an induction programme when they join the board. Ongoing training includes attendance at board seminars and briefings by external advisors.

The committee believes that the skills, qualifications and commercial experience of its members are appropriate for them to perform their duties in accordance with the terms of reference laid down by the board.

Attention is given, where relevant, to appropriate training programmes for new members of the committee.

Meetings

In 2005, in addition to meeting in February, March, August and September, the committee met in May primarily to consider IFRS transition matters and again in October to consider a range of matters including a trading update for the first nine months of 2005, which replaced a previously scheduled update for the first ten months' trading. The committee meets routinely six times a year and additionally when necessary.

The regular matters to be considered for each meeting are set out in standing board procedures, which are designed to ensure that the committee properly considers all issues which fall within its terms of reference, but the committee and each member of it has the right to require reports on matters of interest in addition to the standing items.

The committee invites the chief executive, the chief financial officer, director – treasury and risk management, director – corporate accounting and control, director – corporate internal audit and representatives of the external auditors to attend its meetings. The director – group secretariat attends meetings in his role as secretary of the committee. The six committee meetings held during the year were attended by all committee members save that Mr Long was unable to attend one meeting by reason of prior business commitments.

Proceedings

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. During the year, the committee specifically considered the following issues:

- In order to fulfil its responsibilities relating to external financial reporting, the committee reviewed the interim and annual financial statements and the two trading updates and the associated Stock Exchange announcements in accordance with its terms of reference.

- As part of the company's review of its capital structure, the committee reviewed the company's capital requirements in the context of shareholders' expectations, the potential for acquisition growth, the company's credit rating and the requirements to put in place a programme to deal with the liabilities relating to the company's UK defined benefit pension scheme deficit. The committee specifically reviewed the proposals relating to the payment of £200 million to the UK pension scheme in December 2005 and the related commitment to fund the remaining deficit of approximately £150 million over a six to seven-year period.
- The committee reviewed the arrangements for the introduction of a new holding company for the group in June 2005 (see the Report of the Directors on page 28) and in particular reviewed the listing particulars and the supporting material provided by the company's legal and financial advisers.
- The committee reviewed and approved a revision to the policy on the identification and calculation of portfolio to assist in the elimination of potential inconsistencies that might arise in the reporting from underlying business units.
- The committee reviewed the company's planning for and adoption of International Financial Reporting Standards (IFRS), which principally affected the accounting for employee benefits, business combinations and financial instruments. The committee reviewed the company's Transition Document provided to the market in July 2005 to assist the market's understanding of the principal effects of IFRS on the company's financial statements, as well as reviewing in particular the presentation of the company's results under IFRS for the first six months and for the full year.
- The committee established a formal policy on the engagement of auditors to supply non-audit services that takes into account considerations of independence and relevant ethical guidance concerning the provision of non-audit services by an external audit firm. The policy provides a framework under which the committee would approve normal audit assignments above an agreed threshold. A subcommittee was established to approve any such arrangements.
- The level of provisions and reserves.
- Litigation and contingent liabilities affecting the company and its subsidiaries.
- The company's compliance with statutory tax obligations and related provisions.
- The review of the company's internal control systems and risk management systems in the light of reports submitted by management, the internal audit department and the external auditors (see also "Accountability and Audit" below).
- Reports on the system of internal controls and risk management reporting.
- Reports on treasury policies, procedures and delegated authorities.
- To fulfil its responsibilities regarding the independence of the external auditors, the committee reviewed the external auditors' plan for the current year, the arrangements for day-to-day management of the audit relationship and a report from the external auditors describing their arrangements for the identification, reporting and management of any conflicts of interest and the overall extent of non-audit services provided by the external auditors. The committee reviewed the exceptional circumstances during the year, relating mainly to the Raphoe bid threat, the establishment of the new holding company and due diligence relating to disposals contemplated or completed during the year, which resulted in a higher than usual level of non-audit fees. Details of the audit and non-audit fees are set out in note 4 to the accounts on page 77.
- To assess the effectiveness of the external auditors and to fulfil its responsibilities for oversight of the external audit process, the committee reviewed the following:

  – the terms, areas of responsibility, associated duties and scope of audit as set out in the external auditors' engagement letter for the forthcoming year;

  – the external auditors' overall work plan for the forthcoming year, quality control procedures and steps taken by the external auditors to respond to changes in regulatory and other requirements;

  – the external auditors' fee proposal;

  – the major issues that arose during the course of the audit and their resolution (including key accounting and audit judgements);

- the level of unadjusted misstatements identified during the audit; and
- the recommendations made by the external auditors in their management letter and the adequacy of management's response.

- To fulfil its responsibilities relating to the adequacy of resources and standing of the internal audit function, the committee has reviewed the following:
  - the internal audit department's terms of reference, which were updated during the year to encompass fully the process of business risk assessment and evaluation, reporting lines and access to the committee, which were formalised at the beginning of the year;
  - its operational, financial and information technology audit plans and achievement of the planned activity; and
  - the effectiveness of the internal audit function and the mix of skills within the internal audit team, particularly over the audit of IT systems where capability and capacity had been upgraded.
- The director – corporate internal audit is required to report to the committee bi-annually on the monitoring of whistleblowing procedures, the receipt of complaints and the state of ongoing investigations and conclusions reached. Additional specific reports are made by the director – corporate internal audit in relation to significant matters. During the year, no material whistleblowing matters were reported to the committee.
- The committee reviewed and approved guidelines to assist subsidiary companies over their interpretation and compliance with the company's Code of Ethics.

In addition, the chairman of the committee participated in the process, led by the nomination committee, over the identification and appointment of the chief financial officer, Mr Andrew Macfarlane, who joined the company during the year.

Accountability and audit

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 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.

Risk Assessment and Management. 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 these are assessed, managed and monitored. The risk identification and management process has been in place during the whole of 2005 (and up to 29 March 2006, the date of the approval of the audited 2005 accounts) and during that time the board, with the assistance of the committee, has reviewed the process.

Internal Control Environment. The process used to review the effectiveness of the system of internal controls includes the review of reports on a six-monthly basis on legal compliance, claims issues, health and safety issues and environment issues. Insurance, risk management and treasury issues are reviewed annually or more frequently if necessary. In addition, 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.

The review of the Combined Code conducted during 2005 by the Flint committee strongly endorsed the retention of a flexible, principles-based approach to accountability and internal controls. The establishment of an effective system of internal controls is an iterative process, taking account of new and emerging risks, identified control failures or changes in company circumstances or structure. Changes in the management structure introduced in 2005 and an increased level of delegated authority to the divisions and operating businesses introduce changes in the control environment which need to be monitored and tested to ensure that the group's internal controls and risk management procedures continue to be effective. Aspects of the group's internal control framework are being revised and updated in the light of these changes and also to incorporate the limited changes needed following the Flint review.

Approval

This report was approved by the board of directors on 29 March 2006 and signed on its behalf by Mr Ian Harley.

Ian Harley
Chairman of the Audit Committee
29 March 2006

Remuneration Report

Introduction

The Remuneration Report (the "Report") sets out the company's remuneration policy and details the remuneration of each director.

The 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. A resolution to approve the Report will be proposed at the annual general meeting to be held on 18 May 2006.

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, paragraphs 1 to 4 of the section entitled "Pay and Benefits" have been audited.

The remuneration committee

The company's remuneration committee (the "committee") is responsible for making recommendations to the board on the company's remuneration policy and, within the terms of the agreed policy, determining the individual remuneration packages of the executive directors and other members of the Company Executive Board (CEB) comprising the divisional managing directors and functional heads. The full terms of reference of the committee are available on the company's website or, if a hard copy is required, by application to the company secretary's department at the company's head office.

The committee consists wholly of independent non-executive directors: Messrs Spinney (chairman), Long and Mason. The committee met 8 times in 2005. The meetings were fully attended, except that Messrs Spinney and Long were unable to attend two meetings and Mr Mason was unable to attend one meeting, all due to prior business commitments.

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 or her own remuneration.

The company secretary, Mr R Ward-Jones, acts as secretary to the committee.

Mr A Kemp joined the company as group human resources director on 26 September 2005 and, as part of his responsibilities, he is invited to attend meetings of the committee to provide views and advice on remuneration matters.

The committee authorised the appointment of two independent external consultants, Watson Wyatt Limited and Deloitte & Touche LLP ("Deloitte"). Watson Wyatt provided advice on the measurement of the company's total shareholder return for the purposes of the discretionary share option schemes. Watson Wyatt also advised the company on aspects of its UK pension arrangements. Deloitte has been appointed by the committee to provide advice on executive remuneration and on the proposed long-term executive incentive plan. Deloitte also advised the company on corporate finance and tax matters. Hewitt Bacon & Woodrow Limited advised the company on pension scheme funding matters.

Remuneration policy

The company's remuneration policy is to provide remuneration packages that meet the strategic objectives of the business, enable the company to attract and retain talent, reward individual and company performance and align executives' interests with those of shareholders.

During 2005, the company undertook a review of the effectiveness and competitiveness of the total remuneration and benefit packages of executive directors and senior executives, with assistance from Deloitte. In the light of the recruitment of the chief executive, chief financial officer, group HR director, group strategy and development director and two new divisional managing directors and further to a general review of executive remuneration, the committee has concluded that the packages provided to executive directors and senior executives are market competitive.

Components of remuneration

Component of remuneration	Commentary
Base salary	Set by reference to the market median, taking into account individual skills and experience
Annual bonus	Links pay to the achievement of financial and strategic performance goals
Long-term incentive	Links executive interests with the creation of long-term shareholder value and provides a focus on underlying financial performance
Pension	Provides a contribution to a retirement plan based on salary

Each executive director's total remuneration consists of the above elements and other benefits described on page 48. Historically, the company has granted share options to executive directors and senior executives but the last grant of share options was made in March 2005 after which the board, on the advice of the committee, decided that it was no longer appropriate to grant share options. Accordingly, the committee was invited by the board to consider, with assistance from Deloitte, what alternative long-term incentive schemes were appropriate. The committee considered these and, after consulting major shareholders, decided that a performance share plan was most suited to the company's future needs.

The new Performance Share Plan (PSP) will provide participants with the opportunity to earn shares in the company based on stretching performance targets over a three-year period. Participation will extend to executive directors and other selected key individuals within the organisation, representing up to 500 people.

After due consideration the committee has decided that a combination of total shareholder return (TSR) and earnings per share (EPS) performance conditions is the most appropriate way in which to link potential rewards to company performance and the delivery of value to shareholders. In the view of the committee, the conditions retain a clear focus on the financial performance of the company, while also attributing significant importance to the creation of shareholder value. The performance conditions under the PSP would be split 50% on TSR and 50% on EPS in the first year of operation.

Further details of the new plan for which shareholder approval is being sought at the AGM to be held 18 May 2006 are set out in the circular which accompanies the Annual Report 2005.

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 2005 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	
TSR Position	Chief executive	Chief financial officer
Base salary	50%	60%
Pensions	10%	15%
Annual incentive	25%	25%
Long-term incentive	15%	0%

Note: The chief financial officer did not receive a performance-related long-term incentive award in 2005. It is expected that he will receive such awards from 2006 onwards and thus a greater proportion of his package will therefore be variable.

Base Salaries

Executive directors' base salaries are reviewed annually and take effect from 1 January each year. The committee takes into account company performance and the experience and contribution of individuals. Deloitte 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 Executive 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 2005, approximately 500 senior executives (other than the chief executive) were eligible to participate in the scheme. The performance measures related to group profit and non-financial key performance indicators and, for those executives based in the businesses, profit and contract portfolio/revenue for the relevant business unit. Threshold performance levels must have been achieved or no bonuses were payable. Cash bonus entitlements under this scheme were subject to a maximum of 50% of basic salary.

Bonuses are typically awarded in March following the end of the financial year to which they relate.

With regard to the Bonus and Deferred Share Award Plan, no bonuses have been awarded since 2003. However, directors' interests in shares awarded under the Deferred Share Award Plan in respect of 2003 are summarised in the Pay and Benefits section of this report starting on page 48.

No executive directors or members of the CEB qualified for the payment of bonuses under the Senior Executive Bonus Scheme 2005 as the group performance failed to meet the required performance levels. However, Mr Macfarlane and Mr Kemp, who had been recruited during the year, were entitled to guaranteed bonuses. Other members of the CEB (excluding Mr Flynn who is considered below) were awarded discretionary bonuses in recognition of the significant efforts made by them during the period of change and challenge for the company.

As was reported by the committee in the 2004 Remuneration Report, Mr Flynn was entitled to participate in a cash bonus arrangement with a maximum bonus entitlement of 100% of base salary with a target of 50% of base salary. The committee considered introducing a scheme for Mr Flynn with detailed profit and other financial targets but decided that, in view of the strategic review which took place last summer and the subsequent reorganisation, it would not be feasible to design a scheme with meaningful financial performance conditions in advance of the review. Accordingly, the committee decided to review and assess his performance in the year against broader goals when determining his bonus. The committee considered that Mr Flynn had developed an effective management team to strengthen and replace the previous team, led the strategic review and implemented decisive action to focus and improve the business and therefore awarded him a bonus equivalent to the salary paid to him in 2005 (£600,000).

Long-term Incentives

Both the chief executive and chief financial officer have been given compensatory awards to be vested in shares which are conditional upon their continued employment. Further details are set out on pages 45 and 46.

The grant of share options in March 2005 was the last under the Discretionary Approved and Discretionary Schemes ("Discretionary Schemes") which were approved by shareholders in 2000. The performance conditions attaching to share options which have been granted prior to 2005 were summarised in the Remuneration Report forming part of the 2004 Annual Report. With regard to the final grant of options in 2005, there were two levels of option award, Level 1 awards and Level 2 awards. Executive directors and the divisional managing directors in post at the time were eligible to receive Level 1 awards and Level 2 awards. Key individuals within the business were eligible to receive Level 1 awards only. Approximately 500 senior employees were covered by these awards.
The current executive directors did not receive options under this plan.

Level 1:

In 2005, the grant levels awarded were in the range of 16.7% to 66.66% of base salary.

For options to become exercisable, the company's EPS performance over a three to four year period has to exceed the UK rate of inflation by at least 4% per annum over the relevant period.

Level 2:

In 2005, the grant levels awarded were in the range of 33.33% to 44.44% of basic salary.

The performance condition for Level 2 option awards is the company's TSR performance compared with the TSR performance of the constituents of the FTSE 100 Index and a defined group of comparator companies which comprises support services companies over the same three-year period (no re-testing is permitted). TSR is defined as the appreciation of the share price (including re-invested dividends) and is calculated by a firm of external consultants, Watson Wyatt. The performance condition is as follows:

TSR Position	FTSE 100 Index % of option that will vest	Comparator companies % of option that will vest
Below median	0	0
Median	25	25
Upper quartile	50	50

Where TSR performance is between median and upper quartile, the proportion that will vest is calculated pro rata, on a straight line basis.

The selected comparator group for the Level 2 share options granted in 2005 was as follows:

Grupo Ferrovial Servicos SA
The Capita Group plc
Cintas Corporation
Compass Group plc
The Davis Service Group plc
Hays plc
International Service Systems A/S
Rentokil Initial plc
Group 4 Securicor plc
Securitas AB
Serco Group plc
The Servicemaster Company
Sodexho Alliance SA

The comparator groups for Level 2 share option awards since the introduction of the Discretionary Share Schemes in 2000 prior to 2005 are similar to the above list save that, from time to time, changes are required to reflect acquisitions and mergers of comparator companies. The intention of the committee was that the composition of the comparator group should fairly reflect those companies in the support services sector which would be regarded as a legitimate peer group for the company.

A charge of £3.2 million has been recognised in the group income statement in respect of share-based costs of which £1.2 million relates to the chief executive.

The performance targets for Level 1 share options granted since 2000 have not yet been satisfied, other than those granted in 2001 at a price of 205.25p. The committee is reviewing the appropriate basis for calculating EPS growth in respect of the future years' performance in the light of the company now reporting under IFRS.

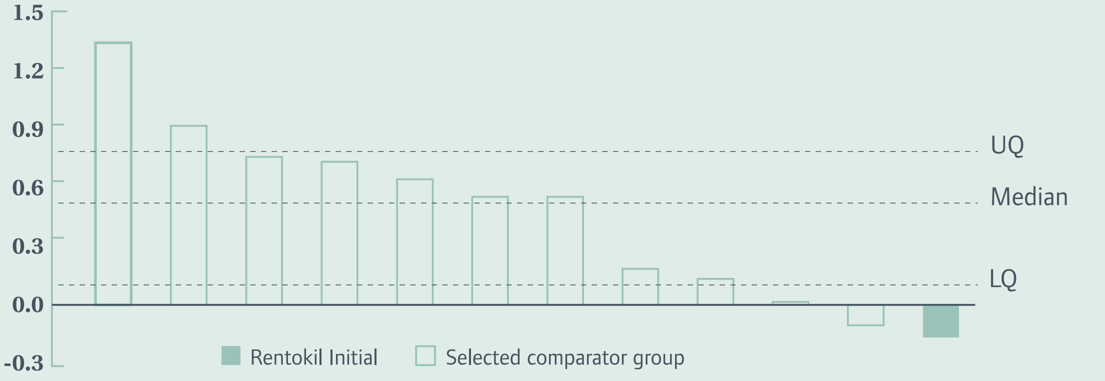
The performance conditions for Level 2 share options granted since 2000 have been satisfied as to 85% in 2000 and 100% in 2001 but were not satisfied in respect of options granted in 2002 and 2003. Level 2 options for which the performance conditions were not satisfied after three years have lapsed.

The minimum testing period has not yet expired in respect of Level 1 and Level 2 options granted in 2004 and 2005.

TSR Charts

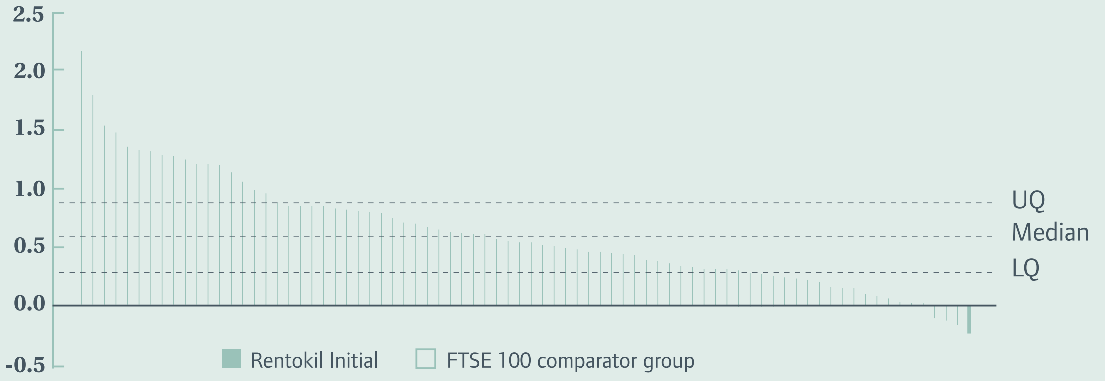
Rentokil Initial 2003 Option Grant – TSR 1 January 2003 to 31 December 2005

Selected comparator group



Rentokil initial 2003 Option Grant – TSR 1 January 2003 to 31 December 2005

FTSE 100 comparator group



The above charts show the company's TSR performance against a selected comparator group and the FTSE 100 for the period 1 January 2003 to 31 December 2005 for the purposes of illustrating the satisfaction of performance measures in relation to Level 2 share options granted in March 2003.

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 has approved a proposal for a new defined contribution structure which will be the subject of consultation.

Mr Brown, who retired on 5 January 2006, and Mr Payne, who retired on 9 September 2005, are members of the company's defined benefit pension scheme and have accrued entitlements under the scheme as set out on page 50.

Both of the current executive directors of the company, namely Mr Flynn and Mr Macfarlane, participate in defined contribution arrangements and are entitled to receive contributions from the company into pension arrangements equivalent to 22% of their base salaries.

Recruitment

During 2005, the company recruited a new chief executive and new chief financial officer. Mr Flynn was appointed as chief executive with effect from 4 April 2005 and Mr Macfarlane joined the board on 8 August 2005 and was appointed as chief financial officer with effect from 9 September 2005. The following section describes arrangements put in place specifically designed for the recruitment, retention and motivation of these individuals.

Chief Executive

Appointment award

A one-off award was put in place at the time of his appointment to facilitate the recruitment of the chief executive at a time of significant transformation of the business. This consisted of a compensatory award (delivered part in cash and part in shares) and a share award subject to the achievement of performance conditions over a period of five years.

Compensatory award

An award of £2.4 million was made in compensation for awards forfeited. 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 instalments, with the first due after six months in employment and the second due after 12 months in employment. The share element of the award (1,043,705 shares) vests in three equal tranches, on the first, second and third anniversaries of the award being made. There is an entitlement to the value of dividends attaching to the number of shares that ultimately vest under award. Vesting is subject to continued employment.

Transformation incentive award

This award constitutes the initial long-term element of the chief executive's remuneration package and will be in operation for a period of five years. The purpose of the award is to provide an incentive to improve the financial performance of the company and enhance shareholder value. The award is in respect of 2,609,263 shares (the number of shares being calculated by reference to the value of five times Mr Flynn's base salary of £800,000 on appointment). The award vests, subject to the achievement of performance conditions described below, in three equal tranches on the third, fourth and fifth anniversary of the commencement of employment. There is an entitlement to the value of dividends attaching to the number of shares that ultimately vest under the award.

The performance condition is based on relative TSR as follows:

- 75% of each tranche of the award will be dependent on TSR against the constituents of the FTSE 100 excluding financial services companies; and
- 25% of each tranche of the award will be dependent on TSR against a selected group of business support companies (Brambles Industries plc, The Capita Group plc, Compass Group plc,The Davis Service Group plc, Group 4 Securicor plc, Hays plc, MITIE Group plc, Prosegur Compania De Seguridad SA, Rexam plc, Serco Group plc, Securitas AB, SGS SA, Sodexho Alliance SA).

The following vesting schedule applies:

Performance relative to comparator group constituents	Level of vesting (percentage of shares subject to relevant condition at the relevant date)
At or above upper quartile	100%
Between upper quartile and median	Pro-rata vesting
At median	25%
Below median	0%

Chief Financial Officer

Appointment award

In relation to the chief financial officer, a one-off award was put in place at the time of his appointment to facilitate his recruitment. This consisted of a compensatory award, to be delivered wholly in shares with a value of £600,000 and which vests in three annual tranches of one quarter, one quarter and one half on the first, second and third anniversaries of the award being made. There is an entitlement to the value of dividends attaching to the number shares that ultimately vest under the award. Vesting is subject to continued employment.

Contracts

Executive Directors

It is the company's policy that executive directors should have rolling contracts subject to one year's notice by the company. The executive directors have rolling contracts which are subject to one year's notice by the company and six months notice by the relevant director and are dated as follows: Mr Flynn, 4 February 2005; and Mr 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.

Mr Payne retired as a director on 9 September 2005 but he remained an employee and his salary and other benefits were paid until 30 September 2005. Mr Brown retired by mutual agreement as a director of the company on 5 January 2006 but, under the terms of his service agreement, he will continue in employment until the end of 2006 (the cost of honouring the contractual termination commitment to Mr Brown is shown in the table on page 48). In the event that he obtains alternative employment before 31 December 2006, then Mr Brown's employment will cease and he will be entitled to the balance of his basic salary until 31 December 2006 but, by way of mitigation, all his benefits will cease with immediate effect.

Executive directors are entitled to accept one non-executive directorship or similar appointment outside the company, provided that the board's permission is obtained. The chief financial officer, Mr Macfarlane, is a non-executive director of Invensys plc for which he is paid and retained fees of £45,750 in its last financial year.

As part of the review mentioned above and recognising investors' preferences for executive shareholding requirements, the company proposes to introduce shareholding guidelines from 2006 onwards. 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.

Chairman

Mr McGowan has a letter of appointment dated 24 August 2004. Mr McGowan reverted to being non-executive chairman on 1 May 2005, when Mr Flynn took day-to-day responsibility for the running of the company. Mr McGowan's appointment as chairman may be ended by the giving of six months' notice by either party.

Non-Executive Directors

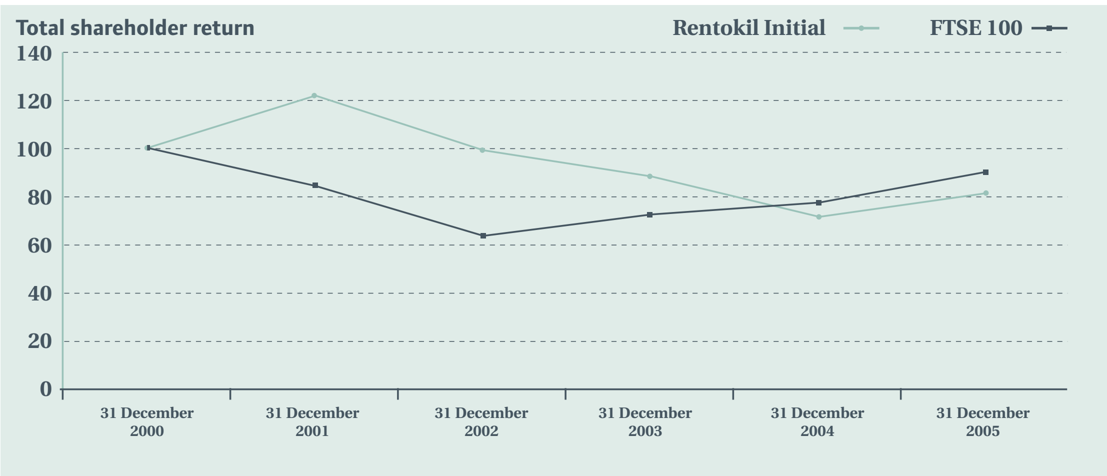
All non-executive directors have specific terms of engagement and their remuneration is determined by the board on the recommendation of the non-executive directors' fees committee of the board within the limits set by the Articles of Association and based on independent surveys of fees paid to non-executive directors of similar companies. The level of fees was reviewed with the benefit of the advice of Deloitte from 1 July 2005 with the result that the basic fee paid to each non-executive director in the year was increased to £45,000. The chairmen of the remuneration and audit committees are each paid an additional £10,000 per annum. Also, the deputy chairman receives additional fees of £10,000 per annum for fulfilling that role. Mr Long was appointed 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 is entitled to 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 as active members.

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 is a constituent. The graph has been prepared in accordance with Schedule 7A.

Rentokil Initial versus FTSE 100 Index

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



Pay and benefits

Paragraphs 1 to 4 below have been audited.

1. Emoluments

The following table sets out the emoluments of directors for the year ended 31 December 2005:

	Fees £000	Salary £000	Compensation for loss of office £000	Bonus £000	Compensatory award £000	Benefits £000	Total £000	2004 £000
D Flynn	–	600	–	600	800	151	2,151	–
A Macfarlane	–	161	–	140	–	18	319	–
B McGowan	483	–	–	–	–	–	483	410
R Spinney	58	–	–	–	–	–	58	44
I Harley	48	–	–	–	–	–	48	40
P Long	48	–	–	–	–	–	48	35
P Mason	40	–	–	–	–	–	40	35
D Tatton-Brown	21	–	–	–	–	–	21	–
E Brown	–	350	–	–	–	27	377	374
R Payne	–	356	–	–	–	17	373	601
2005	698	1,467	–	740	800	213	3,918	
2004	716	1,204	1,153	100	–	70		3,243

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 £113,225 (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 negotiation and 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 2005 was in the order of £42,000 (2004: nil) and is not included in the above table.

4. No director waived emoluments in respect of the year ended 31 December 2005 (2004: the same).

5. Mr McGowan's fees on an annual basis were reduced from £750,000 to £350,000, with effect on 1 May 2005 when he reverted to the role of non-executive chairman.

6. In addition to the amounts shown in the table, Messrs Flynn and Macfarlane, as a part of their appointment terms, have also received shares the vesting of which is conditional upon their continued employment. Further details are set out on pages 45 and 46.

7. Mr Brown resigned as a director on 5 January 2006.

2. Deferred Share Award Plan

The Deferred Share Award Plan (the "Plan") was not operated in 2005 and has been discontinued. The shares vested in 2005 in respect of then executive directors were Mr Payne, 5,435 (value £8,614) and Mr Brown 1,827 (value £2,896). The value of shares vested, which related to awards made under the Plan on 1 March 2004, reflects the mid-market closing price for the company shares of 158.5p on the last day of trading before the vesting of the shares.

3. Share Options

The following table sets out the share options held by directors:

Date of grant	Earliest exercise date	Expiry date	Price per share	Number at 1 January 2005	Granted/(lapsed) in the year	Exercised	Number at 31 December 2005
Mr R C Payne[1]							
26.09.95	26.09.98	29.03.07	156.867	200,000	–	–	200,000
30.05.96	30.05.99	29.03.07	201.135	180,000	–	–	180,000
18.04.97	18.04.00	29.03.07	204.634	240,000	–	–	240,000
20.04.98	20.04.01	29.03.07	371.670	186,211	–	–	186,211
14.05.99	14.05.02	29.03.07	270.000	216,000	–	–	216,000
10.05.00	10.05.03	29.03.07	156.500	330,191	–	–	330,191
01.03.01	01.03.04	29.03.07	205.250	332,794	–	–	332,794
01.03.02	01.03.05	29.03.07	266.750	271,681	(108,608)	–	163,073
29.08.03	29.08.06	29.03.07	204.500	248,141	–	–	248,141
31.08.04	31.08.07	29.03.07	152.000	347,201	–	–	347,201
24.03.05	24.03.08	29.03.07	160.500	–	328,814	–	328,814
				2,552,219	220,206	–	2,772,425
Mr E F Brown[2]							
29.05.96	29.05.99	28.05.06	201.135	60,674	–	–	60,674
18.04.97	18.04.00	17.04.07	204.634	96,824	–	–	96,824
20.04.98	20.04.01	19.04.08	371.670	145,000	–	–	145,000
14.05.99	14.05.02	13.05.09	270.000	250,000	–	–	250,000
10.05.00	10.05.03	09.05.10	156.500	425,299	–	–	425,299
01.03.01	01.03.04	28.02.11	205.250	355,318	–	–	355,318
01.03.02	01.03.05	28.02.12	266.750	284,172	(113,601)	–	170,571
29.08.03	29.08.06	28.08.13	204.500	155,169	–	–	155,169
31.08.04	31.08.07	30.08.14	152.000	215,027	–	–	215,027
24.03.05	24.03.08	23.03.15	160.500	–	203,639	–	203,639
				1,987,483	90,038	–	2,077,521

[1] Mr Payne ceased to be a director on 9 September 2005 and information on his interests in shares covers the period he was a director.
[2] Mr Brown ceased to be a director on 5 January 2006 and his interests in share options did not change between 31 December and 5 January 2006.

Notes

1. All share options granted before 2000 are exercisable.
2. Level 1 share options granted under the Discretionary Schemes in 2000 and subsequently cannot yet be exercised as the performance criteria have yet to be satisfied, save for those granted in 2001 where the performance criteria have been satisfied. 85% of Level 2 share options granted in 2000 and 100% of Level 2 share options granted in 2001 are exercisable. Level 2 share options granted in 2004 and 2005 cannot yet be exercised as the relevant performance criteria have yet to be satisfied.
3. As a result of the company's TSR in 2003 to 2005, the Level 2 options granted in 2003 have lapsed since the year end.
4. No other directors were granted options over shares of the company or any other group entities.
5. All share options under the Discretionary Schemes are required to be exercised within ten years of their date of grant unless a shorter period is prescribed under the rules.

4. Pensions

(a) Accrued entitlements for directors under the defined benefit section of the company's pension scheme are as follows:

	Additional accrued benefits earned in the year £000 pa	Accrued entitlement at 31 December 2005 £000 pa	Transfer value at 31 December 2005 £000	Transfer value at 31 December 2004 £000	Increase in transfer value less directors' contributions £000
Mr R C Payne**	(26)	227	4,745	3,749	970
Mr E F Brown	11	237	3,504	2,836	642

	Additional accrued pension earned in the year (excluding inflation) £000 pa	Accumulated total accrued pension at 31 December 2005 £000 pa	Transfer value of increase in accrued pension less directors' contributions £000
Mr R C Payne**	(32)	227	(692)
Mr E F Brown	6	237	69

**Benefits at 30.09.05

Notes

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 directors' pension benefits.

3. The figures under Increase in transfer value less directors' contributions are compliant with the Listing Rules and are the transfer value of the increase in each directors' benefit over the year to 31 December 2005 (again net of the directors' 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. None of the above directors are members of money purchase schemes sponsored by the company.

6. The effect of applying the early retirement factor to the accrued pension of Mr Payne meant that the movement in pension between 31 December 2004 and 31 December 2005 was negative.

7. The transfer value quoted as at 31 December 2005 is based on the value of a reduced pension that became payable immediately.

8. The total accrued benefit as at 31 December 2005 ignores the commutations for a lump sum payout that took place when Mr Payne retired.

(b) Accrued entitlements for directors under defined contribution arrangements are as follows:

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.

	2005 Pension Contributions £000
D Flynn	**132**
A Macfarlane	**35**
Total	**167**

Interest in shares

The following table sets out the interests of directors, who were directors on 31 December 2005, in the shares of the company:

Rentokil Initial plc ordinary shares of 1p each	**31 December 2005 Beneficial Interests number**	1 January 2005 Beneficial Interests number
E Brown	**392,203**	390,376
D Flynn	**–**	–
I Harley	**2,000**	2,000
P Long	**–**	–
P Mason	**–**	–
A Macfarlane	**–**	–
B McGowan	**5,000**	5,000
R Payne	**198,209**	192,774
R Spinney	**2,000**	2,000

Notes

1. Messrs Flynn and Macfarlane have, on advice, refrained from purchasing shares in the company to date in the light of the rules governing the use of inside information.
2. The interests of Mr Payne shown above are as at 1 January 2005 and the date of him ceasing to be a director on 9 September 2005.

Approval

This report was approved by the board of directors on 29 March 2006 and signed on its behalf by Mr R R Spinney.

R R Spinney
Deputy Chairman and Chairman of the Remuneration Committee
29 March 2006

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 2005 which comprise the Consolidated Income Statement, the 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 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 if, in our opinion, the Directors' Report is not consistent with the group financial statements, 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 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 operating review, the financial review, 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 2005 and of its profit and cash flows for the year then ended; and
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 March 2006

Consolidated Income Statement

For the year ended 31 December

	Notes	2005 £m	2004 £m
Continuing operations:			
Revenue	1	**2,301.2**	2,181.4
Operating expenses	2	**(2,057.9)**	(1,872.9)
Operating profit		**243.3**	308.5
Analysed as:			
Operating profit before amortisation of customer lists and exceptional items		**308.5**	356.4
Amortisation of customer lists		**(23.0)**	(22.2)
Exceptional items	5	**(42.2)**	(25.7)
Operating profit		**243.3**	308.5
Interest payable and similar charges	6	**(115.0)**	(109.0)
Interest receivable	7	**59.6**	55.4
Share of profit from associates (net of tax)		**2.2**	1.8
Profit before income tax		**190.1**	256.7
Income tax expense	8	**(51.5)**	(69.8)
Profit for the year from continuing operations		**138.6**	186.9
Discontinued operations:			
Profit for the year from discontinued operations	9	**185.8**	5.2
Profit for the year (including discontinued)		**324.4**	192.1
Attributable to:			
Minority interests		**2.9**	1.7
Equity holders of the company		**321.5**	190.4
		324.4	192.1
Basic earnings per share			
– Continuing operations	10	**7.52p**	10.24p
– Discontinued operations	10	**10.30p**	0.29p
– Continuing and discontinued operations	10	**17.82p**	10.53p
Diluted earnings per share			
– Continuing operations	10	**7.51p**	10.24p
– Discontinued operations	10	**10.30p**	0.29p
– Continuing and discontinued operations	10	**17.81p**	10.53p

Statement of Recognised Income and Expense

For the year ended 31 December

	2005 £m	2004 £m
Profit for the year (including discontinued operations)	**324.4**	192.1
Net exchange adjustments offset in reserves	**(0.6)**	(0.8)
Actuarial loss on defined benefit pension plans	**(60.6)**	(103.8)
Revaluation of available-for-sale investments	**(0.8)**	–
Tax on items taken directly to reserves	**1.0**	31.1
Net loss not recognised in income statement	**(61.0)**	(73.5)
Total recognised income for the year	**263.4**	118.6
Attributable to:		
Minority interests	**2.9**	1.7
Equity holders of the company	**260.5**	116.9
	263.4	118.6

The group took advantage of IFRS 1 transitional provisions and adopted IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 4 (Insurance Contracts) prospectively. Accordingly, the 2004 comparatives have not been restated in accordance with IAS 39 and IFRS 4. The opening balance sheet on 1 January 2005 has been restated for IAS 39 (£17.4m debit) and IFRS 4 (£0.3m credit). These adjustments have been reflected within reserves. See notes 39 and 40 for full details.

Consolidated Balance Sheet

At 31 December

	Notes	2005 £m	2004 £m
Assets			
Non-current assets			
Intangible assets	12	**180.3**	150.1
Property, plant and equipment	13	**497.5**	661.7
Investments in associated undertakings	14	**9.2**	9.5
Other investments	15	**6.8**	6.7
Deferred tax assets	25	**74.0**	74.0
Trade and other receivables	16	**28.3**	169.8
Derivative financial instruments	17	**16.9**	–
		813.0	1,071.8
Current assets			
Inventory	18	**43.8**	40.4
Trade and other receivables	16	**460.5**	458.9
Derivative financial instruments	17	**0.4**	–
Cash and cash equivalents	19	**240.3**	199.5
		745.0	698.8
Liabilities			
Current liabilities			
Trade and other payables	20	**(533.8)**	(552.7)
Current tax liabilities		**(115.1)**	(138.4)
Provisions for other liabilities and charges	21	**(31.1)**	(24.8)
Bank and other short-term borrowings	22	**(108.5)**	(207.5)
Derivative financial instruments	17	**(1.0)**	–
		(789.5)	(923.4)
Net current liabilities		**(44.5)**	(224.6)
Non-current liabilities			
Trade and other payables	20	**(12.0)**	(10.8)
Bank and other long-term borrowings	22	**(1,072.1)**	(1,147.1)
Deferred tax liabilities	25	**(43.3)**	(43.4)
Retirement benefits	26	**(182.3)**	(311.8)
Provisions for other liabilities and charges	21	**(116.9)**	(118.1)
Derivative financial instruments	17	**(1.5)**	–
		(1,428.1)	(1,631.2)
Net liabilities		**(659.6)**	(784.0)

	Notes	2005 £m	2004 £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	**5.3**	49.5
Capital redemption reserve	27	**–**	19.7
Treasury shares	27	**(11.1)**	(11.1)
Other reserves	27	**(1,714.1)**	8.4
Retained profits/(losses)	27	**1,035.2**	(878.7)
		(666.6)	(794.1)
Minority interests	27	**7.0**	10.1
Total equity		**(659.6)**	(784.0)

The financial statements on pages 54 to 117 were approved by the board of directors on 29 March 2006 and were signed on its behalf by:

D Flynn
Chief Executive

A Macfarlane
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2005 £m	2004 £m
Cash flows from operating activities			
Cash generated from operating activities before special pension contribution	29	**476.5**	566.3
Special pension contribution		**(200.0)**	–
Cash generated from operating activities		**276.5**	566.3
Interest received		**19.8**	15.5
Interest paid		**(63.4)**	(59.7)
Income tax paid		**(80.5)**	(98.1)
Net cash generated from operating activities		**152.4**	424.0
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		**(183.8)**	(176.1)
Purchase of intangible fixed assets		**(9.2)**	(4.7)
Proceeds from sale of PPE		**21.9**	12.0
Proceeds from sale of intangible assets		**0.1**	–
Acquisition of companies and businesses, net of cash acquired	32	**(42.0)**	(27.5)
Proceeds from disposal of companies and businesses	9	**323.3**	6.7
Dividends received from associates		**1.0**	3.8
Net cash flows from investing activities		**111.3**	(185.8)
Cash flows from financing activities			
Issue of ordinary share capital		**5.7**	0.3
Purchase of own shares		**–**	(24.2)
Dividends paid to equity shareholders	11	**(124.7)**	(113.5)
Dividends paid to minority interests		**(2.6)**	(0.7)
Interest element on finance lease payments		**(2.5)**	(2.4)
Capital element of finance lease payments		**(19.1)**	(18.7)
Proceeds on disposal of Ashtead loan note		**129.8**	–
Loan repayments		**(226.7)**	(197.0)
Net cash flows from financing activities		**(240.1)**	(356.2)
Net increase/(decrease) in cash and bank overdrafts	30	**23.6**	(118.0)
Cash and bank overdrafts at beginning of year	19	**145.3**	247.3
Exchange gains on cash and bank overdrafts		**1.8**	16.0
Cash and bank overdrafts at end of the financial year	19	**170.7**	145.3

Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared for the first time 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 2005.

The consolidated financial statements have been prepared under the historical cost convention, as modified (prospectively from 1 January 2005) by the revaluation of available for sale investments and certain financial assets and liabilities (including derivative instruments).

From 1 January 2004, comparative consolidated financial information previously published under UK Generally Accepted Accounting Principles has been restated on an IFRS basis for the opening balance sheet as at 1 January 2004 and for the year ended 31 December 2004. The change in the group's reported performance and financial position on adopting IFRS was fully disclosed in the interim consolidated financial report at 30 June 2005. The IFRS transition adjustments are disclosed in note 38 in accordance with IFRS 1 (First Time Adoption of IFRS).

The IASs and IFRSs below, which are relevant to the group's operations, have been adopted with effect from 1 January 2005.

IAS 32	Financial Instruments: Disclosure and Presentation
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations

In addition, the group has elected to adopt the amendments to IAS 19 "Employee Benefits" issued in December 2004 in advance of their effective date of 1 January 2006. As a result, the group has elected to recognise actuarial gains and losses arising on defined benefit pension plans in the Consolidated Statement of Recognised Income and Expense.

New holding company

On 21 June 2005, a new holding company structure became effective by way of a share exchange between the old holding company and the new holding company. Full details of the transaction are disclosed in notes 27 and 32. The new holding company (incorporated on 15 March 2005) has been accounted for as a reverse acquisition in the consolidated financial statements. Reverse acquisition is where the legal subsidiary (old holding company) is treated as the acquirer and the legal parent company (new holding company) is treated as the subsidiary whose assets and liabilities require fair valuing. The transaction was, in substance, an acquisition of the assets of the new holding company by the old holding company.

First Time Adoption and Accounting Policies

The principal accounting policies adopted by the group in conformity with in force IFRSs at 31 December 2005 are set out on pages 59 to 69. The opening IFRS balance sheet as at the date of transition on 1 January 2004 has been prepared in accordance with IFRS 1 and the most significant optional exemptions adopted or not adopted by the group are shown below.

IFRS 1 First Time Adoption – significant exemptions adopted

(a) Employee benefits – actuarial gains and losses (IAS 19 "Employee Benefits")
The group has elected to recognise all cumulative actuarial gains and losses in relation to employee benefit schemes at the date of transition.

(b) Financial Instruments (IAS 39 "Financial Instruments: Recognition and Measurement" and IAS 32 "Financial Instruments: Disclosure and Presentation")
The group has adopted this exemption and all financial instruments will comply with IAS 39 from 1 January 2005. The impact of the adoption of IAS 39 is disclosed in note 39.

(c) Cumulative translation differences
The group has elected to adopt the "Cumulative translation exchange difference" exemption, which resets all cumulative translation gains and losses (on foreign net investments) to zero at the date of transition.

IFRS 1 First Time Adoption – significant exemptions not adopted

(a) Business combinations that occurred before the opening IFRS balance sheet date (IFRS 3 "Business Combinations")

The group has elected to adopt IFRS 3 retrospectively to business combinations made since 1 January 1998. As a result, goodwill arising from past business combinations from 1 January 1998 has been restated under IFRS at 1 January 2004.

(b) Fair value as deemed cost

The option to fair value or revalue Property, plant and equipment at the date of transition has not been adopted and, therefore, the depreciated cost as reported under UK GAAP remains the same at 1 January 2004.

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 City Link with central items reported separately as these cannot be reliably allocated across segments. Geographic or secondary segments are United Kingdom, Continental Europe, North America, Asia Pacific and Africa.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

Property, plant and equipment

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

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

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

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

For the purposes of assessing value-in-use, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) and cash flow forecasts are made on the 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 or 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

(a) 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. 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.

(b) Customer lists

The fair value attributable to customer lists or portfolio at the point of acquisition 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. This amount is included in intangible assets as "customer lists" and amortised over the estimated useful life on a straight-line basis. Amortisation periods are business stream dependent and vary from 5 to 10 years. Separate values are not attributed to internally generated customer lists or relationships.

(c) 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. These costs are amortised over their estimated useful lives, which vary from 3 to 5 years.

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 (between 3 to 5 years).

(d) 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. 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 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) 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, 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 in operating costs 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.

For defined contribution 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

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

Provisions

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

Vacant property provision is made in respect of vacant and partly sub-let leasehold properties to the extent that future rental payments are expected to exceed future rental income. Environmental provision is made for all known liabilities to remediate contaminated land on the basis of management's best estimate of the costs of these liabilities. Self insurance provision is made for all claims incurred as at the balance sheet date based on actuarial assessments 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.

Revenue recognition (continued)

(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. 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. The group has adopted IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2005. The 2004 comparative period has been prepared under UK GAAP and the FRS 13 note disclosure has therefore been included.

From 1 January 2005 onwards

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.

Accounting for derivative financial instruments and hedging activities (continued)

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.

From 1 January 2004 to 31 December 2004

Derivatives and other financial instruments

The derivative instruments used by the group, which are used solely for hedging purposes (i.e. to offset foreign exchange and interest rate risks), comprise currency and interest rate swaps, forward rate agreements and forward foreign exchange contracts. Such derivative instruments are used to alter the risk profile of an existing underlying exposure of the group in line with the group treasury policies.

Interest rate differentials under swap arrangements and forward rate agreements used to manage interest rate exposures are recognised by adjustment to net interest payable. Premiums or discounts arising on the purchase of derivative instruments are amortised over the shorter of the life of the instrument and the underlying exposure.

Currency swap agreements and forward foreign exchange contracts are valued at closing rates of exchange. Where the borrowings are used to finance net overseas investments, exchange differences are taken to reserves in accordance with SSAP 20. Resulting gains and/or losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs.

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 62. 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 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 2006 or later periods but which the group has not early adopted. Management has identified IFRS 7 "Financial Instruments: Disclosure" (effective 1 January 2007) and IFRIC 4 "Determining whether an arrangement contains a lease" (effective 1 January 2006) as being relevant to its business. The impact on the group's operations is currently being assessed.

1. Segment information

(a) Primary reporting format – business segments

At 31 December 2005, the group is organised on a worldwide basis into six main business segments: Textiles and Washroom Services, Pest Control, Tropical Plants, Electronic Security, City Link (represents activities previously categorised as Parcels Delivery) and Facilities Services. There are immaterial sales between the business segments. The segment results for the years ended 31 December 2005 and 31 December 2004 are shown below:

	Revenue 2005 £m	Revenue 2004 £m	**Operating profit 2005 £m**	Operating profit 2004 £m
Continuing operations				
Textiles and Washroom Services	**705.3**	686.2	**94.3**	145.7
Pest Control	**246.9**	237.5	**73.9**	78.8
Tropical Plants	**112.9**	105.1	**7.2**	7.9
Electronic Security	**263.4**	242.4	**32.8**	36.4
City Link	**125.5**	113.4	**29.1**	30.3
Manned Guarding	**365.2**	331.6	**11.2**	11.3
Other Facilities Services	**482.0**	465.2	**40.5**	44.5
Facilities Services	**847.2**	796.8	**51.7**	55.8
Central items	**–**	–	**(45.7)**	(46.4)
	2,301.2	2,181.4	**243.3**	308.5
Interest payable and similar charges	**–**	–	**(115.0)**	(109.0)
Interest receivable	**–**	–	**59.6**	55.4
Share of profit of associates (net of tax)				
– Textiles and Washroom Services	**–**	–	**2.2**	1.8
Profit before income tax	**–**	–	**190.1**	256.7
Income tax expense	**–**	–	**(51.5)**	(69.8)
Total for the year from continuing operations	**2,301.2**	2,181.4	**138.6**	186.9
Discontinued operations				
Textiles and Washroom Services	**1.3**	1.4	**0.7**	0.4
City Link	**0.8**	6.6	**–**	0.9
Other Facilities Services[1]	**16.3**	41.6	**(1.5)**	(13.3)
Conferencing	**82.9**	91.1	**186.6**	17.2
Total for the year from discontinued operations	**101.3**	140.7	**185.8**	5.2
Total for the year (including discontinued)	**2,402.5**	2,322.1	**324.4**	192.1
[1] Includes associates	**–**	–	**–**	0.6

Operating profit in 2005 from Conferencing includes a profit on disposal of £170.3m.

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

	Depreciation 2005 £m	Depreciation 2004 £m	Amortisation 2005 £m	Amortisation 2004 £m
Continuing operations				
Textiles and Washroom Services	**101.1**	100.9	**10.3**	11.0
Pest Control	**11.7**	10.8	**2.0**	1.5
Tropical Plants	**9.4**	9.1	**4.0**	3.8
Electronic Security	**5.4**	4.7	**4.0**	2.6
City Link	**3.9**	3.0	**–**	–
Manned Guarding	**1.8**	2.2	**3.2**	3.1
Other Facilities Services	**26.5**	23.0	**2.6**	2.8
Facilities Services	**28.3**	25.2	**5.8**	5.9
Central items	**1.4**	1.5	**0.5**	0.5
Total for the year from continuing operations	**161.2**	155.2	**26.6**	25.3
Discontinued operations				
Textiles and Washroom Services	**0.7**	1.2	**–**	–
Other Facilities Services	**0.3**	0.8	**–**	0.1
Conferencing	**6.2**	5.8	**–**	0.3
Total for the year from discontinued operations	**7.2**	7.8	**–**	0.4
Total for the year (including discontinued)	**168.4**	163.0	**26.6**	25.7

1 (a) Primary reporting format – business segments (continued)

Property, plant and equipment and intangible asset impairment losses of £31.2m and £2.9m respectively and an inventory impairment loss of £1.0m have been recognised in the Textiles and Washroom Services segment (see notes 12, 13 and 18). In 2004, £9.3m of impairment losses were recognised in the Other Facilities Services segment in discontinued operations.

Central items represent corporate expenses that are not capable of being allocated to any business or geographic segment.

The consolidated segment assets and liabilities at 31 December 2005 and 31 December 2004 and capital expenditure for the years then ended are as follows:

	Assets	Assets	**Liabilities**	Liabilities	**Capital expenditure**	Capital expenditure
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Continuing operations						
Textiles and Washroom Services	**472.7**	510.0	**164.4**	164.2	**128.0**	123.3
Pest Control	**101.3**	98.2	**52.2**	50.1	**16.8**	14.5
Tropical Plants	**66.6**	57.2	**19.7**	17.4	**17.9**	14.1
Electronic Security	**165.4**	127.9	**104.5**	95.1	**38.0**	31.6
City Link	**36.5**	28.2	**11.8**	11.6	**5.5**	4.2
Manned Guarding	**82.9**	67.5	**38.3**	34.7	**10.2**	2.9
Other Facilities Services[1]	**238.8**	208.0	**106.3**	94.2	**31.2**	26.5
Facilities Services	**321.7**	275.5	**144.6**	128.9	**41.4**	29.4
Central items	**79.5**	225.2	**381.4**	523.3	**8.6**	3.2
Total from continuing operations	**1,243.7**	1,322.2	**878.6**	990.6	**256.2**	220.3
Discontinued operations						
Textiles and Washroom Services	**–**	0.8	**–**	–	**0.4**	1.1
City Link	**–**	1.0	**–**	0.3	**0.1**	0.4
Other Facilities Services[1]	**–**	8.4	**–**	6.4	**0.1**	0.6
Conferencing	**–**	164.7	**–**	20.9	**10.1**	11.2
Total from discontinued operations	**–**	174.9	**–**	27.6	**10.7**	13.3
Total (including discontinued)	**1,243.7**	1,497.1	**878.6**	1,018.2	**266.9**	233.6
[1] Includes associates						
– Continuing operations	**9.2**	8.3	**–**	–	**–**	–
– Discontinued operations	**–**	1.2	**–**	–	**–**	–

Reconciliation of segment assets/liabilities to total assets/liabilities

	Assets 2005 £m	Assets 2004 £m	Liabilities 2005 £m	Liabilities 2004 £m
Segment assets/liabilities as above	**1,243.7**	1,497.1	**878.6**	1,018.2
Deferred tax assets	**74.0**	74.0	–	–
Cash and cash equivalents	**240.3**	199.5	–	–
Current tax liabilities	**–**	–	**115.1**	138.4
Bank and other short-term borrowings	**–**	–	**108.5**	207.5
Bank and other long-term borrowings	**–**	–	**1,072.1**	1,147.1
Deferred tax liabilities	**–**	–	**43.3**	43.4
Total assets/liabilities	**1,558.0**	1,770.6	**2,217.6**	2,554.6

Segment assets consist of primarily 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).

1 (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 2005 £m	Revenue 2004 £m	**Total assets 2005 £m**	Total assets 2004 £m	**Capital expenditure 2005 £m**	Capital expenditure 2004 £m
Continuing operations						
United Kingdom	**1,043.1**	1,010.2	**359.9**	350.6	**61.8**	68.8
Continental Europe	**856.8**	813.3	**619.8**	605.8	**141.3**	121.5
North America	**277.9**	244.8	**110.2**	76.9	**27.8**	12.3
Asia Pacific[1]	**89.6**	82.3	**57.1**	48.2	**12.5**	11.1
Africa	**33.8**	30.8	**17.2**	15.5	**4.2**	3.4
	2,301.2	2,181.4	**1,164.2**	1,097.0	**247.6**	217.1
Central items	**–**	–	**79.5**	225.2	**8.6**	3.2
Total from continuing operations	**2,301.2**	2,181.4	**1,243.7**	1,322.2	**256.2**	220.3
Discontinued operations						
United Kingdom	**84.3**	97.0	**–**	166.2	**10.1**	11.3
Continental Europe	**2.7**	6.2	**–**	1.2	**0.1**	0.8
North America	**13.5**	33.4	**–**	5.3	**0.4**	0.8
Asia Pacific[1]	**–**	–	**–**	1.2	**–**	–
Africa	**0.8**	4.1	**–**	1.0	**0.1**	0.4
Total from discontinued operations	**101.3**	140.7	**–**	174.9	**10.7**	13.3
Total (including discontinued)	**2,402.5**	2,322.1	**1,243.7**	1,497.1	**266.9**	233.6
[1] Includes associates						
– Continuing operations	**–**	–	**9.2**	8.3	**–**	–
– Discontinued operations	**–**	–	**–**	1.2	**–**	–

Analysis of revenue by category

	Continuing operations 2005 £m	Continuing operations 2004 £m	**Discontinued operations 2005 £m**	Discontinued operations 2004 £m
Contract service revenue (including rental income)	**1,769.5**	1,675.5	**16.3**	32.0
Non contract service revenue	**428.9**	402.2	**84.9**	108.7
Franchise income	**54.2**	59.2	**–**	–
Sales of goods	**48.6**	44.5	**0.1**	–
	2,301.2	2,181.4	**101.3**	140.7

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

As noted in the Operating Review, the group management structure was reorganised with effect from 1 September 2005. This principally resulted in separate Asia Pacific and South Africa (Other) divisions. For statutory purposes, the businesses within these geographic divisions have been reallocated back to the relevant business segment in line with the requirements of IAS 14 "Segmental Reporting". The commentary in the Operating Review reflects this new divisional structure and not the segmental information presented above. In addition, the commentary in the Operating Review is presented at constant exchange rates and before the amortisation of customer lists and exceptional items. The tables that follow reconcile the segmental information presented above to the divisional performance referred to in the Operating Review on pages 8 to 21.

	Statutory basis	Asia Pacific and Other	Foreign exchange	Management basis	Management basis
	2005 £m	2005 £m	2005 £m	2005 £m	2004 £m
Revenue from continuing operations					
Textiles and Washroom Services	**705.3**	**(62.3)**	**(3.2)**	**639.8**	628.2
Pest Control	**246.9**	**(37.5)**	**(1.2)**	**208.2**	203.8
Tropical Plants	**112.9**	**(10.5)**	**(0.8)**	**101.6**	95.4
Electronic Security	**263.4**	**–**	**(0.7)**	**262.7**	242.4
City Link	**125.5**	**–**	**–**	**125.5**	113.4
Manned Guarding	**365.2**	**–**	**(5.3)**	**359.9**	331.6
Other Facilities Services	**482.0**	**(12.0)**	**(0.5)**	**469.5**	454.2
Facilities Services	**847.2**	**(12.0)**	**(5.8)**	**829.4**	785.8
Asia Pacific	**–**	**89.6**	**(2.8)**	**86.8**	82.3
Other	**–**	**32.7**	**(0.6)**	**32.1**	30.1
	2,301.2	**–**	**(15.1)**	**2,286.1**	2,181.4

	Statutory basis	Asia Pacific and Other	Customer lists and exceptional items	Foreign exchange	Management basis	Management basis
	2005 £m	2005 £m	2005 £m	2005 £m	2005 £m	2004 £m
Operating profit from continuing operations						
Textiles and Washroom Services	**94.3**	**(21.6)**	**42.7**	**(0.7)**	**114.7**	135.7
Pest Control	**73.9**	**(8.2)**	**1.5**	**(0.5)**	**66.7**	70.9
Tropical Plants	**7.2**	**(1.8)**	**4.1**	**(0.1)**	**9.4**	9.8
Electronic Security	**32.8**	**–**	**3.0**	**–**	**35.8**	38.5
City Link	**29.1**	**–**	**–**	**–**	**29.1**	30.4
Manned Guarding	**11.2**	**–**	**3.0**	**(0.2)**	**14.0**	14.0
Other Facilities Services	**40.5**	**(5.7)**	**–**	**–**	**34.8**	39.2
Facilities Services	**51.7**	**(5.7)**	**3.0**	**(0.2)**	**48.8**	53.2
Asia Pacific	**–**	**23.3**	**–**	**(0.8)**	**22.5**	25.2
Other	**–**	**12.7**	**–**	**(0.1)**	**12.6**	12.5
Central items	**(45.7)**	**1.3**	**10.9**	**–**	**(33.5)**	(19.8)
	243.3	**–**	**65.2**	**(2.4)**	**306.1**	356.4

2. Operating expenses by nature

	Continuing operations 2005 £m	Continuing operations 2004 £m	Discontinued operations 2005 £m	Discontinued operations 2004 £m	Total 2005 £m	Total 2004 £m
Employee benefit expense (note 3)	**1,178.6**	1,078.0	**34.0**	45.8	**1,212.6**	1,123.8
Depreciation – owned assets	**147.4**	140.6	**7.1**	7.3	**154.5**	147.9
– under finance leases	**13.8**	14.6	**0.1**	0.5	**13.9**	15.1
Profit on disposal of PPE	**(12.1)**	(3.9)	**–**	(0.1)	**(12.1)**	(4.0)
Amortisation – customer lists	**23.0**	22.2	**–**	–	**23.0**	22.2
– other	**3.6**	3.1	**–**	0.4	**3.6**	3.5
Audit and non-audit services (note 4)	**7.4**	4.0	**–**	0.1	**7.4**	4.1
UK textiles impairment (note 5)	**31.3**	–	**–**	–	**31.3**	–
Bid defence costs (note 5)	**10.9**	–	**–**	–	**10.9**	–
Exceptional increase in provisions (note 5)	**–**	25.7	**–**	–	**–**	25.7
Other impairment of PPE	**3.8**	–	**–**	9.3	**3.8**	9.3
Cost of inventories recognised as an expense	**69.9**	72.1	**0.7**	0.4	**70.6**	72.5
Hire of machinery and equipment	**11.8**	11.6	**–**	–	**11.8**	11.6
Other operating lease rentals	**29.7**	29.3	**1.4**	0.5	**31.1**	29.8
Net foreign exchange losses	**0.1**	–	**–**	–	**0.1**	–
Research and development costs (external)	**3.0**	2.9	**–**	–	**3.0**	2.9
Other expenses	**535.7**	472.7	**34.8**	59.1	**570.5**	531.8
Operating expenses	**2,057.9**	1,872.9	**78.1**	123.3	**2,136.0**	1,996.2

3. Employee benefit expense

	Continuing operations	Continuing operations	Discontinued operations	Discontinued operations	Total	Total
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Wages and salaries	**1,002.3**	917.9	**31.2**	41.8	**1,033.5**	959.7
Social security costs	**149.8**	137.8	**2.4**	3.0	**152.2**	140.8
Share options granted to directors and employees	**3.2**	1.0	**–**	–	**3.2**	1.0
Pension costs – defined contribution plans	**9.5**	8.2	**0.4**	1.0	**9.9**	9.2
Pension costs – defined benefit plans (note 26)	**13.8**	13.1	**–**	–	**13.8**	13.1
	1,178.6	1,078.0	**34.0**	45.8	**1,212.6**	1,123.8

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

	Number	Number	Number	Number	Number	Number
Service	**77,620**	76,250	**2,844**	5,293	**80,464**	81,543
Selling	**3,604**	3,451	**29**	52	**3,633**	3,503
Administration	**5,879**	5,652	**120**	296	**5,999**	5,948
	87,103	85,353	**2,993**	5,641	**90,096**	90,994

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 48 to 51.

4. Audit and non-audit services

During the year the group (including its overseas subsidiaries) incurred fees from auditors for services detailed below:

	2005 £m	2004 £m
Audit services		
– Statutory audit	**2.7**	2.7
– Audit-related	**2.4**	0.5
Tax services		
– Compliance services	**0.1**	0.1
– Advisory services	**0.3**	0.3
Other services	**1.9**	0.5
	7.4	4.1

Also included above are fees paid to the group's auditors in respect of non-audit services in the UK of £1.5m (2004: £0.9m).

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 £46,000 (2004: £46,000).

5. Exceptional items

	2005 £m	2004 £m
Impairment of assets in UK textiles business[1]	31.3	–
Bid defence costs[2]	10.9	–
Additional vacant property and environmental provisions[3]	–	19.7
Potential uninsured loss on a discontinued business[4]	–	6.0
	42.2	25.7

[1] The linen and workwear business within the UK has been written down to its recoverable amount (property, plant and equipment £27.4m, intangible assets £2.9m and inventory £1.0m).
[2] Costs incurred in defending potential takeover bid by Raphoe.
[3] Increase in vacant property and environmental provisions in the UK and the USA in respect of specific properties relating to businesses disposed of in prior years.
[4] The provision for the potential uninsured loss made in respect of product supply by a discontinued business.

6. Interest payable and similar charges

	2005 £m	2004 £m
Interest payable on bank loans and overdrafts	27.0	27.6
Interest payable on medium term notes issued	38.5	40.1
Net interest receivable on fair value hedges	(6.9)	(6.5)
Interest on defined benefit plan liabilities	46.8	41.3
Interest payable on finance leases	2.5	2.4
Foreign exchange (loss)/gain on translation of foreign denominated loans	(0.8)	4.1
Amortisation of discount on provisions	2.0	–
Fair value loss on write off of Ashtead option	4.6	–
Net ineffectiveness of fair value hedges	(0.8)	–
Fair value loss on derivatives not designated in a hedge relationship*	2.1	–
Total interest payable and similar charges	115.0	109.0

*The fair value loss on derivatives not designated in a hedge relationship includes fair value losses relating to forward rate agreements of £0.5m.

7. Interest receivable

	2005 £m	2004 £m
Bank interest	8.6	7.4
Other interest*	11.3	7.5
Return on defined benefit plan assets	39.7	40.5
Total interest receivable	59.6	55.4

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

8. Income tax expense

	2005 £m	2004 £m
Analysis of charge in the year		
UK Corporation tax at 30% (2004: 30%)	**12.3**	30.7
Double tax relief	**(5.4)**	(2.4)
	6.9	28.3
Overseas taxation	**55.7**	63.9
Adjustment in respect of previous periods	**(13.0)**	(20.7)
Total current tax	**49.6**	71.5
Deferred tax*	**1.9**	(1.7)
Total income tax expense	**51.5**	69.8

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:

	2005 £m	2004 £m
Profit before income tax (continuing operations)	**190.1**	256.7
Tax calculated at domestic tax rates applicable to profits in the respective countries	**59.2**	79.2
Adjustment in respect of previous periods	**(11.5)**	(20.6)
Expenses not deductible for tax purposes – other	**6.6**	3.4
Non-deductible exceptional items	**1.2**	9.3
Income not subject to tax	**(1.8)**	(1.4)
Goodwill deduction for which no deferred tax asset was recognised	**(1.9)**	(0.7)
Utilisation of previously unrecognised tax losses	**(2.7)**	(2.1)
Deferred tax on unremitted profits	**1.5**	2.7
Other	**0.9**	–
Total income tax expense (continuing operations)	**51.5**	69.8

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 31.1% in 2005 and 30.9% in 2004. The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries.

*The deferred tax charge mainly comprises:	2005 £m	2004 £m
Accelerated tax depreciation	**(8.9)**	(2.2)
Deferred tax on retirement benefit obligations	**13.8**	(1.5)
Unremitted overseas profits	**1.5**	2.7
Other temporary differences	**(4.5)**	(0.7)
Deferred tax charge	**1.9**	(1.7)
Tax on items charged to equity		
Deferred tax credit in respect of actuarial loss on defined benefit pensions	**(1.0)**	(31.1)
Total tax credited to equity	**(1.0)**	(31.1)

9. Discontinued operations

The group disposed of its conferencing business, Initial Style Conferences (United Kingdom), on 6 December 2005, a 49% interest in an associate undertaking, Rezayat Sparrow Arabian Crane Hire Co Ltd (Saudi Arabia) on 31 May 2005 and seven other businesses, during the year ended 31 December 2005, for gross proceeds of £336.1m, £323.3m after costs paid of £12.8m but before the release of provisions of £1.0m.

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

	Style £m	Other £m	2005 £m
Non-current assets			
– Intangible assets	0.3	0.1	0.4
– Property, plant and equipment	154.4	4.8	159.2
– Investments in associated undertakings	–	1.3	1.3
Current assets	21.4	3.0	24.4
Current liabilities	(20.5)	(5.4)	(25.9)
Non-current liabilities	(6.2)	(0.2)	(6.4)
Net assets disposed	149.4	3.6	153.0
Profit on disposal	170.3	1.0	171.3
Provision release	–	(1.0)	(1.0)
Consideration	319.7	3.6	323.3
Consideration deferred to future periods	–	(0.4)	(0.4)
Consideration deferred from prior periods	–	1.2	1.2
Costs deferred to future periods	3.2	0.8	4.0
Cash disposed	(4.4)	(0.4)	(4.8)
Cash inflow from disposals	318.5	4.8	323.3

The profit on disposal above of £171.3m excludes translation exchange losses of £1.6m, which are recycled to the income statement, giving a total post-tax profit on disposal of subsidiary net assets of £169.7m.

Financial performance of discontinued operations

	Style £m	Other £m	2005 £m	2004 £m
Revenue	**82.9**	**18.4**	**101.3**	140.7
Operating expenses	**(59.8)**	**(18.3)**	**(78.1)**	(123.3)
Operating profit	**23.1**	**0.1**	**23.2**	17.4
Finance costs – net	**(0.4)**	**0.1**	**(0.3)**	(0.4)
Share of profit from associates disposed (net of tax)	**–**	**–**	**–**	0.6
Profit before income tax	**22.7**	**0.2**	**22.9**	(17.6)
Taxation	**(6.4)**	**(0.4)**	**(6.8)**	(9.1)
Profit/(loss) after income tax from discontinued operations	**16.3**	**(0.2)**	**16.1**	8.5
Profit/(loss) on disposal of net assets of companies and businesses	**170.3**	**1.0**	**171.3**	(3.3)
Taxation	**–**	**–**	**–**	–
Cumulative translation exchange loss*	**–**	**(1.6)**	**(1.6)**	–
Total profit/(loss) after income tax on disposal of net assets of companies and businesses	**170.3**	**(0.6)**	**169.7**	(3.3)
Profit/(loss) on disposal of discontinued operations	**186.6**	**(0.8)**	**185.8**	5.2

*The cumulative translation exchange loss of £1.6m relating to discontinued operations has been recycled out of exchange reserves to the consolidated income statement.

Net cash flows from discontinued operations

	2005 £m	2004 £m
Operating	**17.9**	14.2
Investing	**(10.2)**	(12.0)
Financing	**(0.2)**	(0.3)
Total net cash flows*	**7.5**	1.9

*Excludes proceeds on disposal of discontinued operations of £323.3m (2004: £6.7m).

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.

	2005 £m	2004 £m
Profit from continuing operations attributable to equity holders of the company	**135.7**	185.2
Profit from discontinued operations attributable to equity holders of the company	**185.8**	5.2
Weighted average number of ordinary shares in issue	**1,803.7**	1,807.8
Basic earnings per share from continuing operations	**7.52p**	10.24p
Basic earnings per share from discontinued operations	**10.30p**	0.29p
Basic earnings per share from continuing and discontinued operations	**17.82p**	10.53p

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential 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.

	2005 £m	2004 £m
Profit from continuing operations attributable to equity holders of the company	**135.7**	185.2
Profit from discontinued operations attributable to equity holders of the company	**185.8**	5.2
Weighted average number of ordinary shares in issue	**1,803.7**	1,807.8
Adjustment for share options and deferred shares	**1.1**	–
Weighted average number of ordinary shares for diluted earnings per share	**1,804.8**	1,807.8
Diluted earnings per share from continuing operations	**7.51p**	10.24p
Diluted earnings per share from discontinued operations	**10.30p**	0.29p
Diluted earnings per share from continuing and discontinued operations	**17.81p**	10.53p

11. Dividends

	2005 £m	2004 £m
Final dividend paid – prior year 4.78p (2004: 4.35p) per 1p share	**86.2**	79.0
Interim dividend paid 2.13p (2004: 1.93p) per 1p share	**38.5**	34.5
	124.7	113.5

A dividend in respect of 2005 of 5.25p (2004: 4.78p) per 1p share amounting to £94.8m (2004: £86.2m) is to be proposed at the Annual General Meeting on 18 May 2006. These financial statements do not reflect this dividend payable.

12. Intangible assets

	Goodwill £m	Customer lists £m	Computer software £m	Development costs and Other £m	Total £m
At 1 January 2004					
Cost	61.1	155.2	26.8	1.7	244.8
Accumulated amortisation and impairment	–	(91.5)	(16.2)	(1.0)	(108.7)
Net book amount	61.1	63.7	10.6	0.7	136.1
Year ended 31 December 2004					
Opening net book amount	61.1	63.7	10.6	0.7	136.1
Exchange differences	(0.2)	(0.5)	–	–	(0.7)
Additions	–	–	4.2	0.4	4.6
Acquisition of companies and businesses	8.8	27.0	–	–	35.8
Amortisation charge	–	(22.2)	(3.1)	(0.4)	(25.7)
Closing net book amount	69.7	68.0	11.7	0.7	150.1
At 31 December 2004					
Cost	69.7	181.6	29.8	2.1	283.2
Accumulated amortisation and impairment	–	(113.6)	(18.1)	(1.4)	(133.1)
Net book amount	69.7	68.0	11.7	0.7	150.1
Year ended 31 December 2005					
Opening net book amount	**69.7**	**68.0**	**11.7**	**0.7**	**150.1**
Exchange differences	**1.0**	**1.0**	**0.5**	**–**	**2.5**
Additions	**–**	**–**	**8.7**	**0.7**	**9.4**
Disposals	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Acquisition of companies and businesses	**10.1**	**37.7**	**–**	**0.5**	**48.3**
Disposal of companies and businesses	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Impairment charge	**–**	**–**	**(2.9)**	**–**	**(2.9)**
Amortisation charge	**–**	**(23.0)**	**(3.3)**	**(0.3)**	**(26.6)**
Closing net book amount	**80.8**	**83.7**	**14.2**	**1.6**	**180.3**
At 31 December 2005					
Cost	**80.8**	**221.6**	**35.1**	**3.5**	**341.0**
Accumulated amortisation and impairment	**–**	**(137.9)**	**(20.9)**	**(1.9)**	**(160.7)**
Net book amount	**80.8**	**83.7**	**14.2**	**1.6**	**180.3**

Amortisation of £26.6m (2004: £25.7m) and impairment of £2.9m (2004: £nil) has been charged to operating expenses. The impairment charge of £2.9m arose due to the linen and workwear business within the UK being written down to its recoverable amount (see note 5).

12. Intangible assets (continued)

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 2005 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	–	42.5	–	0.1	–	42.6
Pest Control	–	0.8	–	0.3	–	1.1
Tropical Plants	–	2.0	11.4	0.4	0.2	14.0
Electronic Security	10.8	4.1	4.1	–	–	19.0
City Link	–	–	–	–	–	–
Manned Guarding	1.1	–	2.7	–	–	3.8
Other Facilities Services	0.3	–	–	–	–	0.3
	12.2	49.4	18.2	0.8	0.2	80.8

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use 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.

There are significant individual goodwill balances within the Textiles and Washroom Services, Tropical Plants and Electronic Security businesses. The key assumptions used by individual CGUs for value-in-use calculations were long-term growth rates and pre-tax discount rates. For these individual businesses, the long-term growth rates were 0% to 2% in Textiles and Washroom Services, 0% to 3% in Tropical Plants and 0% to 2% in Electronic Security. The pre-tax discount rates were 9% to 10% in Textiles and Washroom Services, 10% to 11% in Tropical Plants and 11% in Electronic Security. No reasonable 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
At 1 January 2004				
Cost	310.0	745.9	248.8	1,304.7
Accumulated depreciation and impairment	(49.5)	(461.3)	(141.1)	(651.9)
Net book amount	260.5	284.6*	107.7*	652.8
Year ended 31 December 2004				
Opening net book amount	260.5	284.6	107.7	652.8
Exchange differences	(0.3)	1.2	(0.5)	0.4
Additions	10.8	133.2	45.5	189.5
Disposals	(1.4)	(2.3)	(4.3)	(8.0)
Acquisition of companies and businesses	1.7	1.7	0.3	3.7
Disposal of companies and businesses	(2.9)	(0.4)	(1.1)	(4.4)
Reclassification	(0.3)	0.6	(0.3)	–
Impairment charge	(9.3)	–	–	(9.3)
Depreciation charge	(5.2)	(118.6)	(39.2)	(163.0)
Closing net book amount	253.6	300.0	108.1	661.7
At 31 December 2004				
Cost	316.1	778.8	254.0	1,348.9
Accumulated depreciation and impairment	(62.5)	(478.8)	(145.9)	(687.2)
Net book amount	253.6	300.0	108.1	661.7
Year ended 31 December 2005				
Opening net book amount	**253.6**	**300.0**	**108.1**	**661.7**
Exchange differences	**(1.2)**	**(3.8)**	**0.2**	**(4.8)**
Additions	**14.4**	**127.7**	**54.2**	**196.3**
Disposals	**(2.5)**	**(2.1)**	**(5.2)**	**(9.8)**
Acquisition of companies and businesses	**4.1**	**7.0**	**1.8**	**12.9**
Disposal of companies and businesses	**(140.9)**	**(16.1)**	**(2.2)**	**(159.2)**
Reclassification	**–**	**0.8**	**(0.8)**	**–**
Impairment charge	**(0.1)**	**(30.6)**	**(0.5)**	**(31.2)**
Depreciation charge	**(5.3)**	**(122.6)**	**(40.5)**	**(168.4)**
Closing net book amount	**122.1**	**260.3**	**115.1**	**497.5**
At 31 December 2005				
Cost	**166.3**	**739.2**	**263.9**	**1,169.4**
Accumulated depreciation and impairment	**(44.2)**	**(478.9)**	**(148.8)**	**(671.9)**
Net book amount	**122.1**	**260.3**	**115.1**	**497.5**

*On transition to IFRS, certain assets have been reclassified from office equipment to plant, equipment and tropical plants.

13. Property, plant and equipment (continued)

	Land and buildings £m	Plant, equipment and tropical plants £m	Vehicles and office equipment £m	Total £m
The impairment charge (on continuing businesses) is made up as follows:				
2005				
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**

An impairment loss was recognised in the UK linen and workwear business and charged to operating expenses as its net assets have been written down to their recoverable amount (see note 5).

	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 2004	18.9	1.9	31.7	52.5
At 31 December 2005	**18.2**	**0.9**	**26.8**	**45.9**

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:

	2005 £m	2004 £m
Cost at 1 January	**497.4**	478.9
Accumulated depreciation at 1 January	**(298.9)**	(292.0)
Exchange differences	**(2.0)**	0.9
Additions	**103.5**	108.4
Disposals	**(1.3)**	(0.9)
Acquisition of companies and businesses	**3.2**	1.1
Disposal of companies and businesses	**(1.4)**	–
Impairment charge	**(18.8)**	–
Depreciation charge	**(105.0)**	(97.9)
Net book amount	**176.7**	198.5

14. Investments in associated undertakings

	2005 £m	2004 £m
At 1 January	**9.5**	11.6
Exchange differences	**(0.2)**	(0.7)
Share of profit[1]	**2.2**	2.4
Disposals in the year	**(1.3)**	–
Dividends	**(1.0)**	(3.8)
At 31 December	**9.2**	9.5

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

Investments in associates at 31 December 2005 includes goodwill of £nil (2004: £nil).

The group's interest in its principal associates, both of which are unlisted, was as follows:

Name	Country of incorporation	Assets	Liabilities	Revenue	Profit	Interest held
		£m	£m	£m	£m	
2005						
Nippon Calmic Ltd	**Japan**	**18.3**	**(9.1)**	**18.8**	**2.2**	**49%**
2004						
Nippon Calmic Ltd	Japan	17.0	(8.7)	18.6	1.8	49%
Rezayat Sparrow ACHC Ltd	Saudi Arabia	4.4	(3.2)	2.4	0.6	49%
		21.4	(11.9)	21.0	2.4	

Rezayat Sparrow ACHC Ltd was disposed on 31 May 2005.

15. Other investments

	2005 £m	2004 £m
At 1 January	**6.7**	0.5
Additions	**–**	6.2
Acquisition of companies and businesses	**0.1**	–
At 31 December	**6.8**	6.7
Less: non-current portion	**6.8**	6.7
Current portion	**–**	–
Available-for-sale financial assets include the following:		
– UK Government gilts and US Treasury bonds	**6.6**	6.6
– Unlisted equity securities – Continental Europe	**0.2**	0.1
	6.8	6.7

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 2004 or 2005. See note 24 for the maturity profile and effective interest rate.

16. Trade and other receivables

	2005 £m	2004 £m
Trade receivables	**401.0**	382.0
Less: provision for impairment of receivables	**(12.3)**	(13.8)
Trade receivables – net	**388.7**	368.2
Other receivables	**46.5**	70.0
Prepayments	**53.6**	48.8
Convertible loan note	**–**	141.7
Total	**488.8**	628.7
Less non-current portion:		
Other receivables	**28.3**	28.1
Convertible loan note	**–**	141.7
	28.3	169.8
Current portion	**460.5**	458.9

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 unrelated.

The group has recognised a loss of £5.0m (2004: £5.5m) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included within operating expenses in the income statement.

The convertible loan note relates to the disposal of the US plant services businesses to Ashtead Group plc in 2000. At 31 December 2004, under UK GAAP, the carrying value of the note was £141.7m. On adoption of IAS 32 and IAS 39 at 1 January 2005, the loan note was classified as loan and receivable and stated at amortised cost with an effective interest rate of 11.54%. As a result, the carrying value of the principal was reduced to £112.7m and £4.6m was ascribed to the equity conversion option. Refer to note 39 for further details. At 1 January 2005, the interest accrued on the principal was £1.7m and deferred interest of £7.7m. On 1 July 2005, the group entered into an agreement with Ashtead whereby it agreed to an early repayment of the loan note subject to certain financing actions and conditions being met by 15 August 2005. On 3 August, Ashtead completed all these conditions and repaid £129.8m to the company in full settlement of the outstanding loan note obligations. The total sum received comprised £119.5m loan principal and £10.3m of deferred interest and accrued interest then outstanding.

Other receivables consist primarily of a South African loan note and deferred consideration received in respect of non-core business disposals. The South African loan note of £16.8m, 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 2005, using a discounted cash flow model, and the revaluation loss of £0.8m 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 £20.1m of interest bearing and £0.5m of non-interest bearing notes (with effective interest rates varying between 7.3% and 9%) and deferred consideration received in respect of non-core business disposals. The notes/deferred consideration have final maturities between 2005 and 2008, 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.

Refer to note 24 for disclosure of comparative information under UK GAAP.

17. Derivative financial instruments

	Fair value assets	Fair value liabilities
	2005 £m	2005 £m
Interest rate swaps:		
– fair value hedge	**16.7**	**(0.8)**
Forward rate agreements:		
– non-hedge	**0.4**	**(1.0)**
Cross-currency interest rate swaps:		
– non-hedge	**0.2**	**–**
– fair value hedge	**–**	**(0.7)**
	17.3	**(2.5)**
Analysed as follows:		
Current portion	**0.4**	**(1.0)**
Non-current portion	**16.9**	**(1.5)**
	17.3	**(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 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 a $10m/£5.6m floating to floating (LIBOR plus margin) cross-currency interest rate swap whose critical terms match the bond disclosed in note 22 but for which hedge accounting is not sought.

The group has outstanding forward rate agreements maturing in six months with nominal values of £600m and €530m attracting average fixed interest rates of 4.9% and 2.66% respectively and a further €530m of six month forward rate agreements maturing in 12 to 13 months, attracting average fixed interest of 2.89%.

Refer to note 24 for disclosure of comparative information under UK GAAP.

18. Inventory

	2005 £m	2004 £m
Raw materials	**13.1**	11.5
Work in progress	**4.7**	2.5
Finished goods	**26.0**	26.4
	43.8	40.4

An inventory impairment charge of £1.0m (2004: £nil) arose due to the linen and workwear business in the UK being written down to its recoverable amount.

19. Cash and cash equivalents

	2005 £m	2004 £m
Cash at bank and in hand	**134.0**	149.8
Short-term bank deposits	**106.3**	49.7
	240.3	199.5
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
Cash and cash equivalents	**240.3**	199.5
Bank overdrafts (note 22)	**(69.6)**	(54.2)
	170.7	145.3

Interest is receivable and payable at rates of interest varying between 0.5% and 6.0%.

20. Trade and other payables

	2005 £m	2004 £m
Trade payables	**125.9**	132.3
Social security and other taxes	**78.8**	79.3
Other payables	**90.3**	116.9
Accruals and deferred income	**244.0**	232.8
Deferred consideration on acquisitions	**6.8**	2.2
Total	**545.8**	563.5
Less non-current portion:		
Other payables	**11.9**	10.6
Deferred consideration on acquisitions	**0.1**	0.2
	12.0	10.8
Current portion	**533.8**	552.7

21. Provisions for other liabilities and charges

	Vacant properties £m	Environmental £m	Self insurance £m	Other £m	Total £m
At 1 January 2004	38.6	28.3	43.9	8.2	119.0
Exchange differences	–	(0.8)	(1.3)	(0.1)	(2.2)
Additional provisions	2.8	(0.9)	18.0	3.8	23.7
Exceptional increases to provisions	6.2	13.5	–	6.0	25.7
Used during the year	(2.1)	(4.4)	(15.2)	(1.6)	(23.3)
At 31 December 2004	45.5	35.7	45.4	16.3	142.9
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**

Provisions analysed as follows:

	2005 £m	2004 £m
Non-current	**116.9**	118.1
Current	**31.1**	24.8
	148.0	142.9

Vacant properties

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

Environmental

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

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 £0.3m (2004: £3.1m increase).

Other

Other provisions principally comprise amounts required to cover obligations arising, warranties given and costs relating to disposed businesses.

22. Bank and other borrowings

	2005 £m	2004 £m
Non-current		
Bank borrowings	**409.9**	480.5
Other loans	**640.4**	642.6
Finance lease liabilities	**21.8**	24.0
	1,072.1	1,147.1
Current		
Bank overdrafts	**69.6**	54.2
Bank borrowings	**6.8**	4.0
Other loans	**15.3**	132.4
Finance lease liabilities	**16.8**	16.9
	108.5	207.5
Total bank and other borrowings	**1,180.6**	1,354.6

Bank borrowings of £nil (2004: £0.8m) are secured on certain assets of the group. Other non-current loans and other current loans include £640.4m (2004: £663.1m) and £15.3m (2004: £135.7m) respectively, of notes issued under the company's €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 year ended 31 December 2005:

Currency/Amount	IAS 39 hedging	Interest Coupon	Maturity date
¥2,000m	FV	Fixed rate – 0.40% pa	matured
€20m	NH	Floating rate – 3 month EURIBOR +0.20%	matured
$10m	NH	Floating rate – 3 month USD LIBOR +0.24%	matured
€150m	NH	Floating rate – 3 month EURIBOR +0.35%	matured
£15m	NH	Floating rate – 6 month GBP LIBOR +0.35%	13.02.06
¥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
£250m	FV	Fixed rate – 6.125% pa	19.11.08

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 5.90%. The effective interest rate on the £250m note is 6.20%. 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 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 €530m 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 Japanese Yen bank borrowings and the €500m note as hedges of the net investment in its subsidiaries in Japan and the eurozone. The fair value of the Japanese Yen borrowings at 31 December 2005 was £6.4m and the euro note £364.7m. The foreign exchange gain of £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".

Refer to note 24 for disclosure of comparative information under UK GAAP.

Finance lease payments fall due as follows:

	2005 £m	2004 £m
Not later than one year	**17.5**	17.6
Between		
– one and two years	**12.3**	11.5
– two and three years	**7.3**	3.4
– three and four years	**2.7**	8.0
– four and five years	**0.5**	0.5
– over five years	**1.1**	1.4
	41.4	42.4
Future finance charges on finance leases	**(2.8)**	(1.5)
Present value of finance lease liabilities	**38.6**	40.9

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	Other	Total
	2005 £m	2005 £m	2005 £m
Within one year, or on demand	91.7	5.4	97.1
Between			
– one and two years	561.4	4.0	565.4
– two and three years	255.0	3.9	258.9
– three and four years	0.1	3.8	3.9
– four and five years	233.6	3.4	237.0
– over five years	0.2	21.8	22.0
	1,142.0	42.3	1,184.3

Other financial liabilities include £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	Other	Total
	2005 £m	2005 £m	2005 £m
Pound sterling	586.3	42.3	628.6
Euro	413.3	–	413.3
US dollar	93.3	–	93.3
Other currencies	49.1	–	49.1
	1,142.0	42.3	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 such borrowings 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 2005 in respect of which all continuing conditions precedent had been met at that date.

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

The committed borrowing facilities in the above table are subject to guarantees by Rentokil Initial 1927 plc.
Refer to note 24 for disclosure of comparative information under UK GAAP.

24 (i). Maturity profile of financial assets

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 £6.6m 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 4.2% and the weighted average rate is fixed for 2.3 years.

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

24 (ii). FRS 13 disclosures for 1 January 2004 to 31 December 2004

The group has adopted IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 January 2005. The 2004 comparative period has been prepared under UK GAAP and the FRS 13 note disclosure has therefore been included below:

Short-term debtors and creditors

In accordance with FRS 13, short-term debtors and creditors have been excluded from all the following disclosures, other than the currency disclosures.

Interest rate risk profile of financial liabilities

After taking account of the various interest rate and currency swaps entered into by the group, the interest rate risk profile of the group's financial liabilities was:

	Floating rate	Fixed rate	Non-interest bearing	Total
	2004 £m	2004 £m	2004 £m	2004 £m
Sterling	920.1	1.6	45.2	966.9
Other European currencies	378.3	1.8	0.3	380.4
US and Canadian dollars	32.2	0.2	–	32.4
Other currencies	7.2	–	–	7.2
	1,337.8	3.6	45.5	1,386.9

24 (ii). FRS 13 disclosures for 1 January 2004 to 31 December 2004 (continued)

The currency and interest rate swaps undertaken by the company have the effect of reclassifying the underlying borrowings' currency and/or its interest rate basis as follows:

	Currency swap	Interest rate swap fixed rate to floating rate
	2004 £m	2004 £m
Sterling	153.5	250.0
Other European currencies	(116.6)	353.8
Other currencies	(36.9)	–
	–	603.8

Financial liabilities on which no interest is paid comprise leases on vacant properties and deferred consideration. All creditors falling due within one year (other than bank and other borrowings) and provisions (other than contracted future vacant properties costs) are excluded from the above table either because they are short-term items or they are not financial liabilities (as defined in FRS 13).

Weighted average interest rate and period of financial liabilities

	Fixed rate financial liabilities weighted average interest rate	Fixed rate financial liabilities weighted average period for which rate is fixed*	Non-interest bearing financial liabilities weighted average period until maturity
	2004 %	2004 Number of years	2004 Number of years
Sterling	4.9	–	6.3
Other European currencies	3.6	0.6	0.3
US and Canadian dollars	7.0	3.0	–
	–	0.8	6.2

*Perpetual debentures issued in the name of BET Ltd, with a value of £1.6m have been excluded from the above average period analysis due to their perpetual nature.

Floating rate financial liabilities 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.

Interest rate risk profile of financial assets

	Floating rate	Fixed rate	Non-interest bearing	Total
	2004 £m	2004 £m	2004 £m	2004 £m
Sterling	59.9	151.4	1.0	212.3
Other European currencies	101.5	–	0.4	101.9
US and Canadian dollars	25.5	0.5	–	26.0
Other currencies	30.8	–	0.3	31.1
	217.7	151.9	1.7	371.3

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.

Fixed rate cash deposits include £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 interest rate earned is 7.1% and the weighted average rate is fixed for 3.4 years.

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.

Fair values of financial assets and financial liabilities

	Book Value 2004 £m	Fair Value 2004 (restated) £m
Primary financial instruments held or issued to finance the group's operations:		
Short-term borrowings:		
Medium-term notes issued	(132.5)	(135.7)
Other borrowings	(70.7)	(70.7)
	(203.2)	(206.4)
Long-term borrowings:		
Medium-term notes issued	(639.8)	(659.8)*
Other borrowings	(498.7)	(498.7)
	(1,138.5)	(1,158.5)
Other financial liabilities	(45.2)	(45.2)
Other debtors – convertible note	143.4	124.9
Other debtors – South Africa loan note	17.6	17.6
Fixed rate deposits – Government gilts	6.6	6.6
Cash and short-term deposits	199.2	199.2
Debtors – deferred consideration/disposal notes	4.5	4.5
Derivative financial instruments held or issued to hedge the interest rate on existing borrowings and currency exposure on expected future sales and purchases:		
Net interest rate and currency swaps	–	23.1
Forward foreign currency contracts	–	–

The table above provides a comparison by category of the carrying amounts and the fair values of the group's financial assets and financial liabilities at 31 December 2004. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties (other than a forced or liquidation sale) and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at relevant interest and exchange rates.

*Restated to include one loan note with a fair value of £15m, omitted in error in the 2004 annual report.

24 (ii). FRS 13 disclosures for 1 January 2004 to 31 December 2004 (continued)

The company has issued the following medium-term notes under its €2.5bn Euro Medium Term Note programme:

Currency/Amount	Interest coupon	Maturity date
¥2,000m	Fixed rate – 0.40% pa	24.03.05
€20m	Floating rate – 3 month EURIBOR +0.20%	10.05.05
$10m	Floating rate – 3 month USD LIBOR +0.24%	16.09.05
€150m	Floating rate – 3 month EURIBOR +0.35%	17.11.05
£15m	Floating rate – 6 month GBP LIBOR +0.35%	13.02.06
¥3,000m	Fixed rate – 0.60% pa	13.04.07
$10m	Floating rate – 3 month USD LIBOR +0.35%	17.05.07
€500m	Fixed rate – 5.75% pa	21.05.07
£250m	Fixed rate – 6.125% pa	19.11.08

The aggregate book and fair values for these notes are reflected in the table on page 97.

The fair value of other short-term borrowings and long-term borrowings (under which short-term drawings are made under committed credit facilities which mature in October 2006) approximate to their book values given their short-term maturity.

Other debtors include a balance of £143.4m in respect of a convertible loan note issued by Ashtead Group plc ("Ashtead") in partial consideration for their purchase of the group's former US plant services business. The note has a final maturity date of 31 March 2008 and interest accrues at 5.25% per annum. At 31 December 2004, £9.4m of this balance is represented by accrued interest.

During 2004, Ashtead announced that it had successfully completed both the refinancing of its senior secured bank credit facilities and then issued a ten year £120m high yield bond in the capital markets. Ashtead stated that in taking such actions they had refinanced approximately 75% of their debt during 2004 and extended their debt maturities to 5.5 years. The new $675m asset based senior syndicated loan facility is committed to November 2009 subject only to the convertible loan note being repaid prior to November 2007.

As a result of the above refinancing arrangements, certain consequential amendments were made to the terms of the convertible note. As a result of these amendments, Ashtead agreed to pay the noteholder, BET Ltd, £3.5m of accrued interest for the period of 1 October 2003 to 16 April 2004 on 16 April 2004. In addition it was agreed that all other previously deferred interest, totalling £7.4m, would become payable at the earlier of the note repayment date or 31 March 2008. Interest will accrue on this deferred interest sum at the Barclays Bank PLC UK base rate plus 2%.

The original note principal amount, maturity date and interest rate have been unchanged by these amendments. The noteholder has also subsequently received £3.5m of interest on its normal due dates in October 2004 and April 2005, together with a £2m fee in November 2004 upon the full refinancing of Ashtead's senior secured debt.

On 15 March 2005, Ashtead announced its interim results for the nine months to 31 January 2005 and updated the market on its trading prospects. These indicated that the company had performed strongly in the third quarter and that trading conditions in all its markets remained good. Since their latest trading announcement, the Ashtead share price has risen from 99.75p to 105.20p as at the latest practical date prior to the publication of this report.

In accordance with FRS 13 disclosure requirements a fair value of £124.9m has been ascribed to the convertible note. This has been calculated after discounting the cash flows of the note in accordance with the conditions prevailing at 31 December 2004 at the then market interest rates and after due adjustment for credit risk. Included within the 2004 fair value sum is an amount of £4.6m which has been ascribed to the equity conversion option. This sum has been calculated using recognised market option pricing methodology, an Ashtead share price as at 31 December 2004 of 77.25p and historic share price volatility data.

The company has noted the gradually improving trading outlook of Ashtead, together with the positive refinancing actions that have been undertaken during 2004. The company will continue to monitor any further announcements by Ashtead and take any actions as may be required in the future to protect the noteholder's rights.

Also included within other debtors is a ZAR220.6m (£17.6m) loan note that was received in 2004 as deferred consideration from the disposal of a 25.1% interest in the South African business. This loan note currently bears interest at a variable rate of 9.5% pa, a rate that will vary over time with movements in the South African prime interest rates. It is anticipated that the loan will be repaid over a period of ten years.

Debtors include £20.6m of interest bearing and £1.5m of non-interest bearing notes and deferred consideration received in respect of non-core business disposals. The notes/deferred consideration have final maturities between 2005 and 2008, although earlier repayments may be precipitated under the terms of the respective disposal notes/sale agreements.

The group does utilise foreign currency short-term and long-term borrowings to hedge overseas acquisitions and investments. Any differences between the book values and the fair values for these borrowings are shown on page 97.

Currency exposures

The group's currency borrowings (including those held in its main operating businesses) are used to hedge the exchange effects arising from the retranslation of its net overseas investments. Gains and losses arising on net overseas investments and the currency borrowings used to hedge the currency exposures are recognised in the Statement of Total Recognised Gains and Losses in accordance with SSAP 20.

The group's businesses provide goods and services in their local economies, sourced predominately from the local economies. As a consequence the group's businesses do not have any material transactional currency exposures nor any material foreign currency assets or liabilities by reference to their reporting currencies. Such foreign exchange differences which do arise on retranslation of these assets and liabilities are taken to the profit and loss account of the group companies and the group (2004: £nil).

Hedges

Other than the gains and losses on net interest rate and currency swaps noted in the fair value table on page 97, there are no material unrecognised or deferred gains or losses at 31 December 2004 in respect of financial instruments used as hedges.

The maturity profile of the carrying amount of the group's financial liabilities, other than short-term trade creditors and accruals, at 31 December 2004 was as follows:

	Loans	Finance leases	Other financial liabilities	Total
	2004 £m	2004 £m	2004 £m	2004 £m
Within one year, or on demand	190.7	12.5	4.7	207.9
Between one and two years	515.2	9.2	7.9	532.3
Between two and five years	603.8	7.8	10.7	622.3
Over five years	1.0	1.2	22.2	24.4
	1,310.7	30.7	45.5	1,386.9

Other financial liabilities include £45.2m in respect of vacant property provisions related to underlying onerous lease contracts.

Borrowing facilities

The group had the following undrawn committed borrowing facilities available at 31 December 2004 in respect of which all continuing conditions precedent had been met at that date.

	2004 £m
Expiring between one and two years	753.9
Expiring between two and five years	–
	753.9

25. Deferred income tax

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

	2005 £m	2004 £m
At 1 January	**30.6**	4.6
Exchange differences	**1.6**	(0.6)
Acquisition of companies and businesses	**(7.2)**	(7.0)
Disposal of companies and businesses	**6.1**	–
Transfers to current taxation	**0.1**	1.6
(Credited)/charged to the income statement*	**(1.5)**	0.9
Charged to equity	**1.0**	31.1
At 31 December	**30.7**	30.6

*Includes deferred tax of £3.4m (2004: (£2.6m)) in respect of discontinued operations.

	2005 £m	2004 £m
Deferred taxation has been presented on the balance sheet as follows:		
Deferred tax asset within non-current assets	**74.0**	74.0
Deferred tax liability within non-current liabilities	**(43.3)**	(43.4)
	30.7	30.6

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 2004	(1.2)	62.4	(93.4)	9.4	(7.8)	(30.6)
At 31 December 2005	**9.8**	**42.3**	**(80.6)**	**11.8**	**(14.0)**	**(30.7)**

Unprovided deferred tax assets in respect of unutilised tax losses amount to £10.3m (2004: £8.9m). The losses will expire at various dates between 2006 and 2025. Capital losses carried forward amount to £88.6m (2004: £134.9m). Other deferred tax assets amounting to £17.9m (2004: £nil) 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 £19.7m (2004: £16.4m) would be payable.

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

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. 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. The RIPS valuation was performed on the existing basis and therefore excludes the proposal to freeze future accrual of pension benefits to active members. Actuarial valuations of the UK scheme are carried out every three years. The most recent valuation was at 31 March 2005.

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.

	2005	2004
Weighted average %		
Discount rate	**4.7%**	5.3%
Expected return on plan assets	**6.3%**	7.0%
Future salary increases	**3.6%**	3.5%
Future pension increases	**2.8%**	2.7%

Mortality assumptions

At 31 December 2005, it is assumed that a man retiring at age 65 will live 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.

At 31 December 2004, no distinction was made between "staff" and "executive" members and it was assumed that a man retiring at age 65 would live a further 20.0 years and a woman a further 22.6 years.

Pension benefits

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

	2005	**2005**	**2005**	2004	2004	2004
	UK RIPS £m	**Other[1] £m**	**Total £m**	UK RIPS £m	Other[1] £m	Total £m
Present value of funded obligations	**(1,029.2)**	**(20.6)**	**(1,049.8)**	(872.0)	(18.4)	(890.4)
Fair value of plan assets	**859.4**	**15.4**	**874.8**	569.5	15.4	584.9
	(169.8)	**(5.2)**	**(175.0)**	(302.5)	(3.0)	(305.5)
Present value of unfunded obligations	**–**	**(7.3)**	**(7.3)**	–	(6.3)	(6.3)
Liability in the balance sheet.	**(169.8)**	**(12.5)**	**(182.3)**	(302.5)	(9.3)	(311.8)

The amounts recognised in the income statement are as follows:

	2005 UK RIPS £m	**2005 Other[1] £m**	**2005 Total £m**	2004 UK RIPS £m	2004 Other[1] £m	2004 Total £m
Current service cost[2]	**12.6**	**1.2**	**13.8**	11.9	1.2	13.1
Interest cost[2]	**45.9**	**0.9**	**46.8**	40.7	0.6	41.3
Amount charged to pension liability	**58.5**	**2.1**	**60.6**	52.6	1.8	54.4
Expected return on plan assets[2]	**(39.1)**	**(0.6)**	**(39.7)**	(39.9)	(0.6)	(40.5)
Total pension cost	**19.4**	**1.5**	**20.9**	12.7	1.2	13.9

[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.

26. Retirement benefit obligations (continued)

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

	2005 UK RIPS £m	2005 Other £m	2005 Total £m	2004 UK RIPS £m	2004 Other £m	2004 Total £m
At 1 January	**569.5**	**15.4**	**584.9**	536.9	14.3	551.2
Exchange differences	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
Expected return on plan assets	**39.1**	**0.6**	**39.7**	39.9	0.6	40.5
Actuarial gain/(loss) during the year	**74.5**	**(1.4)**	**73.1**	12.3	(0.7)	11.6
Contributions received from employees	**4.8**	**0.6**	**5.4**	3.8	0.6	4.4
Contributions received from employer	**209.0**	**1.8**	**210.8**	6.8	2.1	8.9
Benefits paid	**(37.5)**	**(1.5)**	**(39.0)**	(30.2)	(1.4)	(31.6)
At 31 December	**859.4**	**15.4**	**874.8**	569.5	15.4	584.9

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

	2005 UK RIPS £m	2005 Other £m	2005 Total £m	2004 UK RIPS £m	2004 Other £m	2004 Total £m
Equity instruments	**531.5**	**7.9**	**539.4**	453.5	7.7	461.2
Debt instruments	**129.2**	**6.8**	**136.0**	116.0	7.0	123.0
Property	**–**	**0.5**	**0.5**	–	0.5	0.5
Cash	**198.7**	**0.2**	**198.9**	–	0.2	0.2
Total plan assets	**859.4**	**15.4**	**874.8**	569.5	15.4	584.9

Pension plan assets include the company's ordinary shares with a fair value of £2.2m (2004: £1.8m).

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

	2005 UK RIPS £m	2005 Other £m	2005 Total £m	2004 UK RIPS £m	2004 Other £m	2004 Total £m
At 1 January	**872.0**	**24.7**	**896.7**	732.0	22.6	754.6
Exchange differences	**–**	**(0.2)**	**(0.2)**	–	(0.3)	(0.3)
Total expense charged in the income statement	**58.5**	**2.1**	**60.6**	52.6	1.8	54.4
Actuarial loss during the year	**131.4**	**2.3**	**133.7**	113.8	1.6	115.4
Contributions received from employees	**4.8**	**0.6**	**5.4**	3.8	0.6	4.4
Benefits paid	**(37.5)**	**(1.6)**	**(39.1)**	(30.2)	(1.6)	(31.8)
At 31 December	**1,029.2**	**27.9**	**1,057.1**	872.0	24.7	896.7

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

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

In accordance with the transitional provisions for the amendments to IAS 19 "Employee Benefits" issued on 16 December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

The group made a special contribution in December 2005 of £200m to the UK defined benefit scheme and expects to contribute a further £30m in 2006.

The expected return on plan assets is based on market expectations at the beginning of the year. The actual return on plan assets was £112.8m (2004: £52.1m).

The cumulative actuarial loss recognised in the Statement of Recognised Income and Expense was £164.4m (2004: £103.8m). An actuarial loss of £60.6m (2004: £103.8m) was recognised during the year.

27. Statement of changes in equity

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Treasury shares £m	Other reserves £m	Retained earnings £m	Minority interest £m	Total equity £m
	Attributable to equity holders of the company							
At 1 January 2004	18.2	49.2	19.6	(12.0)	8.9	(874.5)	6.6	(784.0)
Total recognised income for the year	–	–	–	–	(0.8)	119.4	–	118.6
Gain on sale of interest in South African business	–	–	–	–	–	15.1	–	15.1
Dividends paid to ordinary shareholders	–	–	–	–	–	(113.5)	–	(113.5)
Cost of share options	–	–	–	–	–	1.0	–	1.0
Own shares purchased and cancelled	(0.1)	–	0.1	–	–	(24.2)	–	(24.2)
Transfer to other reserves	–	–	–	–	0.3	(0.3)	–	–
New share capital issued	–	0.3	–	–	–	–	–	0.3
Shares released under Deferred Share Award Plan	–	–	–	0.7	–	–	–	0.7
Level 2 share options issued	–	–	–	0.2	–	–	–	0.2
Minority interest share of profit	–	–	–	–	–	(1.7)	1.7	–
Minority adjustment in respect of part disposal of South African business	–	–	–	–	–	–	2.2	2.2
Currency translation difference on minority interest	–	–	–	–	–	–	0.3	0.3
Dividends paid to minority interests	–	–	–	–	–	–	(0.7)	(0.7)
At 31 December 2004	18.1	49.5	19.7	(11.1)	8.4	(878.7)	10.1	(784.0)
Prospective adoption of IAS 39, IFRS 4 at 1 January 2005	–	–	–	–	–	(17.1)	–	(17.1)
At 1 January 2005	**18.1**	**49.5**	**19.7**	**(11.1)**	**8.4**	**(895.8)**	**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**
Currency translation difference on minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
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**	**–**	**(11.1)**	**(1,714.1)**	**1,035.2**	**7.0**	**(659.6)**

	Other reserves				
	Capital reduction reserve £m	Legal £m	Translation reserve £m	Available-for-sale £m	Total £m
At 1 January 2004	–	8.9	–	–	8.9
Total recognised expense for the year	–	–	(0.8)	–	(0.8)
Transfer from retained reserves	–	0.3	–	–	0.3
At 31 December 2004	–	9.2	(0.8)	–	8.4
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)**

* 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.

Treasury shares represents 7.4m shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2005 was £12.1m. Dividend income from, and voting rights on, the shares held by the Trust have been waived.

	2005 £m	2004 £m
Share Capital		
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid		
At 1 January – 1,810,116,908 shares (2004: 1,824,370,403)	**18.1**	18.2
Own shares purchased and cancelled – nil shares (2004: 14,487,787)	**–**	(0.1)
Share options exercised – 3,722,785 shares (2004: 234,292)	**–**	–
At 31 December – 1,813,839,693 shares (2004: 1,810,116,908)	**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, ie. 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 sector 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 2005, 4.5m shares have been granted in respect of the deferred share scheme and none have been issued to members during the financial year then ended. Refer to the Remuneration Report on pages 45 and 46 for details of the chief executive's share awards.

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

	Average exercise price	Number of share options
	p per share	thousands
Outstanding at 1 January 2004	220.959	41,036
Granted	152.000	6,183
Exercised	130.649	363
Lapsed	225.292	1,384
Outstanding at 31 December 2004	**212.172**	**45,472**
Granted	**160.500**	**6,115**
Exercised	**153.349**	**3,740**
Lapsed	**227.147**	**9,003**
Outstanding at 31 December 2005	**206.230**	**38,844**

Out of the 38.8m outstanding options, 14,274,470 options were exercisable. Options exercised during the period resulted in 3,722,785 shares being issued at £0.01 each. The related weighted average price at the time of exercise was £1.66223 per share. The total charge for the year relating to equity-settled share-based payment plans was £3.2m (2004: £1.0m).

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	598,144
Executive schemes	1996	1999 – 2006	201.135	1,434,466
	1997	2000 – 2007	204.634	2,141,586
	1998	2001 – 2008	371.670	2,598,087
	1999	2002 – 2009	270.000	3,209,700
	2000	2003 – 2010	156.500	5,142,957
	2001	2004 – 2011	205.250	4,609,827
	2002	2005 – 2012	266.750	3,709,437
	2003	2006 – 2013	204.500	4,344,578
	2004	2007 – 2014	152.000	5,594,558
	2005	2008 – 2015	160.500	6,059,130
				39,442,470

The weighted average fair value of options and deferred shares granted during the period using the Black-Scholes and Monte Carlo valuation models were 31.7p and 117.0p respectively.

The significant inputs into the model were the share price ranging between 150.75p and 204.50p at grant date, exercise price shown above, expected dividend yield of 3% to 4%, standard deviation of expected share price returns of 26% to 38%, option life disclosed above, and annual risk-free rate of 4.0% to 4.9%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of historical daily share prices.

29. Cash generated from operating activities

	2005 £m	2004 £m
Profit for the year	**324.4**	192.1
Adjustments for:		
– (Profit)/loss on disposal of companies and businesses	**(169.7)**	3.3
– Discontinued operations tax and interest	**7.1**	9.5
– Tax	**51.5**	69.8
– Share of profit from associates	**(2.2)**	(1.8)
– Interest income	**115.0**	109.0
– Interest expense	**(59.6)**	(55.4)
– Depreciation	**168.4**	163.0
– Amortisation of customer lists	**23.0**	22.2
– Amortisation of other intangible assets	**3.6**	3.5
– Major non-cash items	**38.3**	36.0
– Profit on sale of property, plant and equipment	**(12.1)**	(4.0)
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	**(3.6)**	0.6
– Trade and other receivables	**(37.9)**	(0.4)
– Trade and other payables and provisions	**30.3**	18.9
Cash generated from operating activities before special pension contribution	**476.5**	566.3
Special pension contribution	**(200.0)**	–
Cash generated from operating activities	**276.5**	566.3

	2005 £m	2004 £m
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount	**9.8**	8.0
Profit on sale of property, plant and equipment	**12.1**	4.0
Proceeds from sale of property, plant and equipment	**21.9**	12.0

Non-cash transactions

Major non-cash items include £31.3m asset impairment charges relating to UK textiles, other impairment charge of £3.8m and share option charges of £3.2m (2004: £9.3m impairment of fixed assets in a US facilities services business, £19.7m additional vacant property and environmental provisions, £6.0m potential uninsured loss on a discontinued business and share option charges of £1.0m).

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

	2005 £m	2004 £m
Net increase/(decrease) in cash and bank overdrafts	**23.6**	(118.0)
Movement on finance leases	**2.2**	3.8
Movement on loans	**226.7**	197.0
Decrease in debt resulting from cash flows	**252.5**	82.8
Acquisition of companies and businesses	**(13.8)**	(0.4)
Disposal of companies and businesses	**0.5**	2.7
Revaluation of net debt	**8.1**	–
Net debt translation differences	**1.5**	(2.6)
Movement on net debt in the year	**248.8**	82.5
Opening net debt	**(1,155.1)**	(1,237.6)
Adoption of IAS 39 at 1 January 2005	**(34.0)**	–
Revised opening net debt	**(1,189.1)**	(1,237.6)
Closing net debt	**(940.3)**	(1,155.1)
Closing net debt comprises:		
Cash and cash equivalents	**240.3**	199.5
Bank and other short-term borrowings	**(108.5)**	(207.5)
Bank and other long-term borrowings	**(1,072.1)**	(1,147.1)
Total net debt	**(940.3)**	(1,155.1)

31. Free cash flow

	2005 £m	2004 £m
Net cash flows generated from operating activities	**152.4**	424.0
Add back: special pension contribution	**200.0**	–
	352.4	424.0
Purchase of property, plant and equipment (PPE)	**(183.8)**	(176.1)
Purchase of intangible fixed assets	**(9.2)**	(4.7)
Leased property, plant and equipment	**(16.9)**	(14.9)
Proceeds from sale of PPE and intangible assets	**22.0**	12.0
Dividends received from associates	**1.0**	3.8
Dividends paid to minority interests	**(2.6)**	(0.7)
Interest element on finance lease payments	**(2.5)**	(2.4)
Free cash flow	**160.4**	241.0

32. Business combinations

The group purchased 100% of the share capital or the trade and assets of 40 companies and businesses, for a total consideration of £49.7m. The cash outflow from current period acquisitions, net of cash acquired was £40.2m. The principal acquisitions are shown below as follows:

Name of business acquired	Country	Business	Date
Meldkamer	Netherlands	Electronic Security	01.01.05
Plantscape	Belgium	Tropical Plants	05.01.05
BAS	France	Electronic Security	12.01.05
Prevent-A-Pest	New Zealand	Pest Control	17.01.05
Maarse	Netherlands	Tropical Plants	25.01.05
Tapisnorest	France	Textiles and Washroom Services	31.01.05
Valley Crest	USA	Tropical Plants	01.02.05
ASA	France	Electronic Security	19.02.05
Stour Security	UK	Electronic Security	28.02.05
Safeway	Canada	Pest Control	01.03.05
Pointner	Austria	Textiles and Washroom Services	08.03.05
Group Chabaud	France	Electronic Security	13.04.05
The Jungle	USA	Tropical Plants	01.05.05
Decraplant	Belgium	Tropical Plants	04.05.05
Integrated Security Systems	USA	Electronic Security	12.05.05
Commercial Irati	Spain	Pest Control	01.06.05
OCS	USA	Manned Guarding	05.06.05
Advantage Pest Control	New Zealand	Pest Control	09.06.05
Interscapes	USA	Tropical Plants	05.07.05
Quinte Pest Control	Canada	Pest Control	01.08.05
Pestex	USA	Pest Control	01.08.05
Spectrum Exterminating	USA	Pest Control	01.08.05
Veldcamp	USA	Tropical Plants	01.08.05
Dreamspot	Malaysia	Pest Control	01.08.05
Blanch Service	Germany	Textiles and Washroom Services	31.08.05
Green Environments	USA	Tropical Plants	01.09.05
Reeds n Weeds	USA	Tropical Plants	01.09.05
Hygros	Netherlands	Tropical Plants	05.09.05
Busy Lizzie	UK	Tropical Plants	12.09.05
Smith Legacy	USA	Manned Guarding	23.09.05
Pacte	France	Electronic Security	30.09.05
BAT	UK	Electronic Security	30.09.05
NW Link	UK	City Link	30.09.05
Ureco	Netherlands	Other Facilities Services	01.10.05
Selenia	Italy	Pest Control	03.10.05
McDougall	UK	Electronic Security	04.11.05
Attendo	UK	Electronic Security	23.11.05
Union Contract Company	UK	Other Facilities Services	01.12.05
GCD	UK	Electronic Security	05.12.05
Videomaster	USA	Electronic Security	20.12.05

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

	2005 £m
Purchase consideration:	
– Cash paid	**41.7**
– Direct costs relating to acquisitions	**1.7**
– Consideration deferred to future periods	**6.1**
– Direct costs deferred to future periods	**0.2**
Total purchase consideration	**49.7**
Fair value of net assets acquired	**37.9**
Goodwill	**11.8**
This goodwill balance has been dealt with as follows:	
Goodwill capitalised on balance sheet (note 12)	**10.1**
Goodwill from purchase of minority interest in French textiles business taken to reserves (note 27)	**1.7**
	11.8

Goodwill represents the synergies and other benefits expected as a result of combining the respective businesses.

The assets and liabilities arising from acquisitions are as follows:

	Book value	Fair value adjustments	Provisional fair value*
	2005 £m	2005 £m	2005 £m
Non-current assets			
– Intangible assets (customer lists)	**–**	**37.7**	**37.7**
– Intangible assets (other)	**0.5**	**–**	**0.5**
– Property, plant and equipment	**13.0**	**(0.1)**	**12.9**
– Other investments	**0.1**	**–**	**0.1**
Current assets	**16.2**	**–**	**16.2**
Current liabilities	**(12.5)**	**–**	**(12.5)**
Non-current liabilities	**(13.2)**	**(7.2)**	**(20.4)**
Minority interest	**3.4**	**–**	**3.4**
Net assets acquired	**7.5**	**30.4**	**37.9**

*The provisional fair values will be finalised in the 2006 financial statements.

32. Business combinations (continued)

	2005 £m
Purchase consideration (total)	**49.7**
Consideration payable in future periods	**(6.1)**
Direct costs payable in future periods	**(0.2)**
Purchase consideration (paid in cash)	**43.4**
Cash and cash equivalents in acquired companies and businesses	**(3.2)**
Cash outflow on current period acquisitions	**40.2**
Deferred consideration from prior periods paid	**1.8**
Cash outflow on current and past acquisitions	**42.0**

From the dates of acquisition to 31 December 2005 these acquisitions contributed £36.9m to revenue and £0.9m to operating profit (after amortisation of customer lists acquired of £2.6m).

If the acquisitions had occurred on 1 January 2005, these acquisitions would have contributed £78.6m to revenue and £(1.7)m to operating profit (after amortisation of customer lists acquired of £5.6m).

On 21 June 2005, the legal parent company (new holding company) acquired the entire share capital of the old holding company. This has been treated as a reverse acquisition in accordance with IFRS 3 "Business Combinations". The book value and fair value of the net assets of the legal parent prior to acquisition were £50,002. The legal parent company did not trade prior to acquisition. See note 27 for further details.

33. Contingencies

The group has contingent liabilities of £2.0m (2004: £2.4m) 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.

34. Capital commitments

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

	2005 £m	2004 £m
Property, plant and equipment	**13.2**	13.6
Intangible assets	**1.1**	0.6
	14.3	14.2

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:

	2005 £m	2004 £m
Not later than one year	**5.6**	6.2
Later than one year and not later than five years	**20.0**	20.7
Later than five years	**14.3**	17.5
	39.9	44.4

36. Related party transactions

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

	2005 £m	2004 £m
Salaries and other short-term employee benefits	**5.4**	3.2
Post-employment benefits	**0.4**	0.4
Termination benefits	**0.1**	0.7
Share-based payments	**1.8**	0.2
	7.7	4.5

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%), Rezayat Sparrow Arabian Crane Hire Co Ltd (disposed during 2005) and Rezayat Deborah Saudi Arabia Co Ltd (disposed during 2005) are associates during 2005 and their 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 2005 was £1.6m (2004: £1.3m).

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 £16.8m (2004: £17.6m) 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 25 January 2006, the group announced the closure of the loss-making UK linen and workwear operations of Initial Hygiene UK. It is estimated that cash closure costs of £13m to £18m will be incurred in 2006 as a result of the closure but should be significantly offset by the sales of surplus property.

On 8 February 2006, the group confirmed that it was exploring the possible disposal of its manned guarding businesses in the UK, Canada, the USA and Belgium. On 7 March, it announced the completion of the disposal of the UK manned guarding business for a gross consideration of £74.8m and on 10 March it announced the completion of the disposal of the Canadian manned guarding business for a gross consideration of £30.3m. The group continues to explore the possibility of disposing the remaining manned guarding businesses in the USA and Belgium.

On 1 March 2006, the group announced the completion of the acquisition of J.C. Ehrlich Co. Inc. ("Ehrlich"), for a gross consideration of US$141.8m. Valuation and adjustments to assets acquired is still being reviewed. Ehrlich is the largest independently-owned pest control company in the US and the fourth largest pest control company in the US overall.

The group launched a £300m issue of notes under its EMTN programme on 21 March 2006. The notes will carry a coupon of 5.75% per annum and will mature on 31 March 2016.

38. IFRS Transitional adjustments

The previously published financial statements under UK GAAP were restated on an IFRS basis in the Transitional Document and were externally published on 27 July 2005. The Transitional Document is available on the group's website (www.rentokil-initial.com) and includes presentational changes and detailed adjustments by line item.

A reconciliation of equity at 1 December 2004, 31 December 2004 and profit for the financial year to 31 December 2004 is provided below with an explanation of the transitional adjustments.

(i) Equity reconciliation	At 31 December 2004 £m	At 1 January 2004 £m
Total equity under UK GAAP	(559.4)	(624.6)
Transitional adjustments:		
a. IAS 19 Employee benefits – defined benefit pensions	(323.3)	(210.8)
– other	(20.1)	(19.5)
b. IFRS 3 Business combinations – customer list amortisation	(69.6)	(87.3)
– goodwill impairment reversal	14.4	–
– goodwill adjustment (UK GAAP error)	–	16.4
c. IAS 38 Intangible fixed assets – development costs capitalised	0.7	0.7
d. IAS 21 Foreign currencies	–	–
e. IFRS 2 Share-based payments	–	–
f. IAS 10 Post-balance sheet events – dividends on paid basis	86.1	79.0
g. IFRS 1 Equipment for rental stated at historical cost (UK GAAP error)	(9.0)	(9.0)
h. IAS 17 Leasing	(0.6)	(0.7)
i. IAS 12 Income taxes	96.8	71.8
Total equity under IFRS	(784.0)	(784.0)

(ii) Retained profit reconciliation	
Retained profit under UK GAAP	93.8
Transitional adjustments:	
a. IAS 19 Employee benefits – defined benefit pensions	(8.5)
– other	(0.4)
b. IFRS 3 Business combinations – customer list amortisation	(22.2)
– goodwill impairment reversal	14.4
– write back of goodwill on disposed businesses reversed	(3.3)
c. IAS 38 Intangible fixed assets – development costs capitalised	–
d. IAS 21 Foreign currencies	(4.1)
e. IFRS 2 Share-based payments	(1.0)
f. IAS 10 Post-balance sheet events – dividend accrual reversed	120.7
g. IFRS 1 Equipment for rental stated at historical cost	–
h. IAS 17 Leasing	–
i. IAS 12 Income taxes	1.0
Minority interests	1.7
Profit for the year (including discontinued)	192.1

Explanation of the differences between UK GAAP and IFRS which affect the group

a. IAS 19 Employee Benefits

Defined benefit pension schemes are recorded as a liability on the balance sheet. The group has elected to take the actuarial gains and losses through the Statement of Recognised Income and Expense. A separate charge was made in the Consolidated Income Statement, which comprises a service cost and a finance cost, with the service cost charged to operating profit and the finance charge forming part of finance costs. The expected return on pension plan assets is recognised as finance income. On 3 November 2005, the group announced that the UK defined benefit pension fund deficit under IAS 19 had been restated after the group's actuary finalised their work on the April 2005 triennial valuation for the fund. Following the review, the defined benefit pension deficit adjustment was increased by £35.5m to £323.3m at 31 December 2004.

Other employee benefits in the main represent the recording of holiday pay entitlement earned but not taken at the balance sheet date, long-term service awards and post-employment medical plans. Post-employment benefits are actuarially valued and recorded as a liability on the balance sheet just like defined benefit pension plans.

b. IFRS 3 Business Combinations

Under UK GAAP, individual intangible assets in businesses acquired were not separately recorded but were subsumed within the overall value of goodwill recognised and consolidated on acquisition. The group ascribed an indefinite life to this goodwill and, in accordance with FRS 10, was retained on the balance sheet and tested for impairment annually.

IFRS 3 requires the recognition of intangible assets on business combinations if certain criteria are met. For business combinations made by the group, the value attributable to customer lists or portfolios acquired is treated as an intangible asset and valued separately from goodwill, which remains on the balance sheet and is tested for impairment annually. The value attributable to the customer lists or portfolios acquired (intangible asset) is then amortised over the expected life of that asset.

The group has not taken the exemption available under IFRS 1 in respect of acquisitions made since 1 January 1998. Instead, in order to aid the comparability with the treatment of future acquisitions, all acquisitions made since 1 January 1998, when FRS 10 was adopted, have been restated and the value attributed to intangible assets has been recognised and amortised over the expected life of the asset.

As a result, a gross intangible asset totalling £155.2m has been recognised at the date of transition and the group has incurred an amortisation charge of £22.2m in 2004 under IFRS, which was not present under UK GAAP. Partly offsetting this amortisation charge is the reversal of the goodwill impairment charge of £14.4m made under UK GAAP. This charge is reversed, as the total of the restated intangible assets, including goodwill, for the respective business combinations in the IFRS balance sheet at 31 December 2004 is already below the level of impaired goodwill balances in the UK GAAP accounts as a result of cumulative amortisation. The net effect of these adjustments will be to increase net liabilities by £55.2m.

The £16.4m goodwill adjustment written off to equity under UK GAAP at 31 December 2004 was treated as a transitional adjustment under IFRS and the opening balance sheet at 1 January 2004 relating to goodwill was therefore reduced by this amount as a result of the UK GAAP error. This UK GAAP error was revealed following a detailed review of the goodwill balance in preparation for transition to IFRS and necessitated an adjustment to the consideration and goodwill in respect of one acquisition made in 2000.

Goodwill on divested businesses that was written off on acquisition under UK GAAP remains written off in reserves under IFRS 3 "Business Combinations". The £3.3m IFRS adjustment reverses the recycling of goodwill on disposed businesses.

c. IAS 38 Intangible Fixed Assets

Under UK GAAP, the group had opted to expense all development costs as incurred. Development costs meeting the definition specified under IAS 38 have been capitalised under IFRS resulting in an increase in intangible fixed assets of £0.7m, with no material effect on the 2004 Consolidated Income Statement.

38. IFRS Transitional adjustments (continued)

d. IAS 21 Foreign currencies

Under UK GAAP (SSAP 20), foreign currency borrowings that are regarded as part of the financing of an investment in a foreign subsidiary are considered “quasi equity”. Exchange differences on re-translation of “quasi equity” have previously been reported as movements in reserves.

Under IAS 21 “Foreign currencies”, 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.

The foreign exchange effect arising from the adoption of IAS 21 (relating to the change in functional currency) on the corporate entities has been reflected in the restatement of the 2004 results.

e. IFRS 2 Share-based payments

Equity instruments granted to employees are recognised in the Consolidated Income Statement based upon their fair value at the date of grant and expensed over the vesting period of the various share option schemes operated by the group.

f. IAS 10 Post-balance sheet events – dividends on paid basis

Under UK GAAP, dividends are provided at the balance sheet date on the basis of the dividend proposed by the board. Under IFRS, a provision for dividends is only made once the proposed dividend has been approved by shareholders. As a result, the dividends provided under UK GAAP have been removed, giving rise to a reduction in liabilities of £86.1m.

g. IFRS 1 Equipment for rental stated at historical cost

An adjustment has been made to equipment for rental assets (manufactured by group companies) to bring them back to historical cost. The adjustment was made to eliminate inter-group profit on equipment for rental supplied by other group companies. This UK GAAP error was revealed during the IFRS transition exercise. There was no impact on the Consolidated Income Statement as a result of this adjustment.

h. IAS 17 Leasing

Some leases previously treated as operating leases under UK GAAP have been reclassified as finance leases to comply with IAS 17 “Leasing”. Operating lease costs shown within operating profit under UK GAAP have been restated and replaced with depreciation and finance interest. Depreciation is charged to operating income and the related finance costs are charged below operating income under finance costs. Operating lease rental payments are used to decrease the finance lease obligation over the lease term. The net decrease on the balance sheet is £0.6m (1 January 2004: £0.7m).

i. IAS 12 Income taxes

The adjustment of £96.8m on the balance sheet represents, in the main, the tax effects of the IFRS adjustments. In addition, adjustments have been made for other temporary differences in respect of unremitted earnings, which were not recognised under UK GAAP. IAS 12 also requires the recognition of deferred tax liabilities arising on temporary differences in respect of intangible assets in business combinations. This has been adjusted for all the relevant business combinations since 1 January 1998.

There is no significant change to the Cash Flow Statement.

39. IAS 39 – Financial Instruments

The group was not required to and did not adopt IAS 39 "Financial Instruments" until 1 January 2005. There was, therefore, no impact on the 2004 results. The adoption of IAS 39 with effect from 1 January 2005 required certain financial assets and liabilities to be valued on a mark to market basis. The group applied hedge accounting, with effect from 1 January 2005, for certain qualifying hedge relationships to reduce some of this volatility. The mark to market impact on the balance sheet at 1 January 2005 is disclosed below:

	Book value 1 Jan 05 £m	UK GAAP 1 Jan 05 £m	IAS 39 transition adjustment at 1 Jan 05 £m
Primary financial instruments held or issued to finance the group's operations:			
Investments – Government gilts (marked to market)	6.6	6.6*	–
– other (marked to market)	0.1	0.1	–
Current and non-current receivables			
– Ashtead loan note (principal) restated at amortised cost	112.7	134.0	(21.3)
– South African loan note marked to market	17.6	17.6	–
– Other deferred consideration/disposal notes	4.5	4.5	–
Cash and cash equivalents	199.5	199.5*	–
Short-term borrowings:			
Medium-term notes (fair value hedge) marked to market	(9.8)	(10.5)	0.7
Medium-term notes (non-hedge) restated at amortised cost	(125.9)	(122.0)	(3.9)
	(135.7)	(132.5)	(3.2)
Other borrowings (excluding finance leases)	(58.2)	(58.2)	–
	(193.9)	(190.7)	(3.2)
Long-term borrowings:			
Medium-term notes (fair value hedge) marked to market	(653.2)	(619.2)	(34.0)
Medium-term notes (non-hedge) restated at amortised cost	(20.1)	(20.6)	0.5
	(673.3)	(639.8)	(33.5)
Other borrowings (excluding finance leases)	(480.5)	(480.5)	–
	(1,153.8)	(1,120.3)	(33.5)
Unamortised note issue costs included within note carrying value	–	1.6	(1.6)
Accrued interest on medium-term notes included within note carrying value	–	(13.9)	13.9
Derivatives marked to market at 1 January 2005	28.3	–	28.3
Total IAS 39 transitional adjustment at 1 January 2005			(17.4)

*Government gilts included within cash have been reclassified to investments within the UK GAAP column for comparability purposes.

On adopting IAS 39 prospectively from 1 January 2005, net liabilities increased by £17.4m, principally resulting from restating financial assets and liabilities at fair value or on an amortised cost basis.

40. IFRS 4 – Insurance Contracts

IFRS 4 does not permit general insurance reserves. As a result, the equalisation reserve held on the balance sheet under UK GAAP (£0.7m) has been reversed to equity. Deferred acquisition costs (held within other receivables) on insurance contracts totaling £0.2m were also taken to reserves. A total adjustment of £0.3m (net of deferred taxation of £0.2m) was therefore required to restate the opening balance sheet at 1 January 2005 in compliance with IFRS 4.

Principal Operating Subsidiary and Associated Undertakings

At 31 December 2005

Subsidiary undertakings

United Kingdom
Dudley Industries Ltd
Initial Aviation Security Ltd
Initial Building Services Ltd
Initial Catering Services Ltd (75%)
Initial City Link Ltd
Initial Electronic Security Systems Ltd
Initial Hospital Services Ltd
Initial Security Ltd
Initial Integrated Services Ltd
Rentokil Initial Services Ltd
Rentokil Initial UK Ltd
Rentokil Initial Facility Services (UK) Ltd
Rentokil Insurance Ltd
Retail Cleaning Services Ltd (51%)

Australia
Rentokil Initial Pty Ltd

Austria
Rentokil Initial GmbH
Initial Textilservice Pointner GmbH

Bahamas
Rentokil Initial (Bahamas) Ltd

Barbados
Rentokil Initial (Barbados) Ltd

Belgium
Initial Security NV
Initial Textiles NV
Rentokil Initial NV
Belgian Security Company NV

Canada
Rentokil Initial Canada Ltd
Rentokil Pest Control Canada Ltd
Initial Tropical Plants Canada Ltd

Czech Republic
Initial Ecotex sro

Denmark
Rentokil Initial A/S

Eire
Rentokil Initial Ltd

Fiji
Rentokil Initial Ltd

Finland
Oy Rentokil Initial AB

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

French West Indies
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

Indonesia
PT Calmic Indonesia
PT Rentokil Indonesia

Italy
Rentokil Initial Italia SpA

Jamaica
Rentokil Initial Jamaica Ltd

Kenya
Rentokil Initial Kenya Ltd

Luxembourg
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) Co Ltd

Philippines
Rentokil Initial (Philippines) Inc

Portugal
Rentokil Initial Portugal-Servicos de Proteccao Ambiental Lda

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 Espana SA

Sweden
Rentokil Initial AB

Switzerland
Rentokil Initial AG

Taiwan
Rentokil Initial Singapore Pte Ltd (Taiwan Branch)

Tanzania
Rentokil Initial Tanzania Ltd

Thailand
Rentokil Initial (Thailand) Ltd

Trinidad
Rentokil Initial (Trinidad) Ltd

USA
Initial Hygiene LLC
Initial Tropical Plants Inc
Rentokil Inc – Pest Control Services
Initial Security LLC
Initial Electronics Inc

Associated undertakings

Japan
Nippon Calmic Ltd (49%)

The activities of the major subsidiaries are referred to in the Operating Review on pages 8 to 21.

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

	2001 £m	2002 £m	2003 £m	2004 £m	**2005 £m**
Revenue from continuing operations	2,242.4	2,310.8	2,426.2	2,181.4	**2,301.2**
Operating profit from continuing operations	433.1	438.6	452.6	308.5	**243.3**
Profit before income tax from continuing operations	374.3	390.5	409.2	256.7	**190.1**
Profit for the year from continuing operations	266.1	285.9	304.0	186.9	**138.6**
Profit for the year from discontinued operations	–	(0.2)	(12.4)	5.2	**185.8**
Profit for the year (including discontinued)	266.1	285.7	291.6	192.1	**324.4**
Profit attributable to equity holders of the company	265.2	284.6	290.1	190.4	**321.5**
Profit attributable to minority interest	0.9	1.1	1.5	1.7	**2.9**
	266.1	285.7	291.6	192.1	**324.4**
Basic earnings per share:					
Continuing operations	13.30p	15.01p	16.51p	10.24p	**7.52p**
Continuing and discontinued operations	13.30p	15.00p	15.83p	10.53p	**17.82p**
Dividends per 1p share	5.00p	5.53p	6.10p	6.71p	**7.38p**
Gross assets	1,814.8	1,744.1	1,807.6	1,770.6	**1,558.0**
Gross liabilities	(2,455.9)	(2,461.4)	(2,432.2)	(2,554.6)	**(2,217.6)**
Net liabilities	(641.1)	(717.3)	(624.6)	(784.0)	**(659.6)**
Share capital	19.5	18.6	18.2	18.1	**18.1**
Reserves	(666.2)	(742.2)	(649.3)	(812.2)	**(684.7)**
Minority interest	5.6	6.3	6.5	10.1	**7.0**
Capital employed	(641.1)	(717.3)	(624.6)	(784.0)	**(659.6)**

Notes:
1. The results for 2004 and 2005 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 2001, 2002 and 2003 are as published as comparatives in the 2002, 2003 and 2004 annual reports respectively. The results from continuing and discontinued operations for these years have not been restated for the effect of subsequent disposals.

Company Balance Sheet

At 31 December 2005

	Notes	2005 £m
Fixed assets		
Investments	4	**2,460.0**
Current assets		
Other debtors	5	**63.4**
Derivative financial instruments (due after more than one year)	6	**16.9**
		80.3
Creditors – amounts falling due within one year		
Creditors	7	**(232.4)**
Bank and other borrowings	8	**(53.3)**
		(285.7)
Net current liabilities		**(205.4)**
Creditors – amounts falling due after more than one year		
Bank and other borrowings	8	**(640.7)**
Derivative financial instruments	6	**(1.5)**
		(642.2)
Net assets		**1,612.4**
Equity capital and reserves		
Share capital	9	**18.1**
Share premium	10	**5.3**
Treasury shares	11	**(11.1)**
Profit and loss account	12	**1,600.1**
Capital employed		**1,612.4**

The financial statements on pages 120 to 125 were approved by the board on 29 March 2006 and were signed on its behalf by:

D Flynn
Chief Executive

A Macfarlane
Chief Financial Officer

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 £156.9m is dealt with in the accounts of Rentokil Initial plc. The deficit includes a special pension contribution of £200m, tax credits of £63.4m, audit fees of £0.4m and a credit of £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

	2005 £m
At 15 March	–
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	2.1
At 31 December	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

	2005 £m
Corporation tax asset	18.4
Deferred tax asset*	45.0
	63.4

*The deferred tax comprises the timing difference on the special contribution to the Rentokil Initial Pension Scheme.

6. Derivative financial instruments

	Fair value assets 2005 £m	Fair value liabilities 2005 £m
Interest rate swaps:		
– fair value hedge	**16.7**	**(0.8)**
Cross-currency interest rate swaps:		
– non-hedge	**0.2**	**–**
– fair value hedge	**–**	**(0.7)**
	16.9	**(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

	2005 £m
Amounts due to subsidiary undertaking	**232.4**

8. Bank and other borrowings

	2005 £m
Amounts falling due within one year	**53.3**
Amounts falling due after one year	**640.7**

Current and non-current loans include £15.3m and £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 period ended 31 December 2005:

Currency/Amount	FRS 26 hedging	Interest coupon	Maturity date
£15m	NH	Floating rate – 6 month GBP LIBOR +0.35%	13.02.06
¥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
£250m	FV	Fixed rate – 6.125% pa	19.11.08

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 5.90%. The effective interest rate on the £250m note is 6.20%. 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 £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

	2005 £m
Authorised	
4,100,000,000 ordinary shares of 1p each	**41.0**
Issued and fully paid	
At 15 March – 2 shares of £1 each	**–**
Issue of new share capital – 1,810,429,096 shares of £1 each	**1,810.4**
Reduction in nominal value of shares from £1 to 1p	**(1,792.3)**
Share options exercised – 3,410,595 shares of 1p each	**–**
At 31 December – 1,813,839,693 shares of 1p each	**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 2005 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	598,144
Executive schemes	1996	1999 – 2006	201.135	1,434,466
	1997	2000 – 2007	204.634	2,141,586
	1998	2001 – 2008	371.670	2,598,087
	1999	2002 – 2009	270.000	3,209,700
	2000	2003 – 2010	156.500	5,142,957
	2001	2004 – 2011	205.250	4,609,827
	2002	2005 – 2012	266.750	3,709,437
	2003	2006 – 2013	204.500	4,344,578
	2004	2007 – 2014	152.000	5,594,558
	2005	2008 – 2015	160.500	6,059,130
				39,442,470

The company received total consideration of £5.3m during 2005 on the exercise of share options.

10. Share premium

	2005 £m
At 15 March	**–**
Premium on shares issued during the year under the share option schemes	**5.3**
At 31 December	**5.3**

11. Treasury shares

	2005 £m
At 15 March	–
Treasury shares transferred from Rentokil Initial 1927 plc	(11.1)
At 31 December	(11.1)

Treasury shares represent 7.4m (nominal value £0.1m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares as at 31 December 2005 was £12.1m. Dividend income from and voting rights on the shares held by the Trust have been waived.

12. Profit and loss account

	2005 £m
At 15 March	–
Reduction in nominal value of shares	1,792.3
Loss for the financial period (note 3)	(156.9)
Dividend paid	(38.5)
Share option cost charged to profit and loss	1.1
Share option cost charged to investments	2.1
At 31 December	1,600.1

13. Contingent liabilities

The company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings.

In addition, there are contingent liabilities in respect of litigation, none of which are expected to give rise to any material loss.

14. Pension commitments

At 31 December 2005, the RIPS pension deficit under IAS 19 "Employee Benefits" amounted to £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. The remaining deficit will be met by a series of payments ending no later than January 2012. £30m is expected to be contributed in 2006.

15. Share-based payments

Share-based payments for the financial period were £3.2m of which £1.1m was charged to the profit and loss account. Share options relating to the board are disclosed in the Report of the Directors and detailed share-based payment disclosures are shown in note 28 of the consolidated financial statements.

16. Related party transactions

The company has taken advantage of the exemption not to disclose transactions with 90-100% owned subsidiaries.

17. Post-balance sheet events

A final dividend of 5.25p has been recommended by the board of directors.

The company launched a £300m issue of notes under its EMTN programme on 21 March 2006. The notes will carry a coupon of 5.75% per annum and will mature on 31 March 2016.

Report of the Auditors

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 2005 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 2005.

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 if, in our opinion, the Directors' Report is not consistent with the parent company financial statements, if 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 operating review, the financial review 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 2005; and
- 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
29 March 2006

Shareholder Information

Results

2005 Half year	25 August 2005
2005 Full year	23 February 2006
2006 Half year	24 August 2006

Dividends

2005 Interim 2.13p (2004: 1.93p)	Paid on 28 October 2005
2005 Final (proposed) 5.25p (2004: 4.78p)	Pay date 2 June 2006 (to shareholders on the register on 5 May 2006)

Annual General Meeting

Venue No. 4 Hamilton Place London W1J 7BQ www.4hp.org.uk	18 May 2006 at 11 am

The notice of the Annual General Meeting is contained within the circular to shareholders, which accompanies these accounts.

Capital history

Mid market price 31 March 1982	7.5375p*
Mid market price 31 December 2005	163.5p
2005 high/low	173.25/147p

* Adjusted for the 1983 bonus issue and the 1990, 1992 and 1997 share splits.

Registrars

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The Registry	Telephone (from overseas): +44 20 8639 2157
34 Beckenham Road	Fax: +44 (0) 20 8639 2342
Beckenham	E-mail: ssd@capitaregistrars.com
Kent BR3 4TU	DX 91750 Beckenham West

Shareholder services

To receive shareholder communications (including the annual report), in electronic form, go to the address opposite and through <<Shareholder Services>>, then <<Quick Link Login to online services>>and go to the Rentokil Initial plc pages where you can register your e-mail address.

www.capitaregistrars.com

The services opposite are available online at www.capitaregistrars.com. Some online services require you, for security reasons, to register for a User ID before proceeding.

* Balance enquiry
* Register/Change e-mail address
* Proxy voting
* Change dividend payment instructions
* Change address

Company

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These financial statements may be downloaded in pdf format from the company's website, which also contains additional general information on the company.

Designed by
www.sasdesign.co.uk

Photography by
Anders Hald

Printed by
Beacon Press

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