
Protecting People Enhancing Lives... Everywhere

Annual Report 2018

Rentokil Initial plc
Company No. 05393279

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About us

Rentokil Initial is a global leader in the provision of route-based services which protect people and enhance lives, everywhere. We operate in 90 of the world's 100 leading cities – from Los Angeles to Amsterdam, and Singapore to Auckland. Our core services are Pest Control and Hygiene and we offer a range of smaller specialist services including Plants, Property Care and Workwear. We are a multi-local business operating in 75 countries around the world, employing around 39,500 people in 2018.

What we do

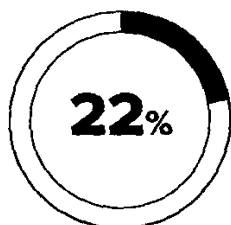
Pest Control

Pest Control as %
of Group Revenue



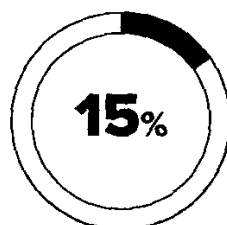
Hygiene

Hygiene as %
of Group Revenue



Protect & Enhance

Protect & Enhance as %
of Group Revenue



Where we are

North America

Europe*

UK & Rest of World

Asia

Pacific

*Includes our Latin America operations, managed and reported within our Europe region

Our purpose

Our purpose is to protect people and enhance lives, everywhere. We protect people from the dangers of pest-borne disease and the risks of poor hygiene. We enhance lives with services that protect the health and wellbeing of people and the reputation of our customers' brands.

Rising standards of public health, stricter food safety legislation and the need to comply with workplace safety regulations are driving demand for our service expertise.

Strong financial performance

Ongoing Revenue (at CER)

£2,493.0m
+13.2%

Organic Revenue growth

+3.7%

Revenue (at AER)

£2,472.3m
+2.5%

Ongoing Operating Profit (at CER)

£333.6m
+13.3%

Loss before income tax (at AER)

£114.1m
-116.0%

Free Cash Flow (at AER)

£192.0m
+94.2% cash conversion

2018 full year dividend

4.471p
+15.2%

Our RIGHT WAY plan

Our **RIGHT WAY** plan divides our business into five geographic regions and three core categories, all operating on a low cost, single country operating structure. Since 2014 we have consistently implemented an effective strategy at pace and this has delivered consistent progress against our financial targets. We are now a stronger and more focused business, operating in higher growth markets, with improving levels of organic growth, reduced capital intensity and high levels of cash generation. The proceeds we received from our joint venture with Haniel give us greater flexibility to invest in attractive M&A opportunities and new digital technology and innovation solutions for our higher growth categories of Pest Control and Hygiene, which in 2018 represented just over 89% of Ongoing Operating Profit.

Q Read more on pages 22 and 23

Protecting People Enhancing Lives... Everywhere

We have continued to execute our **RIGHT WAY** plan across our regions of North America, Europe, UK & Rest of World, Asia and Pacific – all of which continue to provide excellent opportunities for sustainable and profitable growth. We continue to witness strong demand for our services everywhere we operate and our powerful brand, outstanding customer service and proven operating model have delivered further operational and financial improvements across the business in 2018.

At the heart of our success are our people. We are determined to be an Employer of Choice across our global operations, and to ensure our engaged and talented colleagues utilise their local market knowledge, relationships and culture to apply our services to the highest standards.

Our single, most important aim at Rentokil Initial is to protect people and enhance lives. We do this by providing essential pest control and hygiene services to protect our customers and keep them safe in their living and working environments. We also support local communities and charities around the world, implement health and hygiene programmes in areas where the need for greater healthcare and education is most profound, and work hard to minimise our impact on the environment.

Over the next few pages we highlight a number of examples that demonstrate how we have made a difference to customers and communities around the world through the services we provide, and highlight some of the initiatives we are using to drive growth in our business to deliver real value for our shareholders.

On behalf of the Board, I would like to thank our shareholders and customers for giving their continued support to Rentokil Initial and for their ongoing trust and loyalty. This is a very exciting time for Rentokil Initial, both locally and globally, and we hope you will enjoy reading our 2018 Annual Report.

JOHN McADAM

Chairman

27 February 2019

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The Financial Review on pages 104 to 107 forms part of the Strategic Report.

Alternative Performance Measures

This Annual Report includes certain financial performance measures which are not GAAP measures as defined under International Financial Reporting Standards (IFRS). These include Ongoing Revenue, Ongoing Operating Profit, Adjusted Profit Before Tax and Free Cash Flow. Management believes these measures provide valuable additional information for users of the financial statements in order to understand the underlying trading performance. Ongoing Revenue and Ongoing Operating Profit measures represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Profit and Adjusted Profit Before Tax exclude certain items that could distort the underlying trading performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. An explanation of the measures used along with reconciliation to the nearest IFRS measures is provided in Section E. Alternative Financial Measures on pages 149 to 153.



Visit our website at
rentokil-initial.com

North America

Our growing presence in the world's largest pest control market provides us with excellent opportunities to grow organically and through targeted acquisitions to build a pest control powerhouse in this key growth region.

90%

of the US population is covered
by our footprint

14

new businesses were acquired
last year

Using scale to secure increasing share in national accounts

As the world's largest commercial pest control provider we offer customised, expert solutions for some of the world's biggest companies. Our service footprint covers 90% of the US population and enables us to provide full service contracts to customers with multiple locations. While individual customer sites are serviced by local teams, national accounts are managed by dedicated stewards ensuring all customer needs are met, from scheduling service visits through to billing. Since 2015 we have delivered compound annual revenue growth in national accounts of 22%.

Leveraging innovation to combat rising pest threats

The US National Pest Association states that residential settings and hotels continue to be the top places where pest professionals are treating bed bugs. To combat these tiny pests Rentokil has developed a revolutionary new digital detection system that identifies the first signs of bed bug presence before a major infestation can take place. Currently around 400 prototypes have been deployed in the first full scale field trial in St Louis, Missouri. It's a welcome solution for hotels and residents, and the post-trial review will determine the next stage of development and commercialisation of this exciting new product.

Protecting people, enhancing lives...everywhere

“

The process to become a CFT gives me a lot of confidence in the programme because of how professionally my interview and training were done. I've trained many specialists in the past but am amazed at how much faster my current trainee is progressing because of the real world field environment. There's no barrier to communication and I love that he feels like he can me ask anything. This programme is really teaching world-class service.”

BRIAN CARRINGTON
Certified Field Trainer & Technician
Albany, New York

Increasing short-term retention through Project 365

Central to our strategy of being an Employer of Choice (EoC) is increasing sales and service colleague retention to 90%. Ensuring new recruits stay with us beyond year one is a priority as it directly impacts customer service and retention. This year we launched a Certified Field Trainer (CFT) programme using our best field specialists to help new hires in their first 10 weeks gain Field Technician Training Certification and to mentor them throughout their first year.

Building greater pest control capability through targeted M&A

From 2015 through 2017 we acquired 40 companies in North America and 2018 has been no exception. This year we've acquired 14 new businesses with annualised revenues of c. £41m, most of which are bolt-on pest control services operations. In addition, we have built on our growing specialism in aquatic pest control through the acquisition in January 2019 of Aquatic Systems in Florida and further expanded our capability in the US's \$600m vector control market through the acquisition of Mosquito Control Services in Metairie, Louisiana.

Maximising the growth opportunity in vector control

Part of our focus for growth is new product areas. One such area is mosquito control – also called vector control. Given increasing risks to public health from mosquito-borne diseases, it is a significant growth market, not only in North America but globally. Through our 2017 acquisition of VDCI, headquartered in Little Rock and Denver, and our recent acquisition of Mosquito Control Services in Metairie, we are now America's No. 1 provider of mosquito control, offering a full range of highly skilled services to governmental, commercial and residential customers, supported by our global centre of excellence (see page 32). For more information on vector control, please see page 33.

Europe

Europe has delivered a highly encouraging performance in 2018, with Pest Control and Hygiene performing well and our France Workwear business returning to profitable growth.

Using digital solutions to improve customer experience

While finding pests on their premises is stressful for our customers, managing their pest control requirements needn't be. Our myRentokil online customer portal provides secure 24/7 access to real-time information that provides easy access to documentation required for pest control, including reviewing service recommendations and responding to audits. In 2018, 84% of our commercial customers used the myRentokil portal, up from 50% last year, and Europe was a key priority.



Whenever a Rentokil technician carries out a check or makes a new recommendation to improve our prevention measures, that information is instantly available. I can then take those recommendations and instantly forward them to the colleague in charge of that area. It's a new way of working, supported by digital workflows, that is perfect for driving a culture of continuous improvement in pest control."

Customer feedback on myRentokil, International account, Rentokil Germany

Returning France to profitable growth through service excellence

Our operations in France, including our France Workwear business, have made excellent progress this year against operational and financial KPIs, returning to targeted year-on-year profitability for the first time since 2014. While market conditions have proved challenging for several years, our team in France has steadily implemented a Quality Agenda, focused on delivering service excellence and cost savings, and has made consistent progress in the areas of products, services, innovation, customer relationships and colleagues. Further details are available on pages 38 and 39.

Driving increased retention through improvements in line manager capability

Our people strategy in Europe has three pillars: colleague development, Employer of Choice and organisational effectiveness. A key goal for 2018 has been returning our France business to year-on-year profitable growth and core to achieving this has been developing manager and staff capability. As a result, we have seen significant reductions in absence and staff turnover as well as increased engagement with colleagues. We have also trained more managers this year than in the previous five years combined, which has helped support a more positive and effective working environment.

Protecting people, enhancing lives...everywhere

c. 24,000

Lumnia units were installed across Europe last year

13

businesses were acquired this year in France, Germany, Spain and Sweden

Lighting the way in fly control

In 2017 we launched Lumnia, the world's first range of illuminated fly traps to use patented LED lighting technology rather than traditional fluorescent tubes. Lumnia attracts, kills and encapsulates insects hygienically – eliminating the risks of contamination – and is suitable for a wide range of internal environments where flies are unwelcome. In 2018 we installed just over 60,000 units across our estate, of which c. 24,000 were in Europe, with the products proving particularly popular with customers in Switzerland, Portugal and the Netherlands, who have seen their annual operating costs fall from £150 for a non-LED unit to just £45 a year for Lumnia. More details on Lumnia can be found on page 32.

Utilising M&A to build density and increase specialist expertise

M&A is working very well for our Europe region and our 2017 acquisition of CWS Italy has been a strong contributor to growth. We acquired 13 more businesses in 2018, including S&A in Westerholz, Germany which builds on our expertise in fumigation, a growing global market with a compound annual growth rate (CAGR) of 5.5%. S&A has developed a revolutionary new product which guarantees residue-free fumigation (FRISIN), and this is just one example of the way in which we are increasingly buying businesses that develop innovative products and services that we can deploy at scale across our global footprint.

UK & Rest of World

Innovation, science and training are at the heart of Rentokil's pledge to be the experts in pest control and the UK is home to our global research and development facility, the Power Centre, named after our former Chief Marketing Officer Stewart Power. Our investment in the centre demonstrates our commitment to providing colleagues with the best tools and training to ensure a high-quality service for customers and to meet our commitments to shareholders.

1,700

colleagues, customers and major shareholders attended 87 official tours of the Power Centre

500

technicians have attended training courses at the Power Centre in the last 12 months

Leading the pest control industry through science and innovation

Across the world, demand for pest control services continues to increase, driven by rising economic activity, urbanisation, increasing population and changing demographics. Rentokil is leading the industry through the development of innovative products to address this growing need. Our scientific expertise and innovation pipeline, together with partnerships with organisations and universities, ensures we remain at the forefront of the industry and our new Power Centre gives us greater resources and capabilities to ensure this continues. For more details on some of our innovations, please see pages 25 and 32.

Introducing the Power Centre to key stakeholders

In 2018 c. 1,700 colleagues, customers and major shareholders attended 87 official tours of the Power Centre. Visitors included service colleagues from the Netherlands, our Latin American management team and a growing number of prospective customers, for whom the visit was a key part in their decision to work with us. We were also very pleased to give a number of our major shareholders a direct, first-hand experience of how we approach innovation and technology across the Group.

Protecting people, enhancing lives...everywhere

“

Understanding rodent behaviour helps us do a better job for customers, something we do in the most natural, humane way possible. Other than providing food and water, we don't interfere with their environment and, as a result, we're able to gain important behavioural insights. We are always looking for what might make a potential breakthrough – now or in years to come.”

DR ANDY BRIGHAM

General Technical Manager, Science and Service
Rentokil

Monitoring behaviour to create more efficient detection tools

We monitor rodent activity to gain a greater understanding of their behaviour which helps us create methods to prevent or deter them from accessing properties. A mouse can squeeze through a gap just six millimetres across – roughly the width of a pencil – which highlights the challenges in making properties invasion proof.

Maintaining the highest standards of technical training

Also at the Power Centre is a state-of-the-art training unit which delivers professional, industry-accredited training to colleagues through co-ordinated training courses. It has seven scenario training rooms matching technicians' working environments – supermarkets, hotel bedrooms, loft spaces, commercial kitchens, grain stores, offices and washrooms – ensuring technical field skills and safety procedures can be honed on site. Over the last 12 months almost 500 technicians have attended training courses at the Power Centre.

Testing products in the field

An important part of our work at the Power Centre is testing innovations in real environments, an essential part of gaining regulatory product approval. We are currently testing new mosquito traps in the Caribbean, which we hope will provide greater protection to people from mosquito-borne diseases. We are also seeking regulatory approval for a unique fungus which attacks cockroaches and which has been proven to be highly effective in Malaysian sewers to remove serious levels of infestation.

Asia

Our markets in Asia provide an excellent source of growth potential for the Group. We have a strong footprint across the region and currently operate from 580 locations in 12 countries, supported by over 7,200 pest control technicians and 131 field biologists.

Improving community health in India, Malaysia and Indonesia

Rentokil Initial continues to touch the lives of underprivileged communities in developing countries through our Better Futures programme which delivers basic health education on the importance of good hygiene practices. Our largest programme runs in India where since 2013 Better Futures has been operating in schools and local communities. Since our joint venture with PCI in 2017, we have significantly increased the scope and impact of the programme. This year we have delivered programmes in India, Malaysia and Indonesia in schools, orphanages and slum communities, presenting modules on hand hygiene, water hygiene and flu habits.



Communities that are aware of the problems that poor hygiene can bring are the communities that are more likely to take action. When we all play our part, we can protect the ones we love, and enhance not only our own lives but also the lives of those around us. This is what Rentokil Initial stands for, and that is the goal we want to work towards through Better Futures."

CAROL LAM
Managing Director
Rentokil Initial Malaysia

Providing aid in times of disaster in Indonesia

Lombok Island is an Indonesian island east of Bali and was shaken in early August by four major earthquakes that resulted in over 350,000 people fleeing their homes. Many of those affected were housed in tents and makeshift structures on open fields with no protection from pests such as mosquitoes and flies which carry an increased risk of spreading diseases. Our Rentokil technicians joined forces with other volunteers from the Indonesian Pest Control Companies Association to carry out thermal fogging and spraying around refugee camps. For more information on how we support our communities, please see our Corporate Responsibility review on page 52.

Protecting the health of international athletes at the Jakarta-Palembang 2018 Games

More than 11,000 athletes from 45 countries competed in the 18th Asian Games, the biggest sports event after the Olympics. Event preparations took place over two years, including renovating and building sports venues, transportation infrastructures and the athletes' village complex. With the health and safety of participants and visitors critical to success, Initial Indonesia was appointed to provide hygiene solutions to protect athletes and spectators from the health risks of cross contamination, using products from our Signature Colour range chosen to match the vibrant colour scheme of the Games.

Protecting people, enhancing lives...everywhere

580

Rentokil locations in Asia

7,200

pest control technicians across the region

Illuminating Singapore stores with sales of Lumnia

The success of our Lumnia product is growing across the world and earlier this year our Singapore sales team won a contract to install and service 450 Lumnia units in 70 outlets of a leading food retailer. Our team was able to demonstrate that Lumnia units would save our customer approximately £9,000 a year in energy bills alone. This flagship contract is generating interest among other customers in the country, including hotels, restaurants and facilities management businesses.

Driving efficiency and enhancing customer experience through digitalisation

Across the world we use digital technology and applications to drive customer service and productivity. We have continued to deploy ServiceTrak – our smartphone field service app – across our Asian operations and during 2018 equipped 2,300 colleagues with the app, thereby improving service efficiency by 30% and reducing paper-based transactions by 50%. In addition, we have made further progress in the roll-out of our myRentokil online customer portal in the region, resulting in an increase in customer sites using the portal from c. 36,200 in 2017 to 54,000 by the end of this year.

Protecting people, enhancing lives...everywhere

Pacific

200

We are proud to be ranked in the Top 200 companies globally for gender balance and equality

13.8%

increase in short-term retention through our Employer of Choice programme

In our Pacific region we provide pest control, hygiene services and plants in Australia, New Zealand and Fiji. We have leading national positions across all three categories and a clear market leadership in pest control.

Strengthening Hygiene through increased M&A

We were delighted to acquire in early 2018 Cannon Hygiene Services. The business, which operates across nine countries including Australia and New Zealand, fits very well with our existing operations, and allows us to increase our coverage in key markets and gain synergies from enhanced density and combined infrastructures. Cannon's Australian and New Zealand businesses have contributed to overall regional Ongoing Revenue growth of 11.2% and Ongoing Operating Profit growth of 7.0% during 2018.

Addressing gender imbalance in Australia through our Employer of Choice programme

We are proud to be ranked in the Top 200 companies globally for gender balance and equality by Equileap. However, we seek further progress in areas where we perceive the balance to be unequal. In Australia we are trying to triple our number of female pest control technicians – currently 10 out of a total of 418 – and this year ran our first 'Women in Pest Control' workshop, discussing topics including recruitment, workplace arrangements and communication. A Google+ Community was set up to act as a central hub to exchange ideas and follow-up actions agreed, including designing a range of more female-friendly uniforms, introducing flexible working hours and using more women to recruit female employees to the business.

Protecting people, enhancing lives...everywhere

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Biosecurity is absolutely paramount to us. We need to do whatever we need to do to make sure that we're not exposing any of our agricultural industries to this sort of risk. Stink bugs are a major threat as they reproduce quickly, eat a broad variety of crops and resist most pesticides.”

DAVID VINSEN

CEO of New Zealand's Imported Motor Vehicle Industry Association

Protecting agricultural industries through pest control

Earlier this year 20 cargo ships destined for New Zealand and Australia were denied entry into port on widespread detection on their ships of brown marmorated stink bugs. Carrying over 6,500 vehicles from Japan, immediate thermal fogging was required before the ships could be allowed entry. Rentokil was contracted to handle the project and carried out six-hour thermal fogging treatments to eradicate the bugs, returning the following day to conduct final inspection and safety checks. The treatments were carried out in the docks, with the exception of one ship which was deemed too dangerous to be allowed access.

Award-winning digital innovation in New Zealand

At the annual Building Service Contractors of New Zealand awards in May 2018, Initial New Zealand was announced winner of the Business Innovation Award for myInitial, our online customer portal for Hygiene customers. The awards bring together cleaning companies from across New Zealand to celebrate the industry and recognise success. Explaining their decision, the judges considered myInitial to go beyond a value-added product, demonstrating innovation that is relevant for the New Zealand market, and providing a partnered solution for both clients and service contractors that clearly improves overall standards.

Making further inroads in our Employer of Choice agenda

Our people are our biggest source of competitive advantage and the key to profitable growth. In the Pacific this year we introduced a number of initiatives designed to attract and retain key talent. Successes include: improving line manager capability, overhauling recruitment materials to promote Rentokil Initial as an Employer of Choice, and recruitment training for all frontline managers. The introduction of new service colleague on-boarding specialists who establish mentoring relationships with new joiners has been particularly encouraging, resulting in an increase in short-term retention of 0-6 months from 67.5% to 81.3%. In addition, our Glassdoor rating by Australian colleagues rose from 1.4 to 4.2 by the end of the year.

Q&A

ANDY RANSOM
Chief Executive

Q. The Company has once again delivered a strong financial performance in 2018. What were your highlights during the year?

A. The first highlight for me is our Organic Revenue growth of 3.7% this year, 4.3% in the second half which represents a good improvement on the first half. So, that's certainly something I am pleased about. We explained why our performance in the first half was a little below where we would have liked earlier in the year, so to have come in at 4.3% in the second half is more of a return to form. I am also very pleased with our Hygiene business which grew strongly, so that's also looking good. I am also particularly encouraged by our performance in France. This year we set an ambitious objective to get our French Workwear – and our overall French business – into positive revenue and profit growth in 2018 and we have achieved that goal. Our Ongoing Operating Profit delivery this year is also well above our medium-term target of 10.0% at 13.3%, and this represents very good progress from all business lines across all regions. Europe made excellent progress in 2018 and although we're not fully out of the woods in France Workwear, I am very encouraged by this year's results. So, Ongoing Revenue has been good, Ongoing Operating Profit has been good and we have had another year of continued cash delivery which at £192m, and representing 94.2% cash conversion, is ahead of our target of 90%.

M&A is another highlight once again for the Company. We said we would spend £200m-£250m this year and have ended up spending £298m on 47 deals. Looking ahead into 2019 we have a very active pipeline of good quality prospects, so that feels good too, and all of this is underpinned by very good progress across our people agenda – which we call Employer of Choice – which has a particular focus on short-term retention. In a world where access to high-quality people and retention is becoming an increasing challenge and differentiator, for us to have focused on this for the past two years is bringing its own results.

Q. Are there any areas of performance with which you are less pleased?

A. We set very high expectations and standards within the Company so we are never complacent and rarely fully satisfied with our performance. Areas that I would like to see us make further progress on over the next one to two years would include customer retention. We have set an aspirational long-term view of world-class performance being 90% retention and currently we are around 86% which is a good, steady performance but it hasn't moved in 2018 and so I think there is an opportunity there, particularly in North America, which is our largest regional operation. Second, we are making good progress in our North America operations but the opportunity to drive our Net Operating Margins higher and harder is a significant one and, whilst we've made progress in 2018, I would like to see stronger progress in 2019. We provide a more detailed update on our progress towards our aspiration to become a \$1.5bn, 18% Net Operating Margin business on page 15 of this report. If I was picking a third area for improvement, I would say while we have an amazing suite of innovations and technology deployments that have gone extremely well this year, I would like us to deploy these even faster and deeper across the organisation in the coming year.

Q. It's been another exceptional year for M&A, with 47 businesses acquired. Is this level of activity really sustainable going forward?

A. In my view it is. The markets in which we operate, particularly in Pest Control and Hygiene, remain very fragmented with tens of thousands of competitors around the world. We tend to think of our business as multi-local, city-based operations and if you think about it that way, there are a lot of city-based local competitors and our objective has always been to find the best of those, in cities which we think represent good growth for the Group, and to combine them with our own operations. With M&A, it is somewhat opportunistic however. Sellers decide if and when they want to sell and therefore our visibility is always somewhat limited – how far into the future can you really see? – but based on what we can see today, the pipeline of available opportunities looks very strong. My own view, therefore, at the moment is there is no reason to doubt that this remains a very strong and viable strategic lever that we can expect to pull on for some time.

Q. We are hearing more and more within the pest control industry about the importance of innovation, and Rentokil appears to be leading the way in this regard. Can you tell us more about this?

A. Like all businesses, the pace of change in today's world is as fast as we have ever seen it. My view is that those companies which have been successful over the years are those which invest in the most innovative products for their customers and also invest in the most innovative systems and processes that they use throughout their businesses. We feel very positive about the investments we have made in new products for our customers, like Lumnia and our connected suite of Internet of Things products. We are equally excited by the work we are doing on robotics and artificial intelligence and perhaps even more important than both of these things is the culture of innovation we have developed within the Company. We believe that innovation is everyone's responsibility and if any of us see an opportunity to change the way our job is done that results in a better service for customers and/or a lower cost for us to operate, then we are all encouraged to do that. So, the combination of an innovative culture, our investment in the Power Centre in the UK (our centre of excellence for technology and science and innovation in Pest Control and Hygiene) and the new technologies that are increasingly available, well, that combination is very exciting. I firmly believe that if we continue to make these investments and thrive on change then we will continue to be successful over the coming years.

Q&A with Andy Ransom, Chief Executive

Q. Digital technology and applications are also changing the way in which pest control services are being delivered. What are some of the initiatives you are developing at the moment?

A. I guess the main answer to that, from a customer facing perspective, is our suite of connected pest control products and the capability to remotely monitor pest activity. Increasingly we are using technology in the field to identify pest problems earlier than a customer would otherwise become aware of them which enables us to take proactive, preventative or earlier action to deal with a pest problem. Technology also enables us to take vast amounts of data from the field and through artificial intelligence and machine learning interrogate that data in a helpful way. For example, in the future we think it will give us more precise diagnostics of where problems are coming from and how they are being caused but also potentially on the preventative side, to anticipate where problems are likely to occur in the future. So it's the combination of the monitoring which gives us earlier visibility of problems and our ability to analyse, interrogate and interpret the data coming from those devices which enables us to deliver great customer service. So that is probably the most exciting area. Another initiative is our myRentokil online customer portal, used primarily by our commercial customers. We took a decision two years ago to have 100% of our commercial customers on myRentokil and we are now around 84%. This gives us a secure, digital channel to communicate directly with our customers and we can give them data and trend analysis coupled with tremendous transparency on their estate and their account with us. We can also use it to market offers and new innovations to customers and this, we think, is a unique selling proposition. I guess a third good example would be the work we are doing in areas such as scheduling of our people in the field and using digital technology to drive better route efficiency and optimisation. This results in more efficient days for our colleagues, less driving time which leads to better margins and a reduction in the number of miles we travel, and gallons of fuel we burn in our vehicles. So, it's a win win – not just for us, but for our customers and shareholders – and it also helps us as we endeavour to meet our ambitious target to reduce our CO₂ emissions by 20% by 2020.

Q. We know that your Employer of Choice agenda is of particular importance to you. What progress have you made this year?

A. We have made excellent progress on our Employer of Choice initiatives. All our branches are focused on becoming an attractive, world-class employer. We monitor the number of vacancies we have, the number of applicants per vacancy, the average number of days a vacancy is available so we have tremendous transparency and can focus on employment hotspots where it is more difficult to find new, high-quality colleagues. We have made very good progress on programmes designed to support colleagues in their first 0–12 months with the Company, often a period of great uncertainty and change, involving lots of training, lots of meeting new colleagues and learning new customer routines and have concluded that if we can support colleagues through their first year, they are much more likely to stay with us for several years. I'm really pleased that we've made such good progress in all of our regions on increasing colleague retention within this period but we still have more work to do to achieve better results in the 12–24 months period. There are lots of other initiatives going into Employer of Choice and obviously safety remains our key priority. Once again in 2018 we are operating at world-class safety levels but that said, we have seen a slight deterioration in our Lost Time Accidents (LTAs) rate – and I'm not pleased about that – but overall the focus in the business is at a very high level and we have LTAs of around 0.63, which is still a very good result.



Q. Do you think Brexit will have any major impact on your business?

No, not really, and we've given this a lot of thought as you'd expect. Our business model and global footprint have a number of advantages that we think naturally protect us from exposure to any single market event. Our businesses are local in each country, we don't move people or products across borders very much, and our costs and revenues are in the same currencies limiting our foreign exchange risk. Pest control in particular is a highly resilient industry with great defensive qualities. Our services are often key to our customers retaining their licence to operate, whatever is happening in the wider global economy. We have however taken some prudent steps to cover any short-term transitional difficulties. Where we have seen an effect, though, is on our Property Care business in the UK. The business is closely linked to the housing market which has weakened since the Brexit referendum result in 2016 and the snap General Election. So, we have put an improvement plan in place to counter these ongoing pressures, and we talk more about that on page 38.

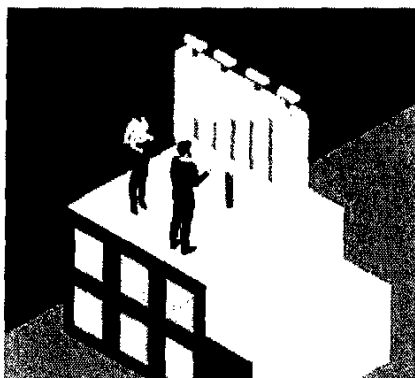
ANDY RANSOM
Chief Executive
27 February 2019



All our financial metrics were strong this year, underpinned by excellent M&A and good progress on our people agenda.”

ANDY RANSOM
Chief Executive

Our 'big five' challenges



Like all companies, we regularly assess our strengths and weaknesses and examine closely the opportunities and threats to our business going forward. In this section, we review in some detail what we call our 'big five' challenges.

1

Increasing Organic Revenue growth in Pest Control

Pest Control Organic Revenue growth has more than doubled in five years from 2.2% to 4.8% in 2018, and our challenge is to continue to drive sustainably higher rates of organic growth across the business. We believe there is good scope to improve our organic growth rates even further, through consistent performance in established markets, strengthening positions in more rapidly developing Growth and Emerging markets, and new services e.g. in vector control.

The path to future success

- Ongoing focus on North America growth and margin delivery, capitalising on brand, innovation and digital opportunities in commercial and residential markets and also in vector control
- Leveraging our increasing exposure to Emerging markets, notably India, China and Latin America
- Deploying innovations targeted at key pest sectors and with new non-toxic solutions
- Continued focus on online marketing to help us better identify and attract customers
- Maximising our national and international accounts sales capability

2

Creating value through digital products and applications

We continue to develop digital solutions across all aspects of our business and our challenge is to commercialise this innovation and deliver value ahead of ever-more rapid technological changes in our markets and the emergence of new forms of competition. Customer developments focus on connected and sensing devices and portals for our core commercial B2B business, especially the food sector; colleague developments are focused on reduced IT costs in infrastructure, automation of back office processes and deployment of new sales and service productivity tools.

The path to future success

- Harnessing the digital opportunity across the customer lifecycle, using connected products and customer extranet portals
- Further deployment of low-cost mobile devices and apps to improve frontline levels of service, productivity and safety
- Identification of opportunities to automate back-office functions to improve insight, accelerate decision making, eliminate cost and improve sales effectiveness

3

Building our Hygiene business

2018 has been another very good year for our Hygiene business, which grew Ongoing Revenue by 26.5% and Organic Revenue by 2.8%. The challenge is to build Hygiene into a second powerhouse business by driving growth and yield management further and expanding into new lines of business such as premium scenting and wellbeing. We are confident of achieving this through continued focus on operational execution and leveraging our global scale, market-leading positions and innovation pipeline.

The path to future success

- Building greater postcode density through targeted selling and bolt-on acquisitions
- Enhancing product and range penetration through targeted sales to encourage take-up of multiple service lines per customer premises, and new product and service differentiation
- Developing new wellbeing propositions to capitalise on growth in the global air care market (scenting and purification) by expanding premium scenting and air sterilisers offerings, and new innovations (for example, communal air purifiers)
- Reviewing growth opportunities in route-based extensions

4

M&A execution

This year we have acquired a record 47 businesses delivering combined annualised revenues of £170m. The challenge is to maintain a strong pipeline of high quality opportunities in an ever-more competitive market, and to integrate acquisitions quickly and effectively. Our M&A programme is performing well, although the UK acquisitions of Cannon and MPCL are being held separate pending completion of investigations by the UK Competition & Markets Authority (CMA). M&A is a core element of our strategy and offers significant potential value creation.

The path to future success

- Identifying sufficient high-quality targets, in particular bolt-on acquisitions, particularly pest control businesses in Growth and Emerging markets
- Effective due diligence, risk management and execution of transactions
- Successfully integrating acquisitions to ensure delivery of business case and target internal rates of return (IRRs)
- Assessing the merits of larger acquisitions, should such opportunities arise
- Maintain effective governance and review processes to control risk, build M&A capability and ensure rigorous returns from investment in acquisitions
- Selective new country entries

5

Employer of Choice/retention

Service expertise is at the heart of our success and our challenge is to attract, develop and retain the right people able to deliver our promises to customers. We have made substantial progress in 2018 towards becoming an Employer of Choice, including significantly improving short-term (0-12 months) colleague retention, particularly in Europe, Asia and Pacific regions, and improving the quality of our training and development programmes.

The path to future success

- Attracting and retaining talent in highly competitive labour markets around the world
- Improving colleague engagement, enablement and retention through implementation of our Employer of Choice programme
- Focusing on learning, development and career progression to build a strong succession pipeline
- Ensuring we recognise, appreciate and reward talent, essential ingredients to engage and retain colleagues
- Maintaining our ongoing commitment to diversity and inclusion across the Company, and developing talent from all backgrounds

2018 progress towards financial targets

Target and key activities	Performance	Progress in 2018
Target: Ongoing Revenue growth of 5% to 8%		
5% to 8% Group Ongoing Revenue growth	13.2% Group Ongoing Revenue growth, considerably above target	■ ■ ■
3% to 4% Organic Revenue growth	3.7% Group Ongoing Organic Revenue growth (H1: 3.0%, H2: 4.3%)	■ ■
Revenue contribution from acquisitions	9.5% growth from acquisitions in 2018	■ ■ ■
Ongoing Revenue growth in Pest Control	12.6% Ongoing Revenue growth (4.8% Organic)	■ ■
Supported by further encouraging momentum in Hygiene	26.5% Ongoing Revenue growth in Hygiene (2.8% Organic)	■ ■ ■
Improved performance from Protect & Enhance businesses, including France Workwear	0.7% increase in Ongoing Revenue (0.6% Organic), France Workwear up 0.9% (0.9% Organic)	■ ■ ■
Customer retention of 90%	86% in 2018 (2017: 86%), ongoing focus required to reach target 90%	■
Ongoing focus on delivering excellence in customer service	Group customer satisfaction scores steady at 43 points (2017: 42 points), Pest Control: +56.4, Hygiene: +48.7	■
Further execution of M&A programme in 2018	47 acquisitions with combined annualised revenues of £170m	■ ■ ■
Significant progress in product innovation and capability	c. 70 active innovation projects in 2018, an increase of 30% on 2017	■ ■ ■
Continued development of digital products and applications	38.5% increase in visits to our websites worldwide 121,500 users of our myRentokil customer portal in 34 countries	■ ■ ■
Target: Ongoing Profit growth of c. 10%		
Further year-on-year improvement in Group Ongoing Operating Profit	13.3% Ongoing Operating Profit growth, again above target	■ ■ ■
Improvement in Group Net Operating Margin	Net Operating Margin 13.4% (2017: 13.4%)	■
Improvement in Net Operating Margins in Pest Control and Hygiene	0.4% points decline in Pest Control at 17.6% reflecting dilutive impact of acquisitions and North America, 0.9% points decline in Hygiene at 16.8% reflecting impact of lower-margin Cannon and CWS Italy acquisitions	■
Above the line restructuring costs maintained at below £10m	Restructuring costs of £7.3m (at CER), unchanged on 2017	■ ■ ■
Target: Free Cash Flow conversion of c. 90%		
2018 Free Cash Flow conversion target £165m, balance sheet robust	£192m Free Cash Flow representing 94.2% conversion	■ ■ ■
Reduction in net capital expenditure	£23.7m reduction in net capital expenditure at £183.5m post transfer of European assets into Haniel JV and sale of French laundries to RLD in 2017	■ ■
Decrease in net debt	£226.2m increase in net debt at £1,153.5m, reflecting timing of spend on M&A during the year	■
Target net debt to EBITDA of 2.0x to 2.2x	Net debt to EBITDA: 2.4x at 31 December 2018	■
Fully-funded pension scheme	We have secured a bulk annuity insurance policy with Pension Insurance Corporation – agreement delivers security for members while removing future risk at no cost to the Company	■ ■ ■
S&P credit rating	Maintained at BBB Stable Outlook	■

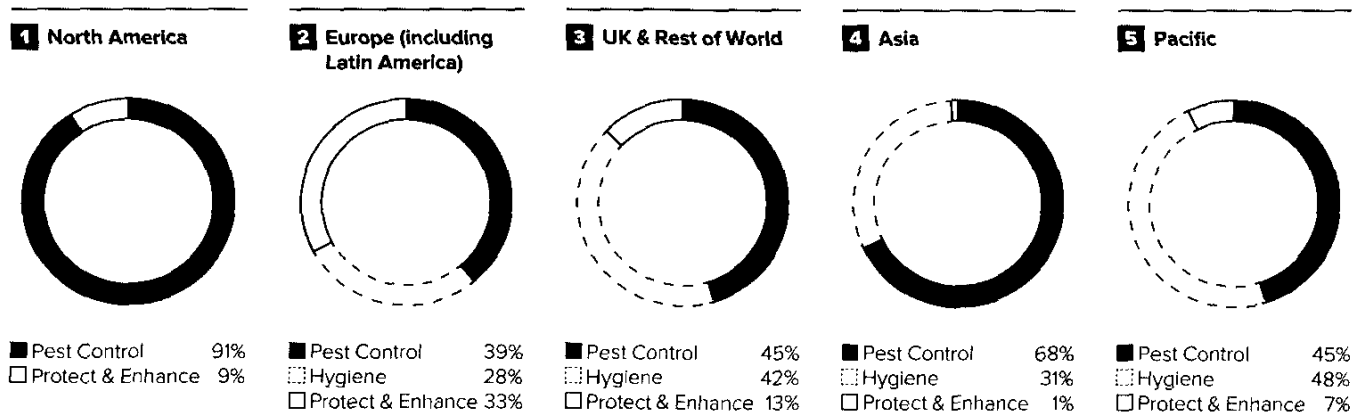
■ ■ ■ Very strong progress ■ ■ Strong progress ■ Good progress ■ Further work required ■ Disappointing progress

Please see pages 28 and 29 for a full description of our Group key performance indicators and also page 52 for details of other non-financial KPIs.

Our brands and businesses

Rentokil Initial is a global leader in the provision of route-based services which protect people and enhance lives.

Business breakdown by region (% Ongoing Revenue)



Our brands and businesses

Pest Control

Rentokil Pest Control is the world's leading international commercial pest control service provider, offering the highest levels of risk management, reassurance and responsiveness to customers.

Rentokil operates in 73 countries around the world.

We have leading market positions in the UK, continental Europe, Asia, Pacific and South Africa, a number three position in North America and a rapidly expanding presence in Central and Latin America.

Ongoing Revenue

+12.6%

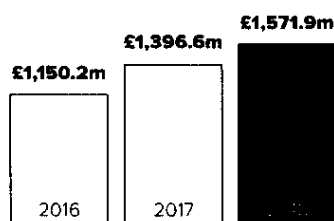
£1,571.9m

Ongoing Operating Profit

+9.9%

£277.0m

Ongoing Revenue



Hygiene

Initial Hygiene is the world's leading commercial hygiene services provider offering services including the provision and maintenance of products such as air fresheners, sanitisers, feminine hygiene units, hand dryers, paper and linen towel dispensers, soap dispensers and floor protection mats.

Initial Hygiene operates in 41 countries around the world.

We have leading top three market positions in 34 of these markets.

Ongoing Revenue

+26.5%

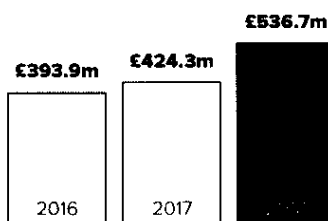
£536.7m

Ongoing Operating Profit

+19.9%

£90.2m

Ongoing Revenue



Protect & Enhance

The four businesses which are included in this category are Workwear (France), Ambius (Global), Property Care (UK) and Dental Services (Germany and Sweden).

Ambius is the world's leading commercial provider of plants and scenting. The business installs and services flower displays, replica foliage, Christmas decorations and ambient scenting. It has number one and two positions in 11 of its 16 countries.

Our UK Property Care business provides damp proofing, property conservation; woodworm treatment and wood rot treatment services. Our France Workwear business has a number two position in France and specialises in the supply and maintenance of garments such as workwear and personal protective equipment. Our Dental Services business operates principally from two main hubs and specialises in the disposal and recycling of dental waste.

Ongoing Revenue

+0.7%

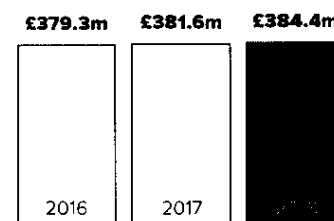
£384.4m

Ongoing Operating Profit

+10.6%

£45.1m

Ongoing Revenue



Revenue and profit figures above are at constant exchange rates (CER) and represent Ongoing Revenue from continuing operations and exclude revenue and profit from businesses disposed and closed but include revenue and profit from acquisitions. Ongoing Operating Profit is before central and regional overheads.

Reasons to invest

We believe that Rentokil Initial represents a compelling, compounding growth opportunity for investors.

We are a stable and sustainable growth company that aims to combine organic growth with rising margins and the allocation of free cash flow into value-creative M&A. Rentokil and Initial are the world's largest commercial pest control and hygiene businesses with unrivalled global position, service expertise and innovation creating high barriers to excellence. We set out our principal reasons to invest below.

We are a leader in our chosen markets

generating high returns with good growth opportunities. Rentokil is the world's leading commercial pest control business and our principal engine for growth. We are the brand leader in the industry and believe we possess unrivalled technical expertise. Initial is the global leader in hygiene services with a focus on service quality to grow market share and drive management and back office synergies with other business lines.

Pest Control

Top 3

positions in 66 of our 73 markets

Hygiene

Top 3

in 34 of our 41 markets

We have a clear differentiated management strategy

to drive performance and capital allocation. Our targeted strategies reflect our ability to develop and grow. We have an increasing focus on Growth and Emerging markets. Disciplined investment in capital expenditure and M&A is focused on those areas offering the best returns and sustainable growth.

We are highly cash generative

and this supports our balance sheet and enables us to fund our M&A programme, implement a progressive dividend policy and pay down debt.

Free Cash Flow generation

£192.0m

in 2018

% cash conversion

94.2%

Rentokil Initial is run by an experienced and proven management team

executing our strategy successfully and at pace. We are a people and values-based organisation. Our expert service teams are highly trained and equipped with the best tools to perform their roles, supported by a strong innovation pipeline. We have a clear governance framework and are committed to transparent reporting.

6th out of 800,000

Andy Ransom, our Chief Executive, was ranked in 6th place out of 800,000 in the 2018 Top CEOs – Employees' Choice awards on Glassdoor, gaining an approval rating of 98%.

30%

of our Group senior managers are women, higher than the 25% average across the Group as a whole.

We have a clear plan to deliver 5% to 8% Ongoing Revenue growth over the medium term

We understand our customers' needs for enhanced health and hygiene standards and deliver high service levels across our diverse customer base. Our operational growth levers are focused on retention, upselling and organic sales. We have a proven city and route density focused M&A strategy.

Ongoing Revenue growth in 2018

+13.2%

at £2,493.0m

Five-year compound annual growth rate

+11.1%

There is further scope for profit growth and margin enhancement

We drive margins in part by focusing on increasing route density through organic and inorganic revenue growth. We operate a low-cost support structure through shared back offices and efficient administration. We are leaders in utilising technology and innovation to deliver a competitive advantage in our customer sectors.

A snapshot of our year

Growth in Pest Control and Hygiene

Despite a slow start to the year in North America and the continued impact on our Puerto Rico operations from Hurricane Irma in September 2017, our Pest Control operations performed strongly in 2018, growing Ongoing Revenue by 12.6%, and Ongoing Operating Profit by 9.9%, with all regions contributing to growth. This has been aided by a strong performance in innovation and digital technology. In Hygiene, we delivered revenue and profit growth of 26.5% and 19.9% through a combination of strong operational focus and targeted M&A to build city-density.

Q Read more on pages 30 to 37

France Workwear return to year-on-year profitable growth

After many years of consistent and dedicated hard work to improve the operational and financial health of our France Workwear business, we are extremely pleased that the business returned to year-on-year profitable growth of 2.8% for the year ended 2018, reaching this goal six months ahead of schedule in June 2018. This has been achieved through an outstanding execution of strategy by our management team, which has focused on service and product quality to drive customer retention, together with profit improvement and margin protection initiatives.

Q Read more on pages 38 and 39

Pest Control Capital Markets Days – London & New York

On 16 and 17 May 2018 our Group senior management team hosted two Capital Markets Days to give greater insight to our investment community into our global pest control operations, as well as product demonstrations to showcase how we use technology and innovation to create value. Sessions included the dynamics of the pest control industry, the Rentokil business model, our North America operations, pest control opportunities in Emerging markets, leveraging M&A, our financial model to compound growth and our focus on becoming an Employer of Choice.



All presentations are available for download on our website at rentokil-initial.com.

The Queen's Award for Enterprise for Innovation in Pest Control

Innovation is a core part of our DNA and underlines our credentials as the global leader in commercial pest control. We are leading the industry in digital pest control and work with best-in-class partners, such as Google, to set increasingly high standards of service for our customers. We were therefore honoured and delighted to have received The Queen's Award for Enterprise for Innovation for our RADAR and PestConnect system, testament to our leadership position in product and digital innovation. The award, which is in recognition of the hard work and commitment of all our colleagues across the world, builds upon our earlier success in 2017 when we were awarded The Queen's Award for Enterprise for International Trade.

Q Read more innovation in Pest Control on page 32

An excellent year of M&A

2018 has seen particularly strong execution of our M&A programme with a record 47 businesses acquired during the year, principally in Pest Control in Growth and Emerging markets. This year we acquired 42 pest businesses which both add local density to our existing operations and build on our platforms in high growth areas including vector control, fumigation and aquatic pest control. North America remains a key territory for pest control acquisitions and this year we have acquired 14 businesses, further reinforcing our position as the number three player in the world's largest market. In addition, as our confidence grows in the performance of and prospects for our Hygiene business, we have heightened our focus on finding strong and attractive Hygiene targets and our acquisition of Cannon Hygiene Services in January 2018, combined with the highly successful integration of the CWS Italy hygiene operations acquired in 2017, have contributed strongly to our overall performance in this core category.

Q Read more on pages 30 to 37

Combined annualised revenues of businesses acquired in 2018

£170.0m

Total spend on M&A in 2018

£298.4m

Acquisitions in Pest Control

42

Our markets – Pest Control

Rentokil is the world's leading commercial pest control business.

Pest control covers a vast array of pests, some unique to certain countries or climates, while others (such as rodents) are present in every country around the world. We have a principal focus on Growth and Emerging markets with number one positions in 50 markets, number two positions in eight markets and number three positions in eight markets globally.

The pest control market offers sustainable, long-term growth prospects and is expected to deliver a compound annual growth rate (CAGR) of around 5%. The global commercial pest control market is worth c. \$8bn p.a. and the total global pest control market is worth c. \$18bn.

1. Market Data Forecast: August 2017, Rentokil Market Data & Allied Market Research Report, Allied Market Research: Global Opportunity Analysis and Industry Forecast, 2017-2023

Building on our market-leading positions

Market position	Number of Rentokil markets		
	Established	Emerging	Total
1	31	19	50
2	4	4	8
3	5	3	8
4/5	5	2	7

Key structural growth drivers

1 Growing population

The world's population is growing by 80m people each year and forecast to total 8.6bn by 2030, creating further demand from pest proximity.

2 Climate change

By 2050 increased pest and hygiene challenges posed by climate change are expected to result in approximately 250,000 additional deaths a year from malaria, diarrhoea and other diseases.

3 Rising standards

Increasing global convergence and transparency in global standards, particularly adoption of global standards in emerging markets.

4 Urbanisation

It is estimated that 70% of the population will live in cities by 2050 (1990: 43%) where pest issues are most prevalent.

5 Rise of pests

The global rat population is estimated to increase to 7bn within the next few years, raising demand for non-toxic solutions to counter infestations.

6 Increasing business pressure

22% of facilities across the global food chain have some record of pest activity at any one time with significant reputational risk.

7 Rise of middle classes

Estimates suggest 160m more people join the middle class every year with increasing hygiene standards and lower pest tolerance.

8 Vector-borne diseases

More than 3.9bn people in over 128 countries are at risk of contracting dengue fever, with 96m cases estimated per year.

9 Rise of pest intolerance

Pest infestations cost businesses £5.8bn every year.

An \$18bn worldwide pest control market

North America

\$9.0bn

Europe

\$3.4bn

Asia

\$2.6bn

Latin America

\$1.4bn

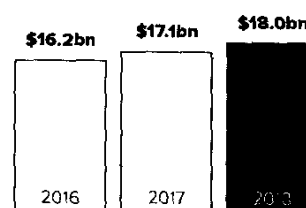
Pacific

\$0.8bn

Rest of World

\$0.8bn

Global pest control market value (\$bn)



Our markets – Hygiene

Initial Hygiene is the world's largest hygiene services business.

Initial Hygiene is the leading hygiene services business in 19 of its 41 markets around the world with a number two position in 12 countries and a number three position in three markets.

The hygiene services market offers good growth opportunities as organisations demand increasing standards of hygiene – hand hygiene, air hygiene and a professional feminine hygiene service.

As a leading player in the hygiene industry, Initial Hygiene has award-winning products and one of the world's strongest brands, which is particularly valuable in Emerging markets. We have an in-depth understanding of the importance of density of customers by location, what we call 'postcode density', and by the number of serviced products by customer, or 'product penetration' and key operational drivers of growth.

Hygiene: leading market positions

Market position	Number of Initial markets		
	Established	Emerging	Total
1	15	4	19
2	7	5	12
3	3	0	3
4/5	2	5	7

Key structural growth drivers

1 Growing and ageing population

The world population is growing by 80m people each year and forecast to total 8.6bn people by 2030, putting increasing pressure on health resource.

2 Increased legislation

This is driving rising standards of hygiene around the world, particularly in food businesses which are considered to present higher risks to public health than other non-food sectors.

3 Millennial mindset

Largest generation in the (US) workforce, the driving force behind the wellness trend, where mental, physical and emotional dimensions are in sync.

4 Urbanisation

It is estimated that 70% of the population will live in cities by 2050 (1990: 43%), placing increasing importance on the role of public spaces and access to nature.

5 Rising hygiene expectations

Awareness is increasing about the link between good hand hygiene and wellbeing/cost of absence/illness in workplaces and healthcare facilities. Absenteeism costs the UK economy £18bn, forecast to rise to £26bn by 2030.

6 Air quality

Accounting for over 3m deaths per year, air quality is recognised as being the key factor in improving wellness globally.

7 Wellbeing accreditations

Wellbeing is increasingly being incorporated into building standards, with 82% of employers stating a preference for wellness-enabled buildings (according to the CBRE Group, Inc. 2018).

8 Wellness at work

Productivity is replacing utilisation as a core metric of workplace performance aligned to health and happiness – unwellness at work costs US \$2.2tn/12% GDP annually.

9 Technology enablement

Wearable fitness technology is forecast to double by 2021 with over 100m devices and informs on wellness acceptance levels and corporate improvements.

Our business at a glance

Our mission

Protecting People. Enhancing Lives.

Our vision

To become a world-class services company, protecting people and enhancing lives through industry leading innovations, best-in-class product and service quality, and care for our colleagues, customers and communities across the globe.

Our values

Our three values were identified and developed by colleagues around the world and represent the DNA of our company, irrespective of business or geography. Each of our values is underpinned by a set of agreed behaviours.

Service

We are passionate about delivering excellent service to every customer. We keep our promises and do what we say we will do. At Rentokil Initial everything starts with the customer and our passion to provide customers with great value and service drives everything we do.

Relationships

We value long-lasting relationships with our colleagues and customers. We keep colleagues and customers informed about changes that affect them. We listen to people's needs and concerns, and act on what they tell us. We are honest and straightforward in our conversations.

Teamwork

Our business is all about great teamwork and getting this right to benefit our customers. We work with our colleagues to deliver great results and support them in their endeavours. We treat them with respect and recognise everyone has an important role to play. We trust our colleagues to take ownership of customer relationships and ensure they have the right support, tools and training to do their job well.

Our objectives

We have set ourselves three medium-term financial objectives. They are to deliver Ongoing Revenue growth of between 5% to 8% per annum, Ongoing Operating Profit growth of c. 10%, and Free Cash Flow conversion of c. 90%.

Q To see how we performed this year, please see page 15

Our strategy

Since February 2014 we have implemented an effective and consistent strategy – called our **RIGHT WAY** plan – at pace and this strategy has delivered consistent progress against our financial targets. The plan is based upon a model for the company which includes five distinct regions: North America, Europe, UK & Rest of World, Asia and Pacific. Our core competencies are our colleagues as experts, our category leadership in pest control and hygiene, and our lean, low-cost business model. We are leaders in digital and innovation and use six operational levers to address growth challenges.

Our strategy by business category

Pest Control

To strengthen our position as global leaders through increased organic growth and by establishing stronger market positions particularly in Growth and Emerging markets, and through digital expertise, innovation and acquisitions.

Hygiene

To deliver continued growth through a combination of strong operational focus and targeted M&A to build city-density. At the heart of our strategy is the delivery of excellent customer service and product innovation.

Protect & Enhance

To protect and enhance the four businesses within the category – France Workwear, Ambius, Property Care and Dental Services – through focus on enhanced service, customer retention and profit protection.

Q Please see pages 30 to 39 for additional details

Our business at a glance

Our stakeholders and how we engage with them

Colleagues

Key to successful engagement is line manager quality and we provide tools and training to enable communication and recognition. Our most recent all-colleague survey conducted by Korn Ferry Hay Group, shows colleague engagement at world-class high performance levels.

Customers

Our customers range from global food and pharmaceutical producers to national hotel chains, regional industrial goods businesses, local restaurants and residential customers. Customer engagement is delivered through technician/customer relationships and the deployment of digital tools providing greater levels of transparency and access to service information.

Shareholders

Our investors range from global investment funds to small private investors. Engagement is through meetings, calls, capital markets days, conferences, quarterly trading updates, presentations, the Annual Report and our website.

Communities

We respect the communities in which we operate and employ people, but also accept a wider responsibility to key communities around the world. We support many local charities and key partners are Malaria No More UK, Cool Earth, and our own Better Futures community health programme in Asia.

Suppliers

Our suppliers range from global suppliers of key products and consumables to small, local suppliers supporting our local branch network. They provide bait, technology, consumables and waste disposal. Supplier engagement is delivered through dedicated supply chain teams, both at local and Group level.

Q Please see our Corporate Responsibility update on pages 48 to 54 for further details

How we measure success

We use key performance indicators (KPIs) to judge progress towards strategic objectives. They are grouped within three categories: colleagues, customers and shareholders.

Colleagues

As a service organisation, our people are the key to profitable growth. Our priorities are therefore the health and safety of our colleagues and making sure we train, develop and equip them with the necessary tools to do their jobs to their maximum ability. We measure our performance here by monitoring Lost Time Accident rates and Working Days Lost rates.

Customers

Customer retention is critical to our success and we aim to do this by keeping our promises to our customers and delivering outstanding service to them at all times. We measure this by monitoring Group state of service metrics and by measuring customer satisfaction through our Customer Voice Counts surveys (Net Promoter Scores).

Shareholders

We aim to drive shareholder value by consistent delivery of three core financial metrics. These are Ongoing Revenue, Ongoing Operating Profit and Free Cash Flow. We set ourselves medium-term targets of 5% to 8% Ongoing Revenue growth, c. 10% Ongoing Operating Profit growth and Free Cash Flow conversion of c. 90%.

Q A full review of our progress on our KPIs in 2018 can be found on pages 28 and 29

How we reward people

We believe that recognising, appreciating and rewarding our people are essential ingredients to maximising colleague engagement and retention.

Reward

The right fixed and variable pay is core to attracting and retaining talent and we continually review and monitor pay levels to ensure we remain competitive. We use Willis Towers Watson (WTW) grading globally to ensure we have the same approach to role sizing and positioning in all our businesses. We also use WTW and Mercer data for pay benchmarking and annual pay reviews.

Recognise

We recognise our employees for excellent customer service through customer feedback and have a number of awards programmes to recognise success, including our First Class Awards in the Pacific, our Presidents Club in North America, and our RI Awards programme in the UK & Asia. Our managers use internal social media (smartphones and Google+) to acknowledge effort and performance in real time. We also canvass colleagues opinions through our biennial Your Voice Counts surveys and our 2017 survey revealed a 74% favourable score, 1% above the High Performing Norm.

Q Read more in our Directors' Remuneration Report on pages 81 to 97

Our business model

Market-leading businesses

Pest Control

Rentokil offers a complete range of pest control services, from rodents to flying insects, to other forms of wildlife management.

Hygiene

Initial Hygiene provides a dedicated and expert hygiene service. It offers the widest range of washroom hygiene services including the provision and maintenance of products.

Protect & Enhance

Initial Workwear specialises in the supply and laundering of workwear, uniforms, cleanroom uniforms and personal protective equipment. **Ambius** offers interior landscaping services and our **Property Care** business provides property preservation and wood rot treatment services. Our **Dental Services** business specialises in the disposal and recycling of dental waste.

Q Read more about our business on pages 30 to 39

How we operate

In February 2014 we announced our **RIGHT WAY** plan to deliver sustainable revenue and profit growth. Our plan is based on a clear business model for the Company which includes strong multi-local operations across the world.

Our geographic regions

North America

Europe

UK & Rest of World

Asia

Pacific

Service coverage of global GDP

c. 90%

Presence in the world's largest cities

90/100

Number of service teams

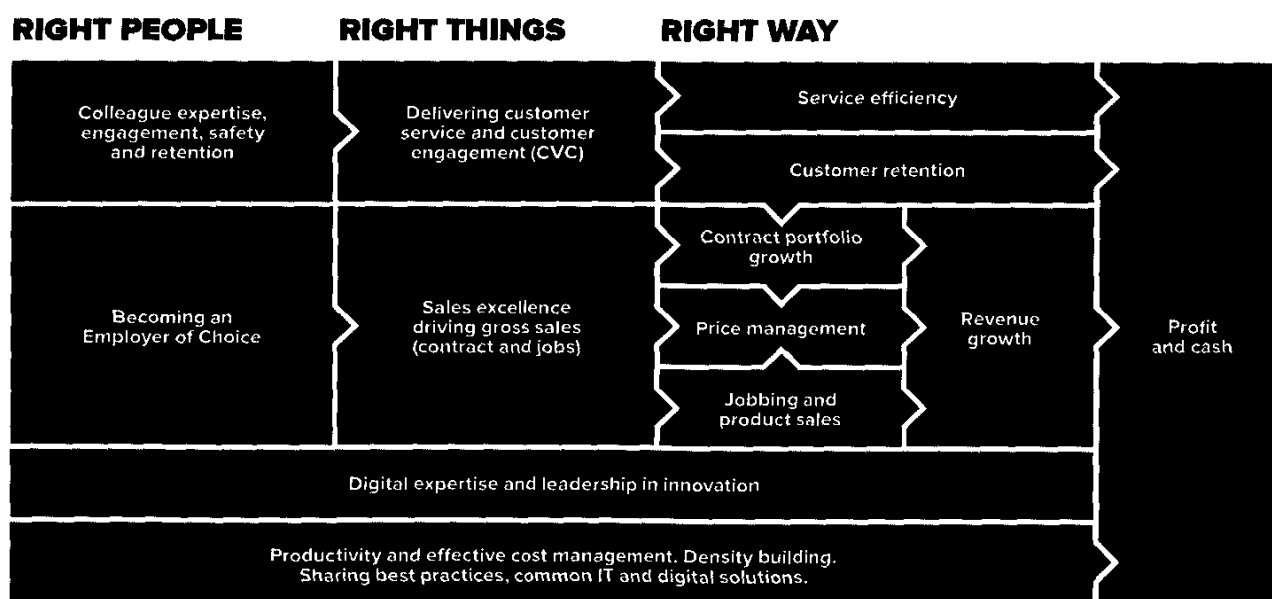
c. 1,800

Percentage of revenues derived outside of UK

89%

Q Read more about how we operate on pages 16 and 17

Consistent and efficient operational model



Our business model

Why we're different – expertise of our people

Rentokil Initial employs around 39,500 experts and invests in training and development to ensure their know-how is unrivalled. We choose people who live our values of Service, Relationships and Teamwork. Experience is less important in some roles than attitude as we provide the best training in our industries. This year we have continued to see very positive colleague opinions on workplace review site Glassdoor and are ranked 8th out of 800,000 companies in the 2018 Employees' Choice, 'UK's Best Places to Work' and 7th in the UK's Best Workplace – Leadership and Culture survey by Glassdoor and the Chartered Management Institute.

Glassdoor rating¹

4.2/5

Would recommend the Company to a friend

83%

Glassdoor CEO approval

93%

UK businesses Trustpilot rating

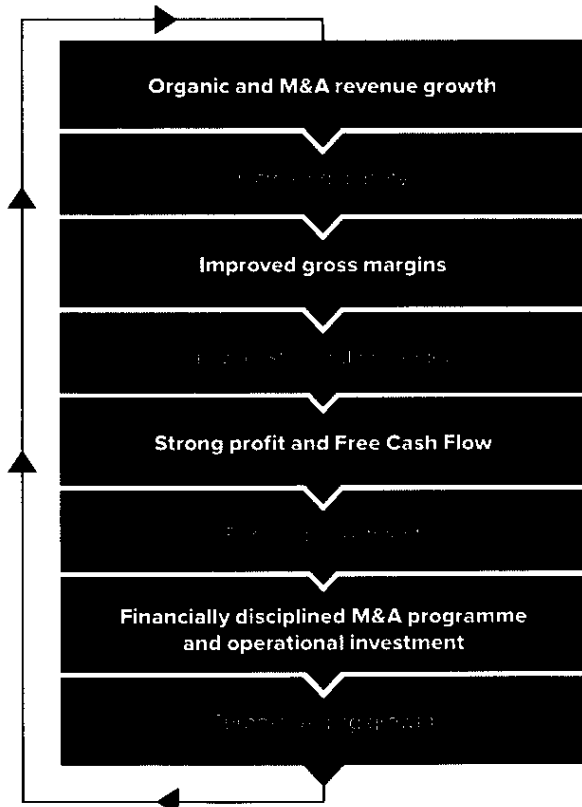
Excellent

¹ As of 31 December 2018.

How we create value

Our financial model to compound growth is a virtuous circle predicated on delivering growth organically and through M&A which leads to increased density and is directly correlated to improved gross margins across our business categories. The above, combined with our low-cost operating model, drives strong profitable growth and sustainable Free Cash Flow which is deployed in two ways: first, into a financially disciplined M&A programme and operational investment; and second, into maintaining our progressive dividend policy.

Compounding revenue, profit and cash flow growth



Leadership in digital and innovation

Rentokil Initial is leading the way in digital products and applications and innovating at pace. We are seeing unprecedented levels of change in the impact of technology on our customers and our frontline and back office colleagues, and use IT to improve the quality and consistency of service delivery, drive innovation and reduce costs. We believe we are leading the pest control industry in the commercialisation of the 'Internet of Things' through connected devices and have digital expertise at every stage of the customer journey from web searching through to e-billing. Innovation underlines our brand positioning as the experts in pest control and continues to differentiate the business. It is also an important driver of organic growth and enables us to enhance our product offering while at the same time meeting emerging threats and new regulatory requirements. We have a strong pipeline of innovations in place which target key pest groups of rodents and insects.

Lumnia Insect Light Trap units shipped to date

c. 60,000

Connected devices being used on our customer premises

70,000+

Revenue generated by sales of Lumnia Light Traps to date

c. £20m

Connected messages sent during 2018

+50m

Capital allocation model by category

Our capital allocation model by category is working well.

Since the first articulation of our **RIGHT WAY** plan five years ago we have worked steadily to improve the quality of our revenues, 85% of which is generated by our core categories of Pest Control and Hygiene.

Business	Strategy	Market context
Pest Control	<p>Pest Control is our core business and our primary engine for growth. Continued acceleration of our business can be achieved by building on our unrivalled global leadership through further expansion in Growth and Emerging markets, both organically and through our value-creating acquisition programme. Areas of key focus include developing our digital capability, exploiting national and international sales opportunities and continued pest control products and services innovation. In M&A we look for an IRR of 13% in Growth markets and 15% in Emerging markets.</p> <p>Q Read more on pages 30 to 34</p>	<p>Key factors which are driving consistent growth include an increasing population, additional legislation in critical areas such as food safety, and a growing pest burden of species such as mosquitoes. The world population is expected to grow to 8 billion by 2025, impacting specifically on strategically important markets to us, including India, China and Brazil, where we are already experiencing double-digit revenue growth.</p>
Hygiene	<p>We have continued to make further progress in revenue growth in Hygiene in 2018. Our focus is to build on the strength of our leading Hygiene brand and strong market positions, sell our range of award-winning hygiene products with confidence, lead the way on product and service innovation, build city density and extend our footprint through organic growth and targeted M&A. In M&A we look for an IRR of between 15% and 20%.</p> <p>Q Read more on pages 35 to 37</p>	<p>As with Pest Control, our Hygiene businesses operate in an attractive industry offering good growth opportunities as expectations around standards of hygiene increase. Margins are driven by postcode density (servicing as many customers as possible in a tight geographic zone) and customer penetration (selling multiple service lines to customers). What we seek therefore is more customers on our routes and more products within customers' premises.</p>
Protect & Enhance	<p>The businesses included in this category are Workwear (France), Ambius (global) and Property Care (UK). It also includes a sub-scale Dental Services business (Germany and Sweden). All are cash-generative businesses and combined represent c. 11% of Ongoing Operating Profit. Our strategic focus is on enhanced customer service, customer retention and profit protection. Acquisition opportunities are likely to be more limited than in Pest Control and Hygiene and require an IRR of 20%+.</p> <p>Q Read more on pages 38 and 39</p>	<p>Initial Workwear is the No. 2 player in the French workwear market and returned to year-on-year profitable growth in 2018. Market conditions have been challenging for a number of years due to economic pressures and an intense pricing environment, but have improved in 2017 and 2018, reflecting a better economic outlook and some easing of pricing pressures. Our multi-award-winning interior landscaping business, Ambius, also operates in competitive markets with pricing pressures but benefits from a large Christmas market in North America. Our UK Property Care business is closely linked to the housing market which has weakened since the June 2016 Brexit referendum result and the General Election and has seen a decline in revenue as direct result.</p>

Capital allocation model by category

Our focus for 2019

Growth markets

- Deploy innovation consistently in key pest sectors and with new non-toxic solutions
- Target new services, for example fumigation (Europe, UK) and Brand Standards (North America)
- Harness the digital opportunity across the customer lifecycle. Capitalise on success of connected pest control with a wider product range and complete roll-out of customer extranet portals
- Maximise national and international accounts capability
- Build margins by leveraging scale and building density, particularly in North America
- Continue to execute strong M&A programme

Emerging markets

- Build stronger positions in higher-growth markets: Latin America, (our youngest business but growing rapidly), China (which remains a significant opportunity with the right model), India (where we are exploiting our scale since the integration of Rentokil PCI) and the Middle East and Africa (where we are well placed to grow)
- Use innovations and the power of the Rentokil brand to target international customers (particularly global food supply chains)
- Exploit mosquito/vector control opportunities, particularly in Brazil
- Drive productivity enhancements such as ServiceTrak and other digital tools
- Acquire city-based businesses to build scale and density

- Target upselling of multiple services to customers using our full Hygiene range
- Gross margin-based sales commission and incentives
- Innovation focused on highest growth sectors such as Air Care (purification and scenting, particularly in Asia) and sensing technologies (sharing expertise from Pest Control)
- Development of strong pipeline of new products and introduction of lower-cost products in targeted sectors, such as feminine hygiene
- Target growth through national accounts and relationships with facilities management providers
- Build route density through targeted selling, use of tools such as ServicePlus and a targeted, city-focused acquisition programme

- **France Workwear** – further implementation of Quality Agenda (see page 38 for more details) to deliver operational and financial stability
- **Ambius** – deliver Organic growth of 3%, focus on implementation of Project 90 (90% customer retention), work to achieve recognition as the interior plants solution partner of choice in our top 10 markets
- **UK Property Care** – maintain strength of service proposition despite market challenges, convert increasing web enquiries into sales and develop pest proofing service lines to reduce dependence on UK housing

Progress in 2018

£1.6bn

Ongoing Revenue, up **12.6%**

£277.0m

Ongoing Operating Profit, up **9.9%**

42

acquisitions completed in 2018

£536.7m

Ongoing Revenue, up **26.5%**

£90.2m

Ongoing Operating Profit, up **19.9%**

4

acquisitions completed in 2018

£384.4m

Ongoing Revenue, up **0.7%**

£45.1m

Ongoing Operating Profit, up **10.6%**

£26.9m

Ongoing Operating Profit France Workwear up **2.8%**

1

small Ambius acquisition completed in 2018

Key performance indicators

Measuring achievement in 2018

Priorities and principles	Link to strategy	How we measure performance
Colleagues Ensuring 'Everyone Goes Home Safe'	<ul style="list-style-type: none"> As a service organisation, our people make our company what it is. Our priority is ensuring 'Everyone Goes Home Safe'. Health & Safety (H&S) is the first agenda item in all senior management meetings (including Executive Leadership Team and Board). We hold an annual Board review of H&S Policy. 	Lost Time Accident (LTA) rate LTA rate defined as number of lost time accidents per 100,000 standard working hours. Working Days Lost (WDL) rate WDL rate defined as number of working days lost as a result of LTAs per 100,000 standard working hours.
Employer of Choice	<ul style="list-style-type: none"> We invest in training and development to ensure our colleagues' expertise is unrivalled. We recruit, appoint and promote on merit. We listen to our colleagues via 'Your Voice Counts' (YVC) surveys and act on feedback to make improvements. 	Sales and service colleague retention Defined as total sales and service staff retained in year as a percentage of sales and service headcount at start of year. YVC trend score analysis.
Customers Keeping our promises to customers	<ul style="list-style-type: none"> We are passionate about delivering excellent service to every customer and keeping our promises to them. 	State of Service Defined as total number of service visits performed as a percentage of total number of visits due.
Delivering outstanding customer service	<ul style="list-style-type: none"> Our business model depends on servicing the needs of our customers in line with internal high standards and to levels agreed in contracts. Measuring customer satisfaction allows us to identify unhappy customers, reduce customer attrition and increase revenue, profit and cash. 	Customer Voice Counts (CVC) Measured by implementation of an average Net Promoter Score across all branches, including in-year acquisitions. CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting.
Retaining our customers	<ul style="list-style-type: none"> Customer retention is crucial to our long-term success. Benefits include: increased purchasing and cross-selling; lower price sensitivity and terminations; positive customer recommendations and a strengthened unique selling point. 	Customer retention Defined as total portfolio value of customers retained as a percentage of opening portfolio.
Shareholders Driving higher revenue	<ul style="list-style-type: none"> We aim to drive shareholder value through higher revenue by focusing on our Pest Control, Hygiene and Protect & Enhance businesses, supported by M&A investment and divestment of non-core or poorly performing businesses. Medium-term financial target: 5% to 8% Ongoing Revenue growth. 	Ongoing Revenue growth Defined as revenue growth (at CER) from the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses.
Achieving greater profitability	<ul style="list-style-type: none"> Our objective is to deliver sustainable profit growth through reductions in central/regional overheads and restructuring costs, and by improving service productivity pricing and margin improvement. Medium-term financial target: Ongoing Operating Profit growth of c. 10% per annum. 	Ongoing Operating Profit Defined as operating profit (at CER) from the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Operating Profit is an 'adjusted' measure and is presented before amortisation and impairment of intangible assets (excluding computer software) and one-off items.
Delivering sustainable Free Cash Flow	<ul style="list-style-type: none"> We aim to generate sustainable Free Cash Flow through managing working capital, bringing capex in line with depreciation and significantly reducing restructuring costs. Medium-term financial target: Free Cash Flow conversion of c. 90% per annum. 	Free Cash Flow at AER Defined as net cash flows from operating activities, adjusted for cash flows related to property, plant, equipment and software, the interest element of finance lease payments and dividends received from associates.

Key performance indicators

Commentary on performance

- All our operations, with the exception of Europe, have LTA rates at world-class levels (<1.0) but increased LTAs in H1 negatively impacted performance, despite improvements in H2 and a record safety performance in Q4. Overall WDL increased slightly due to increased WDL in Europe (which accounts for approximately one third of the Group's total).
- In 2018 we continued to deploy Safety Leadership Behaviours to encourage our managers to display positive leadership and also launched a global 'Safety Moments' initiative to encourage colleagues to share personal safety experiences.
- Also in 2018 our SHE leadership team produced 36,000 online training courses on driving at work, vehicle and motorcycle safety, thermal fogging, working with explosive atmospheres, ladder safety, working at height and workplace transport safety.
- During the year our UK business won a Gold Award from the Royal Society for the Prevention of Accidents and in India, Rentokil PCI won the award for Best Company in Facility Management for driving corporate commitment in occupational safety from the International Institute of Security and Safety Management.
- Fatal incidents in 2018 included two road traffic incidents, both involving third parties who were found to be at fault, and the death of a colleague in Guatemala who died from electrocution on a customer's premises. Further, one of our technicians in India died after contracting septicaemia as a result of sustaining spinal injuries in a fall from height in 2017.

- The challenge of attracting and retaining talent in a highly competitive and complex market continues, but we believe we have built sound foundations through our Employer of Choice programme.
- During the year we launched our new global recruitment portal in 17 markets, resulting in a 400% increase in online applications per role and a 24% improvement in time to hire.
- We believe we are raising the bar in our industry for the quality of our training and development programmes and during 2018 developed over 500 online training courses and videos, resulting in approximately 1.2m views of training content.
- Diversity is important to us and in 2018 we launched our first 'Women in Pest Control' programme designed to encourage female recruitment and retention.
- Project 365 is focused on improving short-term retention (0-6 months, 6-12 months) and we have made particularly encouraging progress in our Europe and Asia regions. 0-6 months service colleague retention in Europe rose by 15% to 92% and 6-12 months service colleague retention in Asia rose 17% to 95%.
- We believe line manager quality is vital to retaining colleagues and we have targeted resources to improve standards, with very positive candidate and manager feedback.

- In-year improvements have been generated through:
 - increased customer account management to drive customer loyalty;
 - improved customer service responsiveness within European operations, in particular in our Workwear operations through implementation of the Quality agenda; and
 - improved products and services.

- We made over 117,000 CVC calls globally to our customers in 2018 (2017: 110,000) to rate us on five service elements: technician, complaint handling, customer contact, product quality and documentation.
- Asia was the most improved region in 2018, with an increase of 4.8 points to 48.6 points. Our Rest of World operations improved by 3.2 points to 43.7 points. Our Pacific region declined by 1.3 points, however the region has a high overall score of 59.2 points. The highest net promoter scores in Group of 61.2 points were received by our UK and Ireland operations.
- In our Pest Control category Europe improved by 3.9 points to 40.4 points and Asia improved by 3.8 points to 46.1 points. While scores from North America remain very high overall at 57.8 points, they saw an in-year decline of 2.9 points in 2018.
- Our Hygiene category improved overall by 0.1 points to 48.1 points across the Group, with Asia showing the greatest improvement of 6.1 points to 52.1 points.

- Our 20 basis point in-year improvement has been generated through:
 - increased customer account management to drive customer loyalty;
 - improved customer service responsiveness within European operations, in particular in our Workwear operations through implementation of the Quality agenda; and
 - improved products and services.

- 13.2% Ongoing Revenue growth in 2018 was in excess of our medium-term target of 5% to 8%. Organic Revenue growth was 3.7% and growth from acquisitions 9.5%.
- Organic Revenue growth was in line with financial targets, but affected in H1 by the ongoing impact of last September's hurricane on our operations in Puerto Rico and unseasonably cold weather in March and April in North America. This improved to 4.3% in H2 from 3.0% in H1. Adjusting for the impact of Puerto Rico, Group Organic growth was 4.0% and at the upper end of our medium-term target of 3% to 4%.
- Pest Control grew strongly at 12.6% (4.8% Organic), driven by strong innovation and digital performance, as recognised by The Queen's Award for Enterprise – Innovation.
- Hygiene delivered an excellent performance with Ongoing Revenue growth of 26.5%, 2.8% Organic, aided by the acquisitions of Cannon Hygiene Services and CWS Italy.
- 47 companies were acquired in 2018 adding £170m of annualised revenues.

- Ongoing Operating Profit growth of 13.3% is in excess of our medium-term target of c. 10% and reflects growth in all regions and our return to profitable growth in our France operations.
- Adjusted profit before tax at actual exchange rates of £308.0m increased by 7.4% on 2017, reflecting growth in all regions of operation partially offset by the adverse impact of foreign exchange.

- Free Cash Flow of £192.0m (2017: £175.8m) represents an increase of £16.2m on the prior year and an adjusted Free Cash Flow conversion of 94.2% (2017: 87.0%), in line with our medium-term target of c. 90%.

Our progress in 2018

0.63

2018 LTA rate
(2017: 0.58)

14.77

2018 WDL rate
(2017: 11.65)

82.1%

Sales colleague retention
(2017: 77.3%)

85.1%

Service colleague retention
(2017: 76.0%)

97.9%

State of Service
(2017: 97.8%)

43.0

Customer Voice Counts points
(2017: 44.0 points)

85.9%

Customer retention
(2017: 85.7%)

13.2%

Ongoing Revenue growth
(2017: 14.5%)

13.3%

Ongoing Operating Profit growth
(2017: +14.5%)

£192.0m

Free Cash Flow, 94.2% conversion
(2017: £175.8m, 87.0% conversion)

Strategy in action – Pest Control

Focused on delivering consistent, profitable growth while building strong market-leading positions

We have strengthened our position as global leaders in pest control through increased organic growth and by establishing stronger market positions, particularly in Emerging and Growth markets, and through innovation, digital expertise and acquisitions.

Our Pest Control strategy

Pest Control is our core business line and our engine for growth. Continued acceleration of the business can be achieved through:

- building on our unrivalled global leadership through continued expansion in Growth and Emerging markets, with a continued focus on North America;
- maintaining a strong, value-creating acquisition programme to build density;
- harnessing the digital opportunity – completing the roll-out of our best-in-class customer portals and developing web presence for a mobile/digital-first world. We aim to lead in connected products, particularly for high dependency food clients;
- exploiting the international sales opportunity using tight profiling and framework agreements. Our pipeline of international opportunities is worth just under £60m; and
- continuing to innovate at pace for future growth through deployment of new pest control products and services from our innovation pipeline.

A resilient and growing market

Pest Control is an attractive, non-cyclical growth market worth c. \$18bn and expected to deliver a CAGR of around 5% through to 2023¹. Approximately 46% of the global market is Commercial pest control, 35% is Residential and 19% is Termite. North America is the world's single largest market and worth 50% of the total. Pest control has multiple growth drivers including increasing pest pressures, climate change, urbanisation, growing middle classes, rising consumer expectations for hygiene standards and increasing workplace and food regulations (for more details, see page 20).

Vector control is an important growth sector within the global pest control market and is estimated to be worth an additional \$3.1bn. Vector control interrupts or eliminates local transmission of diseases, reduces vulnerability to disease and prevents secondary infection from introduced diseases to prevent further outbreaks. The most frequent vector control activity is mosquito control. Asia and Latin America are considered to be particularly important markets because of the dangers to public health from mosquito-borne diseases, notably dengue fever, Zika virus and malaria.

Growth markets

These markets include North America, the UK, Pacific, Germany, Benelux and the Caribbean. They represent 54% of Group revenues and 59% of Group Ongoing Operating Profit and have delivered a five-year CAGR of 14.7%.

North America is particularly important and *our business here provides national pest control coverage*, supported by 300+ branches, 45 distribution centres and over 8,000 colleagues. 75% of revenues are contracted with the remaining 25% comprised of jobbing revenue. North America has delivered a five-year revenue CAGR of 21.1%. Our strategy in this region is to build density through organic initiatives and successful M&A. Organic initiatives include growth in national and international accounts, product innovation, harnessing the digital opportunity and leveraging our B2B sales capability in our core sectors of food processing, food retail, healthcare and offices. We have a proven track record in M&A and, as the 'buyer of choice', our pipeline remains particularly strong.

At our Capital Markets Days in 2018 we set out our ambition for our North America business to become a \$1.5bn revenue, 18% Net Operating Margin business by the end of 2020. We have made excellent progress towards our revenue target as noted above, with ongoing revenue growth of 12.3% in the year and acquisitions with combined annualised revenues of over \$53m. Based on our revenue growth expectations for the region of 12 to 15% per annum, we are confident that we will deliver the c. 10% compound annual growth rate (CAGR) required in revenue growth in 2019/20 to achieve our \$1.5bn revenue target.

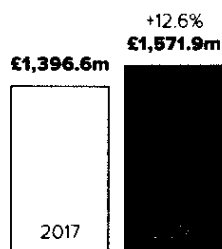
Our progress towards our net operating margin target improved in the second half of the year, rising by 50 basis points and supported by stronger organic growth and savings in property and procurement from our Best of Breed cost savings programme. We are making steady progress with our IT transformation and to ensure that the replatforming of the business and the deployment of Group IT applications are delivered effectively, we have put back the date for completion by 12 months to H1 2020. This will have an associated impact on our expectation for the timing of systems dependent savings in areas such as

1. Source: Various market reports including Allied Market Research and Genesis Market Research

Strategy in action – Pest Control

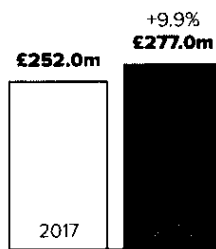
Ongoing Revenue

(AER: £1,537.9m, +10.1%)

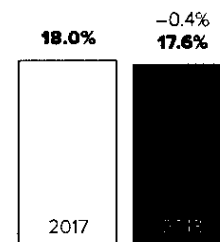


Ongoing Operating Profit

(AER: £273m, +8.3%)



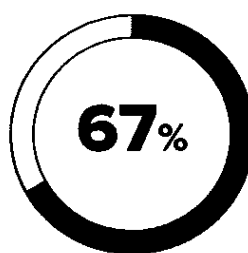
Operating Margin²



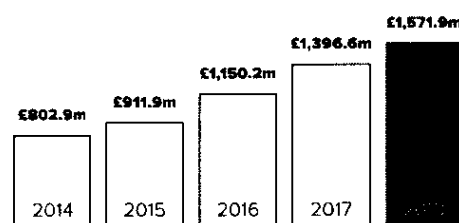
Pest Control as % of Group Ongoing Revenue



Pest Control as % of Group Ongoing Operating Profit¹



Five-year Ongoing Revenue growth CAGR 16.2%



2. Pre central and regional overheads and restructuring costs

Service Productivity and Field Administration, meaning that we now expect our 18% margin target to be delivered at the end of 2021.

Since 2014 we have acquired 112 new pest control businesses in Growth markets (56 in North America). We have also established an M&A pipeline in the Pacific, acquiring 19 pest control companies and further strengthened our presence in Europe through 18 deals. We have built upon our UK growth story through the use of digital expertise, innovations, productivity and service enhancements and acquisitions. In 2018 c. 33% of new sales in the UK were delivered through our innovation pipeline.

+14.7%

Our Pest Control businesses in Growth markets have delivered a five-year revenue CAGR of 14.7%.

+21.1%

Our largest pest control business, North America, has delivered a 21.1% five-year revenue CAGR.

+28.6%

Our Pest Control businesses in Emerging markets have delivered a five-year revenue CAGR of 28.6%.

Emerging markets

We have an unrivalled position in the markets of Asia, Latin America, the Middle East, North Africa and Turkey, Kenya, Fiji and Central America, which combined represent a strong platform for delivering sustainable, profitable growth. They represent 9% of Group Ongoing Revenues and 8% of Group Ongoing Operating Profit and have delivered a five-year CAGR of 28.6%.

Over the last five years we have expanded our scale in these higher growth markets by acquiring a number of attractive pest control companies. In India, where we see very high opportunities for growth, we have grown from a small loss-making unit to the country's number one pest control operator through the formation of our Rentokil PCI joint venture. However, due to the complexity of the integration of this business, the expected benefits from integration are being realised more slowly than anticipated. In China we are pursuing a city-based strategy with a focus on specific urban and industrial zones.

Asia made good progress during 2018, delivering 6.4% Organic growth in Pest Control. Once again, our more mature markets of Indonesia and Malaysia delivered double-digit revenue growth of 12.8%.

Latin America is our youngest region but expanding rapidly. Our aim is to become a £150m revenue business by the end of 2022 (2018 Ongoing Revenue: £52.7m). Rentokil has top three leadership positions in all its Latin American markets and operates in nine of the 10 most populated cities. The business is growing organically at double-digit rates

(12.7% in 2018) and complementing this with a solid acquisition agenda, notably in Chile, Colombia and Brazil. We entered the Costa Rican market for the first time in February 2018 through the acquisition of Fumigadora and also acquired ISS Brazil in São Paulo to build further density in this key city.

We continue to explore opportunities presented by the opening up of public sector vector control contracts in Brazil, a market currently estimated to be worth c. US\$1bn per annum. The country reports 1.5m dengue cases across its 5,500 cities each year at a cost of around US\$1,000 per case. We have an experienced management team in vector control in place and in November we acquired Brazilian pest control company Multicontrol (operating principally in Porto Alegre, Brazil's 5th largest metropolitan area in terms of population and GDP) which will lead our Municipality Vector Control Project going forward. Our market leadership, technical capability and proven track record in the country, cemented through the Rio Olympics, places us in a strong position to secure contract vector control mandates from Brazilian municipalities going forward.

Rentokil Pest Control is also the clear market leader in MENAT, and in 2018 we acquired National Pest Control, the market leader in the UAE with 180 colleagues. We now have the capacity and footprint to operate across all of the main Emirates.

Driving growth in Pest Control

An update on some of our Organic Revenue growth levers in Pest Control is provided overleaf.

Strategy in action – Pest Control

Global and national accounts

We continue to make good progress in targeting global customers, particularly in food processing and hospitality sectors. Our 2015 acquisition of Steritech, combined with our increasingly active participation in the Global Food Safety Initiative, has strengthened our global brand presence in these sectors. We now have 18 global customers including Mondelez, ISS, Sodexo and Kerry Foods, and our pipeline of future opportunities is worth some £60m.

Steritech has also significantly enhanced our capability in the US national accounts market and since 2015 we have delivered compound annual growth in national accounts revenue of 22%. Now with greater scale and density, we are more competitive and securing an increasing share of national accounts through our reputation for service quality, the careful targeting of attractive prospects, improving our sales execution and leveraging our combined national sales expertise of both Rentokil and Steritech. In 2018 we increased our North American national account sales by 15% and, as with our global accounts, our pipeline of prospects is strong.

Industry leading innovation

We believe our innovation pipeline is unrivalled and the opening of the Power Centre in 2017, our home for innovation, science and training, has further strengthened the expertise of our people and ensures we are ideally placed to deliver the best service for our customers, today and in the future. We have a strong pipeline of 70 innovations (a 30% increase on 2017) targeting key pest groups of rodents and insects with 16 patents pending.

Following the success in 2017 of our first Lumnia insect light trap product, we extended the range in 2018 to include Lumnia Standard Ultimate (which uses second generation lamps), Lumnia Compact and Lumnia Colour. Since launch we have sold over 60,000 Lumnia units across our global estate, of which 30% were in North America. We plan to expand the range in 2019, with additional models to meet customer demand.

Other notable product launches this year included our fluorescent tracking gel, Agrilaser, Fruit Fly Ninja and Entotherm Compact. In 2019 we plan to continue the roll out of RapidPro (the world's fastest acting rodenticide aimed specifically at mice) into new countries and expand our range of mosquito control solutions from our vector control centre of excellence.

Digital products and services

We continue to see unprecedented levels of change from the impact of technology on our customers and our frontline and back office colleagues and use IT to improve the quality and consistency of service delivery, drive innovation and reduce costs. We believe we are leading the pest control industry in the commercialisation of the 'Internet of Things' through connected devices and have digital expertise at every stage of the customer journey from web searching through to e-billing. We are also transforming our back-office system to a cloud platform over the next two years and opening up new customer digital channels as a result. This will allow us to realise further value from our data and deploy innovations faster across the global business as they become available. We are beginning to use robotics and AI in back office functions to automate manual admin tasks in a cost effective way.

We have made further progress in digital pest control in 2018. Our myRentokil online customer portal is now being used across 34 countries, with over 140,000 premises added in 2018. Last year our customers downloaded over 4m e-reports from the portal. Approximately 84% of our commercial pest control customers now use the myRentokil portal and we aim to have 100% of commercial customers using it by the end of 2019.

Connected devices, such as PestConnect, our award-winning remote monitoring system for rodents and the world's smartest mouse trap, enables us to provide customers with a complete pest detection solution and full traceability. We now have over 70,000 devices being used in c. 3,800 customer premises across 18 countries. We are extending our Connect range with the launch of multi-catch rodent devices and are also piloting our innovative bed bug monitor across 400 sites in North America.

Other digital products developed during 2018 included Autogate and Dual Autogate Connect and MultiMouse Trap. These three solutions, along with a number of others, will be launched through 2019. In addition to this we will have increased capability in the generation of insights that will support our pest management effectiveness by enabling our frontline technicians to have greater information as they deliver service to our customers.

2018 has seen a record number of visits to our web estate, with a total 21m visits, an increase of 5m on the previous year. We have also made excellent progress in the continued roll out of

smartphone and apps across the group to drive service and sales productivity and reduce costs. ServiceTrak is our smartphone field service app used by around 7,000 technicians to record service visits – for example, start time, services performed, customer recommendations, customer signatures and end time. This has now been deployed in 33 countries and used for 4m service visits throughout the year, saving around £3m that would have been incurred on replacing traditional handheld devices.

Targeting growth in the \$3.1bn global vector control market

Rentokil has offered mosquito and vector control services for many years in Asia where dengue fever is a major threat to public health, but has now significantly enhanced its capabilities in North America and Latin America.

The US mosquito/vector control market is estimated at c. \$600m and has the potential to grow even larger given the demographic changes which are increasing the ways in which mosquito-borne diseases are spread.

In 2017 we acquired Vector Disease Control International (VDCI), the leading provider of municipal and commercial mosquito control in the US. It provides a full range of vector control services, including weekly monitoring of mosquito levels, species identification and disease testing (using its in-house laboratory) and control of both adult and larval mosquitoes from the ground and using aircraft. We also established a new global centre of excellence for mosquito and vector control based in North America to support our growing work in this field.

This year we added to our expertise through the purchase of Louisiana-based Mosquito Control Services, LLC, one of the leading independent vector control companies in the US with operations across five states. The business, which is based south of Arkansas-based VDCI, offers similar services to VDCI plus public education and community programmes. We also acquired Multicontrol in Brazil (further details of which are on page 31) which will lead our Municipality Vector Control Project going forward.

Strategy in action – Pest Control

Vector control case study

Rentokil has offered mosquito and vector control services for many years in Asia where dengue fever is a major threat to public health, but has now significantly enhanced its capabilities in North America and Latin America.

Through the VDCI acquisition, we now have the capability to reach each part of the vector control market

VDCI's historical focus has been on mosquitoes but it has recently developed programmes to control ticks and their transmission of lyme disease, which is becoming increasingly prevalent in the US.

Global vector control market c.\$3.1bn

North America

c. **\$400m**

Global Public Health Care

c. **\$390m**

Surveillance

c. **\$15m**

Mosquito trapping

c. **\$73m**

Household protection

c. **\$400m**

Facts about vector control

1 Transmission

Vector control interrupts or eliminates local transmission of diseases, reduces vulnerability to disease and prevents secondary infections from introduced diseases to prevent further outbreaks.

2 Capability

Capability requires strong organisational framework, well defined plans, skilled technical operators and appropriate equipment.

3 Primary targets

Primary targets worldwide: Anopheles species for malaria parasite control and Aedes species for viruses including dengue, Zika virus, chikungunya and West Nile Fever.

4 Threat

The threat to public health from mosquitoes is rising. Climate change and increased travel are leading to more vector-borne disease outbreaks than ever before.

5 Risk

There are 1bn cases of vector-borne diseases resulting in 1m deaths per year. More than half the world's population is at risk of these diseases.

Strategy in action – Pest Control

Growth through M&A

Acquisitions are core to our pest control strategy – we have the in-house capability to identify, evaluate and execute acquisitions at pace. Our model for value-creating M&A is structured around disciplined evaluation of targets, detailed integration programmes and careful governance of new businesses under our ownership.

This year we acquired 42 pest control companies in 22 countries: Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Dutch Antilles, France, Germany, Indonesia, Jamaica, Macau, Malaysia, Netherlands, New Zealand, Singapore, Spain, Sweden, Turkey, United Arab Emirates and the US.

In addition to the two vector control companies we have just described, other notable acquisitions this year include Mitie's pest control business MPCL in the UK (which is being held separately pending completion of a CMA review) and The Hitmen Termite & Pest business in San Francisco, California, which generated annualised revenues of £11.3m in the year prior to acquisition. We also built upon our growing expertise in aquatic pest control through the acquisition of Aquatic Systems in Pompano Beach, Florida in January 2019 (which generated £16.7m revenue in the year prior to purchase) which specialises in the maintenance of lakes and wetlands, using research and development to understand the underlying causes of algae blooms and invasive plant growth, midge fly invasions, odours and other lake water quality/health issues.

Our pipeline of pest control opportunities in both Growth and Emerging markets remains very strong and we are confident of further high quality acquisitions in 2019.

Customers

In 73 countries, businesses and homeowners trust Rentokil to solve their pest problems and prevent them from reoccurring. Commercial customers account for approximately 80% of revenue, with residential pest control representing approximately 20% – over 75% of this coming from the US and Australia. Key commercial customer sectors include food & beverage processing, hospitality, FM, offices & administrative and logistics & warehousing. On a per capita basis, both countries have much larger residential markets for pest control than in Europe, primarily because of the presence of termites and wooden housing.

Competitors

The pest control market is highly fragmented with an estimated 40,000 operators globally, c. 20,000 of which are in North America. Key competitors of Rentokil are Orkin, Terminix and Ecolab (all based in North America) and Swedish pest control business Anticimex. Over the last 12 months there has been further M&A activity across the sector with major players targeting acquisitions in Growth and Emerging markets. In addition, new technology solutions and increased digital marketing are driving inbound leads for national and smaller independents.

Outlook for 2019

Pest control is a highly resilient industry offering sustainable, long-term growth prospects. We are ideally placed to take advantage of major growth drivers in the pest control market (as detailed on pages 26 and 27).

In 2019 we will continue to build stronger positions in higher growth Emerging markets, (notably India, China, Latin America, the Middle East and Africa) by capitalising on our growing scale. Our focus will remain on targeted city-based acquisitions to build scale and density benefits. Organic growth will be achieved through deploying innovations and using the power of the Rentokil brand to target international customers, such as global food supply chains. Further, we will maximise the use of digital tools to drive productivity enhancements and exploit the mosquito and vector control market, particularly in Brazil.

In Growth markets we will continue to enhance margins by leveraging our scale and building density, particularly in North America, organically and through further bolt-on acquisitions. We will also aim to maximise our national and international accounts capability. The consistent deployment of innovations targeted at key pest sectors, such as rodents and bed bugs, and with new, non-toxic solutions will be a key driver of growth. In addition, we will continue to harness the ongoing digital opportunity including the further roll-out of customer extranet portals to aid added-value insight and maximise customer retention.

40,000

independent pest control companies operate across the world, 20,000 of which are in North America.

42

pest control businesses have been acquired by the Company this year in 22 countries.

£86m

£86m of additional pest control revenues have been acquired during 2018.

Strategy in action – Hygiene

Pursuing an ‘Execute Now’ growth strategy to leverage our key strengths in our 41 countries of operation

Initial Hygiene is the world's largest hygiene services business and a strong complementary business to Pest Control. Both businesses service the same types of customers and also share country management, technology, infrastructure and back office services. They are also route-based businesses where profit growth is driven by a fundamental understanding of the importance of density. The megatrends in the hygiene industry – and the importance of being able to prevent the spread of diseases, germs and bacteria – are fuelling demand for our services.

Over the past five years our Hygiene business has delivered a significant improvement in revenue growth, established a strong product range, launched the myInitial customer portal for enhanced customer insight and engagement and has begun to acquire bolt-on businesses to build scale and density. It has delivered a five-year CAGR of 8.8%.

Our Hygiene strategy

We aim to deliver continued growth in Hygiene services through:

- building on the strength of our leading hygiene brand and strong market positions;
- selling with confidence our product ranges such as Reflection, Signature, Colour, No Touch and Premium Scenting;
- leading on innovation through ‘Internet-of-Things’ for Hygiene, for example sensing, hand hygiene compliance, particularly in the food and health market sectors; and
- building city density and extending our footprint through organic growth and targeted M&A.

Attractive and growing market

Like Pest Control, our Hygiene businesses operate in an attractive industry offering good growth opportunities as expectations around standards of hygiene increase. The global hygiene market is expected to grow in line with GDP and our aim is to grow our Hygiene operations organically by between 2% and 3% per year.

Our Hygiene business is highly profitable with margins being driven by postcode density (servicing as many customers as possible in any tight geographic zone) and customer penetration (selling multiple service lines to customers). An explanation of some of the key growth drivers in the global hygiene market is provided over the next paragraphs and is also summarised on page 21.

Changing demographics and tighter regulation

These include population growth and an ageing population, which result in more health issues and hygiene product requirements, higher expectations for nappy changing/disposal in public and retail areas, and incontinence facilities and product disposal. Other demographic changes include growth in Emerging markets, rising middle classes and greater levels of women at work requiring more feminine hygiene facilities and services. Tighter regulation across the world is also driving greater compliance with workplace hygiene, food production and retaining hygiene and environmental standards.

The products and services which address the above are called ‘in cubicle hygiene services’ and account for around 40% of the hygiene market. Services include disposal of sanitary waste and disposal of nappies and incontinence products. We have developed high quality products to match these growth drivers and increase density, including Signature, Reflection and full colour bins in different size options to suit customer needs, and also premium No-Touch products such as customised soap dispensers.

Rising customer expectations

There is an increasing awareness of the link between good hand hygiene and wellbeing and a greater expectation for healthy workplaces and healthcare facilities. Social media is also driving companies to invest in brand protection, while an increasing focus on sustainability is encouraging lower water consumption and paper saving.

‘Hand care services’ account for approximately 22% of the hygiene market. Initial Hygiene offers a full range of hand hygiene solutions including soap and sanitiser dispensers, hand driers, roller towels, paper towel dispensers, consumables and premium No-Touch products.

Strategy in action – Hygiene

Enhanced brand experience

This is important within organisations seeking to enhance and differentiate customer experience through the use of design, colour and scent. 'Air care hygiene services' account for c. 15% of the market. Clean air is a major topic in Asia given air pollution concerns and accounts for over 30% of the market in Malaysia, for example. Air Care Services include commercial air scenting, air fresheners and air purification services to combat airborne bacteria such as influenza, e.coli and salmonella. Initial Hygiene's Premium Scenting range provides both standard and bespoke scenting. Customer segments include hotels (offering scenting in lobby areas), car showrooms and clothing retailers seeking to match scent to brand.

Mitigating risk

'Floor care services' include indoor and outdoor mats which help prevent trips and slips and account for around 15% of the hygiene market. Initial Hygiene offers a range of high-quality products including textile and non-textile floor mats for use in reception areas, industrial and food preparation areas. It also offers logo and branded mats to enhance brand experience.

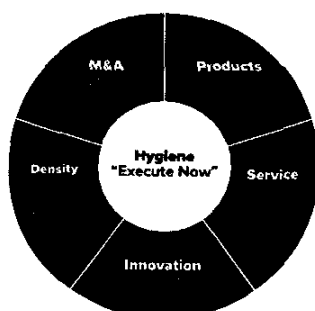
Driving growth in Hygiene

As the world's largest hygiene services business, we have the scale and expertise to drive Organic Revenue Growth, which rose by 2.8% in 2018.

Strong operational focus

Our operational plan is based on 10 key points:

- 1 offering the best product ranges in the market;
- 2 developing new highly-targeted, lower-cost products and innovation;
- 3 maintaining a high customer service culture;
- 4 building and maintaining strong market positions;
- 5 being recognised as the leading hygiene brand, especially in Emerging markets;
- 6 utilising international coverage for key accounts;
- 7 overlaying digital technology to increase productivity;
- 8 pursuing targeted city-based M&A to build density and translate into profit;
- 9 selling smarter – commissions linked to gross margin; and
- 10 leveraging much of our successful Pest Control model.



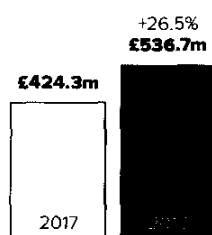
Products and innovation

Initial Hygiene has award-winning products including Signature, Reflection and Colour and one of the world's strongest brands, which is particularly valuable in Emerging markets. New products in 2018 included new, improved air freshener units (both fan and aerosol) along with a new range of fragrances, which will become available in our Signature colour range in 2019. We also launched a new silver feminine hygiene unit in 14 countries to accompany our most successful white sanitary waste bin. A new, cost effective toilet seat cleaner unit was launched in Asia this year with the roll-out into Europe to follow in 2019. Our incontinence waste offer was launched with markets to commence trials in early 2019.

Further additions to our product lines will be introduced in 2019 including a new range of environmentally-friendly hand soaps, our HygienicTouch door handle cover, as well as a number of developments to enhance our air care range. Going forward, we see additional opportunities to build upon our core hygiene offer through potential service and channel extensions. We plan to exploit the growing opportunity in air care (enhancement and purification) by leveraging our current clean air solutions and developing our premium scenting portfolio and also developing sensing technologies, sharing the expertise we have gained through our pest control activities.

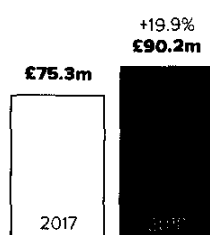
Ongoing Revenue

(AER: £533.0m, +25.6%)

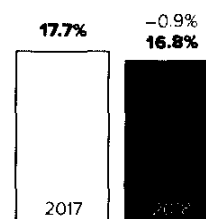


Ongoing Operating Profit

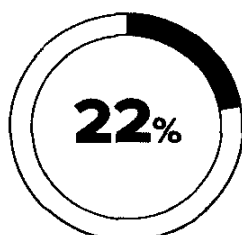
(AER: £89.2m, +18.5%)



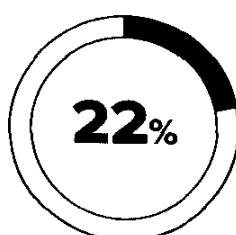
Operating Margin¹



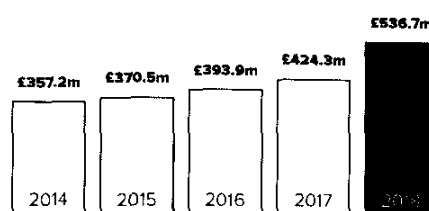
Hygiene as % of Group Ongoing Revenue



Hygiene as % of Group Ongoing Operating Profit¹



Five-year Ongoing Revenue growth CAGR 8.8%



1. Pre central and regional overheads and restructuring costs

Strategy in action – Hygiene

Digital technology, leadership and web expertise

Our digital sales and service tools are also being utilised to build customer awareness of Initial's multiple product offerings. For example, our online Hygiene customer portal, myInitial, is being developed to highlight the full spectrum of Hygiene solutions on its homepage.

Our Service+ route planner is a web-based planning tool which we also use in our Pest Control business. During the year we have further developed this tool for application across our Hygiene operations. Service+ has been formulated to optimise both territory and daily route planning. Customer service visits, driving routes and working days are automatically pre-planned and optimised, then service visits requiring further planning can be appointed, automatically confirmed and the plans updated.

ServiceTrak is our smartphone field service app, the benefits of which include better colleague retention, higher gross margins achieved through greater service productivity and cost savings, and delivery of a more professional service to customers. Our technicians use the app to record service visits – for example, start time, services performed, customer recommendations, customer signatures and end time. Proof of service is then emailed to customers at the end of the visit and the data uploaded to our customer data systems, allowing our customer care team to view the information and respond quickly and easily to customer queries. In 2018 ServiceTrak was used by c. 2,400 Hygiene technicians in 24 countries, an increase of 500 colleagues on 2017. In 2019 we plan to drive further field service efficiencies through development of a new floor plan app which will enhance productivity through greater customer site familiarity.

Smarter selling and commissions linked to density

Significant leverage is gained in Hygiene through selling multiple services to each customer premises. We give our sales colleagues specialist training to help them sell multiple services to customers, supported by promotional campaigns to highlight our range proposition. In addition, we have in place country-specific incentive programmes with local rewards to focus our sales force and frontline colleagues on achieving greater product density.

Growth through targeted M&A

As our confidence in our Hygiene model grows, so too has our focus on securing attractive hygiene acquisitions and we have acquired 17 hygiene businesses since 2014.

In 2017 we acquired the hygiene business of CWS Italy and in January 2018 acquired Cannon Hygiene Services. We also acquired a small hygiene business called Mauco Products in Chile, Cleanstation in Portugal and Miju in South Korea.

We have made excellent operational progress this year with the integration of CWS Italy, establishing 49 separate projects to enhance our capability in service, IT, operational excellence, products and people. These have included migrating 20 CWS branches and four depots onto our standard network, issuing smartphones to 119 CWS colleagues, creating a single salesforce organisation, consolidating and moving 120 people into a new head office and consolidating nine branches and depots and one IT organisation.

Cannon Hygiene Services has businesses in the UK, Ireland, Spain, Portugal, South Africa, India, Thailand, Australia and New Zealand. It is being integrated successfully and performing well under our ownership. The acquisition increases our coverage in key markets enabling us to gain a good level of synergies from enhanced density and combined infrastructures. The transaction also marks our entry into the attractive Indian hygiene market where Cannon is the market leader.

The Cannon UK business was subject to an investigation by the UK Competition & Markets Authority (CMA) and was therefore held separate from the rest of our UK business from 5 February 2018. The CMA concluded its Phase 2 review of the transaction and announced on 25 January 2019 that the Company is required to sell a limited number of supply contracts with larger, national customers and frameworks, representing a small part of the acquired business, after identifying an issue relating to a single line of washroom service for those customers.

Customers and service culture

Our key hygiene customer segments are manufacturing, FM, offices & administrative, hospitality, retail and education. We achieve high customer satisfaction levels and believe this is a key competitive advantage. We have account management processes in place for contacting customers at least annually to confirm service requirements are being met. We use feedback from our Customer Voice Counts surveys to improve service levels and every detractor score is followed up with a call from an account or branch manager within 24 hours.

Competitors

There are three types of competition in Hygiene. In service provision, large competitors include PHS, Elis and Berendsen. In consumables/products, competitors include SCA/Tork, Kimberley Clark and Hagleitner. Thirdly, in facilities management provision competitors include companies like Mitie in the UK and ISS and OCS in Asia. In recent years the hygiene industry has seen greater consolidation through joint ventures (including our own with Haniel), acquisitions and disposals.

Outlook for 2019

Our main areas of focus for our Hygiene business in 2019 will be on operational execution, building greater scale and density (organically and through M&A), broadening our range of services and developing our product pipeline for key growth sectors such as air care and also developing lower-cost units. In addition, we will seek to improve productivity through the continued roll-out of digital products. Finally, we will continue to link sales incentives more closely to margin delivery, thereby reducing price discounting and driving improved yield management.

+2.8%

Organic growth delivery in 2018 is at the top end of our targeted 2% to 3% growth target.

+8.8%

Our Hygiene business has delivered a five-year compound annual growth rate of 8.8%.

+£84m

of annualised revenues have been acquired this year in our Hygiene business.

Strategy in action – Protect & Enhance

Focus on enhanced service, customer retention and profit protection

The four businesses included in this category are Workwear (France), Ambius (Global), Property Care (UK) and a very small Dental Services operation (Germany and Sweden). All are cash-generative businesses which share overheads with our Pest Control and Hygiene businesses. However, they operate within more challenging markets and have historically failed to deliver consistent profitable growth. Combined, the businesses represent c. 11% of Ongoing Operating Profit and generate a Net Operating Margin of 11.7% on an annualised basis.

Improving performances in 2018

2018 has been a more encouraging year for our Protect & Enhance businesses despite continuing market challenges, with three of our four businesses delivering year-on-year profitable growth. We were particularly encouraged by the performance of our France Workwear business which returned to year-on-year profitable growth of 2.8% during 2018 compared with a decline last year of 12.2%. Ambius grew Ongoing Operating Profit by 16.4% (2017: decline of 14.9%) and Dental services grew by 47.7% (2017: decline of 26.8%). Our Property Care business has continued to struggle, however, and despite an improving rate of decline throughout the year, it posted a fall in profits of £1.9m compared to 2017.

Workwear

Our Workwear operations in France specialise in the supply and laundering of workwear, uniforms, cleanroom garments and personal protective wear. After three years of declining profitability, the business returned to profitable growth in the first half of the year, some six months ahead of plan. This has been achieved through an outstanding execution of strategy by our management team which has focused on service and product quality to drive customer retention, together with profit improvement and margin protection initiatives. While we are greatly encouraged by our performance in 2018, we continue to work towards returning the business to full operational and financial health through ongoing implementation of our Quality Agenda.

Ambius

Ambius operates in 16 countries with leading positions in the US, Canada, Australia and New Zealand. Its product offering is broadly consistent across the world and includes interior landscaping, Christmas decorations and premium scenting.

Key customer segments are offices, facilities management, hospitality, food and non-food retail, leisure, healthcare and education. Its strategic focus is on higher-margin green (living) walls and premium scenting, expanding and exploiting international agreements and driving lead generation through digital applications.

Key industry trends going forward include wellness at work being recognised as a serious aspect in building design, with air quality a major concern and a younger workforce demanding better workplace environments.

We are very encouraged by Ambius's performance this year and its return to growth in profits of 16.4% on revenues up 3.1% during the year.

UK Property Care

Our Property Care business is based in the UK. Services include dry rot and woodworm treatment and damp proofing. We have a leading position in the industry and have developed a strong operational capability with certified teams undertaking work in commercial and social housing. The business has an excellent reputation for customer service and a loyal customer base. Our three brands – Peter Cox, Wise and Rentokil Property Care – were the top three businesses rated by customers in the damp proofing category, ranked by Trustpilot in 2018. Property Care has CVC scores of 50%+ which are amongst the highest in the Group.

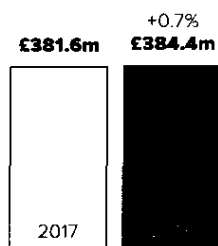
Trading, however, continues to be significantly impacted by the slowdown in the UK property market and, while the business is small – generating revenues of £23.1m in 2018 – its revenue decline of 17.4% has dampened Organic Revenue growth in the UK and Rest of World region by 1.6% points in the year.

To counter ongoing market pressures we have put in place a business improvement plan based on better revenue, leveraging our digital expertise from Pest Control and a focus on cost and efficiency measures. A new area operating model is in place and beginning to gain traction. The business is also now fully integrated into our UK back office and shared support centres and, while web enquiries have risen throughout quarters three and four, they are not yet converting into sales. Looking forward into 2019 we are planning to develop pest proofing service lines to additional customer segments to reduce dependence on the housing market.

Strategy in action – Protect & Enhance

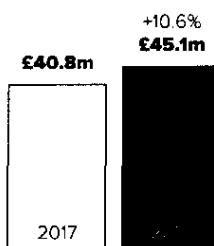
Ongoing Revenue

(AER: £384.1m, +0.7%)

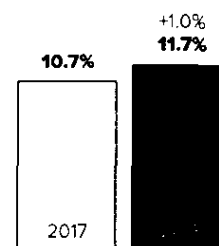


Ongoing Operating Profit

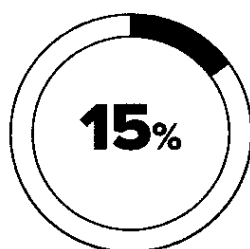
(AER: £45.7m, +12.1%)



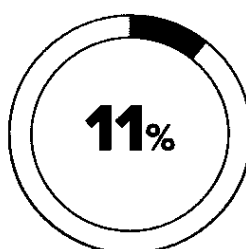
Operating Margin¹



Protect & Enhance as % of Group Ongoing Revenue



Protect & Enhance as % of Group Ongoing Operating Profit¹



¹ Pre central and regional overheads and restructuring costs.

Outlook for 2019

We are very encouraged by this year's performance from France Workwear. However, we are not complacent and will have to continue to work steadily in 2019 and beyond to restore the business to long-term operational and financial health.

While performances in our Ambius operations are linked to economic conditions, it is a highly-skilled leader in its industry with specialist expertise in large-scale installations. It also benefits from a strong fourth quarter, reflecting strong Holiday sales in North America in the run up to Christmas. Ambius is also well placed to capitalise on the rapidly growing global scenting market. All these are encouraging signs for 2019.

Market conditions in Property Care will remain challenging in 2019. However, the business has shown signs of improvement in 2018 and we expect these to continue in 2019 as we gain further traction from the operational improvement plans implemented in the second half of 2018 and from the potential introduction of new service lines.

We expect trading conditions in our Dental Services markets of Germany and Sweden to be broadly similar to 2018.

3 out of 4

of our Protect & Enhance businesses delivered year-on-year profitable growth in 2018.

+2.8%

growth in Ongoing Operating Profit was achieved by our France Workwear business in 2018, while Ambius grew 16.4% and Dental Services by 47.7%.

-£1.9m

However, our Property Care business continues to struggle, reporting profits £1.9m below 2017.

Regional performance

World overview

We have a clear and simple geographic model in which our businesses are grouped into five strong regions: **North America, Europe, UK and Rest of World, Asia and Pacific.** Operating in 75 countries, c. 89% of our revenues are derived outside of the UK. Our single country management teams lead integrated, multi-local and multi-service operations with combined back office functions underpinned by shared systems and processes such as route optimisation and measurement of customer satisfaction.

Regions as % of Group Ongoing Revenue

■ North America	38%
■ Europe	27%
■ UK & Rest of World	18%
■ Asia	9%
■ Pacific	8%

Regions as % of Ongoing Operating Profit

■ North America	31%
■ Europe	31%
■ UK & Rest of World	22%
■ Asia	6%
■ Pacific	10%

North America

2018 Net Operating Margin

+0.1% at **13.7%**

2018 Ongoing Revenue

+12.3% at **£959.5m**

Businesses as % of Ongoing Revenue

■ Pest Control	91%
■ Protect & Enhance	9%

Countries as % of Ongoing Revenue

■ USA	95%
■ Canada	4%
■ Central America	1%

Europe

2018 Net Operating Margin

+0.1% at **19.0%**

2018 Ongoing Revenue

+9.7% at **£663.1m**

Businesses as % of Ongoing Revenue

■ Pest Control	39%
■ Hygiene	28%
■ Protect & Enhance	33%

Countries as % of Ongoing Revenue

■ France	45%
■ Southern Europe	19%
■ Germany	15%
■ Benelux	13%
■ Latin America	8%

Regional performance

UK & Rest of World

2018 Net Operating Margin

-0.8% at **20.3%**

2018 Ongoing Revenue

+19.5% at **£454.8m**

Businesses as % of Ongoing Revenue

■ Pest Control	45%
■ Hygiene	42%
■ Protect & Enhance	13%

Countries as % of Ongoing Revenue

■ UK & Ireland	67%
■ Nordics	14%
■ Sub-Saharan Africa	9%
■ Caribbean	5%
■ MENAT	4%
■ Baltics	1%

Asia

2018 Net Operating Margin

-0.2% at **10.1%**

2018 Ongoing Revenue

+17.7% at **£220.7m**

Businesses as % of Ongoing Revenue

■ Pest Control	68%
■ Hygiene	31%
■ Protect & Enhance	1%

Countries as % of Ongoing Revenue

■ India	31%
■ Malaysia	15%
■ Singapore	12%
■ Indonesia	12%
■ Other	11%
■ Hong Kong	8%
■ China	6%
■ Thailand	5%

Pacific

2018 Net Operating Margin

-0.8% at **20.8%**

2018 Ongoing Revenue

+11.2% at **£194.9m**

Businesses as % of Ongoing Revenue

■ Pest Control	45%
■ Hygiene	48%
■ Protect & Enhance	7%

Countries as % of Ongoing Revenue

■ Australia	73%
■ New Zealand	25%
■ Fiji	2%

Risks and uncertainties

Risk management approach

The Group's overall risk management approach, described on pages 75 and 76, is designed to provide reasonable, but not absolute, assurance at all levels of the Group that risks are properly identified and are being effectively managed. This includes the provision of appropriate mechanisms to ensure that issues and concerns relating to risk can be escalated up through the organisation effectively and confidentially.

The Group's business model has remained the same in 2018 as in 2017. It incorporates a number of elements that moderate the risk profile of the Company, particularly as the portfolio accelerates its focus on Pest Control and Hygiene which together represent 85% of our total business.

- Low capital intensity and high portfolio retention rates: our categories exhibit strong defensive qualities, as density and efficiency gains are reflected in margin growth.
- Local market operations: the limited dependency on cross-border flows of people or products reduces the impact of geopolitical risks such as Brexit, and foreign exchange risk is muted since revenue is earned and costs are incurred in local currency.
- The global nature and scale of the Group's operations limits exposure to the economic cycle in individual markets: the largest market, North America, represents 38% of Ongoing Revenue at CER, with no other single market representing more than 13%.

Changes in risk profile of the Company in 2018

We continue to monitor existing and emerging risks regularly in both the Audit Committee (see pages 71 to 76) and the Group Risk Committee (see page 68), and take mitigating action as appropriate.

Areas where the risk profile of the business has improved in 2018 include:

- continuity of senior management in roles, maintenance of corporate knowledge and experience;
- further roll-out of our target financial systems across the globe, helping ensure standardisation of finance processes and improvement in the overall financial control environment;

- further investment in Information Security and data privacy to mitigate the risk of a successful cyber attack or loss of personal data; and
- continued strong cash flow giving financial headroom to continue to acquire businesses with good strategic fit.

Areas where our risk profile has increased in 2018 include:

- potential slowdown in the economies of some regions due to changes in the economic cycle;
- difficulties in attracting staff in territories with economies close to full employment and others with political pressure to limit immigration;
- integration risk in relation to acquisitions – both effective execution of integration plans and avoiding local management distraction from delivering the business plans of the remainder of the business; and
- the increased risk of rising interest rates impacting future debt cost.

Identified risks

The principal risks most relevant to the Group are described in the table below and on pages 43 to 46, together with mitigating actions.

Full details of our financial risks can be found in Note C1 on pages 139 and 140. The exact financial impact of one or more of our principal risks materialising will depend on the precise operational impact of the risk, its interaction with other risks and whether mitigating actions are successful in reducing the overall financial impact. However, as a rule of thumb, a 1% decrease in revenue, if not mitigated at all, would have an impact on operating profit and on operating cash flow of approximately £11m and £10m respectively.

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

Principal risks

Failure to deliver consistently high levels of service to the satisfaction of our customers		Overall risk level
Our business model depends on servicing the needs of our customers in line with internal high standards and to levels agreed in contracts.		<input type="checkbox"/> ↔
Impact should the risk materialise If our operatives are not sufficiently qualified, or do not have the right skills, or we fail to innovate successfully, this may negatively impact our ability to acquire or retain customers, adversely impacting growth, profitability and cash flow. Industrial action in key operations could result in diminished customer service levels; if prolonged, it could damage the Company's reputation and ability to secure or renew contracts. In markets where overall employment rates are high we may have difficulty attracting and retaining key management and operational personnel.	Actions taken by management to mitigate the risk <ul style="list-style-type: none"> – HR development processes including leadership and development training, performance management, reward and incentives; introduction of Employer of Choice. – Regular tracking of customer satisfaction and the perception of both customers and non-customers of Rentokil Initial, benchmarked against competitors. – Dedicated Operational Excellence team to drive superior customer service, safe working practices and establish key metrics. – Incentives for sales and service staff aligned closely with strategic priorities, based on delivering improved customer service levels. – Oversight of key industrial relations matters by Group HR Director and regular review by the Chief Executive for countries where industrial relations risk is elevated. – In North America acceleration of IT replatforming and integration of apps to help drive visibility of performance, improve customer satisfaction and operating efficiency. 	Changes in 2018 vs. 2017 <ul style="list-style-type: none"> – U+ delivered 1.2m online learning views in 2018. – MyRentokil platform now available in 34 countries. – Better retention of sales and technical staff. – Employer of Choice being rolled out and gaining traction. – Very few days lost to industrial action, in line with prior years.
KPIs used to monitor the risk Q State of Service (pages 28 and 29) Q Sales and service colleague retention (pages 28 and 29) Q Customer retention (pages 28 and 29) Q NPS through regular Customer Voice Counts (CVC) exercise (pages 28 and 29)		

Key: ■ Low □ Medium ▨ High ↔ No change ↑ Increasing ↓ Reducing

Risks and uncertainties

Principal risks

Failure to grow our business profitably in a changing macro-economic environment

The Company's three businesses (Pest Control, Hygiene and Protect & Enhance) operate in a global macro-economic environment that is subject to uncertainty and volatility.

Impact should the risk materialise

Changes in the macro-economic environment could have a number of different impacts on the ability of the business to grow profitably, to sustain recruitment and to deliver against targets.

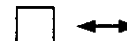
Examples include:

- Changes that impact on free movement of people such as Brexit and reduced appetite for immigration in the US may make it more difficult to attract frontline colleagues and create wage inflation.
- Rises in commodity prices (e.g. oil) could raise the cost of delivering our services.
- Low-growth economies with inherent cost inflation, where the Company has weak pricing power may make it difficult to maintain profitability.
- Growing market presence of multinational competitors may increase the cost of acquisitions and drive down prices, impacting profitability.
- Increased market presence by facilities management companies may drive down prices and increase compliance costs.

Actions taken by management to mitigate the risk

- Regular review of our capital allocation model to ensure that scarce resources are directed to countries and businesses with the most attractive prospects.
- Global Employer of Choice programme to ensure focus on the key priorities of the organisation including recruiting and retaining critical talent and specialists in all markets.
- Working with governments and regulators on implementation of new regulations.
- Monitoring of market pricing trends (where available) and individual customer profitability to minimise margin erosion; sales incentives increasingly prioritise margin and customer profitability.
- International Key Accounts team developing business with multinational customers (18 at the end of 2018) across geographies to take advantage of the Company's unique global capabilities.
- Stock building to mitigate potential disruption from Brexit.
- Regular reviews of cost base and productivity programmes. Group Procurement team tasked to deliver economies of scale in IT, fleet, energy and logistics.
- Use of robotics in back office functions to automate manual administrative tasks in a cost effective way.
- Regular monitoring of debtor days outstanding with action taken against customers with overdue debts.

Overall risk level



Changes in 2018 vs. 2017

- Commodity prices remain volatile but no significant impact in 2018.
- No significant regulatory changes in key markets.
- Brexit uncertainty and weak property market in UK adversely impacted Property Care business.
- Acquired Cannon Hygiene and Mitie Pest business in UK, being kept separate under order from the CMA.
- North America business now accounts for 38% of Ongoing Revenue at CER.
- France Workwear returned to profitable growth.
- Buy-in of UK defined benefit pension scheme as precursor to buy-out in 2020 to de-risk balance sheet.

KPIs used to monitor the risk

- Q Restructuring costs <£10m (page 15)
- Q Customer retention (pages 28 and 29)
- Q Revenue contribution from acquisitions (page 15)
- Q Debtor days outstanding
- Q Group Net Operating Margin (page 15)
- Q Service colleague retention (pages 28 and 29)
- Q Online learning views (page 52)
- Q Successor pipeline (page 79)

Failure to develop products and services that are tailored and relevant to local markets and market conditions

We operate across markets that are at different stages in the economic cycle, at varying stages of market development and have different levels of market attractiveness. We must be sufficiently agile to develop and deliver products and services that meet local market needs.

Impact should the risk materialise

If we are not able to adapt to local business and consumer needs, our existing customers may choose not to renew contracts, or seek reductions in prices. This negatively impacts our ability to maintain or increase margins and cash flow.

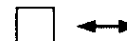
Examples include:

- changes to the regulatory environment that may ban certain products or service models from being used, such as permanent rodent baiting; and
- failure to develop products that are networked and capable of being monitored in real time.

Actions taken by management to mitigate the risk

- Acquisition of targets with specific capabilities that address future changes in our markets.
- Targeted investment in innovation to meet market and regulatory needs and defend against commoditisation.
- Category Boards to oversee and roll out innovations across our regional businesses.
- Establishment of the Power Centre to drive innovation in products and services and provide enhanced training facilities for the Group.
- Investing in new digital platforms to provide improved marketing channels and opportunities for customers to order or amend services overseen by Category Boards.

Overall risk level



Changes in 2018 vs. 2017

- Increased sales from innovations such as Lumnia, Agrilaser, Fruit Fly Ninja and Entotherm Compact.
- Queen's Award for Enterprise – Innovation.
- Roll out of digital tools accelerating across all regions. PestConnect in use in 18 countries.

KPIs used to monitor the risk

- Q Group Net Operating Margin (page 15)
- Q Sales from specific innovations
- Q Website visitors (page 52)

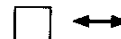
Risks and uncertainties

Principal risks

Failure to ensure business continuity in case of a material incident

The business needs to have resilience to ensure business can continue if impacted by externally induced incidents, e.g. cyber attack, hurricane or terrorism.

Overall risk level



Impact should the risk materialise

Failure to service our customers may affect our ability to retain those customers and damage the Company's reputation. This may negatively impact growth, profitability and cash flow.

Examples of incidents that could impact our ability to service customers include:

- a significant cyber-attack or IT failure which is not recovered quickly;
- fire or flood impacting our laundries (in Workwear) or warehouses (in Hygiene and Pest), preventing goods from being available to our customers;
- industrial action by employees;
- restrictions by government or police preventing access to customers' property; and
- restrictions on our ability to import and export goods to and from the UK due to border delays arising from Brexit.

Actions taken by management to mitigate the risk

- All countries and units maintain regularly tested business continuity plans (BCPs) and IT disaster recovery plans.
- Ongoing programme to transfer key data and applications from local servers to regional data centres with enhanced backup capability and resilience.
- Data encryption and implementation of AirWatch to mitigate potential loss of business data.
- Penetration testing on all systems at least annually to test external firewalls and address any identified weaknesses.
- Annual inspections of key sites by insurers, on a rotating basis, to identify potential risks.
- Procedures in place to ensure that potential industrial disputes are quickly reported to Group HR Director.
- Local plans to service customers from adjacent laundries/branches if supply is interrupted.
- Advancing shipments of goods from the UK to overseas businesses and holding additional stocks in border locations to mitigate any adverse impact of Brexit.

Changes in 2018 vs. 2017

- Security governance framework and standards continue to improve. External consultants used to identify most significant business continuity risks and put in place additional measures where necessary.
- New IT security protocols being implemented.
- GDPR compliance programme enhances security including extended use of encryption and business process mapping.
- New BCP model being rolled out.
- Brexit risks assessed and plan put in place.

KPIs used to monitor the risk

Q Number of serious IT incidents and time taken to respond Q Actions arising from IT security self-assessments Q Inventory levels

Breaches of laws or regulations (including tax, competition and anti-trust laws)

As a responsible Company we aim to comply with all laws and regulations that apply to our businesses across the globe.

Overall risk level



Impact should the risk materialise

Failure to comply with local laws covering anti-bribery and corruption, competition, employment, data privacy, or financial and tax reporting requirements may result in fines or withdrawal of licence to operate, which could adversely impact growth, profitability and cash flow.

The Company operates across many different tax jurisdictions and is subject to periodic tax audits which sometimes challenge the basis on which local tax has been calculated and/or withheld. Successful challenges by local tax authorities may have an adverse impact on profitability and cash flow.

Actions taken by management to mitigate the risk

- Group Legal involvement in all acquisitions, including advising on risk and regulatory issues.
- Monitoring of online U+ training completion rates.
- Payroll audits carried out across all countries to ensure compliance with local employment and tax laws.
- Tax Policy re-issued and approved by Board. All significant tax planning opportunities have to be pre-agreed with the Group Tax Director and Chief Financial Officer with independent tax advice taken where necessary. Regular review of tax exposures.
- Authority schedule in place and regularly reviewed.
- Group and local policies in place and regularly reviewed.
- Requirement to report breaches in controls and/or laws to Group General Counsel and Head of Internal Audit.
- Mandatory training on Code of Conduct and other core compliance topics, with annual refreshers, to instil a highly principled culture of ethical behaviour.
- New Supplier Code of Conduct developed for roll out in 2019.
- All major business transactions or internal reorganisations are subject to a rigorous internal and external review.
- A dedicated and experienced central tax department is involved in all tax audits.

Changes in 2018 vs. 2017

- Significant long-standing litigations successfully resolved during 2018, reducing risk of fines or damages.
- The level of tax provisions are considered appropriate and not materially changed from the level in prior year.

KPIs used to monitor the risk

Q Central monitoring of material litigation (page 65) Q Tax provisions (page 131)
Q Compliance rates with key online training, e.g. Code of Conduct and competition law

Key: ■ Low □ Medium ▨ High ↔ No change ↑ Increasing ↓ Reducing

Risks and uncertainties

Principal risks

Fraud, financial crime and loss or unintended release of personal data

Collusion between individuals, both internal and external, could result in fraud if internal controls are not in place and working effectively. The business holds personal data on employees, some customers and suppliers: unintended loss or release of such data may result in criminal sanctions.

Impact should the risk materialise

Loss of personal data of customers, suppliers or employees could, if significant, result in regulatory intervention which may result in substantial fines and damage to the Company's reputation.

Theft of Company assets including property, customer or employee information, or misstatement of financial or other records via deliberate action by employees or third parties may constitute fraud and result in financial loss to the business, damage to the Company's reputation or fines by regulators.

Actions taken by management to mitigate the risk

- Ongoing programme to ensure all businesses are compliant with data privacy requirements including in Europe the General Data Protection Regulation (GDPR).
- AirWatch and laptop encryption being implemented.
- Mandatory online training by all senior employees for competition law, anti-bribery and corruption, information security and privacy, and conflicts of interest.
- Compliance with Code of Conduct and other key policies affirmed by annual Letter of Assurance process.
- Standardised financial control framework operating in all locations with a focus on risk prevention and mitigation; framework defined centrally and independently assessed at all material business units every year.
- In most countries, card transactions are managed by regulated third parties to prevent data loss and ensure compliance with PCI-DSS regulations.
- International confidential 'Speak Up' hotline and email address, monitored by Internal Audit.
- Significant frauds investigated by Internal Audit and lessons learned shared widely.

Overall risk level



Changes in 2018 vs. 2017

- GDPR compliance project included training across the Group: no significant uplift in data access requests; catalyst for linked IT security enhancements such as encryption and data loss prevention.
- Review of key financial control framework, minor changes made.
- No major frauds identified during 2018.

KPIs used to monitor the risk

- Q Compliance percentage for online training (page 49)
- Q Compliance rates with key online training, e.g. Code of Conduct and competition law
- Q Completion rates for annual Letter of Assurance (page 49)
- Q GDPR compliance in all key countries (page 49)
- Q Monitoring of 'Speak Up' and reported control incidents by Internal Audit (page 76)

Health, safety and the environment

The Company has an obligation to ensure that colleagues, customers and other stakeholders remain safe, that the working environment is not detrimental to health and that we are aware of and minimise any adverse impact on the environment.

Impact should the risk materialise

The Company operates in hazardous environments and situations, for example:

- use of poisons and fumigants in Pest Control;
- driving to and working at customers;
- working at height; and
- exposure to needlestick injury/ bio-hazards from medical waste.

Non-compliance with internal policies or industry regulations could lead to personal injury, substantial fines or penalties including withdrawal of licences to operate, and reputational damage.

Environmental risks may arise from former activities at sites currently or previously operated by the Company.

Actions taken by management to mitigate the risk

- Robust health and safety (H&S) policies supplemented by the SHE Golden Rules and technical policies address higher risk and regulated activities, e.g. driving, working at height, fumigation or heat treatment. Group technical and safety standards often higher than regulatory requirements.
- H&S officers appointed in all jurisdictions, supported by dedicated central team.
- Mandatory training of all relevant employees in safe working practices, including drivers and those working in hazardous environments, e.g. heat treatment or fumigation.
- Focus on implementation of Group fumigation standards in all new acquisitions.
- H&S considered as first item at all Board and senior management meetings; review of standardised H&S KPIs.
- Formal review of accidents and circulation of lessons learned.
- Monitoring energy-derived emissions and water usage including energy efficiency target of 20% reduction in energy intensity from 2016 baseline by 2020.

Overall risk level



Changes in 2018 vs. 2017

- Review of hazardous process rules issued, including new rules relating to use of drones and laser pointers.
- New electrical safety guidance developed for roll out in 2019.
- Safety Leadership Behaviours initiative for first level management.

KPIs used to monitor the risk

- Q Lost time accidents (pages 28 and 29)
- Q Audits of fumigation and heat treatment processes
- Q Working days lost (pages 28 and 29)
- Q Total emissions (page 51)

Risks and uncertainties

Principal risks

Failure to integrate acquisitions and execute disposals from continuing business

The Company has a strategy that includes growth by acquisition, and has acquired over 180 companies in the past five years. These companies need to be integrated quickly and efficiently to minimise potential impact on the acquired business and the existing business.

Impact should the risk materialise

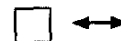
If the Company fails to successfully integrate acquisitions into its existing organisation structures, fails to deliver the revenue and profit targets, or fails to deliver expected synergy savings, the business may not achieve the expected financial and operational benefits and adversely impact growth, profitability and cash flow.

Business disposals also have to be managed efficiently to minimise risk to the businesses being disposed and the residual business.

Actions taken by management to mitigate the risk

- Integration plans considered by Investment Committee as part of acquisition approval process. Material integration activities managed during monthly performance reviews.
- Dedicated project teams established for largest acquisitions and demergers, e.g. PCI in India and ex-CWS business in Italy, with clear deliverables over three months, six months and one year. Additional resources provided to US to support integration and replatforming.
- Tried and tested induction programme for first 100 days for all acquisitions.
- Continuity of management/leadership in acquired companies, where possible.
- Use of transaction structures including deferred consideration to mitigate deal risk.
- Group departments, e.g. Health & Safety, Legal, Insurance and IT, involved with acquisitions to drive integration plans and compliance with Group standards, especially when entering new geographies.
- Post-completion governance: formal post-acquisition review (PAR) of every acquisition by Investment Committee against original business plan within 18-24 months; Board post-investment review of acquisitions in aggregate every six months; Internal Audit review of acquisitions in new geographies within 12 months.

Overall risk level



Changes in 2018 vs. 2017

- Successful carve out of Central and Eastern Europe Hygiene and Workwear business to Haniel JV.
- Integration of Rentokil PCI business in India is complex and running slightly behind schedule.
- Integration of ex-CWS Italy business on track, and performing well.
- Acquisitions of Cannon UK and the former Mitie Pest businesses under investigation by the CMA and held separate pending final outcome.

KPIs used to monitor the risk

Q Post-acquisition reviews Q Integration plans (30 days, 100 days, 1 year)

Failure to mitigate against financial market risks

Our business is exposed to foreign exchange risk, interest rate risk, liquidity risk, counterparty risk and settlement risk.

Impact should the risk materialise

If any of the above risks materialise, this may have a negative impact on profitability, cash flow and financial statements, and may negatively impact financial ratios and credit ratings, impacting our ability to raise funds for acquisitions.

Actions taken by management to mitigate the risk

- Financing policy in place to ensure that the Company has sufficient financial headroom to finance operations and bolt-on acquisitions. Commitment to target credit rating of BBB.
- Treasury policies that limit the use of foreign exchange and interest rate derivatives, set limits for financial counterparty exposure, govern how financing is raised in bank and other debt capital markets and provide rules around treasury related matters at operating company level.
- Monthly reporting and monitoring of financial covenants and rating agency metrics and compliance with treasury policies.
- Monitoring of the impact of exchange rate movements on non-GBP profits and net debt.
- Cash pooling and debt financing arrangement to match, as far as possible, currency availability/demand across borders.
- Revolving credit facility (RCF) increased to £600m to provide funding headroom for refinancing of 2019 bonds.

Overall risk level



Changes in 2018 vs. 2017

- Increasing interest rate environment and credit spreads, but still lower than coupons on part of the Group's debt.
- Review of Group banks to ensure appropriate spread of risk.
- BBB rating retained.

KPIs used to monitor the risk – see Note C1 Financial risk management (pages 139 and 140)

Q Counterparty credit ratings Q Credit rating metrics Q Level of Group floating debt Q Un-hedged foreign exchange exposures
Q Liquidity headroom Q Matching of currency net debt to underlying profitability Q Compliance with financial covenants

Key: ■ Low □ Medium ▨ High ↔ No change ↑ Increasing ↓ Reducing

Risks and uncertainties

Viability statement

In line with provision C.2.2 of the UK Corporate Governance Code the Directors set out below the basis on which they have assessed the viability of the Group, over what period the viability has been assessed and the Group's formal viability statement.

In determining the appropriate time horizon over which to assess the viability of the Group, the Directors have determined that a three-year period is appropriate:

- it is consistent with the period reviewed by the Group Board in the budgeting and strategic planning process; and
- it is aligned with the typical duration of one to three years of both the customer and supplier contract periods entered into by the Group.

Although the Directors have no reason to believe that the Group will not be viable over a longer time frame, because of the degree of uncertainty, the period over which the Directors have a reasonable expectation as to the Group's viability, is the three-year period to 31 December 2021.

The Group's principal markets and strategy are described in detail in the Strategic Report (pages 1 to 54). In order to assess the viability of the Group the key factors affecting the Group's prospects are set out below:

- The Group is the leading global provider of Pest Control and Hygiene services.
- The Group operates three core categories (Pest Control, Hygiene and Protect & Enhance) and therefore has some protection from category specific issues.
- The Group operates in 75 countries and therefore is relatively well protected from country or regional shocks. The Group's largest single country is the USA that contributes 30% of Ongoing Operating Profit (excluding restructuring costs and central and regional overheads) at CER.
- The Group has a large, diverse customer base with no single customer contributing greater than 1% of revenue.
- A substantial proportion of revenue is derived from contract revenue (typically one to three years in duration). Whilst contracts can be cancelled, this provides a level of downside protection in the event of economic declines and typically provides time to respond and react.
- The average initial contract duration is less than three years which provides the opportunity to renegotiate terms in the event of external market changes and cost increases. Most contracts are subject to annual price increases.
- Whilst the Group is exposed to regulatory changes, particularly in Pest Control, these can provide an opportunity for the Group due to the investments in innovation and the Group's ability to fund investments to maintain compliance relative to our competitors. We are not aware of any regulatory changes in the medium term that present a significant threat to any of the categories we operate in.
- The business is not capital intensive and the majority of capital expenditure is correlated with revenue and so if revenue decreased there would be a corresponding reduction in related capital expenditure.

In making their assessment, the Directors have considered the current position of the Group and have taken into account the potential impact of the principal risks, described on pages 42 to 46, that could impact on the solvency and viability of the Group. The Directors have taken account of the Group's liquidity position, its committed and uncommitted banking facilities and its bonds issued under its Euro Medium-Term Note (EMTN) Programme further details of which are set out in Note C1 of the consolidated financial statements. With headroom under its covenants and taking into account current credit metrics the Directors are confident in the Group's ability to raise new finance, if required, assuming functioning capital markets.

In undertaking its viability assessment, as a base case, the Directors used the agreed budget for 2019 and longer-term plans for 2020 and 2021 which includes analysis of the forecast performance including the following assumptions:

- revenue and profit growth in line with the Group's medium-term targets;
- no major changes to working capital;
- capex reflecting revenue growth;
- M&A spend in line with recent years;
- no additional capital beyond current committed debt facilities; and
- future dividend growth in line with current policy.

In order to assess the Group's resilience, a number of different scenarios have been modelled to test compliance with financial covenants and ratings metrics. These tests include:

- a scenario where a combination of the crystallisation of principal risks results in no revenue growth over the period and a 20% increase in working capital requirements;
- a scenario where the crystallisation of principal risks results in a prolonged downturn in trading performance resulting in a year-on-year reduction in profitability of 10%, with and without any mitigation; and
- a reverse stress test scenario caused by an unavoidable breach of the Group's financial covenants.

In each scenario it is assumed that the Group is able to refinance its debt maturities as they fall due, in line with recent experience. In the first two scenarios it was found that the Group was resilient and remained in compliance with its financial covenants, even with no mitigation. The Directors have also considered the key potential mitigating actions of reducing capital expenditure or expenditure on acquisitions and ultimately restricting dividend payments. Where mitigation was introduced, the requirement for financing to be raised on debt maturity was reduced significantly. In order to create a reverse stress testing scenario, the conditions were so severe that they were considered implausible.

Based on this assessment and having carefully considered the Group's current standing and the risks and uncertainties referred to above, in line with the UK Corporate Governance Code, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2021.

Corporate responsibility

We have made significant progress in our sustainability priority areas, in line with our **RIGHT WAY** plan and mission to protect people and enhance lives.

During the year we mitigated our carbon emissions footprint through a new partnership with Cool Earth and launched a new more environmentally-friendly product range, which significantly reduces power consumption for customers.

Stakeholders and corporate responsibility

Our corporate responsibility priorities are aligned to the priorities of our key stakeholders and the UN Sustainable Development Goals, particularly good health and wellbeing, climate action and responsible consumption.

	Colleagues	Customers	Shareholders	Communities	Suppliers
Overview	We employ some 39,500 colleagues and managers in 75 countries. We operate a clear and consistent global grading system from Work Level 1 (technician or sales role) to 6 (Regional MD).	Our customers range from global food and pharmaceutical producers to national hotel chains or regional industrial goods businesses and local restaurants, and residential customers at home.	Our investors range from global investment funds based primarily in the UK, North America and Europe, to small private investors, who are often former employees.	We respect the communities in which we operate and employ people, but we also accept a wider responsibility to key communities and environments around the world.	Our suppliers range from global major suppliers of key products and consumables, through to local suppliers for local branches. Items supplied include baits, technology, paper, soaps and waste disposal units.
Areas of interest	Safety; training and career development; tools to do the job; wellbeing; reward; culture and values; and community support.	Safety and sustainability; expertise and service quality; innovation; digital portals, transparency, assurance and insights.	Growth including by M&A; brand and market leadership; innovation and digital differentiation; strategic execution; sustainability and governance.	Charities and community causes in line with our mission to protect people and enhance lives. Contribution to public health and safe environment.	Long-term engagement and innovation; high standards and audit reviews; governance and CR compliance including human rights and modern slavery.
Measurement	KPIs for colleagues are reported annually, please see page 52.	KPIs for customers are reported annually, please see page 52.	KPIs for shareholders are reported annually, please see page 15.	Donations and activities are measured annually, please see page 52.	Details can be found in our annual Modern Slavery Statement available on our website.
2018 initiatives	Employer of Choice (see page 50); training; line manager training; succession and talent pools; diversity; short-term retention; and bringing our culture to life (see page 54).	Service; innovation and digital leadership (see pages 32 and 50); and environmental stewardship (see page 51).	M&A (see page 34); policies; governance; environmental; and social performance (see page 52).	Key partners are Malaria No More UK, Cool Earth, and our own Better Futures community health programme in Asia (see page 52).	Proactive modern slavery related actions were taken in Asia in 2018 (see page 51). Ongoing supplier engagement through classification and review of critical suppliers and targeted engagement.

Other stakeholders: The Company has a wide range of stakeholders in addition to the key stakeholders above. These include the general public, governments and industry bodies. Further details, including alignment to the UN Sustainability Goals can be found in the 2018 Corporate Responsibility Annual Report at rentokil-initial.com.

Accreditation and awards include the Dow Jones Sustainability Europe Index of leading companies, which Rentokil Initial has been a member of since 2005

Corporate responsibility

Governance

Corporate responsibility (CR) is woven into our overall governance arrangements, the cornerstone of which is the Code of Conduct (available in local languages and supported by training programmes).

We have a robust policy framework for each of the key CR areas, covering health and safety, anti-bribery and corruption, environmental management, human rights, modern slavery and relationships with customers and suppliers. These are reviewed regularly to ensure they meet current best practice and legislative needs. Our technical and safety standards and practices often exceed the regulatory requirements where we operate. A full list is available on our website, with further details provided in our Corporate Responsibility Report.

Adherence is reinforced by an annual Letter of Assurance process, signed by senior management confirming compliance with corporate policies and the Code of Conduct. Monitored by the Company's Internal Audit team, it is supported by mandatory training on the U+ learning platform. The Internal Audit team also manages the confidential independent reporting channel, Speak Up (see page 74 of the Audit Committee Report).

The Chief Executive has Board responsibility for CR and the Company's broader corporate governance arrangements as well as engagement with its wider stakeholder groups. Our Chief Executive, Andy Ransom, was 6th in the 2018 Top CEOs – Employees' Choice awards on Glassdoor with a 98% approval rating (there are around 800,000 companies reviewed on the site).

Our Human Rights Policy outlines the human rights principles that reinforce colleagues' expected behaviours; to respect the human rights of colleagues, business partners and in the countries in which we operate. There were no human rights violations reported in 2018.

Anti-bribery and corruption policy and controls are addressed within the Code of Conduct and a separate Anti-Bribery Policy, and these are reinforced by mandatory training; reviews and supplier audits; tracking registers; and Speak Up. Over 23,000 Core Corporate Compliance courses were completed by colleagues in the business in 2018. There were no fines, penalties or settlements for corruption reported in 2018.

Within our acquisition programme, rigorous due diligence including CR criteria is undertaken. Prior to purchase, a business is assessed for its ability to meet the Company's standards. Once acquired, internal audit teams make two visits within 100 days to ensure integration of Company policies and practices.

During the year, EU General Data Protection Regulation (GDPR) and data privacy training was rolled out online using U+ to 10,000 employees in 23 countries alongside videos and guidance documents being made available in 17 languages.

We consider the materiality of our corporate responsibility impacts and the importance of each impact to the business. Our materiality matrix and methodology are described in our 2018 Corporate Responsibility Report (available on our website). The main potential impacts are health and safety, talent development, service delivery and anti-bribery and corruption. We monitor our impact using KPIs, which are summarised on page 52. Further details of our values and culture can be found on page 53.

Health and safety

In 2018, our safety standards remained very high. Our Lost Time Accident (LTA) rate continues to perform at world-class levels (below 1.0). We finished the year well with a strong performance in the second half including our safest ever fourth quarter, but increased LTAs in the first half negatively impacted our full year performance. All regions except Europe operated at world-class safety levels with LTA rates below 1.0.

Key indicators	2018	2017	2016	2015	2014
Lost Time Accidents (LTA) ¹	0.63	0.58	0.63	0.76	1.00
Working Days Lost (WDL) ²	14.77	11.65	16.14	19.59	28.99

1. LTA is a work-related injury or work-related illness to a colleague resulting in their being absent from work for more than one day/shift.

2. WDL rate is the number of working days colleagues could not work because of Lost Time Accidents

Regrettably, we experienced a small number of serious incidents in 2018. Colleagues were involved in two fatal road traffic incidents, both involving third parties who were at fault, and two serious electrocution incidents. A colleague in Guatemala tragically died and a colleague in Belgium was seriously injured while working at customers' premises. There was also a serious fire at our regional office in Singapore in December and in India a technician, who sustained spinal injuries during a fall from height in 2017, died after contracting septicaemia in hospital. We continue to enforce the Driving at Work minimum standards for all colleagues who drive and have developed new Golden Rule training covering potential electrical risks, as well as a new site risk assessment app to identify hazards and recommend relevant risk control measures.

In France, criminal enquiries led to a prosecution in 2018 relating to the fatality of a colleague in 2013, and we received two Occupational Safety and Health Administration (OSHA) citations for safety breaches in North America following a fall from a ladder that injured a colleague. In the UK, we received a RoSPA Gold Award after showcasing our global and local safety credentials.

Key policies

Code of Conduct

Summary

Standards of behaviour. Anti-bribery and corruption, conflicts of interest, and entertainment and gifts. Respect in the workplace, respect for human rights and financial integrity. Whistleblowing.

Stakeholders

Colleagues and contractors, customers and suppliers.

Health and safety

Health, safety and welfare of all colleagues and other people we come into contact with while undertaking our services.

Colleagues and contractors, customers and suppliers.

Environment

Commitments to carrying out our business in an environmentally responsible way.

Colleagues and contractors, customers and suppliers.

Human rights

Supporting the rights of all people as set out in the Universal Declaration of Human Rights.

Colleagues and contractors, customers and suppliers. Other business partners.

Community involvement

Commitment to support colleagues' efforts to raise funds for good causes through a matched giving scheme.

Colleagues, communities and charities.

Supplier management standard

Designed to encompass the entire relationship with the supplier, from initial supplier assessment and selection, through to the establishment of a supply agreement/contract and ongoing performance management of the supplier in question.

Suppliers.

Corporate responsibility

In 2018, we continued to deploy our Safety Leadership Behaviours to reinforce positive leadership behaviours to be practiced by our operational leaders. In addition, we launched a new global 'Safety Moments' initiative which encourages colleagues to share their personal safety experiences in order to influence colleagues to make the right decisions for their safety. Over 100 short 'Safety Moment' case study videos were produced and shared by colleagues.

Workplace

Workplace programmes aim to provide a high-quality recruitment experience; utilise best practices and policies to improve diversity; deliver industry-leading learning and development opportunities; with the aim to become a world-class Employer of Choice. Our KPIs in this area include diversity, and learning and development.

We have had a global grading and reward structure in place for several years, supporting the principles of fairness and equality. This can be evidenced by there being no material gender pay gap between men and women in the UK in 2018 (-2% mean, +1% median) versus the national median gender pay gap for full-time employees of +8.6% (Office for National Statistics as at October 2018).

In 2018, we reviewed both our Board Diversity and Group Diversity and Inclusion policies. Women represent approximately 9,870 or 25% of our 39,480 colleagues (based on a survey of our largest 10 countries which represents almost 70% of employees). During the year the number of female senior managers increased to 30% (22 out of 74 people); women in executive leadership roles remained unchanged at 10% (one out of 10 people); and our talent pipeline of corporate graduates comprised of over 56% women. 33% of our Board members (three out of nine) are female. We were ranked 32nd in 2018 FTSE 100 Hampton-Alexander Review, up from 46th in 2017.

In other diversity areas, we strive to create a workforce reflecting the diverse nature of our markets. In 2018, in Australia, a new 'Women in Pest Control' initiative was launched, designed to support, share best practice and to encourage new female technicians to join (see Our culture in action on page 54).

We have highly successful graduate and apprentice programmes, and recruit from amongst Armed Forces leavers, especially in the UK and the USA. According to a highly positive 2018 Ofsted report on our programme: "Apprentices attend training sessions in a very well-resourced and vibrant learning centre."

Career development is a key driver of colleague engagement. U+, our in-house 'university', delivers online courses and face to face programmes, as well as compliance and induction programmes. In 2018, over 1.2 million items of online training were viewed, an increase of over 110%, and over 550 pieces of learning content (videos, courses, etc.) were created covering topics such as sales, safety, technical and operational best practice, and compliance. All were developed in-house.

Focus 365 is our programme to enhance the recruitment and on-boarding processes across each of our regions. In 2018 a new global careers portal was launched featuring videos and a 'job fit' tool to enhance the quality of candidates and time to hire. Other initiatives included the introduction of on-boarding experts. As a result, we have seen significant improvements in retention rates of new colleagues after 0-6 months and 6-12 months. This is measured and was reported to the Board and Nomination Committee during 2018.

The Glassdoor job site placed Rentokil Initial 7th in the listing of Best Places to Work in Britain in 2018 (there are 800,000 companies on Glassdoor)

Marketplace

Our focus areas include innovation, quality of products and services, digital excellence and product stewardship. Customer service remained strong during the year with State of Service at 97.9% (2017: 97.8%). More than 117,000 Customers Voice Counts (Net Promoter Score) calls were made to customers with the overall customer satisfaction score remaining strong at 43.

In the UK, the service review website Trustpilot features over 1,400 reviews for both Rentokil and Initial with an 'Excellent' 5-star rating for both businesses.

Product development takes place at the Power Centre. In addition, our subject matter experts collaborate on digital innovation projects with experts from partners including Google, Alibaba and PA.

Our innovation programme has never been stronger, including:

- **Lumnia** – the first commercial range of insect light traps to use LED lighting rather than traditional fluorescent tubes, reducing power consumption by 61%; around 60,000 units have been shipped to date.
- **RapidPro** – a new faster-acting rodenticide, now with authorisation in all European countries.
- **PestConnect** – sensor based, proactive infestation risk management service, deployed in 18 countries.
- **Mosquito Centre of Excellence** – this new centre was established in 2018 to share best practice, develop new services for public sector organisations and support innovation.
- **Hygiene developments** – roll out of on-site feminine hygiene servicing and launch of new Air Fresh range.

We enable customers to deliver their own product stewardship programmes, including:

- **Partnering with British Retail Consortium Global Standards** – helping mitigate food industry risks, including product recalls.
- **Global Food Safety Initiative** – sharing best practice and latest innovations.
- **myLearning** – Rentokil Initial developed training for customers' own employees to assist them to meet regulatory standards.

In 2018, overall web traffic for Rentokil markets grew by 38% year on year, with organic growth increasing 44%. Our full year total traffic has reached almost 21m sessions, an increase of over 5m year on year.

The Queen's Award for Enterprise for Innovation was awarded to Rentokil Initial in 2018 recognising the commercial success of its rodent control and connected devices

Corporate responsibility

Environment

Our five-year emissions target is to achieve a 20% reduction by the end of 2020 and each of our major operations are setting vehicle fuel reduction targets as part of the plan to deliver this.

We report on tonnes of CO₂e, using 2018 Department for Environment Food & Rural Affairs (DEFRA) conversion factors and International Energy Agency conversion factors for non-UK electricity. We report our emissions intensity values, related to revenue at constant exchange rates as an index. This has improved by 19.6% since 2014. In 2018, this index improved by 6.6% year on year, while we also report absolute energy and fuel-derived emissions, which increased by around 2% reflecting the increased activity due to acquired businesses. Absolute emissions from the use of Sulfuryl Fluoride (a fumigant) were 363,339 tonnes in 2018 (2017: 481,390 tonnes) and we continue to research to try to identify safer, alternative fumigants to minimise this impact.

For the first time, we are also reporting our energy consumption, and the UK operations' percentage. In 2018, global energy consumption was 793,825 MWh with UK consumption representing 10%.

Vehicle emissions represented 82% of total emissions in 2018. Vehicle efficiency programmes include route optimisation software (reducing distances travelled) and driver telemetry (to feedback information about driving behaviour). In the UK, more efficient vehicle selection reduced car emissions from 113g per km in 2014 to 101g per km in 2018. This approach is being rolled out globally.

We continue to consolidate our property portfolio through co-location and improved geographic density, improving property energy efficiency by 60% since 2014.

In the French and Italian Hygiene washroom businesses, dispensers are refurbished in order to reduce metal and plastic waste. In France, 45,700 dispensers were refurbished in 2018, and over 13,000 in Italy.

In 2018 our carbon emission disclosure with the CDP achieved a C ranking.

A full report of our environment performance can be found in our 2018 Corporate Responsibility Report.

Absolute values of energy and fuel derived emissions – tonnes of CO₂e

Type of scope	2018	2017	2016	2015	2014
Total scope 1	170,609	167,893	151,924	146,704	150,246
Total scope 2	16,282	17,513	14,209	15,218	17,028
Total scope 3	42,367	40,449	35,759	34,150	34,320
Total outside scope	3,988	3,627	3,140	2,906	2,792
Total – all scopes & outside scopes	233,246	229,482	205,032	198,979	204,386

Index of CO₂ emissions

Intensity indicator	2018	2017	2016	2015	2014
Index of energy and fuel derived CO ₂ emissions at CER	80.42	86.13	86.94	92.26	100.00

Index of CO₂ emissions – calculated as an index of kilograms per £m turnover on a constant exchange rate basis, providing an accurate like-for-like performance comparison, removing the variables of currency and divestments and acquisitions.

Supply chain

Supply chain activities focus on product quality, service delivery and delivered cost. Contracts include anti-bribery and corruption clauses. CR risk areas lie in procurement of textiles, electrical equipment compliance and pest control chemicals.

Direct external suppliers are in three groups: critical suppliers, major local suppliers and tactical/minor local suppliers. Critical supplier audits are conducted by the European Quality Manager, on a risk determined cycle of one to four years.

Our Modern Slavery Statement, available on our website, covers supply chain management policies, contractual practices and due diligence processes, and our confidential Speak Up procedure. It also explains the governance standards and audit processes applied to key suppliers.

Two areas of non-compliance were uncovered and addressed in 2018. A critical supplier in Malaysia was found to be withholding the passports of migrant workers. These have now been returned to the workers. In the second area of non-compliance, interviews on the factory floor at three suppliers in China revealed that the suppliers did not check that national insurance payments had been paid, leaving the employee potentially vulnerable without insurance. These checks are now being carried out and all insurance payments are being made.

In 2018 Procurement Managers from all major markets received refresher training on the requirements of the UK Modern Slavery Act, following up on training carried out in 2016 and 2017.

Mitigating our carbon footprint

In 2018, we established a new partnership with the charity Cool Earth to protect around 1,000 acres of rainforest in Papua New Guinea and, in doing so, prevent the release of carbon through deforestation to the equivalent of our 2017 emissions (see left). Cool Earth's approach sets up local community-led partnerships, which help villages on the frontline of rainforest destruction to build sustainable livelihoods, so that local people benefit more from keeping the forest standing than from clearing it. We have funded a women's cooperative, enabling a sewing group to create curtains, pillow cases, school uniforms and clothing to sell at the market; new coconut oil processing equipment to produce high-grade virgin coconut oil; and supported the development of a poultry cooperative.



Read our CDP submission at
cdp.net



Read our Modern Slavery Statement at
rentokil-initial.com/modern-slavery

Q Read more about our Power Centre on pages 6 and 7

Corporate responsibility

Communities

Our community relations approach focuses on local community support, response to national disasters and global community support.

Local programmes reflect the local cultures and the passion of colleagues to support particular good causes such as supporting Movember in Australia and Mandela Day in South Africa.

The BRIT School is the UK's foremost school for the performing and creative arts. In 2018, we began to support and advise the school across a wide range of activities bringing our expertise in areas such as training and development, marketing and agile project management to assist the school. Richard Elliott, Director of Finance, said: "We have all been so grateful for the time which has been so freely and generously given, the advice which has been so clear and relevant, and the practical benefits, which we are seeing from this connection with Rentokil Initial which we find so stimulating."

In 2018, we supported our colleagues in Kerala, India, where heavy monsoon flooding led 1.25m people to shelter in 5,000 rescue camps. 42 colleagues lost their homes and possessions. With the support of the local management team, funds were provided to help these colleagues to rebuild their lives.

Globally, the Company focuses on three programmes:

- **Cool Earth**, a new partnership which began in 2018 that works alongside rainforest communities to halt deforestation. Around 1,000 acres of Papua New Guinea rainforest were protected in 2018, preventing the release of carbon through deforestation equivalent to the Company's 229,482-tonne footprint in 2017.
- **Malaria No More UK**, which the Company has supported for six years, raising £200,000 in that time. Colleagues have raised funds through a range of activities from bike rides to cake sales.
- **Better Futures**, a community health initiative, which leverages our hygiene skills and knowledge to provide health and home safety education. Launched in 2013, over 20,000 people have participated in colleague-led events, mainly in India, Indonesia and Malaysia.

Our key performance indicator in this area relates to charitable cash donations (including matched donations) which amounted to £202,000 in 2018 (2017: £213,000) – this excludes provision of value in kind and management time, and colleagues' generated donations.


For the first time, in 2018 we put in place an innovative community funding initiative to use unclaimed dividends, returned to the Company, to support good causes, including the three programmes above, that are aligned with our purpose of protecting people and enhancing lives.

Non-financial information statement

Information relating to environmental matters, colleagues, social matters, human rights, and anti-corruption and anti-bribery can be found throughout this Corporate responsibility section, with details of the relevant policies provided on page 49. The table below sets out how we measure our impact in these areas, and where stakeholders can find more information. Details of our business model can be found on pages 24 and 25, and our principal risks are on pages 42 to 47.

	KPI	2018 performance	More Information
Colleagues	Total headcount	39,480 (2017: 36,036)	Q See page 50
	Board diversity	33% of Board members were female	Q See page 79
	Female executive leaders	10% unchanged year on year	Q See page 79
	Female senior managers	30% or 22 people were female (27%/21 people in 2017)	Q See page 79
	Lost Time Accident rate	0.63	Q See page 49
	Working Days Lost rate	14.77	Q See page 49
	New online training content	Over 550 pieces of learning content developed	Q See page 50
	Online learning views	Over 1.2m views of items	Q See page 50
	Talent pipeline of graduates and apprenticeships	77 graduates and over 250 apprenticeships	Q See page 50
Customers	State of Service	97.9%, above our 95% target	Q See page 50
	Customer satisfaction (NPS)	43 points from over 117,000 customer calls	Q See page 50
	TrustPilot score	5-stars for Rentokil and Initial in the UK from over 1,400 reviews each	Q See page 50
	Website visitors	Total traffic reached c. 21m sessions, an increase of over 5m year on year	Q See page 50
Other KPIs	Total emissions	6.6% reduction in the emissions index in 2018; 19.6% since 2014	Q See page 51
	Charitable donations	£202,000, excludes donations in kind	Q See page 52
	Rainforest protection	c.1,000 acres protected through Cool Earth partnership	Q See page 51

 Read our 2018 Corporate Responsibility Report at rentokil-initial.com/responsible-delivery

 Read our key policies at rentokil-initial.com/responsible-delivery/policies

Corporate responsibility

Workplace culture

Our culture is characterised as customer focused, commercial, diverse, down to earth and innovative. We have highly engaged colleagues, willing to go the extra mile, and a drive within the business to keep improving whether through learning and development, the roll-out of innovations or the introduction of industry-leading digital tools.

Our model

Our mission

What we're
here to do

Protecting People. Enhancing Lives.

Our values

The core things
that underpin
everything we do

Service

We are passionate about delivering
excellent customer service to
every customer

Relationships

We value long-lasting relationships
with our colleagues and customers

Teamwork

Our business is all about great
teamwork – getting it right, for
our colleagues and customers

Our culture

What it's
actually like to
work with and
at Rentokil
Initial

Q Read more
on page 54

Customer focused

Firstly, we're a
service company.
We strive to meet
our customers'
needs and our
people go the extra
mile to do so. We
work hard to support
our customers and
each other. When
things go wrong,
we put them right.

Commercial

We employ smart
people who help
the Company grow
profitably by making
good decisions
that benefit our
customers. We
constantly seek out
new opportunities
for growth and
ways to work more
effectively.

Diverse

We want our
workforce to
reflect the diverse
customers we
serve. We value
everyone's talents
and abilities and
strive to attract,
recruit and retain the
best people from
the widest possible
pool of talent.

Down to earth

We don't like big
egos. People who
succeed with us are
friendly, comfortable
in their own skin,
straightforward,
constantly seeking
to improve,
with ideas and
experiences and
acknowledge the
contribution of
others.

Innovative

We use the latest
advancements to
build an innovation
pipeline that sets
us apart from the
competition. We
embrace digital
technologies that
help create new
products and make
us more efficient.

Our measures

How we make
sure our culture
is working

World-class service
company

- Customer service
- Net Promoter Score
- Customer retention
- External reviews
(e.g. Trustpilot)

World-class Employer
of Choice

- Your Voice Counts
(YVC) survey,
Culture Index
- Employer of Choice
(retention, diversity)
- Compliance
training, Speak Up
- External reviews
(e.g. Glassdoor)

Measuring our culture

We measure our workplace culture through external and internal KPIs, but we have also created a measurement tool – mapping our colleague engagement survey questions to each of the five pillars in order to create a score out of 100 that can be tracked over time. In the 2017 survey (the last one conducted), Diverse and Customer Focus were the strongest cultural elements. This will be measured again in 2019.

Regions dimensions YVC 2017 scores	Customer focused	Commercial	Diverse	Down to earth	Innovative
Asia	90	87	88	85	88
Europe	70	67	76	67	68
North America	80	74	82	73	72
Pacific	75	73	82	69	74
UK & RoW	78	73	80	70	78

Our culture in action

Our culture model on the previous page features five core characteristics, which are how we define and measure our workplace culture. These are customer focus, commercial, diverse, down to earth and innovative. On this page we provide examples of our culture in action from around the Rentokil Initial world.

Customer focused

In 2018 our team in Belgium was asked to treat bed bugs at a hotel in Antwerp, which was also part of a large national account in France. Working together, both teams made sure that the job went smoothly with 125 rooms heat treated, without compromising safety.

The Rentokil team worked in shifts for three days and nights, and an electrical power station was installed to supply 32 heat canons and fans. The customer was delighted that they could remain open during the treatment and have their rooms quickly back in operation.

Commercial

Retaining more colleagues doesn't just mean we provide better service; it also reduces our costs through less recruitment, training and time to become fully productive.

In 2018 our business in North America launched a Certified Field Trainer programme that pairs new colleagues with designated Certified Field Trainers in their branch for the first six weeks of their employment, to help them learn on-the-job skills.

Short-term (0-6 month) Sales retention in North America improved by 9.9 percentage points in 2018.

Diverse

Rentokil Initial is a diverse organisation operating in 75 countries with multiple cultures, languages and customs. 33% of the Board are female, while direct reports of the Executive Leadership Team now comprises 30% women (up from 27% in 2017 and 24% in 2016). Across the Company there is a strong focus on future talent with the graduate scheme comprising of over 50% females.

In 2018 we introduced a 'Women in Pest Control' initiative in Australia which brought together our female technicians to agree steps to make a career in pest control more attractive to women and to support recruitment.

Rentokil Initial was ranked in the Top 200 companies globally for gender equality by Equileap in 2018.

Down to earth

Being recognised and thanked is a big part of our culture. Branch Managers use our G+ social media communities to provide an instant 'well done' or 'great job', while every region has awards where we recognise colleagues for excellent customer feedback such as our First Class Awards in the Pacific and President's Club in North America.

Increasingly, colleagues past and present can give feedback on our culture on websites such as Glassdoor. As at 31 December 2018 Rentokil Initial's UK Glassdoor score for Culture and Values was 4 out of 5, well ahead of the average of 3.2 out of 5 (of the 800,000 companies on the site).

Innovative

Key to the development of our innovation pipeline and the Company's culture of innovation is the Power Centre. Opened in late 2017 the Centre has had a particularly successful first 12 months with 1,700 colleagues and customers visiting, including service colleagues from the Netherlands, the Latin American management team, and an increasing number of existing and prospective customers. The new Lumnia insect light traps are a great example of this pipeline of innovations with over 60,000 sales to date. One supermarket chain in Singapore ordered 450 units which were installed by colleagues over one month. The customer will save approximately £9,000 per year in reduced energy costs.

Corporate Governance

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Q&A

JOHN MCADAM
Chairman

2018 has been another successful year, consolidating and extending the delivery of strong performance against our growth strategy.

Q. What have been the key areas of focus for you and the Board during 2018?

A. As well as oversight of our successful M&A strategy we have, as usual, spent a lot of time this year considering performance against our strategy with in-depth reviews of our operational businesses. We have also spent time assessing how best to evolve our sector strategy and innovation pipeline, to drive future outperformance. We took an in-depth look at the opportunities available to us over the next three years at our strategy away day in November. As a board we have also spent time this year considering the new corporate governance code and reporting requirements in preparation for next year. Finally, we have followed our Employer of Choice agenda closely, and assessed progress on retention initiatives, talent development and succession plans for our key executive management as well as the Board, including my own role.

Q. You have announced that you intend to step down as Chairman at the next AGM. Why do you think now is the right time to leave?

A. I have been on the Board for over 10 years and whilst I look back with some satisfaction at the Company's achievements over that period and the performance of the Board under my chairmanship, it does now feel an appropriate time to hand over the reins to someone new, quite apart from wishing to reflect best corporate governance practice. My main focus now is to make sure that when I do leave that there is a smooth handover.

Q. What are the succession plans for your role?

A. I am delighted that Richard Solomons will be joining the Board on 1 March 2019 as a Non-Executive Director, allowing a period of handover before he becomes Chairman from 8 May 2019, subject to shareholder approval. He brings great operational and strategic experience from running a highly successful global business, gaining a deep understanding of service-led organisations, North America and the digital agenda as Chief Executive of InterContinental Hotels Group. He is currently Senior Independent Director and Chair of the Audit and Risk Committee at Aston Martin Lagonda, and I wish him every success in the role.

Richard Burrows, our Senior Independent Director, has led the Chairman succession plan and we have included a separate section in our Nomination Committee Report this year to allow him to update our shareholders on the rigorous succession process that has been undertaken. I would like to express my thanks to Richard for staying on to complete the process in exemplary fashion.

Q. Looking back, what do you believe is the biggest change in the Company since you joined as Chairman in 2008?

A. Rentokil Initial has always had key strengths such as the dedication of its employees and its focus on delivery of services and international expansion, but the Group has been significantly developed from its position in 2008. The portfolio of businesses has been streamlined and focused on Pest Control and Hygiene, with, for example, the sale

of City Link, Initial Facilities and the formation of the joint venture with Haniel. We have made good advances in North America, building a \$1.2bn revenue business more than three times the size it was in 2008, and grown our business significantly in Asia and emerging markets, entering more than a dozen new countries for the first time. This has been the result of clarity, focus and discipline in execution against our growth strategy. Our executive team, particularly under Andy and Jeremy, have done a very good job in delivering this growth while keeping the essence of the culture of Rentokil Initial intact. It is becoming hard now to recall that Pest Control was only the fourth biggest business we had in 2008 and that the Group was issuing profit warnings, while over the last five years we have delivered double-digit profit growth and dividend increases, and built the business into a FTSE 100 innovator and powerhouse across the world that leads the industry in its sectors. It has been a pleasure and privilege to have led a Board that has supported these achievements.

Q. What are the Company's most satisfying achievements during your time on the Board?

A. Our senior management team have made significant progress under Andy's leadership, building on the hard restructuring work and foundations laid during the time of our former Chief Executive Alan Brown. It is very satisfying to see the value that has been created for our shareholders. When Andy, Alan and I were appointed to the Board in May 2008 the share price was sitting at about 82p and it has certainly been pleasing to see Rentokil Initial restored to its rightful position in the FTSE 100 in March 2017, after an absence of eight years, and continuing to make progress. From a personal point of view, I have also found it particularly pleasing to see the growth we have achieved in key markets both for now in North America, and also strong positions in those that will generate growth in the medium and longer-term future of the business, such as India and Latin America.

Within the boardroom itself, the diversity of our Board has improved considerably over this time and I am very pleased that we are now meeting both the targets set for women on boards by the Hampton-Alexander Review and for ethnic diversity on boards by the Parker Report.

Q. What do you think will be the biggest challenges that your successor will face?

A. The global economic environment continues to be uncertain, and we know that the pace of change in our markets will only accelerate with developments in digital and connected devices representing both opportunity and competitive threat to our leadership positions. We need to maintain an ever more demanding focus on health, safety and the environment to avoid complacency in the world-class safety performance levels we are now achieving, and to continue to reduce our carbon footprint. Delivering on the opportunity that still lies ahead for Rentokil Initial will not be easy but I believe that many of the key building

Q&A with John McAdam, Chairman

blocks and attributes for success are already in place. We have the best-trained and motivated colleagues, a seasoned and relentlessly focused management team, key capabilities such as M&A execution, technical expertise and operational discipline, and a pipeline of innovation and global footprint second to none. I am therefore confident that my successor as Chairman and my supportive colleagues on the Board will find the business is very well placed to meet the challenges that lie ahead.

Q. Do you foresee any other significant Board changes?

A. After adding three new Board colleagues between the middle of 2017 and the start of 2018, 2018 has been a more stable year with no further changes being made to the Board. However, our Senior Independent Director, Richard Burrows, will be stepping down after our AGM in May 2019 as he has also served as a Director for more than nine years. I am very pleased to say that John Pettigrew has agreed to become our new Senior Independent Director and Angela Seymour-Jackson will succeed Richard as Chair of the Remuneration Committee. Other than that, we currently have no further plans for Board changes in 2019.

Q. What are the Board's key priorities as we go into 2019?

A. In terms of the Board itself, clearly the main priority over the next few months is to achieve a smooth transition to the new Chairman as well as the Senior Independent Director and Remuneration Committee Chair roles. Engagement of the new appointees with investors, proxy agencies and other stakeholders through this transition period will be key. In terms of the oversight of the Group and the business itself, our priorities will be monitoring management performance against the demanding objectives that have been set, particularly in relation to the North America business; enhancing margin delivery across Pest Control and Hygiene more broadly; and ensuring that our M&A growth plans continue to deliver value for the business and for shareholders.

Q. How are you preparing for the new workforce engagement requirements of the 2018 UK Corporate Governance Code?

A. The Board has been considering its approach for some time. Much is already done within Rentokil Initial to understand and drive improvements in workforce engagement, and it has been a perennial management focus as you would expect in a high-performing global services business. We reviewed the Code provisions carefully, to assess what would be the most meaningful for Rentokil Initial, as well as generating the most telling insights for the Board. We decided, at least initially, not to adopt one of the new Code's specific recommendations but instead to build on and enhance our current workforce engagement practices across the global Group. We will report on that basis, and no doubt continue to refine our arrangements during the course of 2019. As a Board we have also been looking at the most appropriate ways for the Board itself to engage more directly with colleagues and other stakeholders and we look forward to reporting on this in next year's Annual Report.

Q. How would you define Rentokil Initial's culture and how has it changed since 2008?

A. Rentokil Initial's culture is down to earth, hardworking and respectful, and much of this was already the case in 2008. What has changed is the rigour in measuring, incentivising and managing the business in line with the attributes that have been at the core of the Group's culture and success for more than 90 years. The Employer of Choice agenda takes this forward, with benefits visible in both our internal and external measures such as our top-rated Glassdoor scores.

I would like to take this opportunity to thank all our shareholders for their support for the Company and the Board and I look forward to seeing the business continue to prosper in the years ahead.



JOHN McADAM
Chairman
27 February 2019

Highlights of 2018

- Progress on our Employer of Choice agenda, including improvement on diversity, retention and succession planning
- Performance in Europe with the return to profitable growth in France and the Board's visit to Italy
- Progress on execution of digital and innovation agenda, combined with delivery of successful data privacy (GDPR) and IT security enhancements
- Offsetting 100% of carbon emissions through partnership with Cool Earth
- Agreement for a defined benefit pension scheme buy-in with Pension Insurance Corporation (PIC)
- Preparation for new UK Corporate Governance Code

Areas of focus for 2019

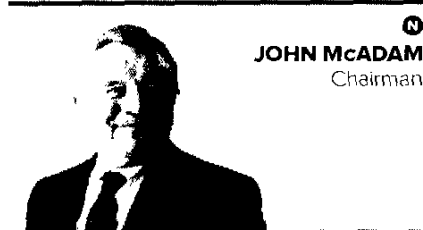
- Chairman, Senior Independent Director and Remuneration Committee Chair succession
- North America
- Productivity and margin delivery initiatives
- Workforce engagement and culture
- Maintaining effective engagement with investors
- Sustainability and corporate responsibility initiatives



The Group is well placed to continue to lead and shape the markets in which it operates and deliver superior returns for stakeholders."

JOHN McADAM
Chairman

Board of Directors



JOHN McADAM
Chairman

Appointed: May 2008

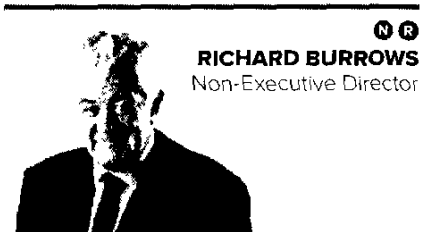
Skills and experience

John brings to the Group a deep and strategic understanding of a wide range of industry sectors gained from his career with Imperial Chemical Industries plc (ICI) and Unilever over more than 30 years, and his other board and advisor appointments. John joined ICI in 1997 and was appointed Group Chief Executive in 2003. Prior to joining ICI, John spent 24 years with Unilever where he held a number of senior management positions.

John was Senior Independent Director at J Sainsbury plc from 2005 to 2016 and a Non-Executive Director of Rolls-Royce plc from 2008 to 2017. John received a BSc honours degree in Chemical Physics at Manchester University and later gained a PhD before becoming a research fellow.

Current external commitments

- Chairman, United Utilities Group plc
- NED and SID, Cobham plc
- NED, Wilmcote Holdings plc



RICHARD BURROWS
Non-Executive Director

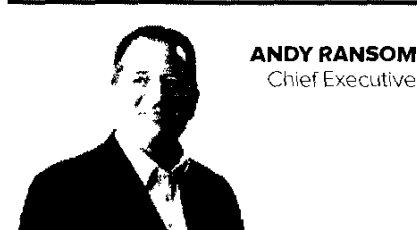
Appointed: January 2008 and became SID in September 2017

Skills and experience

Richard has significant international business experience ranging from leading successful branded manufacturing and service businesses in the drinks industry to banking and financial services roles. His executive career has been with Irish Distillers, where he was Chief Executive from 1978 to 2000, and at Pernod Ricard, where he was joint Chief Executive from 2000 to 2005. He has served as the Governor of the Bank of Ireland and has held several non-executive positions. Richard is a graduate of Wesley College, Dublin, and is a Fellow of the Institute of Chartered Accountants of Ireland.

Current external commitments

- Chairman, British American Tobacco p.l.c
- NED, Carlsberg A/S (Denmark)



ANDY RANSOM
Chief Executive

Appointed: May 2008

Skills and experience

Andy has broad commercial experience gained in senior executive positions and legal roles. He joined Rentokil Initial from ICI where he held various management positions as a senior lawyer and head of the mergers and acquisitions team since 1987. In 2005, he was appointed to the executive management team and had operational responsibility for ICI's Regional and Industrial Division.

During his career with ICI he spent several years working in its businesses in the US and Canada. Andy joined Rentokil Initial in 2008 as the Executive Director of the global Pest Control business and became Chief Executive in October 2013. Andy is a graduate of the University of Southampton and a qualified solicitor.

Current external commitments

- Director and Trustee of Street League
- Patron of Malaria No More UK
- NED and SID, Selecta AG (Switzerland)



SIR CRISPIN DAVIS
Non-Executive Director

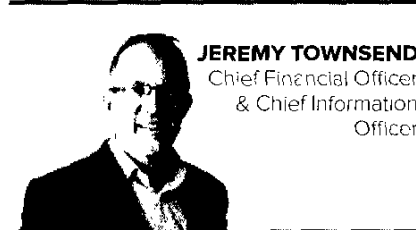
Appointed: July 2017

Skills and experience

Sir Crispin has had a distinguished and successful business career across the international media, fast-moving consumer goods, and publishing sectors. He was Chief Executive of Reed Elsevier plc from 1999 to 2009, and previously Chief Executive of Aegis Group plc and Group Managing Director of Guinness Group plc. Sir Crispin has experience in leading and delivering business change and transformation, particularly in the digital arena, as well as strong international experience having lived and worked in the US and Germany for substantial periods during his early career at Procter & Gamble. He has held various non-executive positions and has a degree in Modern History from Oxford University.

Current external commitments

- NED, Vodafone Group Plc
- NED, Hasbro Inc (USA)
- Trustee and Member of the University Board for Oxford University
- Advisor to CVC Capital Partners



JEREMY TOWNSEND
Chief Financial Officer
& Chief Information Officer

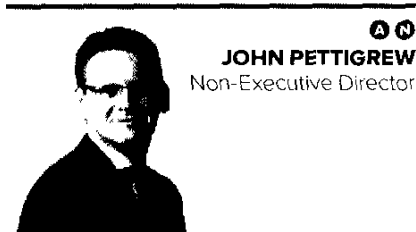
Appointed: August 2010

Skills and experience

Jeremy has extensive experience in audit and corporate finance gained in various senior and executive roles at Ernst & Young LLP, J Sainsbury plc and Mitchells & Butlers plc. Jeremy has a degree in Management Sciences from Manchester University and is a fellow of the Institute of Chartered Accountants of England and Wales and a former member of the Accounting Council of the Financial Reporting Council.

Current external commitments

- NED, parkrun Trading Limited and parkrun Global Limited
- NED, Galliford Try plc



JOHN PETTIGREW
Non-Executive Director

Appointed: January 2018

Skills and experience

John is Chief Executive of National Grid with a strong economic background and engineering leadership experience. John has a strong track record of developing and implementing global strategies for profitable growth at National Grid. His skillset includes service provision to a large customer base, delivering world-class levels of safety performance and driving transformational change in highly regulated environments.

He has significant experience of the US market, having led the generation and distribution businesses of National Grid in North America. John holds a BSc in Economics, an MSc in International Economics, is a fellow of the Institute of Engineering and Technology and sits on the Presidents Committee of the CBI.

Current external commitments

- Chief Executive, National Grid plc

Board of Directors

ANGELA SEYMOUR-JACKSON
Non-Executive Director

Appointed: March 2012

Skills and experience

Angela is a qualified marketing professional and a member of the Chartered Institute of Marketing. She brings to the Board experience of leading highly customer-focused businesses and improving processes and functions for a mobile workforce gained in various executive and other senior roles at RAC Motoring Services, Aviva UK Life, Aegon UK plc and Norwich Union Insurance.

She has over 20 years of experience in retail financial services. Angela holds an MSc in Marketing.

Current external commitments

- Deputy Chairman and SID, GoCompare.com Group plc
- NED, Janus Henderson Group plc
- NED, PageGroup plc

JULIE SOUTHERN
Non-Executive Director

Appointed: July 2014

Skills and experience

Julie has extensive financial experience having had a long, successful career in a number of commercially oriented finance and related roles working for some of the world's best known consumer brands. Julie, through her role as Chief Commercial Officer at Virgin Atlantic Ltd and her various non-executive roles, has gained significant exposure to commercial, legal, HR and operational challenges and responsibilities.

Julie is a Chartered Accountant, having trained with Price Waterhouse, and has a BSc in Economics from Cambridge University.

Current external commitments

- NED, NXP Semi-Conductors N.V. (Netherlands)
- NED, DFS Furniture plc (stepping down effective 31 March 2019)
- NED, Cineworld Group plc
- NED, easyJet plc
- NED, Ocado Group plc

LINDA YUEH
Non-Executive Director

Appointed: November 2017

Skills and experience

As an economist, corporate lawyer and financial broadcaster Linda brings a diverse range of skills to the Board, including strong commercial experience gained through her work in corporate law and previous non-executive positions. Linda has acted in various advisory roles, including to the World Bank and the European Commission. Linda has obtained a BA at Yale; Masters at Harvard; Juris Doctorate at New York University; and an MA and doctorate at Oxford.

Current external commitments

- Member of the Policy Committee of the Centre for Economic Performance at the London School of Economics and Visiting Professor at LSE IDEAS
- Trustee of Malaria No More UK; Royal Commonwealth Society; and The Coutts Foundation

DARAGH FAGAN
Company Secretary

Appointed: Group General Counsel in September 2013 and became Company Secretary in July 2014

Skills and experience

Daragh is a qualified solicitor having trained at Herbert Smith and has extensive experience in major listed multi-national corporations, including those with significant businesses in emerging markets. Daragh previously worked at Thomson Reuters as General Counsel, Europe & Asia, and General Counsel, EMEA of Reuters Group plc. Before joining Reuters, he spent 10 years working in the oil and gas industry for the Italian multi-national Eni SpA. Daragh has an MA in History from Cambridge University.

Current external commitments

None

Age of Directors

■ 45-54	34%
■ 55-65	33%
■ 66-75	33%

Professional background

■ Finance	33%
■ Marketing	22%
■ Legal	17%
■ Economics	17%
■ Science	11%

RICHARD SOLOMONS

Richard will join the Board as a Non-Executive Director on 1 March 2019 and, subject to shareholder approval at the Company's AGM, will become Chairman on 8 May 2019.

Key

- Audit Committee Member
- Nomination Committee Member
- Remuneration Committee Member
- Committee Chair
- NED Non-Executive Director
- SID Senior Independent Director

Executive Leadership Team

GARY BOOKER

Chief Marketing,
Innovation and
Strategy Officer

Appointed: January 2018

Skills and experience

Gary's career includes senior leadership roles covering strategy and innovation as well as customer marketing for several high-profile businesses including Dixons Carphone, where he was Chief Marketing Officer and oversaw its Currys and PC World brands; Telefónica (O2); and Electronic Arts, where he gained strong experience across strategy and digital marketing. Prior to that Gary held senior roles at Dunlop Slazenger, Corinthian and Unipart. Gary holds an MBA in Strategic Marketing (University of Hull) and a BS (Hons) in Business Studies, Law and Psychology (University of Hertfordshire).

PAUL COCHRANE

Managing
Director, Asia

Appointed: March 2016

Skills and experience

Paul joined Rentokil Initial in 1990 as Branch Manager of the Initial Hygiene business in New Zealand. He later became Managing Director of Rentokil Initial New Zealand & Fiji, Managing Director of Ambius in the UK, Managing Director of Initial Hygiene Pacific (Australia, New Zealand and Fiji) and then Senior Vice President of Rentokil Initial Asia before becoming Regional Managing Director for Asia. Paul has a diploma in Business from the University of Auckland and a Trade Certificate of Automotive Engineering from Manukau Technical Institute in New Zealand.

VANESSA EVANS

Group HR Director

Appointed: January 2016

Skills and experience

Vanessa has had a successful career with some of the world's best known consumer brands. She brings valuable business experience and expertise in human resources management. She joined Rentokil Initial from RSA Group plc where she was Group HR, Communications and Customer Director. Prior to that Vanessa was Global HR Director at Lego and Head of UK HR at GAP. She is a Fellow of the Chartered Institute of Personnel and Development and holds a BA (Hons) in Geography from Bulmershe College, University of Reading.

JÜRGEN HÖFLING

Managing
Director,
Europe

Appointed: October 2014

Skills and experience

Jürgen has significant experience in senior positions in the logistics sector and in sales and marketing, principally from 14 years at Deutsche Post and DHL International. He also has international management consultancy experience gained as Founding Partner of Theron Management Advisors, an international management consultancy. Jürgen's early career was with Werner & Metz in various sales and marketing roles. He is a German national and fluent in English, French and German. Jürgen holds a degree in Integration & Marketing from Wharton School of the University of Pennsylvania.

ALAIN MOFFROID

Managing Director,
Pacific

Appointed: March 2016

Skills and experience

Alain joined Rentokil Initial in 2013 as Managing Director, Pacific. He joined from Unilever where he held a number of senior roles across multiple geographies. He has significant experience in marketing, sales and business development acquired during 23 years with Unilever in Europe, Asia and Pacific. Alain is a dual national Belgian/Australian and is fluent in English, French and Dutch. He holds an MSc in Business from the Solvay Business School, University of Brussels.

JOHN MYERS

Managing
Director,
North
America

Appointed: October 2013

Skills and experience

John joined Rentokil Initial in 2008 as President and Chief Executive of the Pest Control division in North America. Previously John held various senior management roles at Cintas Corporation. Prior to that, he was President and Chief Executive at Bio Quest LLC. John has a diverse business background, with extensive sales, marketing and business strategy experience. He is a graduate of the University of Vermont where he earned a Bachelor's degree in Business Administration. Additionally, he earned an MBA from Mercer University in Atlanta.

PHILL WOOD

Managing
Director,
UK & Rest
of World

Appointed: October 2013

Skills and experience

Phill joined Rentokil Initial in 2006, holding various senior Pest Control roles in Europe before his appointment to lead the UK businesses – Pest and Hygiene in 2009. He became Managing Director of UK & Rest of World in 2013. Prior to joining Rentokil Initial, Phill held a number of top management positions at Lex Services/RAC plc where he served for 15 years. Phill has extensive commercial and business development experience. He is a Chartered Management Accountant and holds a BSc (Hons) in Management Science from Loughborough University.

Andy Ransom, Jeremy Townsend and Daragh Fagan are also members of the Executive Leadership Team. Their biographical information can be found on pages 58 and 59. The Chief Executive chairs the Executive Leadership Team.

Corporate Governance Report

Statement of compliance

The principal governance framework applying to the Company is the UK Corporate Governance Code, which was published in April 2016 (the Code). The Code is published by the Financial Reporting Council (FRC) and the full text is available on its website at frc.org.uk.

The Company has complied throughout 2018 with the requirements of the Code. The Corporate Governance Report, in addition to the Audit, Nomination and Remuneration Committee Reports, details how the Company has applied the main principles of the Code.

Code Principles regarding Leadership and Effectiveness

Q See the Corporate Governance Report on pages 56 to 70 and the Nomination Committee Report on pages 77 to 80.

Code Principles regarding Accountability

Q See the Corporate Governance Report on pages 56 to 70 and the Audit Committee Report on pages 71 to 76.

Code Principles regarding Remuneration

Q See the Directors' Remuneration Report on pages 81 to 97.

Code Principles regarding Relations with Shareholders

Q See the Corporate Governance Report on page 70.

Further key areas which set out our approach to applying the Code can be found in the Annual Report as detailed below.

Q See our business model, value generation and strategy in our Strategic Report on pages 1 to 54.

Q See our approach to risk management and internal control on page 69 and in our Risks and Uncertainties section on pages 42 to 47.

Q See our Directors' Report on pages 167 to 169.

Q See the statement of Directors' responsibilities on page 169.

In July 2018 a revised UK Corporate Governance Code was published which applies to financial periods beginning on or after 1 January 2019 (the 2018 Code). We will begin reporting under the 2018 Code in our 2019 Annual Report. We have, however, tried to address elements of improved reporting proposed in supporting guidance published by the FRC and others in relation to the 2018 Code wherever possible. Further information on the steps we have taken since the publication of the 2018 Code to address changes to corporate governance and corporate reporting can be found on page 57 and throughout the Corporate Governance Report.

The role of the Board

The Board's role is to govern the Company within a framework of prudent and effective controls that enables risks to be assessed and managed. It operates to ensure that we are delivering excellent operational performance and innovative services for our customers in order to create sustainable, long-term value for shareholders. The Board reviews the Company's strategic aims, based on recommendations made by the Chief Executive, and ensures that sufficient resources are available for the successful execution of these aims. The Board is kept abreast of performance and of any major developments affecting the business by reports from the Chief Executive and Chief Financial Officer at each Board meeting. The Board strives to operate in an ethical and transparent manner at all times and sets the tone for the Company from the top.

Details of the governance framework within which the Board operates to discharge its responsibilities can be found on page 68. This framework, along with clearly communicated authority guidelines, provides the Board with confidence that the appropriate decisions are being taken at the appropriate levels and further allows the Board to ensure that its obligations to the Company's shareholders and other stakeholders are being met.

Board composition and roles

The Board currently comprises a Non-Executive Chairman, two Executive Directors and six Non-Executive Directors. They are advised and supported by the Group General Counsel & Company Secretary and their key responsibilities are set out below.

Chairman – John McAdam

- Leading and managing the Board.
- Setting the agenda and managing the Board's time.
- Ensuring effective communication with shareholders and other stakeholders.
- Director induction, training and development.
- Building a well-balanced Board, considering succession planning and its composition.
- Performance evaluation of the Board and Chief Executive.

Chief Executive – Andy Ransom

- Recommending and executing strategies and strategic priorities.
- Managing operational and financial performance, including monthly performance reviews with all regions and identifying and managing risks to delivery of strategy.
- With the Chief Financial Officer, explaining performance to shareholders.
- Chairing the Executive Leadership Team and Investment Committee (see page 68).
- Executive management capability and development.
- Overall development of Group policies including safety, health & environment (SHE) and communicating the Company's vision and values.
- Responsibility for all corporate responsibility matters which are reviewed at least annually by the Board.

Chief Financial Officer & Chief Information Officer – Jeremy Townsend

- Supporting the Chief Executive in developing and implementing strategy.
- Supporting the Chief Executive in managing the operational and financial performance of the Group.
- With the Chief Executive, explaining performance to shareholders.
- Chairing the Group Risk Committee and Disclosure Committee (see page 68).
- Recommending appropriate financing, treasury and distribution arrangements.
- Executing the agreed IT strategy.

Senior Independent Director – Richard Burrows

- Leading the Non-Executive Directors' appraisal of the Chairman.
- Working with the Chairman on Board effectiveness.
- Providing an alternative channel of communication for investors, primarily on corporate governance matters.
- Being a sounding board for the Chairman.
- Chairing the Nomination Committee when it is considering succession to the role of Chairman of the Board, and leading the Chairman succession process.

Independent Non-Executive Directors – Richard Burrows, Sir Crispin Davis, John Pettigrew, Angela Seymour-Jackson, Julie Southern, Linda Yueh

- Contributing independent challenge and rigour.
- Assisting in the development of the Company's strategy.
- Ensuring the integrity of the financial information, controls and risk management processes.
- Monitoring the performance of the Executive Directors against agreed goals and objectives.
- Advising and being a sounding board for Executive Directors and senior management.

Company Secretary – Daragh Fagan

- Secretary to the Board and each of its Committees.
- Assisting the Chairman and Senior Independent Director in their evaluation of the Board's effectiveness.
- Advising the Board and its Committees on governance matters and managing effective corporate governance and compliance arrangements for the Board and the Group.
- Facilitating Board induction and development programmes.

Corporate Governance Report

Full details of all Board members who served during 2018 and in 2019 to the date of this report can be found on pages 58 and 59.

The division of responsibilities between the Chairman and Chief Executive is set out in writing. Non-Executive Directors have regular opportunities to meet with members of executive management and also hold discussions under the leadership of the Chairman without executive members present. At least once a year, Non-Executive Directors meet under the leadership of the Senior Independent Director without the Chairman being present. In 2018, this took place prior to February's Board meeting. A Nomination Committee comprising all the Independent Non-Executive Directors and chaired by the Chairman has responsibility for managing the appointment process to ensure a formal, rigorous and transparent procedure for appointing Directors. Pro-forma letters of appointment and Directors' service contracts are available for public inspection on our website.

There were no Board changes in 2018 except for the appointment of John Pettigrew to the Board at the beginning of January, but a detailed and rigorous process was run in the second half of the year and into 2019 to identify the next Chairman. Board succession plans as a whole were reviewed periodically during the year, and formed part of the Board evaluation questionnaires. Further information on the Chairman succession process, as well as appointment and succession planning more generally, can be found in the Nomination Committee Report on pages 77 to 80.

The Board considers that it and its Committees have an appropriate composition to discharge their duties effectively and to manage succession issues. The Board keeps its membership and that of its Committees under review to ensure that an appropriate balance is maintained.

All Directors may serve on a number of other boards, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company. Historically, the prior agreement of the Chairman must be agreed before proceeding. In order to comply with the 2018 Code, in December 2018 the Board revised the procedure and Board (not just Chairman) approval must now be sought in advance of any external appointments being made. Any potential conflicts of interest are considered and addressed prior to appointment. The major commitments of the Directors are shown in their biographical information on pages 58 and 59. Currently Non-Executive Directors are obliged to commit at least 20 days a year and the Chairman is obliged to commit at least two days a week to the Company.

The issue of Board Directors becoming overcommitted by taking on too many potentially onerous positions, including the need to retain flexibility to deal with unforeseen events, is recognised and is monitored in line with published investor guidance. The fact that several of the members of the Board hold multiple non-executive positions has not presented any difficulties in their ability to manage potentially competing demands for their time. The Chairman typically attends all Committee meetings by invitation and Non-Executive Directors often attend too, even where they are not members of the relevant Committee. All Directors have demonstrated high levels of availability and responsiveness for additional meetings and discussions where these have been required. At present there is therefore no concern that other board commitments have affected any Director's availability or effectiveness in carrying out their Board responsibilities with us, but this will continue to be kept under review.

Independence and tenure

The independence of Directors is reviewed as part of the individual Director performance evaluation process, to ensure that all Non-Executive Board members retain the necessary independence of judgement. This continues to be reflected in constructive challenge to the executive team and senior management at Board and Committee meetings, and during informal interaction outside those meetings.

Any changes to the commitments of a Director are reported to the Board. Directors regularly review a conflicts register and any conflicts identified are submitted to the Board for consideration and, as appropriate, authorisation in accordance with our Articles of Association and the Companies Act 2006. No material conflicts have been declared. Further details of this process can be found in the Nomination Committee Report on page 80. Details of the Directors' share interests in the Company can be found in the Directors' Remuneration Report on page 91.

All our Non-Executive Directors, other than the Chairman, have been determined by the Board to be independent, having retained their independence of character and judgement. In making this determination the Board has taken into account indicators of potential non-independence as set out in the Code. No Director took part in the Board's consideration of their own independence.

Richard Burrows, having served for a period of 11 years, will step down as a Non-Executive Director following the conclusion of the Company's AGM in May 2019. As detailed elsewhere, John McAdam also intends to step down as Chairman of the Company at the 2019 AGM. Further information on the Chairman succession process and the planned appointment, subject to shareholder approval, of a new Chairman can be found in the Nomination Committee Report on pages 77 and 78.

Directors' tenure at 27 February 2019 (years)

0	1	2	3	4	5	6	7	8	9	10	11	12
Executive Directors												
Andy Ransom (appointed 1 May 2008)												
Jeremy Townsend (appointed 31 August 2010)												
Non-Executive Directors												
John McAdam (appointed 14 May 2008)												
Richard Burrows (appointed 14 January 2008)												
Sir Crispin Davis (appointed 20 July 2017)												
John Pettigrew (appointed 1 January 2018)												
Angela Seymour-Jackson (appointed 5 March 2012)												
Julie Southern (appointed 21 July 2014)												
Linda Yueh (appointed 1 November 2017)												

Executive Directors

Andy Ransom (appointed 1 May 2008)

Jeremy Townsend (appointed 31 August 2010)

Non-Executive Directors

John McAdam (appointed 14 May 2008)

Richard Burrows (appointed 14 January 2008)

Sir Crispin Davis (appointed 20 July 2017)

John Pettigrew (appointed 1 January 2018)

Angela Seymour-Jackson (appointed 5 March 2012)










Julie Southern (appointed 21 July 2014)

Linda Yueh (appointed 1 November 2017)

Corporate Governance Report

Meetings and attendance

The Board met eight times during the year, all of which were scheduled meetings, and a Committee of the Board met four times in relation to the release of financial results and trading updates. The membership and attendance at Board meetings during 2018 is shown below.

Board members and attendance in 2018	
John McAdam (Chairman) 8/8 meetings attended 	Angela Seymour-Jackson 8/8 meetings attended 
Richard Burrows 8/8 meetings attended 	Julie Southern 8/8 meetings attended 
Sir Crispin Davis 8/8 meetings attended 	Jeremy Townsend 8/8 meetings attended 
John Pettigrew 7/8 meetings attended 	Linda Yueh 8/8 meetings attended 
Andy Ransom 8/8 meetings attended 	

Board agenda and activity

The Board agenda is set by the Chairman, with the assistance of the Company Secretary. Each Board meeting starts with a review of health and safety performance and the Board receives reports from the Chairs of the Nomination, Remuneration and Audit Committees following each committee meeting.

The Chief Executive and the Chief Financial Officer present a report of business performance and key business activities at each meeting. In addition, the Board normally receives detailed presentations from all the Regional Managing Directors of the Company and their Finance Directors over the course of the year. These review the operations and strategy of the region, highlight specific areas of progress or challenge, review the financial and control environment, and present the opportunity for the Board to challenge management on any area. In 2018 the Board received presentations from each region, apart from UK & Rest of World which was deferred to 2019, and also led an additional deep dive review on the Group's fast-growing business in Central and Latin America.

The Board agenda is set to include major acquisitions and other strategic initiatives, financial performance and governance matters. Board activities are structured to enable the Board to support senior management on the development and delivery of the Group's strategy within a transparent governance framework. The table below sets out an overview of the key activities undertaken by the Board during 2018.

All Board members attended all meetings apart from one instance due to a conflicting commitment which was known prior to appointment and which was not able to be changed by either party. As in all cases where a Director is unable to attend a Board or Committee meeting, copies of all papers are still received in advance and the Chairman will seek the individual's views ahead of the meeting and provide a briefing on any relevant outcomes from the meeting.

Board activities in 2018

Strategy and operations

Matters considered	Discussion and outcome	Find out more
Strategic progress	The Board closely monitors progress against the Company's strategy and this is communicated to the Board at each meeting in the Chief Executive and the Chief Financial Officer's reports.	–
Strategy away day	The Board held a strategy event over two days, addressing current challenges and future opportunities.	Board strategy review on page 65 and Our 'big five' challenges on page 14.
Capital Markets Days	The Board received an overview of the plans for the investor days ahead of the events and were invited to attend the one in London.	Engagement with shareholders on page 70.
Regional presentations	The Board received presentations from each of the Regional Managing Directors, excluding the UK & Rest of World.	See above for more information.
Overseas site visit	The Board visited Italy in June to conduct an in-depth review of the business in Europe.	See page 65 for more information.
Annual operating plan	The Board approved the 2018 operating plan in January and considered the draft 2019 operating plan in December. The Board also considered how the Company's acquisition activities are reflected in analysts' growth projections.	–
Contract approvals above set threshold	The Board considered and approved several customer and supplier contracts during the year.	–
Brexit	The Board received a further paper on the potential impact of Brexit on the business, updating previous analysis in 2017.	See page 107 for more information.
UK Competition & Markets Authority (CMA) investigations	The Board received regular updates on ongoing CMA investigations of two UK acquisitions during the year.	See pages 34 and 37 for more information.

Corporate Governance Report

Financial

Matters considered	Discussion and outcome	Find out more
2017 financial results	The Board (or its appointed committee) approved the 2017 Annual Report, 2018 Notice of Meeting and the preliminary results announcement. The Board confirmed that it was appropriate for the financial statements to be prepared on a going concern basis and approved the viability statement.	–
2018 Interim Results and Q1 and Q3 Trading Updates	The Board (or its appointed committee) approved the 2018 Interim Results, confirming that it was appropriate for them to be prepared on a going concern basis, and approved the Q1 and Q3 Trading Updates.	–
Dividend	Having regard to our progressive dividend policy the Board recommended a final dividend for 2017 of 2.74p and approved an interim dividend for 2018 of 1.311p during the year.	Dividend on page 107.
Review of financial performance	The Chief Financial Officer presents a summary of financial performance at each meeting. In 2018, key areas of focus included financial reporting in North America.	Financial review on pages 104 to 107.
Approval of treasury policies and funding	The Board annually reviews the Company's treasury policies and considers financing options when required. During the year the Board approved the amendment and extension to the Company's revolving credit facility.	See Note C1 on page 140 for more information.
Investor relations	The Chief Executive updates the Board on investor relations at each meeting, circulating a selection of broker notes, and a more in-depth analysis being provided at least annually.	Engagement with shareholders on page 70.
Tax strategy	The Board considered and approved the Group's 2018 tax strategy.	This is available to view on our website.
Pensions	The Board received several briefings on a potential pension scheme buy-in which was approved and announced in December.	See page 125 for more information.

Mergers and acquisitions (M&A)

Matters considered	Discussion and outcome	Find out more
Performance acquisition reviews (PARs)	Twice during the year the Board assessed the post-acquisition performance of acquisitions completed in the prior 12-30 months, including the delivery of integration plans.	Our 'big five' challenges on page 14.
M&A pipeline	At most meetings, the Board receives an update on the status of current M&A negotiations including a pipeline report.	–
Major transactions (above £10m)	The Board considered and approved six acquisitions above £10m consideration during the year.	See pages 34 and 37 for more information.

Governance and compliance

Matters considered	Discussion and outcome	Find out more
Articles of Association	The Board considered and proposed new Articles of Association for adoption at the AGM in May 2018.	Our current Articles can be found on our website.
Board evaluation	The Board discussed the reports from the 2017 performance review at its February meeting and agreed key actions for the year. The 2018 performance review commenced in November.	Performance evaluation on page 67.
Corporate Responsibility Report	The Board approved the 2017 Corporate Responsibility Report.	This report is available on our website.
Governance procedures review and oversight	The Board annually reviews its governance procedures and practices. It also reviewed and updated the Company's Share Dealing Code and procedures during the year, approved an Unclaimed Dividends and Untraced Shareholders Policy, and noted the Company's 2018 charitable donations.	–
Conflicts of interest	The Board noted the most recent conflicts of interest register at each meeting, approving potential conflicts if required.	Managing conflicts of interest on page 80.
Corporate governance tracker	The Board reviews a forward-looking corporate governance tracker twice a year to identify forthcoming governance developments and to ensure necessary compliance actions are taken.	–
2018 UK Corporate Governance Code	The Board received a presentation from the Company Secretary on the new Code and other regulatory changes after its publication in July.	Statement of compliance on page 61.
Workforce engagement	The Board considered the new requirements on workforce engagement, reviewing current practices and approving the proposed approach for 2019.	See page 70 for more information.
Company culture	The Board considered the culture of the Company and agreed the approach for reporting against this in 2019.	Workplace culture on pages 53 and 54.
Modern slavery	The Board approved the Company's Modern Slavery Statement for 2017.	This can be found on our website.
Data privacy	The Board received a detailed update on GDPR compliance during the year.	Monitoring and oversight on page 69.
Pension trustee non-compliance	During the year, Rentokil Initial Pension Trustee Limited was fined by the Pensions Regulator for failing to file valuations for two years for a legacy pension scheme. The Board considered the steps taken by management as a result.	–

Corporate Governance Report

Monitoring and oversight

Matters considered	Discussion and outcome	Find out more
Safety, health and environment (SHE)	The Board receives a SHE update at each meeting. During the year it considered electrical safety following a fatality and the health and safety environment in India following the formation of the Rentokil PCI joint venture.	Corporate responsibility on pages 48 to 52.
Review of key risks and internal controls	The Board receives a report at the start of the year on the most significant risks facing the Group. It also reviews and approves, on the recommendation of the Audit Committee, the principal risks to be disclosed in the Annual Report.	Risks and uncertainties on pages 42 to 47.
Reports from the Committee Chairs	The Chairs of the Audit, Nomination and Remuneration Committees provide a verbal report to the Board after each meeting.	–
Review of material disputes	The Board received a litigation report on a quarterly basis. There was no material contingent liability arising from legal action during 2018.	–
Cyber risk	The Board received a presentation on cyber security from the Global Head of IT Security.	–

Board site visit

Each year one scheduled Board meeting is held as part of a larger site visit to one of the Company's operations. In June 2018, the Board travelled to Milan following the acquisition of CWS-boco's operations in Italy in 2017 (as part of the broader joint venture transaction). The acquisition of CWS-boco Italia roughly doubled the size of the Group's Hygiene business operations in Italy. The Board visited the brand new headquarters outside Milan, just one month after consolidation of the two former head offices which brought 120 employees together into a single site. The Board met with Italian management and colleagues during the office tour, and received brief presentations from each department, which demonstrated both the complexity of the integration project but also the clear enthusiasm from employees of both former organisations for the opportunity the transaction presented in the Italian market.

While in Milan, the Board also visited the headquarters of a luxury gym chain, a key Hygiene and premium scenting customer, where the company's Managing Director shared their vision and strategy and the importance of the Italian market and innovative technologies.

The Board also received presentations from our European and Southern Europe management teams.

Board strategy review

In addition to regular scheduled Board and Board Committee meetings, the Board undertakes an annual strategy away day each year. This is structured to follow a scheduled Board meeting and is spread over the course of two days. The agenda for the strategy away day is agreed in advance, including specific strategic issues which have been raised at previous Board meetings or have been requested by the Board.

We have been putting our **RIGHT WAY** strategy into action at pace over the last five years and the focus of the 2018 strategy away day, through a series of presentations and discussions, centred on the significant opportunities to deliver further value for shareholders over the next three years. The opportunities considered included:

- driving organic growth in Pest Control through increased deployment of innovation, the pursuit of less established lines of business, and stronger execution;
- further leveraging our global leading Pest Control business through M&A with a particular focus on North America;
- driving growth and yield management in Hygiene with potential further expansion into new lines of business such as premium scenting;
- the French Workwear business achieving sustainable profitable growth;
- using technology to improve customer retention, increase sales and reduce costs (as well as mitigating the potential risk of commoditisation through 'digital disruption'); and
- becoming world class, both in effectiveness and efficiency, in core functional areas and in development and retention of our people through our Employer of Choice initiative.

As well as presentations from many members of our senior management team, the Board received a briefing from the Company's brokers on market perspectives. At the end of the first day they also had the opportunity to participate in an innovation showcase provided by members of our Marketing & Innovation team.

Board performance, training and development

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

Director induction process

Following the appointment of any new Director, the Chairman, in conjunction with the Company Secretary, ensures that a full, formal and customised induction to the Company is made available. The induction process is summarised below.

On appointment, the Company Secretary provides information on the Group's businesses, including:

- Board and relevant Committee minutes and Board papers from the most recent meetings held;
- key policies, procedures and governance information about the Company, including the Code of Conduct, Board Governance Manual, Corporate Responsibility Report and the Group Authority Matrix;
- details of the Group structure;
- analysis of the Company's key shareholders and share capital;
- copies of the most recent Board and any relevant Committee evaluation reports; and
- guidance for Directors on their legal and regulatory responsibilities in a UK publicly listed company, including briefings, on request, from the Company's external legal advisors.

Before and after the first Board meeting the new Director will:

- attend business briefings with the Chief Executive and the Chief Financial Officer;
- attend meetings with other members of the Executive Leadership Team and senior management;
- participate in visits to sites within the UK and/or overseas, such as the Power Centre's research and training facilities, including opportunities to spend time shadowing frontline sales and service staff in the course of their duties; and
- be offered meetings with relevant external advisors such as the external auditor, remuneration advisors, financial advisors and corporate brokers.

New directors also undertake the same online induction modules in U+ (our online learning and development platform) as new colleagues on core compliance subjects such as the Code of Conduct, anti-bribery and corruption, competition law, insider training and information security and privacy.

The induction process typically takes place over several months. Following a review of the induction process a questionnaire was developed for completion by Directors after 12 to 18 months of appointment to provide an opportunity for feedback, to review the effectiveness of the induction, and to highlight areas for improvement.

Training and development

Directors are provided with opportunities to participate in peer group discussion forums and seminars related to the listed company environment and targeted at specific needs, for example executive remuneration, financial reporting or risk management. Training opportunities also cover the Group, its business sectors and governance matters more generally, including individual experiences with frontline staff.

The questionnaire detailed above also provides the opportunity to review training and development needs and identify any further areas of focus.

Non-Executive Director Induction – Visit to the Power Centre

As part of their ongoing induction John Pettigrew and Linda Yueh visited the Power Centre in September 2018. The Power Centre is our science, innovation and training academy in the UK. Named after our former Chief Marketing Officer, Stewart Power, it was opened in 2017.

Dr Andy Brigham, General Technical Manager, Science and Service, oversaw the tour which included the Directors being shown the facilities, including technology being developed or applied, and the training academy and test centre. More information on our Power Centre can be found on pages 6 and 7.



There is no substitute for getting this kind of first-hand experience and seeing in practice what makes the business successful. The session was hugely helpful for me and I also enjoyed hearing your thoughts and insights throughout the afternoon."

JOHN PETTIGREW

Non-Executive Director

Email sent to Shaun Hall, Pest Control Senior Technician, following his 'ride along' accompanying Shaun on site visits.

Corporate Governance Report

Performance evaluation

A comprehensive evaluation of the Board, its Committees and each of the Directors is carried out annually, a process led by the Chairman and supported by the Company Secretary. Over the last few years this has been undertaken each year using an external independent facilitator, Lintstock. However, following discussion of the most effective and appropriate process for ongoing performance evaluation it was agreed that the 2018 Board review should be undertaken in-house using questionnaires, with a view to a more in-depth interview evaluation process being conducted by an external facilitator in 2019.

The 2018 evaluation process involved tailored online questionnaires. These considered the performance of the Board of Directors, the Chairman, the Audit, Remuneration and Nomination Committees, and the strategy away day. The evaluation is initiated after the strategy away day with responses collated and analysed by the end of the year. There are then reviews of the results with the Chairman, Committee Chairs, Senior Independent Director and individual Directors ahead of a group discussion at the Board meeting in February.

The responses to the 2018 evaluation were strongly positive on the performance of the Board, Committees and strategy away day. The areas that emerged as topics for renewed focus in 2019 included board succession (especially for the roles of Chairman, Senior Independent Director and Remuneration Committee Chair which have been addressed with the appointments announced on 28th February 2019), longer-term executive succession planning, enhancing exposure of the Board to management including attendance at senior management meetings, use of overseas visits and involvement in talent development. The strategy away day was very highly rated, with a desire to see more regular insight into key competitors and to build on the excellent progress of the Employer of Choice agenda.

The Board considered the output from the 2018 review at its meeting in February 2019 and agreed the actions for 2019 as detailed below.

Operational business reviews

Actions for 2018

- Focus on North America performance and integration/replatforming programme.
- Deepen Board understanding of digital strategy.
- Review competitive environment.

Progress during 2018

- Detailed reviews of North America business at strategy away day and December Board meeting.
- Detailed review of digital strategy and execution at strategy away day.
- Continued to consider competitive environment during 2018.

Actions for 2019

- Focus on deep dives on key competitors.
- Detailed review of execution of digital strategy, including artificial intelligence, at strategy away day.
- Consider organisational capacity and executive succession.

Risk oversight

Actions for 2018

- Deep dive review of one key risk per meeting throughout the year.
- Review data privacy and GDPR compliance programme.
- Undertake Board review of culture and workforce engagement.
- Increased monitoring of effectiveness of internal controls and internal audit resourcing.

Progress during 2018

- Risks considered in-depth during 2018 included growth, product development, financial market risks and Brexit, succession, M&A and integration, and cyber-security.
- A detailed GDPR update was provided to the Board in 2018. Ongoing updates are provided to the Audit Committee via the Group Risk Committee.
- A review of culture and workforce engagement was undertaken during 2018.
- Review of internal audit resourcing is ongoing with a report planned for early 2019.

Actions for 2019

- Focus on technical standards compliance including fumigation.
- Maintain focus on cyber security and data privacy.
- Improve understanding of the risk framework, management and mitigation efforts i.e. beyond identification.
- Refine and optimise culture and workforce engagement programme.
- Enhance engagement with proxy agencies and investor representatives.
- Review Board induction programme.

Succession planning and talent management

Actions for 2018

- Continue to monitor progress in talent pools and executive succession bench strength.
- Increased exposure of SLF members to the Board e.g. during June overseas visit.
- Board succession plans for Remuneration Committee chair and Senior Independent Director roles.
- Monitor impact of updated diversity policies.

Progress during 2018

- Talent strategy update provided by the Group HR Director.
- The Board met with over 75% of SLF members during 2018.
- Succession for the SiD and Remuneration Committee chair were considered as part of Board succession plans by the Nomination Committee.
- The Nomination Committee received reports on the impact and effectiveness of the Group and Board diversity policies.

Actions for 2019

- Focus on smooth Board succession for Chairman, Senior Independent Director and Remuneration Committee Chair.
- Enhance longer-term executive succession planning.
- Increase engagement of Board with senior management and talent pool candidates.

Governance framework

The Board of Directors

Collectively responsible for the governance of the Company, the Board ensures that it is effective at undertaking its duties through the use of clear authority and reporting governance structures.

Board committees

Remuneration Committee

Reviews and recommends the executive remuneration policy to the Board and determines the remuneration packages of the Executive Directors and senior management.

Q Find out more on pages 81 to 97.

Audit Committee

Provides effective financial governance with oversight of the Group's financial and narrative reporting, risk management and the external and internal audit process.

Q Find out more on pages 71 to 76.

Nomination Committee

Ensures the correct balance, structure and composition of the Board and its Committees, and reviews Board and executive succession planning and diversity.

Q Find out more on pages 77 to 80.

Management committees

Disclosure Committee

Supports the Board's responsibility for the accuracy and timeliness of the disclosures made by the Company and compliance with the requirements of the Market Abuse Regulation.

Group Risk Committee

Monitors the internal control environment and reviews the effectiveness of the Group's internal control policies and procedures for the identification, assessment and reporting of risks.

Investment Committee

Reviews and approves investments below the threshold requiring approval by the Board, including M&A transactions, property sales and investments and environmental remediation expenditures. It also conducts post-acquisition reviews (PARs) of completed M&A transactions and reviews material litigation quarterly.

Treasury Committee

Reviews and approves capital structure and financing strategy as well as risk and cash management within set thresholds.

Executive leadership

Chief Executive

Manages the overall performance of the business and, with senior management, implements the Group's strategies and values.

Executive Leadership Team

Supports the Chief Executive in managing the business at Group level, overseeing safety, performance, operational plans and actions, governance and risk management. The Executive Leadership Team membership is provided on page 60.

Senior Leadership Forum

Forums where the 25 most senior operational and functional colleagues globally meet to share progress and discuss a range of issues that are critical to the operational performance of the Group as a whole.

Category Boards

Forums where the senior operational and functional leaders of Pest Control and Hygiene meet to coordinate the development agenda for innovation, growth and productivity initiatives and to oversee the sharing of best practice.

Corporate Governance Report

Matters reserved for the Board and delegated authorities

To ensure a clear division of responsibilities at the top of the Company between the running of the Board and the executive responsibility for running the Company's business, the Board has set out in writing matters which are specifically reserved for its decision. The matters reserved for the Board and the terms of reference of each of its Committees, which are reviewed annually, most recently on 13 December 2018, are available on our website.

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

Monitoring and oversight

Policies

The Company has a robust Group-wide policy and procedure framework in place to supplement local policies or legislation. The content and appropriateness of policies are reviewed periodically by the relevant functional department head and approved by the Chief Executive. The cornerstone of this policy framework is the Code of Conduct. Our key policies are set out on page 49, with full details of our policies relating to environmental, social and governance matters and their application being disclosed in our Corporate Responsibility Report. Key policies are also published on our website. In addition to the policies described there, the Company has a treasury policy in place to ensure the Group has sufficient liquidity and to manage financial risk as outlined in Note C1 to the Financial Statements on pages 139 and 140. In 2018, the Board reviewed and approved the Company's tax strategy which has been published on our website in compliance with the Finance Act 2016. More details on tax governance can be found on page 106.

Specific programmes are in place to support implementation of the Code of Conduct and underlying policies, national laws and regulations, and monitoring and reporting compliance with them. In some cases dedicated specialists are in place to ensure that standards are set and complied with, for example in health and safety, IT security and data privacy, regulatory compliance, pensions, and tax. More broadly, e-learning training, principally on our online learning and development platform U+, is used to ensure that expected standards of behaviour are widely disseminated and adopted across the Group. Clear guidelines are provided to all colleagues on how to seek further advice or report concerns. Compliance is monitored through an annual Letter of Assurance process covering all Group senior management, and by monitoring control incidences reported via the Company's confidential reporting process 'Speak Up'. The Group Risk Committee considers current and emerging risks, reviews current arrangements and makes recommendations for enhancements as appropriate.

In response to the EU General Data Protection Regulation (GDPR), which came into force on 25 May 2018, we reviewed our data privacy arrangements across Europe and established a multidisciplinary project team in 2017 to achieve compliance, reporting to the Group General Counsel. Significant work has since been undertaken to review existing business processes, conduct data privacy impact assessments and establishing systems to ensure that our handling of personal data meets all the regulatory requirements, as well as appointing a Group Data Protection Officer. External consultants PA Consulting were engaged to provide benchmarking and project assurance. The Board received a detailed presentation on GDPR compliance at its meeting in May 2018. During 2018 GDPR and data privacy awareness and training was rolled out online using our U+ platform and Google+ community to approximately 10,000 colleagues in 23 countries alongside videos and guidance documents being made available in 17 languages. The Board also received an update on cyber security at its meeting in December 2018.

Board review of risk management and internal control

The Board has overall responsibility for maintaining sound systems of risk management and internal control that are both fully effective and ensure compliance with the Code on internal control and risk management. Risks are considered in the context of long-term strategic and emerging threats, and shorter-term risks to the delivery of the annual operating plan. The Board has also assessed the viability of the Group over a period of three years, the potential impact of the principal risks and stress testing financial forecasts for severe but plausible scenarios, and the anticipated effectiveness of mitigating actions. The Board has carried out a robust assessment of the principal risks facing the Company, including those that would impact its business model and future performance. The principal risks identified can be found in the Risks and Uncertainties section on pages 42 to 47, along with the Company's viability statement. Details of briefings on risk and control topics which were provided to the Board during 2018 can be found on pages 63 to 65.

The framework of risk management and internal control described in the Audit Committee Report on pages 75 and 76 is designed to manage and mitigate risk rather than eliminate the risk of failure to achieve business objectives. In pursuing business objectives, internal controls and risk management can only provide reasonable, and not absolute, assurance against material misstatement or loss. Review of its effectiveness is achieved through regular and transparent management reporting, the governance processes and external and internal assurance processes, and in the Audit Committee and Board's annual review of strategy and operational risks.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2018 and confirms that:

- the Group has an ongoing process for identifying, evaluating and managing the significant risks faced by the Group;
- this process has been in place for the year under review and up to the date of approval of the Annual Report and Financial Statements;
- the process is regularly reviewed by the Board; and
- the process operates in accordance with the Code.

Fair, balanced and understandable

The Directors' statement on 'fair, balanced and understandable' can be found on page 169. The requirement under the Code to provide a fair, balanced and understandable assessment of the Company's position and prospects in its external reporting is considered throughout the process of producing the Annual Report and Financial Statements.

In order to provide the information necessary to comply with this requirement, the Board places particular reliance on the conclusions and recommendations arising from the Audit Committee's review of the Annual Report and Financial Statements, further details of which can be found on page 72. In addition, the Board has oversight and takes into account the following elements:

- the Chairman and Chief Executive provide input and agree on key elements to be included which set the tone and balance of the Strategic Report;
- all contributors to the Annual Report are made aware of the requirement for content to be fair, balanced and understandable;
- regular review meetings are held with the appropriate senior management to ensure consistency of the whole document;
- extensive review and verification processes are undertaken by the appropriate departments and senior managers to ensure the accuracy of the content; and
- additional independent internal reviews are undertaken to ensure that any perceived lack of clarity, balance or understanding in the Annual Report is identified and addressed.

Corporate Governance Report

Engagement with shareholders

As a Company we maintain effective channels of communication with our debt and equity institutional investors and individual shareholders. This helps us to understand their views about the Company and allows us to make sure they are provided with timely and appropriate information on our strategy, performance, objectives, financing and other developments. We do this in a number of ways. Our shareholders are invited to attend our twice-yearly presentations on our preliminary and interim results. Recognising that attending in person is not always going to be possible (not least for our non-UK shareholders) we have been providing live webcasting of our results days for over 10 years so that all shareholders can be kept fully up to date of our progress and strategic objectives going forward.

We believe Capital Markets Day presentations are an excellent way for our shareholders to gain a deeper insight into our business. We held two Capital Markets Days in May 2018, in London and New York, with a primary focus on our global Pest Control business. These events were both very well attended and gave our investors the chance to meet with and engage with our wider senior management team from around the business.

We believe regular and ongoing engagement with our shareholders is paramount. Members of our senior management and Investor Relations teams held 254 separate interactions with 181 different institutions during 2018. These were conducted through telephone calls and video conferences, roadshows, one-to-one meetings, group meetings and conferences. In 2018 we undertook investor roadshows in London and participated in conferences in London, New York, Paris and Frankfurt. Key subjects of discussion with our shareholders over the year have been the dynamics of the pest control industry, the Rentokil business model, our North America operations, pest control opportunities in Emerging markets, our use of technology and innovation to create value, leveraging M&A, our financial model to compound growth and our focus on becoming an Employer of Choice.

We believe it is important that we receive feedback from our investors and are seen to act upon it. Our Board and the Senior Leadership Team are given detailed quarterly updates of the Company's Investor Relations activity which include feedback from investors, as well as shorter commentary and updates at each Board meeting. Specialist advisors and the Head of Investor Relations provide regular updates on market sentiment.

The Board fulfils its obligations of accountability to shareholders through clear and open reporting on current performance and plans for the future, engagement with shareholders and investor representative bodies, and taking into account the views expressed by shareholders. Details of substantial share interests notified to the Company are contained on page 168.

The Chairman, the Senior Independent Director and Committee Chairs are available to attend meetings with investors as required, and will typically do so on a number of occasions annually. The Chairman and several of our Non-Executive Directors attended the Capital Markets Day in London in May 2018, which offered the opportunity for them to meet with existing and potential institutional investors and analysts. The Chairman also attended the preliminary results presentation in London in March 2018. The Chair of the Remuneration Committee has engaged with investors in relation to our Directors' Remuneration Policy as set out in the Remuneration Committee Report from page 81.

Our website rentokil-initial.com contains information on the Company's operations and services. The Investor section contains information on past results and publications, press releases and analyst presentation material as well as dividend history. It also contains information to help shareholders manage their holdings, including providing the contact details of our Registrar, who manages all share administration on the Company's behalf. Additional information for investors can be found on pages 170 and 171.

Annual General Meeting

The Board welcomes the opportunity to enter into dialogue with both private and institutional shareholders at the Annual General Meeting (AGM) and views it as an opportunity to engage with all our shareholders on the performance of the business they own.

The 2019 AGM will be held at 12 noon on 8 May 2019 in the Ascot Suite at the Hilton London Gatwick Airport, South Terminal Gatwick Airport, Gatwick, RH6 0LL. A separate Notice of Meeting, containing an explanation of the items of special business, has been sent to shareholders and is available on our website. In accordance with the Code, the Directors are subject to annual re-election by shareholders and will, therefore, be stepping down and seeking re-election at the AGM. As John McAdam and Richard Burrows both plan to step down from the Board at the 2019 AGM neither will be put forward for re-election. As Richard Solomons has been appointed since the last AGM, in accordance with the Code, he will be subject to election by shareholders at the AGM, being the first such meeting since his appointment.

Biographical information in respect of the Directors as well as information as to why the Board believes the Directors should be elected and re-elected can be found on pages 58 and 59 and in the 2019 Notice of Meeting.

Engagement with colleagues and customers

The Company is aiming to be both a world-class service company and a world-class Employer of Choice. As an integral part of the Directors' duties, the Board considers the Company's relationships with its key stakeholders and has this year continued to pay particular attention to achieving the strategic aims of the business and the means of monitoring the value and culture which underpin such ambitions.

Details of the ways in which we engage with our colleagues, customers and other key stakeholders can be found in the Corporate Responsibility section on pages 48 to 54, with further information also provided in our 2018 Corporate Responsibility Report, which is available on our website.

Board engagement with colleagues during 2018

During 2018, the Board met with over three quarters of the senior management team. In addition, as part of opportunities made available to engage with colleagues, they:

- received regional 'deep dive' presentations (see page 63);
- met with frontline staff as part of induction and ongoing development (see page 66);
- monitored Glassdoor (see page 25);
- met with members of the Company's graduate programme at the AGM;
- received verbal updates of the Employer of Choice agenda and other key colleague developments from the Chief Executive; and
- met with senior managers and frontline staff during the overseas Board visit to Italy (see page 65).

In 2018 the Board considered the new provision in the 2018 UK Corporate Governance Code in relation to workforce engagement, which applies to reporting years starting on or after 1 January 2019. The Board considered the suggested methods of engagement: the appointment of a Director from the workforce, the creation of a formal workforce advisory panel, or having a designated Non-Executive Director. However, having regard to the size and scale of our businesses it was felt that none of these options could fairly represent the entire workforce. It has, therefore, been decided to continue, at least initially, to use existing engagement methods and enhance these where needed, while using a consolidated reporting framework to enable the Board to monitor performance effectively. The Board will receive reports on these various forms of engagement during 2019 and will continue to develop methods of strengthening the employee voice in the boardroom. These will be reported on in full in next year's Annual Report. Examples of our current practices can be found in the Corporate Responsibility section from page 48.

 Read the 2019 Notice of Annual General Meeting at rentokil-initial.com/investors/shareholder-centre

 Read the 2018 Corporate Responsibility Report at rentokil-initial.com/responsible-delivery

Audit Committee Report



JULIE SOUTHERN
Chair of the
Audit Committee

Dear Shareholder

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2018, during which we have exercised the authority delegated by the Board to provide assurance for the integrity of financial reporting and to review the Group's internal controls.

We have continued to discuss and challenge the assumptions and judgements made by management in the preparation of published financial information and to oversee the internal controls and compliance.

This report sets out how the Audit Committee has discharged its duties in accordance with the UK Corporate Governance Code 2016 and its key activities and findings during the year. Last year we identified North America operational platform consolidation, payroll tax compliance, implications of increased business complexity and scale, M&A integration and IT security and data privacy (GDPR) as particular areas of focus for 2018.

I am pleased to report that following increased focus, resource and changes to the management team, we have seen a stabilisation of the financial reporting environment in North America, improvement in the transparency around operational performance and the creation of a stable base for budgeting, forecasting and reporting in 2019.

Following a number of issues with the controls environment and accounting for employment taxes in 2017, we requested that the Group Tax and HR functions oversee a joint review of payroll controls and key employment tax risks during 2018. A review to identify 'grey' areas in country interpretations of local tax and social security laws will now also be undertaken annually. No other control issues were identified from the reviews.

Following the collapse of Carillion and other market events, we undertook an external risk review and considered what potential lessons should be learned from them, to understand and make sure that Rentokil Initial did not have any comparable vulnerabilities. We also requested and received a review from KPMG as our external auditor on their audit quality processes in response to recent issues with the firm. We remain satisfied that they can provide an appropriate level of service and should be recommended for re-appointment at the Company's AGM in May 2019.

The Group has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. Throughout the year we received updates from both management and the external auditors on the planning and processes being put in place and the subsequent impact of the new reporting standards. Full details regarding these standards can be found in the notes to the Financial Statements on pages 114 and 115.

We experienced some control breakdowns in compliance with our fumigation governance processes in a small number of countries during 2018 and as a result have imposed some temporary restrictions on the services being delivered pending resolution. This will remain an important area of focus for the Audit Committee in 2019.

Following an extensive update of the Audit Committee's terms of reference at the end of 2017, we decided to track in detail against agendas and the activities of the Committee during the year to ensure that all necessary responsibilities were being met during the year. This process will be continued in 2019.

Following John Pettigrew's appointment to the Audit Committee in January 2018, there have been no changes to the Committee's composition during the year.

JULIE SOUTHERN
Chair of the Audit Committee
27 February 2019

Committee members

- Julie Southern (Chair)
- Sir Crispin Davis
- John Pettigrew
- Linda Yueh

Highlights of 2018

- North America financial control environment stabilised
- Payroll tax compliance review undertaken
- Implementation of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers

Areas of focus for 2019

- Increased scale and complexity of the business and resulting tax arrangements
- Fumigation controls governance
- The implementation of IFRS 16 Leases

Audit Committee Report

Role of the Audit Committee

The Audit Committee assists the Board in its oversight and monitoring of financial reporting, risk management and internal controls. The Audit Committee's focus is to review and challenge in these areas both with management and with internal and external auditors.

The Audit Committee:

- monitors the integrity of the annual and interim results, including a review of the significant financial reporting judgements contained therein (the Directors' statement of responsibilities for preparing the Annual Report and Financial Statements can be found in the Directors' Report on page 169);
- keeps under review the Company's internal financial controls and internal control and risk management systems;
- reports to the Board on its activities and provides the Board with an independent assessment of the Group's accounting affairs and financial position to enable it to meet the UK Corporate Governance Code (the Code) requirement to present a fair, balanced and understandable assessment of the Company's position and prospects;
- monitors and reviews the effectiveness of the Company's internal audit function;
- establishes and oversees the Company's relationship with the external auditor, including setting their fees, monitoring their independence and effectiveness and ensuring that the Company's policy relating to their engagement on non-audit matters is appropriate and observed;
- reviews correspondence from regulators in relation to the Company's financial reporting and, if appropriate, reviews management's response; and
- monitors matters raised pursuant to the Company's whistleblowing arrangements.

Terms of reference

The Audit Committee undertook a review of its terms of reference during 2018, making only minor amendments. These new terms of reference were approved by the Board in December and are available on our website. Due to the increased length and complexity of the terms of reference following their substantial update at the end of 2017, the Audit Committee now reviews its activities to consider alignment with the duties and responsibilities set out in the terms of reference on an annual basis.

Composition and attendance of the Audit Committee

The Audit Committee met four times during the year and the members of the Audit Committee and their attendance during 2018 can be found below.

Audit Committee members and attendance in 2018

Julie Southern (Chair)

4/4 meetings attended



Sir Crispin Davis

4/4 meetings attended



John Pettigrew

3/4 meetings attended



Linda Yueh

4/4 meetings attended



John Pettigrew was appointed as a member of the Audit Committee in January 2018. He was unable to attend one meeting during the year due to a pre-existing commitment which was known prior to his appointment and which was not able to be changed by either party.

Julie Southern, Chair of the Audit Committee, is a Chartered Accountant and is considered to have relevant and recent financial experience. Sir Crispin Davis and John Pettigrew have extensive commercial and operational experience in overseeing the financial affairs of substantial business undertakings and Linda Yueh has a strong economic

and international background. The Audit Committee as a whole is, therefore, considered to have competence relevant to the sector in which the Company operates. Full biographical details of the members of the Audit Committee are contained on pages 58 and 59. All Audit Committee members are independent Non-Executive Directors. The Audit Committee did not find it necessary to seek external advice during the year, other than through its usual dialogue with the external auditor.

Meetings of the Audit Committee are attended by the Company Chairman, the Chief Executive, the Chief Financial Officer, the external auditor, the Director of Risk & Internal Audit, the Group Financial Controller & Treasurer, the Company Secretary and the Assistant Company Secretary. The Audit Committee meets at least once per year separately with the Company's auditor, KPMG LLP, and the Director of Risk & Internal Audit without executive management present. In 2018, this meeting took place in February. The Chair of the Audit Committee also meets independently with the Director of Risk & Internal Audit outside of formal meetings. The Chair of the Audit Committee reports to the Board at the next Board meeting on the activity of the Audit Committee and any matters of particular relevance to the Board in the conduct of its work.

Activities of the Audit Committee in 2018

In 2018, the Audit Committee considered the following key areas:

Internal controls and risk

- The effectiveness of the internal control and risk management framework including an assessment by the external auditor of the Company's risk management framework relative to peer group companies to ensure that best practices are applied where relevant
- The statement to shareholders on the control environment
- The outcome of internal audit investigations and status of resolution of issues raised
- Group risks and actions to enhance their measurement, monitoring and mitigation actions
- Review and enhancement of relevant policies and procedures including tax and procurement policies and business continuity
- Group reporting processes and the central control environment, including the review of Group Risk Committee minutes
- Output from financial controls testing carried out across the Group by the Company's auditor, KPMG LLP
- The conclusions and themes emerging from the internal audit reviews conducted during the year and approval of the internal audit plan for 2019 in parallel with the Board's strategic review and operating plan for the year
- The IT internal audit plan for 2018 – 2020
- A report of the Disclosure Committee's activities during the year and terms of reference
- A review of employment taxes and payroll controls

External audit

- The terms and scope of the audit engagement for the annual and interim financial statements
- The effectiveness of the external audit process
- A review of the annual financial statements, consideration of principal areas of accounting judgement or materiality, further details of which are provided below, including discussions with the auditor without executives present
- The audit strategy for the 2018 audit including the key areas of focus, materiality levels, scope and coverage
- An analysis setting out the basis on which KPMG LLP continued to meet the appropriate professional standards of independence as auditor to the Company
- The FRC's Audit Quality Review in relation to KPMG

Accounting and financial reporting

- The annual and interim financial statements, together with the significant financial reporting judgements relating to each statement, and fair, balanced and understandable reporting
- Reviews of material litigation and disputes
- Reviews with Regional Finance Directors including the control environment in the businesses
- A review of and recommendation to the Board in relation to the going concern analysis and the viability statement
- Key accounting matters including the implementation of new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, and transitional work for IFRS 16 Leases

Audit Committee Report

Significant accounting judgements

After discussion with both management and the auditor, the Audit Committee has determined the key issues of accounting judgement affecting the financial statements and therefore providing the potential for material misstatement in the 2018 Annual Report. The significant areas of focus considered and actions taken are set out below. These issues have been discussed and reviewed by the Audit Committee during the year, notably at the review of the interim results and at the review and agreement of the audit plan for 2019.

Implementation of IFRS 15 Revenue from Contracts with Customers

Significant matter

The Group adopted IFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018. Under IFRS 15 the Group is required to capitalise and amortise the incremental costs of obtaining contracts (contract costs). Significant judgement was required to estimate the transitional adjustment for unamortised contract costs across the Group and the remaining lives of the contracts to which they relate.

Action taken

Management developed a model that enabled the business units to calculate their opening transitional adjustments based on a set of assumptions about costs incurred and the lives of the contracts to which they relate. The model and the assumptions were reviewed by the external auditor as part of the year end audit process.

Valuation of intangible assets

Significant matter

The Group carries material balances for intangible fixed assets arising on acquisitions, and due to the acquisition programme makes material additions to these balances each year. Annual impairment tests are based on value-in-use calculations which require significant judgements in relation to the inputs used, including forecast growth rates and discount rates. Management is required to perform annual tests for impairment of goodwill balances over £1m, and on other acquired intangible assets when there are indicators of impairment.

Action taken

Management reviewed all goodwill balances over £1m for impairment using a centrally provided model. The intangible assets were grouped into cash-generating units (CGUs) for the purpose of assessing recoverable amount, using cash flows based on the most recent strategic plans, as amended for any significant changes since their preparation. Cash flows were discounted using the internally published Group discount rates, which are adjusted to reflect local country risk. The Audit Committee received a summary of the results of the review, and although the total value of intangible assets is significant, management was able to demonstrate to the Committee that there is material headroom in the major balances based on the assumptions made.

Acquisition accounting

Significant matter

The Group makes a large number of acquisitions each year, many of which require the valuation of acquired intangible assets including brands, customer lists and goodwill. The calculations for valuing these assets on acquisition are subject to significant judgement and estimation about the future performance of the acquired business, such as forecast customer termination rates, discount rates and growth rates. The Group utilises the allowances for provisional accounting within the standards where appropriate, and there is judgement required during this period as to whether the adjustments relate to the pre- or post-acquisition period.

Action taken

At the year end, management provided the Audit Committee with a summary of M&A activity in the preceding year, including updates to provisional accounting as well as details of new acquisitions. The Audit Committee reviewed the accounting treatment of certain aspects of significant acquisitions, including determination of the consideration paid, the identification and valuation of acquired intangible assets and a review of provisional opening balance sheets.

Deferred tax assets recognised on unused tax losses

Significant matter

The Group holds substantial deferred tax assets recognised on unused tax losses. The amount recognised is a judgement and is based on estimates of future profitability and judgements in determining the forecast period.

Action taken

The Audit Committee reviewed the position at the half year and year end balance sheet dates supported by papers from the Group Tax Director, and is satisfied that the assumptions supporting the valuations are appropriate and that the assets are reasonably stated in the financial statements. Where judgements are material to the Group the external auditor uses its own specialists to assist in the review of the approaches taken and assumptions made by management to ensure these are appropriate and result in adequate provisions.

Tax provisions

Significant matter

The Group holds a number of provisions for tax contingencies in relation to various claims and potential claims from tax authorities, which require significant judgements and estimates in relation to tax risks. The complexity is increased as a result of the large number of tax jurisdictions in which the Group operates, and the time taken for tax matters to be agreed with the relevant authorities.

Action taken

The Group employed local tax experts to support judgements where there is significant uncertainty and the amounts involved are material. In respect of transfer pricing across tax jurisdictions the Group benchmarked its approach using international tax experts to ensure the risk of breaching local tax authority requirements is minimised. As noted above, the Audit Committee reviewed the position at the half year and year end balance sheet dates supported by papers from the Group Tax Director, and is satisfied that the assumptions supporting the valuations are appropriate and that the liabilities are reasonably stated in the financial statements.

Audit Committee Report

Internal audit

The Group has an operational internal audit team of six led by the Director of Risk & Internal Audit. The Director of Risk & Internal Audit reports to the Chief Financial Officer and has direct lines of communication with the Chair of the Audit Committee, the Chief Executive and the Company Chairman, as well as to all operational and functional leaders in the business. Whilst the overall size of the team has not increased, its composition has been strengthened during 2018 by the appointment of a new Senior Internal Auditor. During the year the Audit Committee also asked the Chief Financial Officer to consider internal audit resource provision in North America.

In 2018, internal audit continued to conduct in-depth reviews of a broad range of business processes at business locations across all regions. These included:

- key financial controls;
- entertainment and expenses;
- authority schedules;
- payroll;
- IT general controls and IT corporate-level controls;
- Payment Card Industry Data Security Standard (PCI-DSS) compliance;
- pricing;
- customer contract management;
- stock and warehousing;
- procurement;
- operational effectiveness;
- business continuity management; and
- compliance with the Code of Conduct, anti-corruption policy, and policies for reporting serious incidents.

The 2018 internal audit plan approved by the Audit Committee in December 2017 was mostly completed but with some re-prioritisation to incorporate reviews of businesses where risks have increased. As a result, an additional audit was completed during the year in Poland. Two audits were deferred by three months to early 2019 due to management being involved in business due diligence. 27 audits were concluded in total across all regions except the Pacific. The common themes arising from the internal audit work during 2018 were presented to the Audit Committee in December 2018.

None of the failures identified in the control environment by internal audit or any of the recommendations relating to individual audits represented a systemic underlying issue. The overall work of the internal audit function is supportive of the Audit Committee's and the Board's view that the financial and operational controls environment, set out overleaf, is working adequately. The Board's statement on the effectiveness of risk management and internal control can be found on page 69.

External audit

Audit services

The auditor is appointed by shareholders to provide an opinion on the financial statements and certain other disclosures prepared by the Directors. KPMG LLP has acted as the auditor to the Group throughout the year. The Audit Committee is responsible for oversight of the auditor, agreeing the audit strategy and related work plan as well as approving their fees.

The auditor attends all meetings of the Audit Committee. During 2018 KPMG met with the Audit Committee once without executive management present and met with the Audit Committee Chair independently three times. The main engagement with the Audit Committee in 2018 has been over the audit and publication of annual and periodic financial statements, including the auditor's scope and priorities approach and key judgement areas, as well as advising on the reporting requirements relating, for example, to significant acquisitions and disposals. The Audit Committee considers that it has an effective working relationship with the external audit team. As reported on page 75, the Audit Committee has formally reviewed the effectiveness of the auditor and is satisfied with their performance.

Audit-related and non-audit services

To safeguard the objectivity and independence of the auditor, the Company has a policy on the engagement of the auditor's services on audit-related and non-audit services. The Audit Committee accepts that certain work of a non-audit nature is best undertaken by the auditor.

The policy sets out the nature of services that are permitted and those that are specifically prohibited. In general, permitted services would be limited to matters that are closely related to the annual audit process or where a detailed knowledge of the Group is advantageous. The auditor is permitted to be engaged on transaction services but not to undertake any work which would itself be subject to audit.

The Audit Committee regularly reviews the amount and nature of non-audit work performed by the auditor to ensure that the auditor's independence is not compromised. Any engagement fee on permitted services in excess of £10,000 requires the approval of the Chair of the Audit Committee and any engagement fee in excess of £250,000 requires the approval of the Audit Committee. A copy of our policy on the provision of non-audit services by the external auditors is available on our website. There was no significant non-audit service engagement during 2018.

Audit fees for the statutory audit for 2018 were £2.6m (2017: £2.5m). Fees for audit-related assurance services and other non-audit services incurred during the year amounted to £0.2m (2017: £0.7m). The ratio of non-audit fees to audit fees for the year was therefore 0.09:1 (2017: 0.25:1). The majority of the audit-related services were in relation to non-statutory accounts audits. Further details of the fees paid for audit services, audit-related services and non-audit services can be found in Note A8 to the Financial Statements on page 123.

Disclosure of information to the auditor

The Audit Committee monitors the process leading up to the preparation of the financial statements, including the arrangements the Company has in place for disclosing all relevant audit information to the auditor. A formal confirmation on disclosure of information to the auditor is provided in the Directors' Report on page 169.

Effectiveness

Under the Code, the Audit Committee is required to review and monitor the auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The 2017 audit was completed and all milestones reached, and there were no significant unexpected events relating to the publication of the 2017 year end results in March 2018.

In 2018, the Audit Committee considered the findings of the review of the auditor's effectiveness of the 2017 audit process which had been conducted during the preparation of Group and local statutory accounts for the 2017 financial period. The process drew input from the Chief Financial Officer, the Director of Risk & Internal Audit and other members of the senior finance management team as well as from the majority of the Finance Directors of the Group's subsidiaries. The process made use of a formal evaluation using a questionnaire which was completed by 38 business units as well as by the central accounts, tax and treasury functions. In order to allow direct comparability of the evaluation scores across periods, the questions were exactly the same as those used in previous years. The questionnaire covered:

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

The Audit Committee considered the comprehensive findings of the review where it was noted that some concerns had been raised across the Group on the knowledge and experience of more junior members of the audit teams and a lack of continuity in staff. None of the findings were considered material in the overall context of the Group audit but comments received were helpful in relation to improvements in the Company's processes and those of the auditor. Taking all responses into account, the scoring mechanism demonstrated that the audit performance was effective and at a similar level to the previous year.

Audit Committee Report

Tenure

As previously disclosed, the Audit Committee oversaw a formal and competitive tender process during 2017 in relation to the Group's external auditor, which resulted in the reappointment of KPMG LLP. KPMG LLP have been our external auditor since the audit for the year ended 2009.

KPMG LLP are required to rotate the audit partner responsible for the Group audit every five years and, as previously communicated, the former lead audit partner, Paul Sawdon, having served since 2013 rotated off our account after the 2017 year end with his last meeting being in February 2018. He was replaced by Mike Maloney, who has attended all Audit Committee meetings during 2018.

The Company confirms its compliance with the provisions of the UK Competition & Markets Authority Order regarding statutory audit services for the financial period ended 31 December 2018.

Auditor independence and objectivity

The Audit Committee considers annually the scope, fee, performance and independence of the external auditor. In concluding that KPMG LLP should be proposed for reappointment as auditor at the AGM in May 2019, the Board and the Audit Committee took into account the need to ensure that auditor independence was safeguarded. The Audit Committee received confirmation from KPMG LLP that they remained independent and objective within the context of applicable professional standards. The Audit Committee also took into account the review undertaken of the effectiveness of the audit process as well as input from executive management.

The Company considers that there are sufficient controls and processes in place to ensure that the required level of independence of the auditor is maintained. The Board does not consider that there is any material risk of the Company's auditor withdrawing from the market.

Group's approach to risk management and internal control

The Group's approach to managing risk and ensuring that an effective internal control environment is maintained is described below. The Board's statement on risk management and internal control is set out in the Corporate Governance Report on page 69.

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

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

- review and approval of the Group's overall strategy, including overall risk appetite. This includes reviewing the risks that may prevent the Group from achieving its objectives and ensuring that these risks are mitigated or managed to an acceptable level;
- regular reviews of business performance including updates of the risks that the business is facing, and challenging management to obtain assurance that these risks are being effectively managed;
- review of management's approach to identifying and managing risk including approval of the Group principal risks schedule and recommending enhancements;
- evaluation of the effectiveness of internal controls, including financial, operational and compliance controls;
- evaluation of the effectiveness of internal and external audit; and
- delegation of authority to the Chief Executive and Chief Financial Officer to make commitments on behalf of the Company.

Some of the above responsibilities are delegated to the Audit Committee as previously described. The Audit Committee receives regular reports from the Chief Financial Officer and the Director of Risk & Internal Audit on financial controls and process improvement programmes. These include:

- an annual report on the overall status of the control environment in the Group including the results of testing and reports on identified areas of weakness in controls;
- action plans on control environment improvements and updates on their implementation;
- updates on control weaknesses and planned actions to prevent a re-occurrence; and
- periodic reports from regional and Group Finance executives, and internal audit.

Independent reassurance of the effectiveness of risk management and internal controls across the Group is provided to the Chief Executive and the Board by Group Internal Audit.

The Audit Committee has continued its practice of reviewing the risk and control environment in the five main regional businesses in-depth, as well as the Regional Finance Directors' assessment of the quality and priorities of the Finance function in that part of the business. This provides a high-level insight for the Audit Committee as well as an opportunity to challenge key managers on potential risks. It further supports the discussions that take place in the Nomination Committee on talent and succession in the Finance function.

The number of control issues across the Group remains relatively low, with those which do occur not resulting in a material impact on Group performance. Operational controls examined by Internal Audit generally work well but during 2018 some gaps in awareness of technical standards for certain activity were identified in some Pest Control businesses. There were a small number of instances of failure to comply fully with Group policies and standards for the conduct of fumigation activity in several countries, in particular India, Lithuania and New Zealand. These issues are being followed up by Group technical specialists and country management with precautionary suspensions of certain activities pending resolution.

There is a Group Risk Committee composed of key functional and operational senior managers which considers the risk framework and key and emerging risks. It supports the Audit Committee and executive management by:

- providing oversight of the Group's framework for managing risk;
- providing oversight of the processes for reviewing the effectiveness of the Group risk management framework and internal control systems;
- assisting the Audit Committee and the Board in assessing the risks the Group is prepared to take and monitoring emerging risks; and
- determining internal responsibility for appropriate mitigating strategies.

Copies of the minutes of the Group Risk Committee are provided to the Audit Committee, who have requested that management ensure that items raised as significant or emerging issues by the Group Risk Committee are reflected in adjustments to the control environment as appropriate.

Audit Committee Report

Governance and compliance

The Audit Committee has responsibility for reviewing the Company's procedures for handling compliance with the Company's Code of Conduct, including its anti-corruption policy and confidential reporting (whistleblower) arrangements. The Code of Conduct, a fundamental commitment to comply with all applicable legal requirements and with high ethical standards, can be found on our website.

The Audit Committee is informed of feedback from senior management who are required to provide an annual Letter of Assurance confirming compliance with key Group policies, including the Code of Conduct, and the dissemination of these policies to their respective country and functional teams. There are policies and procedures in place for the reporting by colleagues of suspected wrongdoing, for these suspicions to be formally investigated, and for the results of the investigation to be reported to the whistleblower.

There were 23 control incidents reported in 2018 (2017: 17). Further details of the type of control incidences, and the processes for reporting and investigating any incidents are provided in the Corporate Responsibility Report which is available on our website. There have been no anti-bribery or anti-corruption matters reported during the year.

The Audit Committee also periodically reviews processes which the Company has in place to ensure that in all territories there is an effective communication process through which colleagues are kept informed about the whistleblowing process.

Audit Committee effectiveness

In November 2018, the Audit Committee conducted a review of its effectiveness using internal questionnaires, in parallel to the Board evaluation detailed on page 67. The review concluded that the Audit Committee was performing effectively and had received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities.



Read our Code of Conduct at
rentokil-initial.com/responsible-delivery/code-of-conduct



Read the Audit Committee's terms of reference at
rentokil-initial.com/investors/governance

Nomination Committee Report



JOHN McADAM
Chair of the
Nomination Committee

Dear Shareholder

I wrote in my letter last year that one of our areas of focus for 2018 would be the succession of our Senior Independent Director, Richard Burrows, at the end of the year.

However, following various conversations with me and other members of the Committee, Richard very kindly agreed to stay on as a Non-Executive Director and Senior Independent Director of the Company in order to assist with coordinating the succession planning for my own role as Company Chairman; and it is now intended that he will step down at the AGM in May.

Following the conclusion of the AGM, John Pettigrew will become Senior Independent Director of the Company. John has been a Non-Executive Director of the Company since January 2018. Furthermore, it is intended that Angela Seymour-Jackson will succeed Richard as Chair of the Remuneration Committee. She has been a Non-Executive Director since March 2012 and has been a member of the Remuneration Committee since she joined the Board.

It has also been announced that I will be stepping down from the Board at the AGM in May. As is best practice, Richard chaired the sections of the Nomination Committee meetings during 2018 and early 2019 which related to my succession and, as is only appropriate, he will address this directly below.

In other regards, 2018 was a slightly quieter year for the Committee following the appointment of three new Non-Executive Directors in 2017. We, however, continue to focus on the talent and succession planning of senior management and once again received a detailed update on this from the Group HR Director in December 2018. More information about this can be found on page 79.

I am very happy that we have maintained our 33% female representation at Board level during the year, meeting the recommendation of the Hampton-Alexander Review. I am encouraged to see that the percentage of females in senior management roles has once again increased in 2018 and is now sitting at 30%. We continue to receive updates on how diverse talent is being fostered and developed and the impact of our policies and practices that have been put in place.

JOHN McADAM
Chair of the Nomination Committee
27 February 2019

Committee members

- John McAdam (Chair)
- Richard Burrows
- Sir Crispin Davis
- John Pettigrew
- Angela Seymour-Jackson
- Julie Southern
- Linda Yueh

Highlights of 2018

- Progress on executive succession plans, including an enhanced and more diverse pipeline of 'ready now' internal candidates
- Talent and Employer of Choice agenda, in particular development of talent pools and workshops

Areas of focus for 2019

- Smooth transition of Chairman, Senior Independent Director and Remuneration Committee Chair roles
- Further progress on executive succession

John McAdam has now been our Chairman for over 10 years and whilst he continues to lead the Board with great clarity, skill and relevance, progressive refreshing of board membership is considered a key element to achieving good corporate governance. Whilst nine years has previously been seen as a guide, in relation to the Chairman, the 2018 UK Corporate Governance Code now states that the Chairman should not remain in post beyond nine years from the date of their first appointment to the board (although this period can be extended for a limited time to facilitate effective succession planning and the development of a diverse board). In light of this change it was felt to be appropriate to accelerate the succession planning in place for our Chairman with a view to him stepping down at some point during 2019.

As Senior Independent Director, I have led the planning and search for a successor for John and the steps taken by me and the other members of the Committee during 2018 and early 2019 are outlined on page 78.

I am delighted to say that Richard Solomons has agreed to join the Board of Directors and to become Chairman from the conclusion of the Company's AGM in May. The Committee believes he will bring a wealth of strategic and operational expertise as well as experience and contribution in several areas that have been identified as key to the Group's continued success, such as North America and the effective use of digital tools in service-led global businesses. In order to allow for a suitable handover period, Richard will join the Board as a Non-Executive Director from 1 March 2019. He will also join as a member of the Nomination Committee from his date of appointment. As a Board we will all be deeply sad to see John step down as Chairman, but we welcome the opportunity to work with someone new in this pivotal role. I will be working with my fellow Committee members to ensure a smooth succession.

RICHARD BURROWS
Senior Independent Director

Nomination Committee Report

Role of the Nomination Committee

The Nomination Committee has delegated authority from the Board as set out in its terms of reference. The Nomination Committee reviewed its terms of reference in December 2018, which were subsequently approved by the Board, and are available on our website.

Membership and attendance

All Non-Executive Directors are members of the Nomination Committee in order to ensure that they are able to provide input and help determine the future composition of the Board. The Nomination Committee met formally three times during the year. As detailed below, the members of the Nomination Committee also met regularly outside of these formal meetings in relation to the succession of the Company's Chairman. The members of the Nomination Committee that served during 2018, along with their attendance at Nomination Committee meetings, can be seen below

Nomination Committee members and attendance in 2018

John McAdam (Chair)

3/3 meetings attended



Richard Burrows

3/3 meetings attended



Sir Crispin Davis

3/3 meetings attended



John Pettigrew

3/3 meetings attended



Angela Seymour-Jackson

3/3 meetings attended



Julie Southern

3/3 meetings attended



Linda Yueh

3/3 meetings attended



Where any member is unable to attend a meeting, the Nomination Committee Chair will seek their views in advance and provide a briefing on outcomes if appropriate. All Nomination Committee members are provided with the papers and the minutes of the meeting, whether or not they are able to attend. The Chief Executive also normally attends meetings, especially to assist with discussions of executive succession and talent programmes. The Company Secretary is secretary of the Nomination Committee and the Assistant Company Secretary also attends all meetings.

Activities of the Nomination Committee in 2018

The key activities of the Nomination Committee in 2018 were the review of Board succession planning, in particular the succession plan for the Company's Chairman and Senior Independent Director; and the talent and succession plan for senior management. Other items discussed by the Nomination Committee during 2018 included:

- a review and selection of executive search consultants;
- a review of the Nomination Committee's terms of reference;
- a review of the Nomination Committee's effectiveness, conducted internally;
- a review of the Board's Diversity Policy, including its effectiveness;
- a review of the performance of individual Directors, using output from the Board evaluation process, and making recommendations to the Board over the re-election of Directors at the AGM; and
- a review of potential conflicts of interest authorised by the Board and the processes in place to ensure that they are properly considered

More detailed information is provided below, where appropriate.

Appointment process to the Board

The Nomination Committee has responsibility for managing the appointment process to ensure a formal, rigorous and transparent procedure for appointing Directors. In order for the Board to discharge its duties and responsibilities effectively, it must comprise a diverse group of individuals whose skills and experience are gained in a variety of backgrounds. Successful candidates must demonstrate independence of mind and integrity, and must enhance the overall effectiveness of the Board. Appointments are considered objectively, regardless of gender, ethnicity or other personal characteristics, and are made on merit. Pro-forma letters of appointment and Directors' service contracts are available on our website.

The process of appointing new Directors to the Board is supported through the use of an external recruitment consultant. Following the refresh of the Board composition in 2017, including John Pettigrew's appointment which commenced on 1 January 2018, no new Non-Executive Directors have been appointed to the Board in 2018. The Nomination Committee has, however, spent much of its time this year considering succession planning of our Chairman, as outlined below.

During 2018, the Nomination Committee reviewed Angela Seymour-Jackson's appointment as a Non-Executive Director following the completion of her second three-year term. The Nomination Committee recommended that she be reappointed on an annual rolling basis, subject to her continued independence and shareholder approval for re-election at our AGM. The Board approved this recommendation.

Chairman succession

A key area of focus for the Nomination Committee during 2018 and early 2019 was the planned succession of John McAdam as Chairman. It was announced in February 2019 that John McAdam intended to step down as Chairman at the Company's AGM in May.

John has served as Chairman since his appointment to the Board in May 2008 and whilst his succession was previously under review, the provision regarding the length of appointment of the Chair of a Company contained in the new UK Corporate Governance Code published in July 2018 meant that discussions took place to consider whether it was appropriate for plans to be accelerated. This process was led by Richard Burrows, Senior Independent Director, on behalf of the Nomination Committee, who agreed to extend his appointment past the end of 2018 in order to oversee the succession.

In anticipation, and with the Chairman's full knowledge and support, the Nomination Committee engaged Russell Reynolds Associates to assist with the process. They worked with the Nomination Committee to devise a candidate profile, which contained a brief of the requirements and the desired skill set that any potential successor would need. Russell Reynolds Associates has no other material connections with the Company nor any Director and is a signatory to the Enhanced Code of Conduct for Executive Search Firms.

Upon reviewing the profile the Nomination Committee agreed to consider both internal and external candidates. An international external search was then undertaken with detailed reports of potential successors being provided. This yielded a pool of candidates which was reduced to a shortlist of several potential candidates. These shortlisted candidates met with members of the Nomination Committee, including the Senior Independent Director, and the Group HR Director, and subsequently with the Chief Executive and the Chief Financial Officer. Additional calls and meetings were held outside of the scheduled Nomination Committee meetings to facilitate this.

The process culminated with the Nomination Committee meeting in February 2019 to agree a recommendation to the Board that proposed the appointment of Richard Solomons as a Non-Executive Director from 1 March and as Chairman following John McAdam's retirement at the conclusion of the Company's AGM on 8 May 2019, which the Board fully supported.

Nomination Committee Report

Succession planning and talent development

Both the Nomination Committee and the Board recognise that strategic, thoughtful and practical succession planning is critical to the long-term success of the Company. The Nomination Committee looks to bring new energy, challenge and oversight to the Board and to reflect the business strategy and operational goals in appointments. The Board is ultimately responsible for succession planning for Executive and Non-Executive Directors and senior management, with the Nomination Committee having oversight and making recommendations as required.

The Group HR Director presented an overview of the Company's talent strategy to the Nomination Committee during the year, which reviewed the current succession pipeline for key senior management roles as well as wider talent development priorities, and the creation of three talent pools. The talent pools have been established to help identify successors for roles in our Executive Leadership Team (ELT) and Senior Leadership Forum (SLF), to improve the succession pipeline for senior operational management, and to identify and accelerate the development of fast-track talent. Identified members of the talent pools are offered development that focuses on individual needs and stretches people in the areas required for their next role within the Company. Descriptions of the ELT and SLF can be found in the Corporate Governance Report on page 68.

The aim of the talent strategy is to ensure that activity is focused on the key priorities of the organisation, in particular strengthening internal succession paths to key operational and leadership roles in the short and medium term, and retaining critical talent and specialists. By the end of 2018, the Group HR function had completed the most extensive talent and succession review ever undertaken, reviewing the succession plans for 224 roles across all regions and functions. As a result of this process additional participants from the regions included in Group talent pools for 2019-2020 have been identified and regional pools in North America and Pacific are being set up to run alongside those already underway in Europe and Asia.

Fostering a diverse and inclusive culture

A key strategic aim of the Company is to be recognised as a world-class Employer of Choice that is able to attract, recruit and retain the best people from the widest possible pool of talent. We are, therefore, committed to creating a diverse and inclusive working environment for all employees by, at all times, striving to be an organisation that values everyone's talents and abilities and where diversity is encouraged.

We want our workforce to reflect the diverse nature of the business environment and markets in which we operate and the customers that we serve. As a company, we strongly believe that a more diverse and inclusive workforce will boost our financial performance, enhance our reputation, support innovation and increase colleague engagement.

We do not believe in setting artificial targets or quotas – our approach is to make sustainable and measurable improvements over time. Having strengthened our focus on diversity throughout 2016 and 2017, we are pleased to report that we have made continued progress on our diversity and inclusion agenda during 2018.

We are also pleased to report that once again in 2018 we have no material gender pay gap in our UK-based businesses. Full details can be found in our 2018 Gender Pay Gap Report, which is available to view on our website.

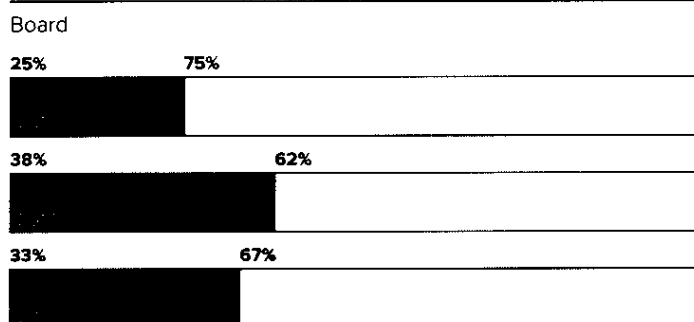
Board and senior management gender diversity

Our Board Diversity Policy reaffirms our commitment to meeting and maintaining the recommendations made in the final Davies Review and in the Hampton-Alexander Review on improving gender balance in FTSE leadership, which set a target of 33% female Board representation by 2020. In 2017, we achieved this ahead of schedule with females representing 38% of Board members at the end of 2017. Following John Pettigrew's appointment in January 2018, one third of our Board members are now female and we maintained this level throughout 2018.

Our Board Diversity Policy also sets out our commitment to working only with executive search firms who have signed up to the Enhanced Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice. All executive search firms retained by the Company during 2018 for Board and ELT appointments have signed up to the enhanced code.

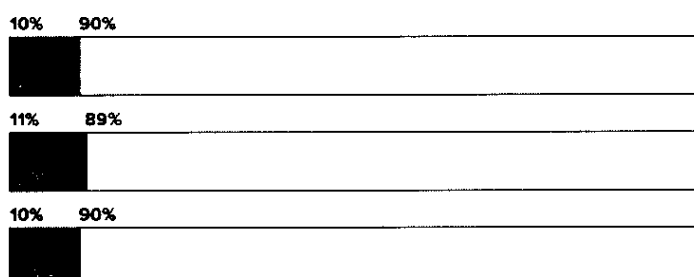
Proportion of males and females

As at 31 December



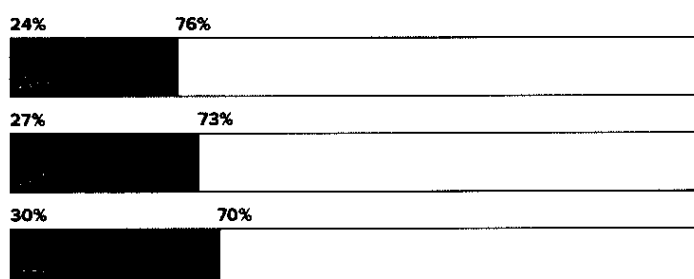
2016: 8 members 2017: 8 members 2018: 9 members

Executive Leadership Team



2016: 10 members 2017: 9 members 2018: 10 members

Senior management¹



2016: 76 members 2017: 78 members 2018: 74 members

■ Females □ Males

¹ We define senior management as direct reports to the Executive Leadership Team, excluding colleagues in administrative and support roles.

The proportion of women in senior management positions across Rentokil Initial has increased significantly over the last two years and in 2018 reached 30% for the first time. Our progress on improving female representation in the most senior leadership roles in the Company saw us ranked 32nd of all FTSE 100 companies in the 2018 Hampton-Alexander Review, up from 46th the previous year. We were also named in 2018 as one of the leading 200 employers for gender diversity and equality by Equileap, an organisation aiming to accelerate progress towards gender equality in the workplace.

Nomination Committee Report

Developing and fostering diverse talent

Our improvements in the gender diversity of our senior management population have been underpinned by sustainable actions to develop diverse talent across the organisation.

In late 2018, we launched a mentoring programme for female participants of our global talent programmes to support their career development, with women in the programme being paired with senior mentors from within and outside Rentokil Initial. Our focus on developing our female talent has seen us achieve a 9% increase in the proportion of women identified in our succession plans for senior management positions.

We have also continued to invest in and bolster our longer-term pipeline of female talent. In 2018 we also increased our focus on attracting and recruiting more women into frontline technician roles, holding our inaugural 'Women in Pest Control' event in Sydney, Australia in 2018 to get feedback and insights from our female colleagues (see page 54 for more details). Similar events will be held around the world during 2019 and further details of our efforts in 2018 and their results can be found in our Corporate Responsibility Report on our website.

Ethnic and cultural diversity

We continue to consider the findings of the Parker Review and the proposals to increase the ethnic and cultural diversity of UK Boards. The review sets out aims for each FTSE 100 Board to have at least one director from an ethnic minority background by 2021. We have achieved this aspiration ahead of schedule, with one of our Board members being from an ethnic minority background.

As a global organisation we also believe it is important to have a senior management team that is representative of the markets in which we operate and the customers we serve. We can report that presently 11% of our senior management roles are filled with individuals who are defined as ethnic minorities, which we will continue to monitor from now on.

Additionally, to remove bias from our recruitment processes and to ensure we are attracting the best people from the widest possible pool of talent, in the last 12 months we have revitalised our online recruitment channels and put in a number of tools to enable candidates to understand more about our culture and typical job roles.

Generations at work

Colleagues defined as 'Millennials' (those born between 1981 and 1996) now form almost as large a proportion (37%) of our overall workforce as colleagues defined as 'Generation X' (those born between 1965 and 1980; 38%). 'Baby Boomers' (those born between 1946 and 1964) now make up just 24% of our total colleagues. We are seeing the proportion of female colleagues increasing with each generation, meaning we expect our overall ratio of female employees to increase over time.

Proportion of males and females by generation

As at 31 December 2018

Millennials

30% 70%



Generation X

26% 74%



Baby Boomers

25% 75%



■ Females □ Males

To ensure we are seen as an employer of choice for Millennials, we are putting a number of focused actions in place in order that we are able to continue to attract, recruit and retain this growing segment of our workforce. In addition, we also have a number of programmes in place to support the development of our younger colleagues. Further details can be found in our 2018 Corporate Responsibility Report on our website.

Managing conflicts of interest

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

The Company has a procedure in place to deal with the situation where a Director has a conflict of interest and as part of the process the Board considers each potential conflict situation on its merits. Since the procedure was introduced a number of potential situational conflicts have been authorised after review by the Chairman, with support from the Company Secretary. The Board maintains a register of authorisations granted and the scope of any approvals given, which is circulated to Board members prior to each meeting.

Conflicts are divided into 'transactional' conflicts arising from a specific matter and 'situational' conflicts arising from appointments on other boards or through some other ongoing relationship. All of the approvals given have been situational, none of which is subject to any specific limitation or condition. These potential conflicts are not material either to the Company or, the Directors believe, to the other companies that are the subject of the potential conflict. The Company has not encountered any transactional conflicts involving Directors that would require a Director to be excluded from any part of the Board's activities.

The impact of each Non-Executive Director's other commitments on their ability to perform their role on the Board has also been carefully considered. While not strictly a conflict of interest, the implications for effective conduct of Board responsibilities of so-called 'overboarding' are clear, and an increasing concern for some investors. Our experience shows that all the Company's Non-Executive Directors have been able not only to perform their roles on the Board, but also to go beyond their formal commitments, including, for example, attendance at meetings of other Committees in addition to those of which they are members. Further details can be found in the Corporate Governance Report on page 62.

Under its terms of reference the Nomination Committee has responsibility to review the current schedule of authorisations with a view to considering whether they remain appropriate or whether they should be revoked or otherwise limited. This review is undertaken annually and also considers the process for considering and authorising potential conflicts of interests. In 2018, the process for the disclosure of any perceived conflicts upon the appointment of a new Director was reviewed and it was concluded that no updates were necessary. All authorisations given were considered appropriate and none were revoked or otherwise limited.

Nomination Committee effectiveness

The Nomination Committee has conducted an independence evaluation of each Non-Executive Director seeking election or re-election and recommended to the Board that they be put forward for election or re-election on the basis that their performance, both individually and in aggregate, continues to be effective and that each demonstrates commitment to the role. In addition, the Nomination Committee conducted a review of how it operates, which concluded that the Nomination Committee had operated effectively in 2018.



Read the Nomination Committee terms of reference at rentokil-initial.com/investors/governance



Read our Corporate Responsibility Report at rentokil-initial.com/responsible-delivery



Read our Group Diversity and Inclusion Policy at rentokil-initial.com/responsible-delivery/policies

Directors' Remuneration Report



RICHARD BURROWS
Chair of the
Remuneration Committee

This report is structured as follows:

- 81 Annual statement**
An overview from the Chair of the Remuneration Committee outlining key developments and decisions made during 2018.
- 83 Remuneration at a glance**
Key headline details on performance and remuneration in 2018.
- 84 Directors' Annual Remuneration Report – Introduction**
Details of the Remuneration Committee and its activities during 2018.
- 86 Directors' Annual Remuneration Report – 2018**
Details of Directors' remuneration received during 2018.
- 93 Directors' Annual Remuneration Report – Looking forward 2019**
Details of how the Directors' Remuneration Policy will be implemented in 2019.
- 96 Summary of 2018 Directors' Remuneration Policy**
Summary of the Directors' Remuneration Policy approved at the Company's AGM on 9 May 2018.

Committee members

- Richard Burrows (Chair)
- Angela Seymour-Jackson
- Linda Yueh

Highlights of 2018

- Introduction of a new Directors' Remuneration Policy, further increasing alignment of remuneration arrangements for executives with shareholder interests
- Re-tender, selection and appointment of the new advisers to the Remuneration Committee

Areas of focus for 2019

- Succession for the Remuneration Committee Chair who will step down at the May 2019 AGM
- Review of the Performance Share Plan performance measures for introduction in 2019

Dear Shareholder

On behalf of the Board I am pleased to present the Directors' Remuneration Report for the financial year ended 31 December 2018.

Remuneration review

The Remuneration Committee undertook a review in 2017 and early 2018 of the Company's executive remuneration framework and policy to ensure that the Company was providing remuneration arrangements to the Executive Directors that are:

- consistent with the delivery of strategic business priorities;
- aligned with the senior management and wider colleague population, and with the interests of shareholders;
- as straightforward and easy to understand as practicable;
- appropriately reflective of current best practice; and
- market competitive, to attract and retain talent at an appropriate level for the size and scale of our organisation.

Following extensive consultation with key shareholders and proxy agencies, the Remuneration Committee recommended a revised remuneration policy which saw changes to the annual bonus plan, Performance Share Plan (PSP), pension provision and shareholding requirements, all of which are outlined below.

Changes to 2018 Directors' Remuneration Policy

Annual bonus scheme

- Annual bonus opportunity increased to 150% of salary before the application of the individual performance modifier.
- 40% annual bonus deferral in shares for a minimum period of three years.

Performance Share Plan (PSP)

- PSP award for the Chief Executive increased to 250% of salary.
- A two-year holding period to apply to any awards granted in or after 2018.

Shareholding guidelines

- Shareholding guidelines increased to 300% and 200% of annual base salary for the Chief Executive and Chief Financial Officer respectively.

Pensions

- New Executive Directors will be eligible for a pension contribution or cash equivalent of 15% of salary, reflecting the pension arrangements for other senior managers.

The new policy was approved by 75.01% of shareholders at the Company's AGM on 9 May 2018; it came into effect on the same day and is intended to apply for a period of three years.

Following the strongly supportive response we received during the extensive consultation process which involved engagement with shareholders representing just under half of our share register as well as the three leading proxy agencies, we were surprised by the resulting level of voting support for the policy at the 2018 AGM. The Remuneration Committee has, at all times, sought to act in the best interests of shareholders. We believe that we now have a policy that is fit for the future and will allow us to attract and retain the quality of leaders needed to maintain and build on the significant success and value creation for shareholders we have delivered in recent years. Having reflected on the feedback and talked to a number of our shareholders, we believe that a strong majority are supportive of the approach we have taken to pay generally and consider that there is clear alignment between shareholder interests and pay outcomes for the performance achieved by our executive team. The feedback we received did suggest that one of the proxy agencies would have preferred the Chief Executive's increase in remuneration opportunity to have been staged over two years. However, given the success of the Company and its rapid progression within the FTSE 100,

Directors' Remuneration Report

we did not believe that would have been prudent. On that basis we have implemented the changes and do not believe any further action is necessary in response to last year's vote. We continue to be committed to a strong, open and transparent relationship with our shareholders and, as such, we have continued to engage on this and other remuneration matters during 2018 and early 2019.

Following the 2018 AGM, we decided to retender the advisers to the Remuneration Committee and, following that process, appointed FIT Remuneration Consultants LLP as the Remuneration Committee's new advisers. As part of their induction to the Company FIT have reviewed our remuneration policy and practices and have updated the Remuneration Committee on their resulting insights.

Key decisions in 2018

The business had a successful year in 2018, seeing strong financial performance with good progress being made on revenue, profit and cash flow delivery and a continued increase in shareholder value. We also made excellent progress on our Employer of Choice initiatives, which are described in more detail in the Strategic Report.

The 2018 annual bonus had two performance gateways based on profit and cash generation, both of which were surpassed. The level of bonus achievement was determined by Ongoing Operating Profit and Ongoing Revenue performance, which was then overlaid with an individual performance modifier. The Remuneration Committee reviewed the financial performance in 2018 against the annual bonus targets and determined that the Chief Executive, Andy Ransom, and the Chief Financial Officer, Jeremy Townsend, should both receive a bonus of 76.13% of base salary. In respect of the individual performance modifier, Andy Ransom was awarded a performance rating of 4 taking his overall bonus to 83.74% of salary, and Jeremy Townsend was awarded a performance rating of 3, resulting in his overall bonus remaining at 76.13% of salary (see page 88).

During 2018, the 2015 PSP award, based on performance measures of one third EPS (measured over three financial years to 31 December 2017) and two thirds relative TSR (measured over a three-year period ended 30 March 2018), was tested and resulted in 94.97% of the award vesting, subject to an individual performance modifier. The application of the individual performance modifier had the effect of reducing the award that vested to 66.88% and 64.70%, of the maximum opportunity, for Andy Ransom and Jeremy Townsend respectively.

Performance of the 2016 PSP will be measured one third using EPS (measured over three financial years to 31 December 2018) and two thirds relative TSR (measured over a three-year period ending 10 March 2019). Based on the Company's performance for the period in respect of the 2016 PSP award, vesting is anticipated to be at 91.25%. The 2016 PSP award is based on the actual EPS result as at 31 December 2018 and an estimated TSR result based on average performance in the fourth quarter of 2018. More detail is set out on page 88.

The Remuneration Committee did not exercise any discretion on executive remuneration outcomes during 2018.

Key decisions in 2019

With effect from 1 January 2019, Andy Ransom's salary was increased by 2% to £765,276 and Jeremy Townsend's salary was increased by 2% to £491,964. The increases received by the Executive Directors were in line with the overall annual cost of labour increase, which was set at 2% for the UK.

In reviewing the Performance Share Plan (PSP) with our new advisers, we took the opportunity to consider the performance measures applicable to future awards and the TSR comparator group we use.

With the new UK Corporate Governance Code, which applies to financial periods commencing on or after 1 January 2019 (the 2018 Code), encouraging companies to ensure that their performance measures are suitably aligned with their key performance indicators (KPIs) the Remuneration Committee has determined, following discussion with key shareholders and proxy agencies, that the following composition and weighting of measures for the 2019 PSP award creates stronger alignment.

Measure	Current weighting	Proposed weighting
TSR	66.6%	50%
EPS	33.3%	25%
Other Financial measures	–	10%
Strategic measures	–	15%

The Remuneration Committee continues to feel that both TSR and EPS remain the most appropriate reflections of success and alignment to shareholders interests and therefore have maintained the current 2:1 ratio between these measures with 50% TSR and 25% EPS. The remaining 25% of the 2019 PSP award will be subject to a range of measures over the three-year performance period which are clearly aligned with our KPIs and are set out below:

Performance measures	Weighting
Additional financial measures	
Organic Revenue growth	5%
Average Free Cash Flow conversion	5%
Strategic measures	
Employee Retention based on our average sales and service colleague retention	5%
Customer Satisfaction based on our average Customer Voice Counts (a net promoter score)	5%
Environment: improvements based on the average reduction in our CO ₂ emissions index	5%

The two additional Financial measures will operate with straight-line vesting between threshold and target and target and maximum performance and are disclosed on page 94.

The Strategic measures will be based on straight-line vesting between threshold and target and target and maximum performance and will be reported at vesting due to commercial sensitivity. While the overall weighting of these measures (15%) is modest, we think that this rebalancing of the PSP sends an important message to over 750 participants in the plan that the Board continues to consider these KPIs as critical to the long term success of the business.

Consistent with the 2018 Code provisions, the Remuneration Committee has reserved an overriding discretion to adjust both the bonus and PSP outcome for awards made in 2019, where it considers that to be appropriate given all the circumstances.

The TSR comparator group we use is the FTSE 350, excluding companies from financial services, property and primary resources sectors, and on review this was considered to still be an effective comparator group and will be retained for the 2019 PSP. The Remuneration Committee will consider the appropriateness of the TSR comparator group prior to each subsequent award.

Finally, I will be standing down as Chair of the Remuneration Committee at the AGM in May 2019 and I will be succeeded by Angela Seymour-Jackson, who joined the Remuneration Committee upon her appointment to the Board in March 2012 and will have spent seven years on the Remuneration Committee before taking over as Chair, in line with the Investment Association's Principles of Remuneration and the 2018 Code.

I hope you will find the information in this report clearly explains the remuneration approach taken by the Company and enables you to understand how it links to our strategic business priorities and the delivery of our business plan. As always, I welcome any comments you may have and look forward to seeing shareholders at the 2019 AGM.



RICHARD BURROWS

Chair of the Remuneration Committee
27 February 2019

Remuneration at a glance

Colour key

- Fixed pay
 - Base salary
 - Benefits
 - Pension
- Bonus
- Performance Share Plan

How did we perform during 2018?

Ongoing against financial and performance metrics for the year

Ongoing Operating Profit outcome ☐

100.00%

Ongoing Revenue Outcome¹ ☐

100.03%

Free Cash Flow ☐

£192m

Exceeded gateway of £150m

Total Shareholder Return (TSR) ☐

110.7%

increase over three years.

TSR is anticipated to finish in the upper quartile allowing this element of the 2016 PSP to vest in full.

Earnings Per Share (EPS) ☐

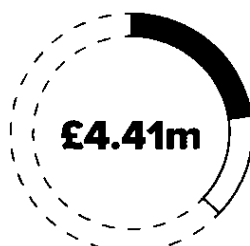
13.9%

EPS was below maximum and allowed 73.76% of this element of the 2016 PSP to vest.

Executive Director total remuneration

Andy Ransom

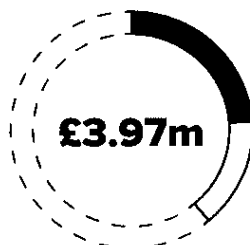
2018



■ Total fixed pay 23%
□ Bonus 14%
□ PSP 63%*

*For the PSP, 52% is share price growth, and 48% the original PSP grant

2017²

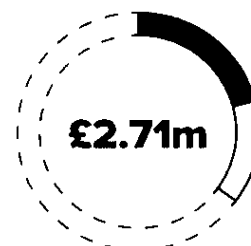


■ Total fixed pay 24%
□ Bonus 15%
□ PSP 61%*

*For the PSP, 52% is share price growth and 48% the original PSP grant

Jeremy Townsend

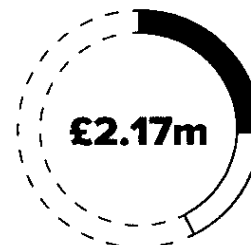
2018



■ Total fixed pay 21%
□ Bonus 14%
□ PSP 65%*

*For the PSP, 52% is share price growth, and 48% the original PSP grant

2017²



■ Total fixed pay 26%
□ Bonus 17%
□ PSP 57%*

*For the PSP, 52% is share price growth and 48% the original PSP grant

Alignment of incentives to the 2018 business strategy

Strategic priorities	Key stakeholders	Annual bonus plan performance measures for 2018 <input type="checkbox"/>	PSP performance measures for 2018 <input type="checkbox"/>
Achieving greater profitability	Shareholders	Ongoing Operating profit	Relative TSR and EPS
Increase earnings and returns	Shareholders	Ongoing revenue	
Value enhancing M&A in Growth & Emerging markets	Shareholders	Personal Goals	–
An Employer of Choice	Colleagues	Personal Goals	–
Leading the field in innovation	Customers and communities	Personal Goals	–

How was performance reflected in our Executive Directors' pay in 2018?

	Andy Ransom 2018	Jeremy Townsend 2018
Performance rating	4	3
Individual performance modifier (IPM) for 2018 ³	110%	100%
	£'000	£'000
■ Base salary	750.3	482.3
■ Benefits	78.6	16.6
■ Pension	187.6	72.4
□ Annual bonus (after application of IPM)	628.3	367.2
□ Performance Share Plan	2,761.9	1,775.5
Total	4,406.7	2,714.0

1. After application of Ongoing Revenue co-efficient (see page 86)

2. The 2017 single figure total has been restated from last year to reflect the actual value of the 2015 PSP award following its vesting in March 2018

3. Further information on the IPM can be found on page 86

Directors' Annual Remuneration Report

Introduction

The Annual Remuneration Report has been split into three sections for ease of reference. This introductory section provides an overview of the Remuneration Committee and their activities during the year. The second section, from page 86, provides an explanation of how the current Directors' Remuneration Policy was implemented in the year ended 31 December 2018 and shows the alignment between the Company's strategy, remuneration framework and performance as well as the payments made to Directors during this period. The final section, from page 93, provides an overview of how the current Directors' Remuneration Policy will be applied in 2019.

Remuneration Committee responsibilities

The Remuneration Committee's main responsibilities are developing and setting the Directors' Remuneration Policy and overseeing its application. It determines and agrees the executive remuneration policy with the Board and approves individual remuneration arrangements for the Chairman, Executive Directors and members of the Executive Leadership Team, including arrangements relating to those joining and leaving the business. It reviews executive performance and strives to ensure that remuneration structures align the interests of management with those of shareholders and operate in the best long-term interests of the Company.

The Remuneration Committee oversees contractual terms on termination affecting Executive Directors and members of the Executive Leadership Team, and seeks to ensure that any payments made are both fair to the individual and to the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

The Remuneration Committee also oversees the Company's incentive schemes including the operation and effectiveness of performance measures and targets in both the annual bonus plan and the Performance Share Plan (PSP). It also lends oversight to major changes in employee remuneration across the Group.

Finally it has responsibility to report to shareholders on remuneration matters and to select and appoint advisors to the Remuneration Committee.

Terms of reference

The Remuneration Committee's responsibilities are outlined in its terms of reference which were reviewed and updated in December 2018 to comply with the 2018 Code, and subsequently approved by the Board. They are available to view on our website.

Membership and attendance

The Remuneration Committee held four scheduled meetings during 2018 and the members of the Remuneration Committee and their attendance during the year can be found below.

Remuneration Committee members and attendance in 2018

Richard Burrows (Chair)

4/4 meetings attended



Angela Seymour-Jackson

4/4 meetings attended



Linda Yueh

4/4 meetings attended



The Group HR Director has direct access to the Chair of the Remuneration Committee and together with the Group Reward, Pension & Benefits Director advises the Remuneration Committee on remuneration matters relating to Executive Directors and members of the Executive Leadership Team.

The Company Chairman also attends meetings and makes recommendations in relation to the remuneration and incentive arrangements for the Chief Executive. The Chief Executive attends meetings and makes recommendations in respect of remuneration arrangements for his direct reports. No Executive Director or member of the Executive Leadership Team is present when their own remuneration is under consideration.

The Remuneration Committee members have a broad and diverse set of skills and knowledge that, when combined, bring the necessary level of experience and know-how to ensure remuneration matters are dealt with in a balanced, independent and informed manner. No member of the Remuneration Committee has any personal financial interest in the matters to be decided by the Remuneration Committee, other than as a shareholder. No member of the Remuneration Committee has any conflict of interest in carrying out their role on the Remuneration Committee arising from other directorships nor does any member participate in any of the Company's incentive or pension arrangements or have any involvement in the day-to-day running of the Company.

Richard Burrows will stand down as Chair of the Remuneration Committee in May 2019 and will be replaced by Angela Seymour-Jackson.

Activities of the Remuneration Committee

The key activities of the Remuneration Committee during 2018 included the following:

- finalisation and approval of the 2018 Directors' Remuneration Policy;
- approval of the following for Executive Directors and the Executive Leadership Team:
 - base salaries for 2018;
 - bonus outcomes for 2017 and bonus structure for 2018; and
 - 2018 PSP awards and targets;
- approval of the 2017 Directors' Remuneration Report;
- consideration of reward arrangements for key executives below Executive Director level;
- approval of the vesting of the 2015 PSP award as a result of performance targets being met;
- monitoring the levels of share dilution limits in relation to the Company's share plans;
- annual review of the effectiveness of the Remuneration Committee;
- terms of reference review;
- monitoring shareholder corporate governance and voting guidelines;
- review of the Gender Pay Gap Report for 2017;
- review and appointment of advisors to the Remuneration Committee; and
- review and approval of the performance measures for the 2019 PSP.

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

The Remuneration Committee conducted an internal review of its performance during the year using tailored questionnaires. The review concluded that the Remuneration Committee continued to operate effectively and that individual Directors serving on the Remuneration Committee continued to have access to appropriate advice and information.

Vanessa Evans, Group HR Director; Daragh Fagan, Group General Counsel & Company Secretary; Catherine Stead, Assistant Company Secretary; and Debra Hayes, Group Reward, Pension & Benefits Director, also attend Remuneration Committee meetings.

Directors' Annual Remuneration Report

External advisors to the Remuneration Committee

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

- FIT Remuneration Consultants LLP (FIT);
- Deloitte LLP (Deloitte); and
- Tapestry Compliance LLP (Tapestry).

Following a review of its advisors in 2018 the Remuneration Committee appointed FIT to provide independent advice on executive remuneration matters and on the Company's long-term incentive arrangements with effect from 6 November 2018. FIT is a member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Fees charged during the year for advice to the Remuneration Committee by FIT were £5,882. The Remuneration Committee is satisfied that the FIT engagement partner and team, who provided remuneration advice to the Remuneration Committee during 2018, do not have connections with the Group or any Director that may have impaired their independence.

Fees charged during the year for advice to the Remuneration Committee by Deloitte were £10,050. Deloitte also provided services to the HR and Company Secretarial teams in their roles supporting the Remuneration Committee. These services included support in preparing the 2017 Directors' Remuneration Report, and provision of market data. The Remuneration Committee is satisfied that the Deloitte engagement partner and team, who provided remuneration advice to the Remuneration Committee during 2018, did not have connections with the Group or any Director that may have impaired their independence.

During the year separate teams within Deloitte provided the Company with a limited level of advice over non-remuneration matters, such as taxation, although they are one of a number of advisors to the Company in such areas. The Remuneration Committee is satisfied that neither the quantum nor the nature of services provided by Deloitte to the Company which are unrelated to remuneration matters represent a conflict of interest over the firm's role as advisors to the Remuneration Committee.

Tapestry's involvement with the Remuneration Committee is limited to advice on the operation of the Company's executive share plans in relation to the Directors' Remuneration Policy. Fees charged during the year for this were £21,073. The Remuneration Committee is satisfied that Tapestry do not have connections with the Group or any Director that may have impaired their independence.

Voting at the 2018 AGM

At the Company's last AGM on 9 May 2018, the outcome of the advisory vote in respect of the Directors' Remuneration Report and the binding vote in respect of the Directors' Remuneration Policy as contained in the 2018 Annual Report were as follows.

2018 AGM – Remuneration Report voting results

Votes for	1,450,348,280
Percentage for	96.55%
Votes against	51,857,468
Percentage against	3.45%
Total votes cast	1,502,205,748
Votes withheld (abstentions)	786,712

2018 AGM – Remuneration Policy voting results

Votes for	1,088,397,058
Percentage for	75.01%
Votes against	362,586,957
Percentage against	24.99%
Total votes cast	1,450,984,015
Votes withheld (abstentions)	52,008,445

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

Directors' Annual Remuneration Report – 2018

Directors' remuneration in the year to 31 December 2018

Single total figure for the remuneration of Executive Directors

The table below has been audited.

	Year	Fixed pay			Variable pay		Total £'000
		■ Base salary £'000	■ Benefits £'000	■ Pension ¹ £'000	□ Bonus ² £'000	□ PSP ^{3,4,5,6} £'000	
Andy Ransom, Chief Executive	2018	750.3	78.6	187.6	628.3	2,761.9	4,406.7
	2017	735.6	22.1	183.9	618.6	2,409.4	3,969.6
Jeremy Townsend, Chief Financial Officer	2018	482.3	16.6	72.4	367.2	1,775.5	2,714.0
	2017	472.9	16.5	70.9	361.5	1,249.0	2,170.8

- Executive Directors are provided with life assurance, permanent health insurance, and a company car or a car allowance. In addition in 2018 installation of a security system, costing £33,332 was implemented for Andy Ransom. The value of the taxable benefit is included under 'Benefits' in the above table. There were no other taxable benefits paid to Executive Directors in 2018.
- Andy Ransom receives a pension contribution, in the form of a cash supplement, worth 25% of base salary. Jeremy Townsend's aggregate pension contribution from the Company is worth 15% of salary.
- 40% of the individual's 2018 bonus entitlement was awarded as deferred shares, which vest after a period of three years.
- In compliance with reporting regulations, the 2018 single total figure includes the 2016 PSP which is due to vest in March 2019. The value of the 2016 PSP at vest has been estimated based on the average of the Company's share price over the last financial quarter of 2018, giving a price of 317.7p, and the anticipated performance outcomes detailed on page 88. The actual value of the 2016 PSP will be restated next year once the final performance outcome and the share price at date of vesting are known. £1.4m and £0.9m of the 2016 PSP can be attributed to share price appreciation for Andy Ransom and Jeremy Townsend respectively.
- The 2015 PSP element of the 2017 single total figure was estimated. The award vested at 94.97% and has been restated from last year based on the actual share price at the date of vesting on 29 March 2018 of 271.2p. For Executive Directors the individual performance modifier had the effect of reducing the award that vested to 66.88% and 64.70%, of the maximum opportunity, for Andy Ransom and Jeremy Townsend respectively. 888,455 shares vested for Andy Ransom, which included 42,603 shares in respect of dividend equivalents. 460,552 shares vested for Jeremy Townsend, which included 22,198 shares in respect of dividend equivalents. £1.3m and £0.6m of the 2016 PSP can be attributed to share price appreciation for Andy Ransom and Jeremy Townsend respectively.
- The Remuneration Committee has not exercised discretion as a result of this share price appreciation for either the 2015 or 2016 PSP.

Annual bonus plan

2018 bonus outcome

The Remuneration Committee reviewed the 2018 bonus plan outcome for the Group's senior management population based on the targets set at the start of the financial year. The metrics and the levels of performance for the Executive Directors for the 2018 bonus plan are set out on page 88. The table on page 83 shows the alignment between our strategy and remuneration framework.

Individual performance is accounted for using an individual performance modifier, which is linked to the Group's performance and development review process. Further details are set out below. Bonuses earned reflect the performance of the constituent businesses which make up the overall Group performance as well as achievement against specific personal objectives.

For any bonus to be payable to an Executive Director, two gateway measures had to be met. Both measures were met as follows:

- Profit Gateway: The Company must achieve at least 95% of the Ongoing Operating Profit target (£341.0m) which is £324m. The outturn was £341.0m (see page 88).
- Free Cash Flow Gateway: The Company must achieve Free Cash Flow generation of £150m. The outturn was £192m.

As both gateway measures were satisfied, Executive Directors' bonuses were determined by Ongoing Operating Profit (before restructuring costs) and Ongoing Revenue performance plus an individual performance modifier. To support the delivery of profitable growth in 2018, and to align incentives with the Group's strategy, revenue targets for Executive Directors were weighted to focus on sectors that were critical to the business. To provide this focus, co-efficients were applied to the revenue generated from the quadrants as follows:

Quadrant	Co-efficient 2018
Pest Control – emerging	1.5
Pest Control – growth	1.1
Hygiene	0.9
Protect & Enhance	0.5

Performance ratings are linked to Executive Directors' bonuses through the individual performance modifier as set out in the table below which is applied to the outturn of the financial element of the bonus. An individual performance modifier is applied to bonus payments for all global senior managers based upon objectives and behaviours, in exactly the same way as it is for Executive Directors. Objectives in the individual performance modifier include areas such as People, Customers, Safety, Systems, Governance & Control and Key Strategic Projects.

Performance rating	1	2	3	4	5
Performance definition	Below standards required	Development required	Good performer	Exceeds expectations	Outstanding
Modifier	0%	75%	100%	110%	125% ¹

- The maximum individual performance modifier that can be applied to the bonus is 125%. However, for the Executive Directors the annual bonus is capped at 180% of salary and for other members of the Executive Leadership Team at 120% of salary.

Directors' Remuneration Report – Directors' Annual Remuneration Report – 2018

The performance rating for the Chief Executive was 4 resulting in a 110% modifier applying to the bonus. The performance rating for the Chief Financial Officer was 3 resulting in a 100% modifier applying to the bonus. The assessment of the performance ratings, by the Chairman for the Chief Executive and by the Chief Executive for the Chief Financial Officer, took into account their key achievements during 2018 as detailed below.

Strategic objectives	Strategic alignment	Andy Ransom	Jeremy Townsend
Achieving greater profitability	Shareholders	<ul style="list-style-type: none"> – Ensured that improvements in business performance is sustainable and not negatively impacted by non-operational matters. – A pension buy-in undertaken with Pensions Insurance Corporation on the UK pension scheme, reducing risk and with no additional contributions required from the Company. 	<ul style="list-style-type: none"> – Free cash flow of £192m, ahead of £150m target. – Ongoing Revenue growth considerably above target. – A pension buy-in undertaken with Pensions Insurance Corporation on the UK pension scheme, reducing risk and with no additional contributions required from the Company.
Increase earnings and returns	Shareholders	<ul style="list-style-type: none"> – Transparency and communication with best in class investor seminars undertaken in London and New York. – Share price outperformed the FTSE 100 by 16% in 2018. The third highest return over five years in the FTSE 100. – Dividend increased by 15%. 	<ul style="list-style-type: none"> – Investor relations strategy successfully executed with significant increase in shareholder base in North America. – Implemented Vuma system for analyst consensus.
Value enhancing M&A in Growth & Emerging markets	Shareholders	<ul style="list-style-type: none"> – M&A plans exceeded in all areas: delivered acquisition of Cannon Hygiene, 47 acquisitions in 2018 with combined annualised revenues of £170m, and a step change in scale and expertise. Continued to build scale in North America and Brazil. 	<ul style="list-style-type: none"> – Strong IT support for M&A and GDPR projects. – M&A supported revenue growth. – IT reorganisation to improve quality, consistency of service delivery, drive innovation and reduce costs.
An Employer of Choice	Colleagues	<ul style="list-style-type: none"> – Delivered world-class safety standards across the Group with improvements in long-term absence and working days lost rates well ahead of target. Double-digit improvements achieved in both key metrics. – Record levels of training and development delivered across the Group. – Improved short-term, 0-6 months and 6-12 months, service and sales colleague retention. – High quality service provider and employer with 5 star rating on Trust Pilot and voted the 12th best workplace and 6th in top CEO rankings on Glassdoor. 	<ul style="list-style-type: none"> – Good progress made with succession planning and capability build in IT and Finance.
Leading the field in innovation	Customers	<ul style="list-style-type: none"> – Received the Queen's Award for Enterprise for Innovation. – Strong pipeline of innovation to target key pest groups of rodents and insects. 	<ul style="list-style-type: none"> – Queen's Award for Enterprise for Innovation linked to Connect devices. – Progress made on robotics and artificial intelligence opportunities.

The table on page 83 shows the alignment between our strategy and remuneration framework.

Directors' Remuneration Report – Directors' Annual Remuneration Report – 2018

Bonus outcomes for 2018 and details of the range around target used to assess performance have been disclosed in the table below.

Annual bonus 2018

	Ongoing Operating Profit (50% weighting)	Ongoing Revenue ¹ (50% weighting)	Potential outcome for Andy Ransom	Potential outcome for Jeremy Townsend	Total
Range around target from threshold to maximum	95% to 105%	99% to 101%			
2018 threshold (10% of maximum opportunity)	£324.0m	£2,470.8m	£112,541	£72,347	
2018 target (50% of maximum opportunity)	£341.0m	£2,495.8m	£562,707	£361,737	
2018 maximum	£358.1m	£2,520.8m	£1,125,414	£723,474	
2018 achievement	£341.0m	£2,496.6m			
2018 performance outcome (% of range around target)	100.00%	100.03%			
% bonus achieved of salary before modifier	37.50%	38.63%			76.13%
Andy Ransom, Chief Executive					
Bonus (before modifier)	£281,354	£289,794			£571,148
Performance modifier					110%
Bonus outcome for 2018					£628,262
Bonus as % of salary					83.74%
Bonus deferred into shares					£251,305
Balance of bonus payable					£376,957
Jeremy Townsend, Chief Financial Officer					
Bonus (before modifier)	£180,868	£186,295			£367,163
Performance modifier					100%
Bonus outcome for 2018					£367,163
Bonus as % of salary					76.13%
Bonus deferred into shares					£146,865
Balance of bonus payable					£220,298

¹ After the application of the ongoing revenue co-efficient. See segment co-efficients on page 86

Performance Share Plan (PSP) awards

The Executive Directors, Executive Leadership Team and over 750 managers and technical experts participate in the PSP. The table on page 83 shows the alignment between our strategy and the remuneration framework.

In 2016, the Executive Directors were granted an award of shares under the PSP worth 200% of salary which was subject to two performance measures: relative TSR performance (for two-thirds of the award) and EPS growth (for one-third of the award). Andy Ransom's award was over 913,776 shares and Jeremy Townsend's award was over 587,427 shares. The EPS performance period for the 2016 awards ended during the 2018 financial year. The TSR performance period for the 2016 award is measured over a three-year period ending during the 2019 financial year. The TSR element of the award is therefore estimated using the average of the Company's share price over the last financial quarter of 2018. The outcomes for the 2016 PSP are summarised below.

2016 PSP award performance outcome

Grant date	Vesting date	Performance condition	Condition definition	Performance period	Threshold ¹	Maximum	Actual/estimated outcome ²	Vesting
12 May 2016	12 May 2019	Relative TSR (two-thirds of the total award)	TSR measured against the FTSE 350 Index, excluding financial services, property and primary resources sectors.	11 March 2016 – 10 March 2019	If median rank is achieved 25% of the award vests.	If upper quartile rank is achieved 100% of the award vests.	110.7% increase in TSR. Ranked 13th out of 200 comparator companies.	100% of the TSR element of the award is on track to vest in March 2019.
		EPS (one-third of the total award)	Annualised EPS growth.	1 January 2016 – 31 December 2018	9.6% ³ pa for 25% of the EPS element to vest.	16.1% pa ³ for 100% of the EPS element to vest.	13.9% pa	73.76% of the EPS element of the award to vest.

¹ Vesting is on a straight-line basis between median and upper quartile performance for the TSR element of the award. No awards vest for below median performance. Vesting is on a straight-line basis between threshold and target and target and maximum for the EPS element of the award.

² The estimated outcome of the TSR element of the 2016 PSP has been based on performance in the fourth quarter of 2018. The numbers will be restated in next year's Annual Report to reflect actual performance.

³ The EPS performance target for 2016 was originally threshold 9% and maximum 15%. This was revised upwards by the Remuneration Committee to threshold 9.6% and maximum 16.1% on 16 February 2017 to reflect material acquisitions and disposals.

Directors' Remuneration Report – Directors' Annual Remuneration Report – 2018

2016 PSP awards vesting

The aggregate number of shares anticipated to vest in 2019 is summarised in the table below. The table also includes an estimate of the number of additional shares relating to dividends accrued throughout the performance period which will be added to the final awards.

The table below has been audited.

	Date of award	Maximum award of shares	Proportion of relative TSR target met	Proportion of the EPS target met	Total number of shares post performance conditions	Dividend equivalent shares at vest	Total shares vesting	Value of shares vesting ¹
Andy Ransom	12 May 2016	913,776	100%	73.76%	833,851	35,505	869,356	£2,761,945
Jeremy Townsend	12 May 2016	587,427	100%	73.76%	563,046	22,825	558,871	£1,775,533

¹ The value of the 2016 PSP at vest is estimated based on an average of the Company's share price over the fourth quarter of 2018, giving a price of 317.7p.

Long-term incentives granted during the year

On 29 March 2018, Andy Ransom and Jeremy Townsend were both granted an award of shares under the PSP worth 200% of salary. In addition, following the approval of the 2018 Directors' Remuneration Policy by the shareholders at our AGM, Andy Ransom was granted an additional award under the PSP of 50% of salary on 14 May 2018, bringing his total value of award for 2018 to 250% of salary.

The number of shares that vest will be two-thirds based on relative TSR performance and one-third based on an EPS performance:

- Relative TSR performance measure: 25% of this element of the award will vest if our performance at the end of the three-year performance period is positioned at median against a comparator group of the constituents of the FTSE 350 Index, excluding financial services, property and primary resources sectors, with full vesting for upper quartile TSR performance. Vesting is on a straight-line basis between these two points.
- EPS performance measure: 25% of this element of the award will vest for EPS growth of 8% Compound Annual Growth Rate (CAGR) over the three-year performance period with 50% vesting for EPS growth of 9.6% CAGR and full vesting for EPS growth of 13% CAGR.

In addition, when determining the level of vesting, the Remuneration Committee will also consider the underlying financial performance of the business, as well as the value added for shareholders during the performance periods, and may adjust the vesting outcome if it considers this to be appropriate. Awards to Executive Directors under the 2018 PSP award are set out in the table below.

2018 PSP award

The table below has been audited.

Participant	Date of award	Number of shares awarded	Share price used to determine award	Exercise price	Face value of shares	Date of vest	Performance period end
Andy Ransom	29 March 2018	553,300	271.2p	0.0p	£1,505,550 (200% of salary)	29 Mar 2021	28 Mar 2021
Andy Ransom	14 May 2018	138,325	271.2p	0.0p	£375,137 (50% of salary)	14 May 2021	28 Mar 2021
Jeremy Townsend	29 March 2018	355,690	271.2p	0.0p	£964,631 (200% of salary)	29 Mar 2021	28 Mar 2021

1. The figures shown for the number of share awards are maximum entitlements and the actual number of shares (if any) which vest will depend on the performance conditions being achieved as set out above.

2. The TSR condition will be measured over three years to 28 March 2021. The EPS condition will be measured over three years to 31 December 2020.

3. The face value of the award is based on the closing share price of 271.2p on 28 March 2018.

4. The awards may be exercised after vesting up to ten years from the date of grant. The awards are subject to a holding period of two years which commences from the date of vest.

5. The awards granted were in the form of nil-cost options.

Directors' Remuneration Report – Directors' Annual Remuneration Report – 2018

Total PSP awards held by Executive Directors

The table below has been audited.

	Date of award	Share price used to determine award	Scheme interest at 1 January 2018	Shares awarded during 2018	Shares lapsed during 2018	Dividend equivalent shares at vest	Shares available for exercise during 2018	Dividend equivalent shares at exercise	Shares exercised during 2018	Outstanding awards at 31 December 2018	Performance period end
2012 PSP¹											
Andy Ransom	08/05/12	83.5p	163,625	–	–	–	163,625	–	–	163,625	07/05/15
2013 PSP¹											
Andy Ransom	30/04/13	96.0p	513,403	–	–	–	513,403	–	–	513,403	29/04/16
Andy Ransom	01/10/13	109.0p	388,853	–	–	–	388,853	–	–	388,853	29/04/16
2014 PSP¹											
Andy Ransom	31/03/14	123.4p	912,792	–	–	–	912,792	–	–	912,792	30/03/17
2015 PSP^{1,2,3}											
Andy Ransom	31/03/15	135.5p	1,053,874	–	212,571	42,603	883,906	–	–	883,906	30/03/18
Jeremy Townsend	31/03/15	135.5p	677,490	–	239,136	22,198	460,552	–	–	460,552	30/03/18
2016 PSP⁴											
Andy Ransom	12/05/16	159.4p	913,776	–	–	–	–	–	–	913,776	10/03/19
Jeremy Townsend	12/05/16	159.4p	587,427	–	–	–	–	–	–	587,427	10/03/19
2017 PSP⁴											
Andy Ransom	31/03/17	246.4p	597,048	–	–	–	–	–	–	597,048	30/03/20
Jeremy Townsend	31/03/17	246.4p	383,814	–	–	–	–	–	–	383,814	30/03/20
2018 PSP⁴											
Andy Ransom	29/03/18	271.2p	–	553,300	–	–	–	–	–	553,300	28/03/21
Andy Ransom	14/05/18	271.2p	–	138,325	–	–	–	–	–	138,325	28/03/21
Jeremy Townsend	29/03/18	271.2p	–	355,690	–	–	–	–	–	355,690	28/03/21

1. Shares held by Andy Ransom under the 2012, 2013, 2014 and 2015 PSP awards are vested but unexercised. Shares held by Jeremy Townsend under the 2015 PSP award are vested but unexercised.
2. The 2015 PSP award is entitled to receive dividend equivalents in the form of shares based on dividend payments between the date of grant and vesting. These are included in the total shares at vest. The awards are also entitled to receive dividend equivalents in the form of shares post vest based on dividend payments between the date of vest and the date one month before exercise. These shares are applied at exercise.
3. The 2015 PSP award partially vested on 31 March 2018. Neither Andy Ransom nor Jeremy Townsend exercised their 2015 PSP award during the year.
4. The performance conditions of the 2016 PSP award are contained on page 88. The 2017 and 2018 PSP awards have relative TSR and EPS performance measures which apply to two-thirds and one-third of the total award respectively. The performance period for the TSR element of the 2017 and 2018 PSP awards will be measured to 30 March 2020 and 28 March 2021 respectively. The EPS performance period will be measured to 31 December of the year preceding the vesting date. The vesting dates of the 2017 and 2018 PSP awards are 31 March 2020, 29 March 2021 and 14 May 2021 respectively.

Payments for loss of office

There were no payments for loss of office to Directors during 2018 and no payments to former directors.

Single total figure for the remuneration during 2018 of the Chairman and Non-Executive Directors

The table below has been audited.

Chairman and Non-Executive Directors	Fees 2018 £'000	Fees 2017 £'000	Benefits 2018 £'000	Benefits 2017 £'000	Total 2018 £'000	Total 2017 £'000
John McAdam	357.0	350.0	26.0 ¹	20.0 ¹	383.0	370.0
Richard Burrows	85.0	70.0	–	–	85.0	70.0
Sir Crispin Davis	60.0	30.0	–	–	60.0	30.0
John Pettigrew ²	60.0	–	–	–	60.0	–
Angela Seymour-Jackson	60.0	58.0	–	–	60.0	58.0
Julie Southern	75.0	73.0	–	–	75.0	73.0
Linda Yueh	60.0	10.0	–	–	60.0	10.0

1. The benefit relates to the private use by the Chairman of a Company driver and vehicle.

2. John Pettigrew was appointed on 1 January 2018.

Directors' Remuneration Report – Directors' Annual Remuneration Report – 2018

Directors' shareholdings and share interests

Directors' share interests

The interests of the Directors and their families in the share capital of the Company as at 31 December 2018 and at 31 December 2017, or their date of appointment if later, are set out below. No Director has any beneficial interest in the shares of any of the Company's subsidiaries. This table has been audited.

	Number of ordinary shares as at 31 Dec 2018	Number of ordinary shares as at 31 Dec 2017
John McAdam	1,484,824	1,484,824
Andy Ransom	1,562,544	1,462,544
Jeremy Townsend	734,099	734,099
Richard Burrows	25,000	25,000
Sir Crispin Davis	52,500	–
John Pettigrew	–	–
Angela Seymour-Jackson	10,574	10,574
Julie Southern	5,000	5,000
Linda Yueh	1,590	1,590

1. There has been no change to Directors' shareholding between 31 December 2018 and 27 February 2019

Executive shareholdings

All Executive Directors are required to hold shares equivalent in value to a percentage of their salary within a five-year period from their appointment date. For the Chief Executive, this requirement is 300% of annual salary and 200% of annual salary for the Chief Financial Officer. Executive Directors are not expected to sell any exercisable PSP shares (except to pay statutory withholding taxes) until shareholding guidelines have been achieved.

As of the 31 December 2018 the Executive Directors have met the minimum shareholding requirement.

The table below sets out the number of shares held at 31 December 2018 by each Executive Director. Shares owned outright include those held by connected persons. This table has been audited.

	Shareholding requirement as a % of salary	Number of shares owned outright	Value of shareholding as at 31 Dec 2018 ³	Shares owned outright as a % of salary	Interest in PSP share awards as at 31 Dec 2018 ⁴
Andy Ransom	300%	1,562,544 ¹	£4,964,203	662%	5,065,028
Jeremy Townsend	200%	734,099 ²	£2,332,233	484%	1,787,483

1. Andy Ransom has an interest in 2,698,954 vested 2012, 2013, 2014 and 2015 PSP shares which he has not yet exercised. These figures are not included in his beneficial interest of shares figure at 31 December 2018 above but are included in the share award table on page 90.

2. Jeremy Townsend has an interest in 460,552 vested 2015 PSP shares which he has not yet exercised. These figures are not included in his beneficial interest of shares figure at 31 December 2018 above but are included in the share award table on page 90.

3. The share price is based on an average share price of 317.7p calculated over the fourth quarter of 2018.

4. PSP awards take the form of nil-cost options and are subject to performance conditions.

External appointments

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

Andy Ransom is a Director and Trustee of the charity Street League and a Patron of the charity Malaria No More UK, for which he receives no remuneration. He was appointed as Non-Executive Director of Selecta AG on 1 February 2019 and therefore received no remuneration for this role during 2018.

Jeremy Townsend is a Non-Executive Director of Galliford Try plc. He was paid £49,900 during 2018. He is also a Non-Executive Director of parkrun Trading Limited and parkrun Global Limited for which he has received no remuneration since his appointment in July 2016. In addition, he is also a director of a business run by a member of his family for which he has received no remuneration. He has no executive involvement in the business and the appointment does not represent a conflict of interest.

Directors' Remuneration Report – Directors' Annual Remuneration Report – 2018

Chief Executive remuneration over a ten-year period

	2009	2010	2011	2012	2013	2013	2014	2015	2016	2017	2018
Chief Executive	Alan Brown	Alan Brown	Alan Brown ¹	Alan Brown	Alan Brown ²	Andy Ransom ³	Andy Ransom	Andy Ransom	Andy Ransom	Andy Ransom ⁴	Andy Ransom ⁴
Single total figure for remuneration	£1,656,000	£989,000	£3,564,971	£1,115,000	£994,396	£401,006	£1,326,045	£1,655,757	£5,581,304	£3,969,607	£4,406,681
Annual bonus payout versus maximum opportunity	71.5%	0.0%	0.0%	13.3%	27.0%	28.7%	51.4%	59.1%	72.2%	70.1%	55.8%
% long-term incentive vesting rates versus maximum opportunity	0.0%	0.0%	22.0%	0.0%	0.0%	0.0%	0.0%	15.1%	67.5%	80.3%	91.3%

1. The 2011 single total figure for Alan Brown, the Chief Executive at the time, includes the value of the 2008 Share Incentive Plan of £2,573,971 which was valued on the release date of 20 May 2011. These shares were called for during 2014.
2. Alan Brown was appointed as Chief Executive on 1 April 2008 and stepped down on 30 September 2013; Andy Ransom was appointed from that date. The single total figure has been apportioned to reflect payment during these periods.
3. The 2017 single total figure for the Chief Executive, Andy Ransom, includes the restated value of 883,906 shares under the 2015 PSP award which vested at 94.97% on the 31 March 2018, based on the closing share price on 28 March 2018 of 271.2p. The application of an individual performance modifier had the effect of reducing the award that vested to 66.88% and 64.70% of the maximum opportunity, for Andy Ransom and Jeremy Townsend respectively (see page 86).
4. The 2018 single total figure includes the estimated value of 869,356 shares under the 2016 PSP award which is due to vest on 11 March 2019 based on the average share price over the fourth quarter of 2018 of 317.7p.

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

The following graph shows total shareholder (TSR) return over a ten-year period reflecting the holding of the Company's shares, plotted against the FTSE 100 Index, the FTSE 250 Index and the FTSE 350 Index, on a consistent basis with the graph shown last year. The Company has been a constituent of one or more of these indices over the ten-year period that is shown. This chart is based on data sourced from Thomson Reuters DataStream and uses spot Return Index data at each year end.

Average base salary for all UK employees includes overtime and premium rate pay, which is flexed to meet business requirements, as well as annual and out-of-cycle pay increases and headcount changes during the year. All bonus schemes are performance related and reflect business performance during the year.

	Base salary ¹	Annual bonus ²	Benefits ^{3,4}	Total
Chief Executive	2.0% increase	1.6% increase	256.0% increase	5.9% increase
All UK employees ⁵	3.2% increase	7.4% decrease	2.7% increase	1.8% increase

1. Base salary includes overtime and premium rate pay.
2. Annual bonus includes our Group Management Bonus Scheme (GMBS) and any other bonus commission or cash incentive but excludes any long-term incentives.
3. Benefits include private healthcare, car allowance (including trade down), cars, fully expensed fuel cards and commercial vans (private use). For 2018 the increase in benefits for the Chief Executive is driven by the security costs as outlined on page 86.
4. Pension and retirement benefits are not included in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.
5. All UK employees of the Group include Executive Directors (apart from the Chief Executive) but not Non-Executive Directors.

Relative importance of spend on pay

The table below sets out amounts paid in total employee costs and total dividends paid for the years ended 31 December 2018 and 31 December 2017.

	2018 ¹ £m	2017 £m	% change
Remuneration paid to all employees of the Group	£1,191.2	£1,165.9	2.2% increase
Distributions to shareholders	£74.2	£64.3	15.4% increase

1. The average number of people employed by the Group during the year was 36,036 in 2017 and 39,480 in 2018.

Details of the remuneration paid to all employees can be found in Note A9 to the Financial Statements on page 124. Details of the dividends declared and paid during the periods are contained in Note D1 to the Financial Statements on page 147.

Percentage change in remuneration

The table below sets out a comparison of the change in pay for the Chief Executive for the year ended 2018 compared with 2017 and to all UK employees. The Chief Executive is based in the UK and as such is impacted by the same economic and legislative environments as other UK colleagues.

Looking forward 2019

The illustrations below detail the Executive Directors' potential remuneration for 2019.

Executive Director base salaries from 1 January 2019

Executive Directors' and senior executives' salaries are reviewed with effect from 1 January each year in accordance with the prevailing policy. When reviewing salary levels, the Remuneration Committee takes into account a number of internal and external factors, including Company performance during the year, external market data and the salary review principles applied to the rest of the organisation to ensure a consistent approach.

Base salaries reflect the role, individual experience, skills and contribution to overall business performance as well as external market conditions. Following a review of the performance of the business, the economic and market considerations in the UK, where average pay increases in the Company will be in the order of 2%, the Remuneration Committee agreed that the salaries of Executive Directors for 2018 should be as set out below.

Salary from 1 January 2019

Executive Director	Salary	Effective date
Andy Ransom – Chief Executive	£765,276 (2% increase)	1 January 2019
Jeremy Townsend – Chief Financial Officer	£491,964 (2% increase)	1 January 2019

Fixed pay for 2019 will be:

	Base salary from 1 January 2019 £'000	Estimated benefits (for 2019) £'000	Pension based on salary from 1 January 2019 £'000	Total fixed pay £'000
Andy Ransom – Chief Executive	765.3	19.9	191.3	976.5
Jeremy Townsend – Chief Financial Officer	492.0	16.6	73.8	582.4

How will incentives be aligned to the business strategy in 2019?

The table below shows how the business strategy and the key performance indicators which underpin it are reflected in the annual bonus plan and long-term incentive performance measures for the Executive Directors in 2019.

Strategic priorities	Key Stakeholders	Annual Bonus Plan performance measures for 2019	PSP performance measures for 2019-22
Achieving greater profitability	Shareholders	Ongoing Operating Profit, Free Cash Flow	Relative TSR, EPS, Organic Revenue growth, and Free Cash Flow conversion
Increase earnings and returns	Shareholders	Ongoing Revenue	
Value enhancing M&A in Growth & Emerging markets	Shareholders	Personal goals	–
An Employer of Choice	Colleagues	Personal goals	Sales & service colleague retention
Leading the field in innovation	Customers and communities	Personal goals	Customer satisfaction & energy efficiency

2019 bonus structure

Executive Directors can earn a maximum opportunity of 150% of their base salary as an annual bonus before the application of an individual performance modifier. 40% of any bonus earned will be deferred into shares for three years. The focus of the bonus is on rewarding profitable growth in order to align Executive Directors' incentives with the Group's strategy. The Remuneration Committee has approved the following proposed structure of bonuses for 2019 for the Executive Directors: 95% of the profit target and a Free Cash Flow gateway of £170m have to be reached at Group level before a bonus can be paid to the Executive Directors. If both these profit and cash flow gateways are achieved then Executive Directors can earn up to 150% of base salary based on a combination of revenue and profit targets. This is split 50% profit: 50% revenue for both the Chief Executive and the Chief Financial Officer.

Revenue targets for Executive Directors will continue to be weighted to focus on the categories that will set the foundations for longer-term profitable growth. To provide this focus the following co-efficients will be applied to revenue generated from the businesses segments, as described in the Strategic Report on page 24.

	Co-efficient 2019
Pest Control – emerging	1.50%
Pest Control – growth	1.10%
Hygiene	0.89%
Protect & Enhance	0.47%

The co-efficients are applied to the total sales in each business category.

An individual performance modifier may also increase or decrease the opportunity arising from performance against the revenue and profit targets, as outlined below, to further recognise individual contribution to business performance. This individual performance modifier applies to all colleagues who participate in the Group Management Bonus Scheme (GMBS) and is measured by the Company's performance and the development review process.

Performance rating	1	2	3	4	5
Performance definition	Below standards required	Development required	Good performer	Exceeds expectations	Outstanding
Modifier	0%	75%	100%	110%	125% ¹

¹ The maximum individual performance modifier that can be applied to the bonus is 125%. However, for the Executive Directors the annual bonus is capped at 180% of salary and for the Executive Leadership Team at 120% of salary.

Bonus targets have not been disclosed looking forward for 2019 as the Board believes that this information is commercially sensitive. Disclosing bonus targets could provide information about our business plans to our competitors which could be damaging to our business interests and therefore to shareholders. However, retrospective bonus outcomes for 2018 have been disclosed in the table on page 88, and the 2019 targets will be disclosed in next year's Annual Report.

Directors' Remuneration Report – Looking forward 2019

2019 PSP award

The Executive Directors' PSP award for 2019 will be over shares up to a maximum of 250% and 200% of base salary for the Chief Executive and Chief Financial Officer respectively. Shares under the awards will be released no earlier than five years after grant (i.e. following a three-year vesting period and a two-year holding period). Vesting of this award will be determined by the Company's performance as follows:

Performance measures 2019-2021	Weighting	Threshold 25% vesting	Target: 50% vesting	Maximum: 100% vesting
Relative TSR ¹	50%	TSR performance is median against comparator group	Straight-line vesting between threshold and maximum	Upper quartile TSR performance against comparator group
EPS ²	25%	6% per annum	7.9% per annum	11% per annum
Organic Revenue growth	5%	3% per annum	3.5% per annum	4% per annum
Free Cash Flow conversion	5%	80%	85%	90%
Strategic measures ³				
– Sales and service colleague retention	5%	Targets for these measures have not been disclosed as the Board believes that these measures are commercially sensitive. They will be based on straight-line vesting between threshold and target and target and maximum performance which will be reported at vesting.		
– Customer satisfaction	5%			
– Energy efficiency	5%			

1. The TSR index of comparators for this cycle will be the constituents of the FTSE 350 Index, excluding financial services, property and primary resources sectors. The FTSE 350 is recognised as a broad index and is considered to be an appropriate benchmark for measuring performance given the Company's membership of that index, the scope and scale of the Company's international operations, and the diverse nature of companies in the business services sector. This relative TSR measure is used to ensure participants are incentivised to outperform key peers and to ensure that the interests of management are aligned with shareholders.

2. The EPS measure is used to link reward more directly to long-term profit performance. It is measured on a point-to-point basis over the three-year period of the award. In order to measure underlying earnings improvement, EPS is measured after adjusting for impairments, amortisation, pension interest and material one-off items, as the Remuneration Committee considers that these items do not reflect the underlying performance of the business. Given the Company's continued focus on improving efficiency and reducing costs around restructuring, restructuring costs are included in the EPS calculation in order to incentivise management to maintain focus in this area. Given the international nature of our business, EPS is measured on an exchange neutral basis to reflect management performance by removing the impact of windfalls and losses as a result of exchange rate movements. Vesting shall be calculated on a straight-line basis between threshold and target, and target and maximum. The EPS targets for 2019 maintain the same approach and linkage to performance scales by comparing the EPS to internal plans and external consensus in deriving the new target range, as for previous years. Absolute ranges will vary year to year depending on the business plans and environment.

3. The Strategic measures will be measured over the three-year performance period. Colleague retention will be measured on average overall sales and service colleague retention; customer satisfaction will be measured in average Customer Voice Counts scores, and energy efficiency will be measured on our average reduction in the index of energy and fuel derived CO₂ emissions at CER (see our Corporate Responsibility section on page 51).

The Remuneration Committee is satisfied that these targets represent a stretching range in light of all relevant factors including the current business plan and analysts' forecasts.

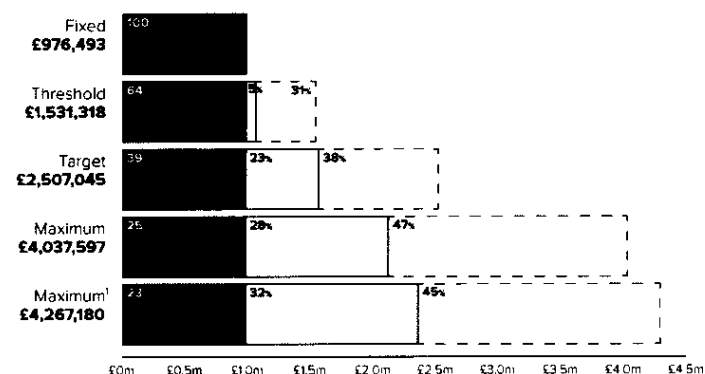
When determining the level of vesting, the Remuneration Committee will also consider the underlying financial performance of the business, as well as the value added to shareholders during the performance periods, and may adjust the vesting outcome if it considers this to be appropriate.

Directors' Remuneration Report – Looking forward 2019

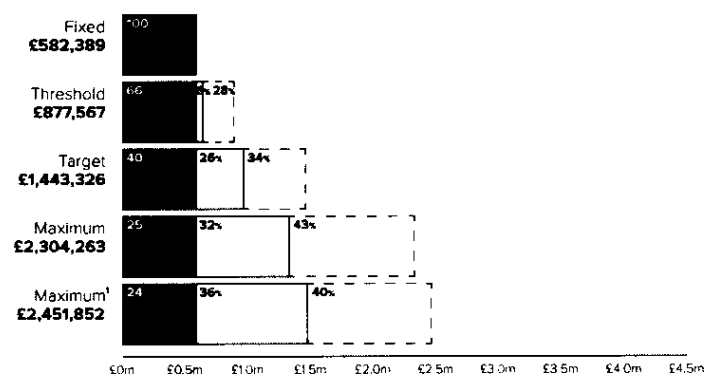
Illustration of Directors' Remuneration Policy for 2019

The charts below provide an illustration of what could be received by each of the Executive Directors in 2019. These charts are illustrative as the actual value that will be received will depend on business performance in 2019 for the bonus and in the three-year period to 2022 for the PSP, as well as share price performance to the date of exercise for awards made under the Deferred Bonus Plan and the PSP.

Chief Executive – Andy Ransom



Chief Financial Officer – Jeremy Townsend



1. After application of the Individual Performance Modifier

Key

■ Fixed pay

Includes all elements of fixed remuneration:

- base salary (effective 1 January 2019), as shown in the table on page 93;
- pension and benefits.

□ Annual bonus including Deferred Bonus Plan

Represents the potential value of the annual bonus for 2018. 40% of any bonus would be deferred into shares for three years and this is included in the value shown. No share price growth is assumed.

▨ Performance Share Plan (PSP)

Represents the potential value of the PSP to be awarded in 2019, which would vest in 2022 subject to performance against the targets disclosed on page 94. Awards would be held for a further two years. No share price growth is assumed.

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

2019 Non-Executive Directors' fees

Non-Executive Director fees from 1 January 2019

Position	Fee policy for year beginning 1 January 2019
Chairman ²	£357,000 per annum
Non-Executive Director	£60,000 per annum
Senior Independent Director	Additional £10,000 per annum
Chair of Audit Committee	Additional £15,000 per annum
Chair of Remuneration Committee	Additional £15,000 per annum

1. Non-Executive Director and Senior Independent Director fees were increased on 1 September 2017. The Chairman's fee was increased with effect from 1 January 2018.
2. The Chairman's fee will be increased to £375,000 for Richard Solomons on appointment as Chairman on 8 May 2019, subject to his election as a Director at the AGM.

Directors' Remuneration Report

Summary of 2018 Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the Company's AGM on 9 May 2018. The full version of the policy, including all notes to the policy table summarised below, is available on our website.

■ Base salary

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
To attract and retain executives of the calibre required to implement our strategy.	<p>Cash salaries are normally reviewed annually with effect from 1 January. Salaries are set taking into account:</p> <ul style="list-style-type: none"> – market data from both Willis Towers Watson and Deloitte (or other appropriate data providers) for a cross-section of companies of a similar size and complexity at the time of review; – scope and responsibilities of the role; – external economic environment; – individual skills and experience; and – contribution to overall business performance. 	<p>Salary policy is to set base salary at an appropriate level taking into account the factors described under the 'Operation' column and salary increases are considered in this context.</p> <p>While there is no maximum salary level, the Remuneration Committee would normally expect percentage pay increases for the Executive Directors to be broadly in line with other colleagues in relevant regions.</p>	The payment of salary is not dependent on achieving performance targets although individual performance is taken into account when setting salary levels and determining any salary increases

■ Benefits

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
To attract and retain executives of the calibre required to implement our strategy.	<p>The main benefits for Executive Directors are:</p> <ul style="list-style-type: none"> – life assurance; – car or car allowance; – family healthcare; – permanent health insurance; and – relocation benefits. 	Levels of benefits are set in line with market practice. The level of benefits provided varies year on year depending on the cost of the provision of benefits to the Company and therefore it is not meaningful to identify a maximum level of benefits.	None.

■ Pensions

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
<p>To attract and retain executives of the calibre required to implement our strategy.</p> <p>To facilitate executives' planning for retirement.</p>	<p>Executive Director pension arrangements are by way of a defined contribution arrangement or through a cash alternative of a similar value or a combination of the two.</p>	<p>For any future Executive Director hires the maximum contribution will be 15% of base salary. The contributions for the existing Executive Directors are 25% of salary for the Chief Executive and 15% of salary for the Chief Financial Officer.</p>	None.

□ Annual bonus

Purpose/link to strategy	Operation	Levels of payout	Performance measures and period
<p>Recognise and reward for stretching business performance against annual financial, strategic, operational and individual goals that contribute to Company performance.</p>	<p>The annual bonus is paid each year after the Remuneration Committee has reviewed performance against targets, which are set around the beginning of each year for each Executive Director, taking into consideration the underlying performance of the business.</p> <p>Normally no more than 60% of any bonus is paid in cash with the balance deferred in shares.</p> <p>Deferred shares vest after a period of three years with no further performance conditions.</p> <p>Malus and clawback provisions exist.</p>	<p>Bonus payouts start to accrue at a level of up to 20% of base salary for meeting threshold levels of performance, with a target bonus opportunity of 75% of base salary and a maximum bonus opportunity of 150% of base salary (before the application of the individual performance modifier).</p> <p>An individual performance modifier may also increase or decrease the opportunity stated above to further recognise individual contribution to business performance. The maximum payout will not exceed 180% of base salary.</p>	<p>The annual bonus is normally linked to a mix of financial elements and other key strategic performance targets including achievement of personal objectives where appropriate. Performance is tested over a one-year performance period.</p> <p>Financial measures will always include a profit measure and may include one or more of cash and revenue.</p> <p>At least 50% of the bonus will be based on financial measures. Financial measures may be linked to Group performance or the executive's specific area of responsibility, if appropriate.</p>

Directors' Remuneration Report

Performance Share Plan (PSP)

Purpose/link to strategy

To motivate and incentivise delivery of stretching business performance over the long term and to create alignment with growth in value for shareholders

To act as a retention tool for Executive Directors.

Operation

Awards are made over shares (normally in the form of nil-cost options or conditional shares) with a face value set by reference to a multiple of base salary.

Award levels and performance conditions are set to support the business's long-term goals and seek to reflect market practice and shareholder guidance.

Award levels are generally set at a market competitive level, relative to companies of comparable size and complexity.

Malus and clawback provisions exist.

Levels of payout

The maximum annual award will be 250% of base salary for the Chief Executive and 200% of base salary for the Chief Financial Officer and any other Executive Directors. 25% of the award shall vest for meeting threshold levels of performance.

This limit of 250% and 200% of base salary for the Chief Executive and Chief Financial Officer and any other Executive Directors respectively may be increased to 300% of base salary in exceptional circumstances as determined by the Remuneration Committee.

Vested PSP awards may include dividend equivalents (in cash or shares) that accrue by reference to the period between grant date and vest or exercise date.

Performance measures and period

Awards are normally subject to the following two performance measures weighted two-thirds and one-third respectively:

- relative total shareholder return (TSR) performance; and
- the achievement of earnings per share (EPS) targets.

For any particular award, the Remuneration Committee shall retain discretion to adjust the weightings of these two measures or to include additional or alternative performance measure(s) aligned to the corporate strategy.

Performance conditions are normally measured over a three-year period. Thereafter, a two-year holding period normally applies. The ownership of the shares is not delivered to the participants until the end of the holding period when the award vests.

Shareholding guidelines

Purpose/link to strategy

Encourages greater levels of shareholding and aligns employees' interests with those of shareholders.

Operation

Executive Directors are expected to achieve and maintain a holding of the Company's shares at least equal to a significant proportion of their respective salary.

Levels of payout

Chief Executive: 300% of salary.

Chief Financial Officer and other Executive Directors: 200% of salary (within five years of appointment).

Performance measures and period

N/A

Measures and targets

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

The annual bonus measures are reviewed annually to focus on delivery of key financial targets for the forthcoming year as well as key strategic or operational goals relevant to the individual.

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



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



1. Our opinion is unmodified

We have audited the financial statements of Rentokil Initial plc (the Company) for the year ended 31 December 2018 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet and Company Statement of Changes in Equity, and the related notes, including the accounting policies in the General Accounting Policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders in August 2009. The period of total uninterrupted engagement is for the ten financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: £11m (2017: £10m) 4.8% (2017: 4.0%) of Group normalised profit before tax of Group financial statements as a whole

Coverage 85% (2017: 87%) of Group loss/profit before tax

Key audit matters vs. 2017

Recurring risks	Provisions for tax risks	
	Impairment assessment and testing of cash-generating units that include goodwill and acquired intangible assets	◀▶
Parent Company specific risk	Recognition and measurement of UK deferred tax assets on unused tax losses	
	Recoverability of investments in subsidiary undertakings and inter-company receivables	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

The risk

Provisions for tax risks

£59.7m (2017: £59.9m)

Read more:

- Q Audit Committee Report, on pages 71 to 76
- Q Accounting policy on pages 131 and 132
- Q Financial disclosures on pages 131 and 132

Subjective estimate:

The Group holds a number of provisions for tax risks which arise in the normal course of business. The largest provision relates to a financing structure which has been challenged by the tax authorities. The Group operates in a number of tax jurisdictions causing complexities in transfer pricing and other international tax legislation issues. In addition, tax matters usually take a significant length of time to be agreed with the tax authorities and, as such, the recognition of these tax provisions requires judgements and estimates to be made in respect of the likely outcomes of the tax authority investigations.

The effect of these matters is that, as part of our risk assessment, we determined that provisions for tax risks have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

Our response

Our procedures included:

- **our tax expertise:** use of our own tax specialists to assess the Group's tax positions, its correspondence with the relevant tax authorities, and to analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experiences of the application of the international and local legislation by the relevant authorities and courts; and
- **assessing transparency:** assessing the adequacy of the Group's disclosures in respect of tax liabilities and uncertain tax positions.

Our results

We found the level of tax provisioning to be acceptable (2017 result: acceptable).

Independent Auditor's Report

	The risk	Our response
<p>Impairment assessment and testing of cash-generating units that include goodwill £1,156.8m (2017: £972.2m)</p> <p>Read more:</p> <ul style="list-style-type: none"> Q Audit Committee Report, on pages 71 to 76 Q Accounting policy on pages 134 and 135 Q Financial disclosures on pages 134 and 135 	<p>Forecast based valuation:</p> <p>The Group has significant carrying amounts of goodwill which are spread across a range of cash-generating units (CGUs) in different countries. This is related to numerous past and recent acquisitions, spread across the Group's geography. The acquisitions are largely 'bolt-on' in nature and the majority of the acquired business and goodwill are integrated into the existing CGUs.</p> <p>A value in use model is used for impairment testing for each CGU. The estimation of the value in use of the cash-generating units requires significant judgement due to the inherent uncertainty involved with forecasting and discounting future cash flows particularly in relation to discount rates, long-term growth rates, and forecast cash flows. Changes to the assumptions applied to the model, for example a change in the discount rate or to forecast cash flows, have the potential to significantly affect the impairment testing result.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of cash generating units has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> – review of impairment models: evaluating the principles and integrity of the Group's discounted cash flow models and assumptions used, in particular those relating to forecast revenue growth and profit margins; – historical comparisons: evaluating historical forecasting accuracy of key inputs including revenue growth and profit margins; – benchmarking assumptions: comparing the Group's assumptions to externally derived data in relation to key inputs such as long-term growth rates and discount rate assumptions; – sensitivity analysis: performing sensitivity analysis over the key assumptions noted above to identify which assumptions have the most significant effect on the headroom available; – test of details: identifying specific balances with possible indicators of impairment based on historical forecast accuracy, sensitivity in headroom in individual CGUs to changes in key assumptions and market conditions where the businesses operate and specifically challenge the Group's valuations for these items; and – assessing transparency: considering whether the Group's disclosures of the effect on the impairment assessment of changes in key assumptions reflected the risks inherent in the valuation of goodwill. <p>Our results</p> <p>We found the resulting estimate of the recoverable amount of the cash-generating units which contain goodwill to be acceptable (2017 result: acceptable).</p>
<p>Recognition and measurement of UK deferred tax assets on unused tax losses £6.7m (2017: £12.3m)</p> <p>Read more:</p> <ul style="list-style-type: none"> Q Audit Committee Report, on pages 71 to 76 Q Accounting policy on pages 131 and 132 Q Financial disclosures on pages 131 and 132 	<p>Forecast based valuation:</p> <p>The Group has significant recognised deferred tax assets and unrecognised deferred tax assets in respect of unused tax losses within the UK of £6.7m and £151.8m, respectively (2017: £12.3m and £136.0m, respectively). There is inherent uncertainty involved in forecasting future taxable profits, which determines the extent to which deferred tax assets are or are not recognised, and estimating the quantum of relevant future UK taxable profits arising against which unused tax losses can be utilised.</p>	<p>Our response</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> – assessing forecasts: we evaluated the judgement applied by the Directors in determining the likelihood of the utilisation of tax losses and the appropriateness of the assumptions underlying the forecasts used in estimating future UK taxable profits; – our tax expertise: use of our own tax specialists to assist us in assessing the recoverability of the tax losses against the forecast future taxable profits, taking into account the UK's tax position, the timing of forecast taxable profits, and our knowledge and experience of the application of relevant tax legislation; and – assessing transparency: assessing the appropriateness of Group's disclosures regarding the recognition and measurement of deferred tax assets. <p>Our results</p> <p>As a result of our work we found the level of deferred tax assets recognised to be acceptable (2017 result: acceptable).</p>

Independent Auditor's Report

	The risk	Our response
Parent Company financial statements: Recoverability of investments in subsidiary undertakings and inter-company receivables. Investments £277.6m (2017: £274.2m). Inter-company receivables £2,509.8m (2017: £2,792.3m).	Low risk, high value: The carrying amount of the Company's investments in subsidiaries and inter-company receivables represents 98% of the Company's total assets. We do not consider the recoverability of these investments and inter-company receivables to be at a high risk of significant misstatement, or to be subject to a high level of judgement. However, due to their materiality in the context of the Company financial statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our Company audit.	Our procedures included: – test of details: comparing a sample of the investment carrying values and inter-company receivables to net assets of the relevant subsidiary to identify whether the net assets of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of the carrying amount. Our results We found the carrying value of investments and the recoverability of intercompany receivables to be acceptable (2017 result: acceptable).

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

Materiality for the Group financial statements as a whole was set at £11m (2017: £10m), determined with reference to a benchmark of Group loss before tax, normalised to exclude this year's pension settlement as disclosed in Note A10, of £227.5m (2017: Group profit before tax, normalised to exclude net profit on disposal, of £264.6m) of which it represents 4.8% (2017: 4.0%). Materiality for the Parent Company financial statements as a whole was set at £8.2m (2017: £7.5m), determined with reference to component materiality set by the Group audit team. This is lower than the materiality we would otherwise have determined by reference to total assets, and represents 0.3% (2017: 0.2%) of total assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.3m (2017: £0.3m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit work was performed by 16 (2017: 18) audit teams in 15 different countries covering 96 (2017: 98) reporting units. We subjected 60 (2017: 66) reporting units to full scope audits for Group purposes and 36 (2017: 32) reporting units to specified risk-focused audit procedures.

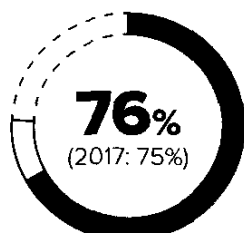
The reporting units within the scope of our work accounted for the percentages illustrated below.

The remaining reporting units not in scope for Group audit purposes (24% of total Group revenue, 15% of Group loss/profit before tax and 16% of total Group assets) were individually insignificant reporting units, none of which individually represented more than 3% of any of total Group revenue, Group loss/profit before tax or total Group assets. We performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these remaining reporting units.

The Group team instructed reporting unit auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the reporting unit materialities, which ranged from £0.1m to £5.5m for all the operating entities (2017: £0.1m to £5.8m). In addition to this range, £8.0m was used for the head office cost centre reporting unit (2017: £2.0m) and £8.2m was used for the Parent Company (2017: £7.5m). The range of materialities was set having regard to the mix of size and risk profile of the Group across the reporting units. The work on 66 of the 96 reporting units (2017: 57 of the 98 reporting units) was performed by reporting unit auditors and the rest, including the audit of the Parent Company, was performed by the Group team.

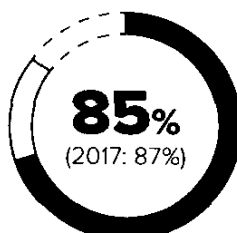
Video and telephone conference meetings were held with these reporting unit auditors and all others that were not physically visited. The Group engagement partner also did physical visits to the US and UK during the year. At these visits and meetings, the findings reported to the Group team were discussed in more detail. The Group audit team performed audit file reviews of all reporting unit auditors and any further work required by the Group team was then performed by the reporting unit auditors.

Group revenue



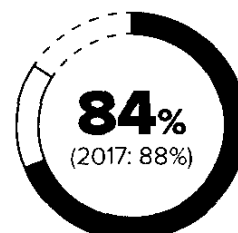
■ Full scope for Group audit purposes 2018	67%
□ Specified risk-focused audit procedures 2018	9%
⋯ Residual reporting units	24%

Group loss/profit before tax



■ Full scope for Group audit purposes 2018	70%
□ Specified risk-focused audit procedures 2018	15%
⋯ Residual reporting units	15%

Group total assets



■ Full scope for Group audit purposes 2018	69%
□ Specified risk-focused audit procedures 2018	15%
⋯ Residual reporting units	16%

Independent Auditor's Report

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (the going concern period).

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, if there has been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- potential slowdown in the economies of some regions due to changes in the economic cycle;
- integration risk in relation to acquisitions to the existing business; and
- the increased risk of rising interest rates impacting future debt cost.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in the General accounting policies note to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 169 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Directors' viability statement on page 47 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Directors' viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Directors' viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Independent Auditor's Report

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 169, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence, and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

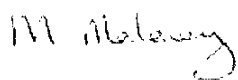
Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation recognising the nature of the Group's activities), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery and corruption, employment law, environmental law and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Michael Maloney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London, E14 5GL

27 February 2019

Financial Statements

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Financial Review

Revenue

Ongoing Revenue, which excludes disposed businesses, increased by 13.2% in 2018, with all regions contributing to growth. 2018 was a record year for M&A with acquisitions contributing 9.5% to Ongoing Revenue growth. Group Organic Revenue growth of 3.7% was in line with financial targets, but affected in H1 by the ongoing impact of last September's hurricane on our operations in Puerto Rico and unseasonably cold weather in March and April in North America. Organic growth improved to 4.3% in the second half from 3.0% in H1. Adjusting for the impact of Puerto Rico, Group Organic growth for the year was 4.0% and at the upper end of our medium-term target of 3% to 4%.

Ongoing Revenue in Pest Control grew by 12.6% during the year of which 4.8% was Organic Revenue growth (5.3% after adjusting for the impact of Puerto Rico) with the balance delivered from acquisitions. The business enjoyed favourable weather conditions across Europe and the UK which has supported stronger jobbing revenues, particularly in H2. Hygiene reported increased revenues of 26.5%, up 2.8% on an Organic basis and aided by the acquisition of Cannon Hygiene Services in January 2018 and CWS Italy in the second half of 2017. Ongoing Revenue in our Protect & Enhance businesses increased by 0.7%, reflecting improvements in our French Workwear business (up 0.9%) and Ambius (up 3.1%) but offset by ongoing pressures in UK Property Care (down 17.4%).

Total Revenue of £2,472.3m increased by 2.5% at AER, reflecting growth in Ongoing Revenue of 13.2% (at CER), offset by the disposal of businesses in 2017 and the adverse impact of foreign exchange. Disposals in 2017 included the transfer of the Hygiene and Workwear assets to the Haniel joint venture and the divestment of the flat-linen laundries in France.

Profit

Ongoing Operating Profit, which excludes the results of disposed businesses, increased by 13.3% in 2018, reflecting growth in all regions and the return to profitable growth in France. Restructuring costs amounted to £7.3m at CER (2017: £7.3m) consisting mainly of costs in respect of initiatives focused on driving operational efficiency in North America, France and the UK.

In December 2018 the Company reached agreement for a bulk annuity insurance buy-in for its UK Defined Benefit Pension scheme (the Scheme). The buy-in has been secured in contemplation of a full buy-out and winding up of the Scheme which is expected to complete in 2020. On completion of the buy-out it is anticipated that there will be a pre-tax cash surplus of £20m to £40m which will be returned to the Company. The accounting surplus at the date of agreement of £326.0m (which was £325.4m at 31 December 2017) has been written down to the estimated cash surplus, resulting in a one-off non-cash charge of £341.6m in the year. As a result the Company recorded a loss before tax for the year at actual exchange rates of £114.1m (2017: profit before tax of £713.6m). The 2017 profit before tax included a one off net profit of £449.0m on the disposal of the businesses referred to above.

Adjusted profit before tax at actual exchange rates of £308.0m, which excludes the impact of the one-off items noted above, increased by 7.4% on 2017, reflecting growth in all regions of operation partially offset by the adverse impact of foreign exchange.

Cash (at AER)

Operating cash inflow of £283.5m was £25.1m higher than 2017. Lower levels of EBITDA following the transfer and sale of Workwear and Hygiene assets to Haniel and RLD in 2017 were more than offset by a reduction in capex levels and favourable working capital inflows of £6.6m, in part due to phasing around the 2018 year end. The first cash dividend from the Haniel joint venture in relation to the six months ended 31 December 2017 of €9.5m was received in Q3 2018.

Interest payments of £45.3m are £3.9m higher than in the prior year due to an increase in US dollar interest rates and the increased net debt levels following the successful M&A programme in the year and tax payments increased by £5.0m reflecting the higher profitability of the businesses. This resulted in Free Cash Flow of £192.0m, representing an increase of £16.2m on the prior year and an adjusted Free Cash Flow conversion of 94% (2017: 87%), ahead of our medium-term target of c. 90%. Spend on current and prior-year acquisitions totalled £298.4m and dividend payments were £74.2m, an increase of £9.9m (15.4%) on the prior year. Foreign exchange translation and other items increased net debt by £42.5m, leaving an overall increase in net debt of £226.2m and closing net debt of £1,153.5m.

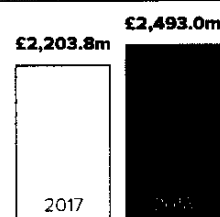
North America

In North America Ongoing Revenue grew 12.3% in 2018, of which 8.4% was growth through acquisition and 3.9% was organic. Pest Control grew 13.1% (+3.8% Organic). Organic Revenue growth in 2018 was lower than the 4.7% achieved in 2017 and reflects a number of factors including the impact of Hurricane Irma last September on our Puerto Rico business, an unseasonably cold March and April which delayed the start of the pest season and strong comparatives in 2017 (especially in product sales during the first half of 2017). Pest Control Organic growth in the second half was 5.0%, with less impact from the weather, Puerto Rico lapping in Q4 and less challenging comparatives than in the first half.

Ongoing Operating Profit growth of 12.8% reflects the combined impact from higher revenues and acquisitions. Net Operating Margins at 13.7% were 0.1% points above the prior year, reflecting an underlying improvement in net margin offset in part by the dilutive impact of acquisitions and stronger performance from lower-margin operations. 14 Pest Control businesses were acquired in the region in 2018 with combined annualised revenues of c. \$53m (c. £41m) in the year prior to purchase. In addition, the region acquired two further businesses in January 2019 for additional annualised revenues of \$27.5m (c. £21m).

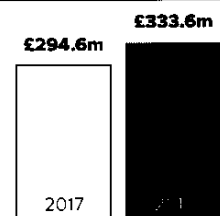
Ongoing Revenue at CER

£2,493.0m
+13.2%



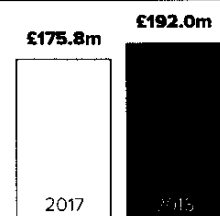
Ongoing Operating Profit at CER

£333.6m
+13.3%



Free Cash Flow from continuing operations at AER

£192.0m
94.2% cash conversion



Financial Review

At our Capital Markets Days in 2018 we set out our ambition for our North American business to become a \$1.5bn revenue, 18% Net Operating Margin business by the end of 2020. We have made excellent progress towards our revenue target as noted above, with ongoing revenue growth of 12.3% in the year and acquisitions with combined annualised revenues of c. \$53m. Based on our revenue growth expectations for the region of 12 to 15% per annum, we are confident that we will deliver the c.10% compound annual growth rate (CAGR) required in revenue growth in 2019/20 to achieve our \$1.5bn revenue target.

Our progress on Net Operating Margins improved in the second half of the year, rising by 50 basis points, supported by stronger organic growth and savings in property and procurement from our Best of Breed (BoB) cost savings programme. We are making steady progress with our IT transformation and to ensure that the replatforming of the business and the deployment of Group IT applications are delivered effectively, we have put back the date for completion by 12 months to H1 2020. This will have an associated impact on our expectation for the timing of systems-dependent savings in areas such as Service Productivity and Field Administration, meaning that we now expect the business to achieve 18% margins by the end of 2021.

Europe

Ongoing Revenue for Europe rose by 9.7% (+3.5% Organic), reflecting an excellent performance in Southern Europe (+32.3%), continued strong growth in Germany (+14.6%) and an improved performance in Benelux and France, which grew by 4.2% and 1.2% respectively. Latin America, which is reported within the Europe region, once again performed well with Ongoing Revenue growth of 17.6%. Ongoing Revenue from our European Hygiene operations grew by 20.8%, benefiting from the contribution from CWS Italy which was acquired in 2017. Ongoing Revenue from our Pest Control businesses grew by 10.1%, aided by favourable weather conditions in Q2 and Q3 which has supported stronger jobbing revenues, with good growth across all countries and particularly in our largest market in Germany. Ongoing Operating Profit for the Europe region grew by 10.4%, with good growth in Southern Europe, Germany and Latin America. We were particularly encouraged by our performance in France this year, with profit growth of 2.9% year on year, in line with our plan to return the business to profitable growth in 2018. In addition to the Cannon Hygiene businesses, the Europe region acquired 13 further businesses in 2018 (of which six were in Latin America), including 11 in Pest Control and two in Hygiene, with total combined annualised revenues of c. £25m in the year prior to purchase.

UK & Rest World

The UK and Rest of World region delivered a good performance during the period, with an overall increase in Ongoing Revenue of 19.5%, comprising Organic Revenue growth of 2.8% and growth through acquisition of 16.7%, principally due to the Cannon Hygiene acquisition at the start of the year. The region delivered continued growth from UK Pest Control and Hygiene, which grew organically by 4.2% and 4.1% respectively, with Pest Control continuing to benefit from increased jobbing work. The otherwise good performance in the region was, however, dampened by UK Property Care which continues to experience weak market conditions. The Rest of World operations delivered good Ongoing Revenue growth of 13.4% with contributions across all of its regional clusters in the Nordics, Caribbean, Africa and MENAT. Overall Ongoing Operating Profit for the region grew by 15.0%, reflecting the higher revenues. Net Operating Margins for the UK & Rest of World region fell by 0.8% points to 20.3%, again impacted by reduced profits in UK Property Care.

In January 2018 the region acquired the UK business of Cannon Hygiene. The acquisition was subject to a review by the UK Competition & Markets Authority (CMA) and it was required to be held separate from the rest of our UK business from 5 February 2018. The CMA has concluded its Phase 2 review of the transaction and announced on 25 January 2019 that the Company is required to sell a certain number of supply contracts with larger national customers and frameworks, representing a small part of the acquired business, after identifying an issue relating to a single line of washroom service for those customers. In addition to the Cannon Hygiene business, the region also acquired seven Pest Control companies during the year, including the pest control business of Mitie in the UK in Q4 which is being held separately pending completion of a CMA review. Total acquired annualised revenues in the 12 months prior to acquisition, including Cannon Hygiene, amounted to c. £75m.

Asia

The Asia region has had another good year with Ongoing Revenue increasing by 17.7% (+5.9% Organic Revenue growth) with both Pest Control and Hygiene performing well. Ongoing Operating Profit in the region grew by 15.1% in 2018. Net Operating Margins decreased by 0.2% points to 10.1%, with growth in Hygiene margins being offset by the dilutive effect of the growth in the lower-margin Rentokil PCI business in India. In addition to the Cannon Hygiene businesses, the region acquired a further six Pest Control businesses and one additional Hygiene business in Malaysia, Singapore and Macau (a new market entry) with total combined annualised revenues of c. £19m in the year prior to purchase.

Pacific

In the Pacific region Ongoing Revenue grew by 11.2%, (+2.6% organic), driven by solid performances across our core Pest Control and Hygiene categories and the acquisition of the Cannon Hygiene businesses in New Zealand and Australia. Ongoing Operating Profit in the region grew by 7.0%. Net Operating Margins declined by 0.8% points to 20.8% as a result of the dilutive impact of the Cannon acquisition. In addition to the Cannon Hygiene businesses, we acquired four small Pest Control companies in New Zealand and Australia and a small plants business in Canberra, Australia. Total combined annualised revenues acquired were c. £10m in the year prior to acquisition.



Overall, we have had a very good year and we are delighted that we have again exceeded our medium-term targets for revenue, profit and cash."

JEREMY TOWNSEND

Chief Financial Officer & Chief Information Officer

Share of profit from associates

Our share of profits from associates at AER amounted to £19.6m (2017: £8.3m). 2018 includes a full 12 months of income from our joint venture with Haniel in Europe, in which we retain a 17.8% share. The JV is performing ahead of expectations. Our share of profit in the joint venture after integration costs, goodwill amortisation and tax was £12.1m. Our Japanese associate, in which we have a 49% stake, had a good year in 2018, contributing £7.5m of profits, an increase of 7.8% on the prior year.

Acquisitions and disposals

2018 was a very strong year of acquisitions for the Company, particularly in regard to pest control deals in Growth and Emerging markets. In the year we acquired a record 47 businesses – 42 in Pest Control, four in Hygiene and one small Ambius business – generating annualised revenues in the year prior to purchase of £170m. Total spend, including prior-year acquisitions, was £298.4m. Countries in which we have acquired new businesses include Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Dutch Antilles, France, Germany, Indonesia, Jamaica, Macau, Malaysia, Netherlands, New Zealand, Singapore, South Korea, Spain, Sweden, Turkey, United Arab Emirates and the US.

Going forward, we will continue to execute a differentiated and disciplined approach to capital investment and M&A, with clear IRR hurdles by business line. We will continue to seek further acquisition opportunities in 2019 in both Pest Control and Hygiene and the pipeline of prospects remains strong. Our anticipated spend on M&A in 2019 is expected to be in the region of £200m to £250m. In 2019 to date we have acquired six businesses with annualised revenues of c. £25m.

Central and regional overheads

Central and regional overheads of £71.4m at CER were £5.2m higher than the prior year (2017: £66.2m) reflecting investments in digital capability, deployment costs and higher LTIP costs, offset by central cost reductions following the Haniel joint venture.

Restructuring costs

With the exception of integration costs for significant acquisitions, the Company reports restructuring costs within operating profit. Integration costs associated with significant acquisitions are reported as one-off items and excluded from operating profit. Restructuring costs of £7.3m at CER (2017: £7.3m) consisted mainly of costs in respect of initiatives focused on driving operational efficiency in North America, France and the UK.

One-off items (at CER)

As previously noted, in December 2018 the Company reached the agreement for a bulk annuity insurance buy-in for its UK Defined Benefit Pension scheme (the Scheme). The buy-in has been secured in anticipation of a full buy-out of the Scheme which is expected to be completed by 2020 with an estimated pre-tax cash surplus of £20m to £40m. The accounting surplus at the date of agreement of £326.0m (which was £325.4m at 31 December 2017) has been written down to the estimated cash surplus, resulting in a one off non-cash charge of £341.6m in the year.

One-off items (Operating) of £22.6m at CER (2017: £6.8m) primarily relates to the acquisition and integration costs of Cannon Hygiene Services (acquired in January 2018) and the ongoing acquisition programme in North America.

Interest (at AER)

Interest payments of £45.7m are £2.8m higher than in the prior year due to the increased net debt levels following the successful M&A programme in the year, and an increase in US dollar interest rates. The average cost of net debt for the Group was 4.2% in 2018 (vs. 4.0% in 2017).

Tax

The income tax credit for the year at actual exchange rates was £15.8m on the reported loss before tax of £114.1m. After adjusting the reported loss before tax for the amortisation and impairment of intangible assets (excluding computer software), one-off items, including the pension settlement and the net interest credit from pensions, the Adjusted Effective Tax Rate (ETR) for 2018 at AER was 22% (2017: 22%). This compares with a blended rate of tax for the countries in which the Group operates of 22% (2017: 24%).

Tax Governance

The Group takes a responsible approach to the management of its tax affairs and has a tax policy which is approved by the Board. Our overall strategy is to meet our tax obligations and ensure that long-term shareholder returns are optimised by structuring our business and transactions in a tax efficient manner, taking into account reputational factors. Tax risks are regularly reviewed by the Board and the Audit Committee. Rentokil Initial plc has received a 'low risk' rating from HMRC.

The Group's approach in relation to the management of tax issues is to ensure that:

- We comply with all applicable laws, disclosure requirements and regulations in the territories in which we do business;
- All tax positions adopted are adequately and fairly disclosed in tax filings;
- We have an open and transparent working relationship with HMRC and local tax authorities around the world which complies with the Group's Code of Conduct;
- Where disputes arise with tax authorities we seek to reach a resolution as soon as possible in an open and constructive manner;
- Where considered appropriate the Group takes advice from professional firms;
- Tax risks are appropriately managed in accordance with the tax policy; and
- Our tax planning is aligned with the Group's commercial and business activities and the tax treatment of business transactions is optimised.

A full copy of the Company's tax strategy can be found on the Company's website at rentokil-initial.com.

Financial Review

Funding

At 31 December 2018 the Group had net debt of £1,153.5m representing an increase of £226.2m in net debt as at 31 December 2017. At 31 December 2018 the Group had £608m of centrally held funds and available undrawn committed facilities. On 13 March 2018 the Group repaid a €50m bond using cash on the balance sheet. In August 2018 the Company amended and extended the revolving credit facility, increasing the committed amount available for cash drawings from £360m to £600m and extending the term to 2023 with two further one-year extension options. The facility also includes an 'accordion' feature providing an additional £200m of potential liquidity if required. This will provide liquidity to cover the refinancing risk associated with the maturity of the €500m bond that matures in September 2019, which is the next debt maturity.

The ratio of net debt to EBITDA at 31 December 2018 was 2.4x and reflects the timing of acquisition spend in the year. We are committed to maintaining a BBB credit rating and, based on our performance this year and expectations for 2019, we are confident in doing so.

Going Concern

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

Dividend

The Group adopts a progressive dividend policy with dividend payments related to the level of Free Cash Flow available. The Group aims to pay dividends twice a year and the level of each dividend is decided by the Board. When determining the level of dividend each year, the Board considers the following:

- cash generation in the year and forecast future cash generation;
- cash availability at the point of dividend distribution; and
- cash required to invest in capital expenditure and acquisitions.

Following an encouraging performance in 2018, the Board is recommending a final dividend in respect of 2018 of 3.16p per share, payable to shareholders on the register at the close of business on 12 April 2019, to be paid on 15 May 2019. This equates to a full year dividend of 4.471p per share, an increase of 15.2% compared to 2017

Brexit

We are a global business with c. 90% of revenues derived from outside the UK and with minimal cross-border trading. The global economic environment, and in particular the Brexit arrangements, continues to drive uncertainty with high levels of volatility in exchange and commodity markets and with international trading arrangements potentially subject to significant change. We continue to monitor the potential implications of geopolitical change on our trading and financing environment and in relation to Brexit we are taking short-term measures to ensure we have access to adequate stock and equipment in both the UK and Europe in Q2 of 2019. We remain of the view that the defensive nature of our core categories, combined with the geographic location and spread of our operations, place us in a relatively strong position to mitigate such risks going forward and to take advantage of any potential opportunities that the changes may bring.

IFRS 16 – Leases

The new leasing standard IFRS 16 will be effective from 1 January 2019 and will be adopted from that date with no restatement of prior year comparatives required. This will result in a number of leases (largely vehicle and property) that were previously accounted for as operating leases (expensed as incurred) now being capitalised as right-of-use (ROU) assets with fixed assets and depreciated over the lease term with a corresponding lease liability and interest charge.

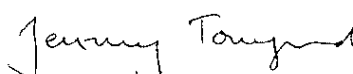
The new standard is not expected to have a material impact on either Adjusted Profit before Tax or the underlying net cash flows of the business but it will change the presentation of the profit and loss account, the cash flow statement and the balance sheet as follows:

- On transition, fixed assets and net debt are expected to increase by c. £200m;
- The operating lease charge will be replaced with depreciation of the ROU assets and an interest charge on the lease liability. We currently estimate that this will result in higher operating profit of c. £5m – £10m offset by a higher interest charge of a similar amount; and
- New operating leases will be treated as capital expenditure, which will impact the way depreciation, EBITDA and capex are reported in the cash flow statement – Free Cash Flow will be provided on both the old and new basis in 2019 to allow comparability.

Summary of 2018 performance and outlook for 2019

We are pleased with our performance in 2018 and the continued growth momentum in the business. Pest Control has performed well across the regions and we remain encouraged by the progress we are delivering in Hygiene, which is a strong complementary business to Pest Control. We are also very pleased to announce our return to profitable growth in our France business, including our Workwear operations. 2018 has also been a particularly good year for M&A and we have acquired a record 47 new businesses across 22 countries, strengthening our already leading positions in Pest Control and Hygiene in key growth territories.

Overall, we have had a very good year and we are delighted that we have again exceeded our financial targets for revenue, profit and cash. We are confident of delivering further progress against these in 2019.



JEREMY TOWNSEND

Chief Financial Officer & Chief Information Officer
27 February 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

	Notes	2018 £m	2017 ¹ £m
Revenue	A1	2,472.3	2,412.3
Operating profit	A1	245.5	292.4
Net profit on disposal of businesses		—	449.0
Pension settlement ²	A10	(341.6)	—
(Loss)/profit before interest and income tax		(96.1)	741.4
Finance income	C9	17.6	12.3
Finance cost	C8	(55.2)	(48.4)
Share of profit from associates, net of tax of £8.9m (2017: £4.4m)	B5	19.6	8.3
(Loss)/profit before income tax		(114.1)	713.6
Income tax credit/(expense) ³	A13	15.8	(30.6)
(Loss)/profit for the year attributable to the Company's equity holders (including profit from non-controlling interests of £0.2m (2017: £0.2m))		(98.3)	683.0
Other comprehensive income:			
Items that are not reclassified subsequently to the income statement:			
Re-measurement of net defined benefit asset	A10	30.1	47.0
Tax related to items taken to other comprehensive income	A15	(10.2)	(5.6)
Items that may be reclassified subsequently to the income statement:			
Net exchange adjustments offset in reserves		14.9	(36.0)
Cumulative exchange recycled to income statement on disposal of foreign operations		—	(46.5)
Other items		9.5	(2.6)
Total comprehensive income for the year (including profit from non-controlling interests of £0.2m (2017: £0.2m))		(54.0)	639.3
Earnings per share attributable to the Company's equity holders:			
Basic	A2	(5.35)p	37.21p
Diluted	A2	(5.35)p	36.90p

All profit is from continuing operations.

Non-GAAP measures			
Operating profit		245.5	292.4
Adjusted for:			
Amortisation and impairment of intangible assets (excluding computer software)	A1	61.6	53.8
One-off items – operating	A1	22.2	6.8
Reversal of depreciation – assets held-for-sale		—	(38.5)
Adjusted operating profit		329.3	314.5
Finance income	C9	17.6	12.3
Add back: Net interest credit from pensions	C9	(7.7)	(6.8)
Add back: Interest fair value adjustments		(0.4)	—
Finance cost	C8	(55.2)	(48.4)
Share of profit from associates, net of tax of £8.9m (2017: £4.4m)	B5	19.6	8.3
One-off items – associates		4.8	7.0
Adjusted profit before income tax		308.0	286.9
Basic adjusted earnings per share attributable to the Company's equity holders	A2	13.07p	12.19p
Diluted adjusted earnings per share attributable to the Company's equity holders	A2	12.97p	12.08p

1. The Group has timely applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen comparative information is not restated.

2. Pension settlement consists of £305.5m of settlement costs and £36.1m of past service costs.

3. Tax on income includes £35.3m (2017: £11.9m) in respect of over-seas taxation.

Consolidated Balance Sheet

At 31 December

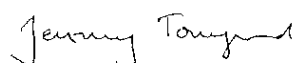
	Notes	2018 £m	2017 £m
Assets			
Non-current assets			
Intangible assets	B2	1,509.1	1,220.2
Property, plant and equipment	B3	436.9	390.2
Investments in associated undertakings	B5	291.7	278.7
Other investments	C4	0.2	0.2
Deferred tax assets	A15	3.5	3.4
Contract costs	A1	60.9	–
Retirement benefit assets	A10	21.5	326.2
Other receivables	A3	10.8	11.0
Derivative financial instruments	C5	5.4	13.7
		2,340.0	2,243.6
Current assets			
Other investments	C4	2.5	0.5
Inventories	A4	103.2	84.3
Trade and other receivables	A3	485.7	449.8
Current tax assets		16.1	13.1
Derivative financial instruments	C5	4.2	6.3
Cash and cash equivalents	C3	129.8	310.1
		741.5	864.1
Liabilities			
Current liabilities			
Trade and other payables	A5	(607.9)	(535.7)
Current tax liabilities		(70.7)	(79.5)
Provisions for other liabilities and charges	A6	(28.7)	(25.3)
Bank and other short-term borrowings		(115.7)	(68.0)
Derivative financial instruments	C5	(15.8)	(5.3)
		(838.8)	(713.8)
Net current (liabilities)/assets		(97.3)	150.3
Non-current liabilities			
Other payables	A5	(79.1)	(76.0)
Bank and other long-term borrowings		(1,149.9)	(1,166.9)
Deferred tax liabilities	A15	(96.0)	(109.3)
Retirement benefit obligations	A10	(26.2)	(26.1)
Provisions for other liabilities and charges	A6	(42.5)	(55.0)
Derivative financial instruments	C5	(16.4)	(26.6)
		(1,410.1)	(1,459.9)
Net assets		832.6	934.0
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	D2	18.4	18.4
Share premium		6.8	6.8
Other reserves		(1,824.2)	(1,848.6)
Retained earnings		2,631.2	2,757.1
		832.2	933.7
Non-controlling interests		0.4	0.3
Total equity		832.6	934.0

1 The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen comparative information is not restated.

The financial statements on pages 108 to 159 were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:



Andy Ransom
Chief Executive



Jeremy Townsend
Chief Financial Officer

Consolidated Statement of Changes in Equity For the year ended 31 December

	Attributable to equity holders of the Company					Total equity £m
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	
At 1 January 2017	18.3	6.8	(1,763.5)	2,099.0	0.1	360.7
Profit for the year	—	—	—	682.8	0.2	683.0
Other comprehensive income:						
Net exchange adjustments offset in reserves	—	—	(36.0)	—	—	(36.0)
Remeasurement of net defined benefit asset/liability	—	—	—	47.0	—	47.0
Effective portion of changes in fair value of cash flow hedge	—	—	(2.6)	—	—	(2.6)
Cumulative exchange recycled to income statement on disposal of foreign operations	—	—	(46.5)	—	—	(46.5)
Tax related to items taken directly to other comprehensive income	—	—	—	(5.6)	—	(5.6)
Total comprehensive income for the year	—	—	(85.1)	724.2	0.2	639.3
Transactions with owners:						
Dividends paid to equity shareholders	—	—	—	(64.3)	—	(64.3)
Shares issued in the year	0.1	—	—	—	—	0.1
Cost of share options and long-term incentive plans	—	—	—	4.4	—	4.4
Movement in the carrying value of put options	—	—	—	(6.2)	—	(6.2)
At 31 December 2017	18.4	6.8	(1,848.6)	2,757.1	0.3	934.0
Adjustment on initial application of IFRS 15 (net of tax of £15.7m)	—	—	—	29.0	—	29.0
Adjusted balance at 1 January 2018	18.4	6.8	(1,848.6)	2,786.1	0.3	963.0
Profit for the year	—	—	—	(98.5)	0.2	(98.3)
Other comprehensive income:						
Net exchange adjustments offset in reserves	—	—	14.9	—	—	14.9
Remeasurement of net defined benefit asset/liability	—	—	—	30.1	—	30.1
Effective portion of changes in fair value of cash flow hedge	—	—	9.5	—	—	9.5
Tax related to items taken directly to other comprehensive income	—	—	—	(10.2)	—	(10.2)
Total comprehensive income for the year	—	—	24.4	(78.6)	0.2	(54.0)
Transactions with owners:						
Dividends paid to equity shareholders	—	—	—	(74.2)	—	(74.2)
Dividends paid to non-controlling interests	—	—	—	—	(0.1)	(0.1)
Cost of share options and long-term incentive plans	—	—	—	5.7	—	5.7
Movement in the carrying value of put options	—	—	—	(7.8)	—	(7.8)
At 31 December 2018	18.4	6.8	(1,824.2)	2,631.2	0.4	832.6

Shares of £0.1m (2017: £0.1m) have been netted against retained earnings. This represents 8.2m (2017: 6.7m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2018 was £27.6m (2017: £21.2m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

Analysis of other reserves

	Capital reduction reserve £m	Legal reserve £m	Cash flow hedge reserve £m	Translation reserve £m	Total £m
At 1 January 2017	(1,722.7)	10.4	(5.9)	(45.3)	(1,763.5)
Net exchange adjustments offset in reserves	—	—	—	(36.0)	(36.0)
Effective portion of changes in fair value of cash flow hedge	—	—	(2.6)	—	(2.6)
Cumulative exchange recycled to income statement on disposal of foreign operations	—	—	—	(46.5)	(46.5)
Total comprehensive expense for the year	—	—	(2.6)	(82.5)	(85.1)
At 31 December 2017	(1,722.7)	10.4	(8.5)	(127.8)	(1,848.6)
Net exchange adjustments offset in reserves	—	—	—	14.9	14.9
Effective portion of changes in fair value of cash flow hedge	—	—	9.5	—	9.5
Total comprehensive income for the year	—	—	9.5	14.9	24.4
At 31 December 2018	(1,722.7)	10.4	1.0	(112.9)	(1,824.2)

The capital reduction reserve arose in 2005 as a result of the scheme of arrangement of Rentokil Initial 1927 plc, under section 425 of the Companies Act 1985, to introduce a new holding company, Rentokil Initial plc, and the subsequent reduction in capital approved by the High Court whereby the nominal value of each ordinary share was reduced from 100p to 1p.

The legal reserve represents amounts set aside in compliance with local laws in certain countries in which the Group operates.

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2018 £m	2017 ¹ £m
Cash flows from operating activities			
Cash generated from operating activities	C10	454.0	461.3
Interest received		7.7	5.1
Interest paid ²		(53.0)	(46.5)
Income tax paid		(45.1)	(40.1)
Net cash flows from operating activities		363.6	379.8
Cash flows from investing activities			
Purchase of property, plant and equipment		(147.2)	(174.3)
Purchase of intangible fixed assets		(22.9)	(19.1)
Proceeds from sale of property, plant and equipment		2.9	4.9
Acquisition of companies and businesses, net of cash acquired ³	B1	(298.4)	(281.1)
Disposal of companies and businesses		(3.1)	451.9
Dividends received from associates	B5	11.9	3.2
Net cash flows from investing activities		(456.8)	(14.5)
Cash flows from financing activities			
Dividends paid to equity shareholders	D1	(74.2)	(64.3)
Capital element of finance lease payments		(14.7)	(15.9)
Cash outflow on settlement of debt-related foreign exchange forward contracts		(5.6)	(32.5)
Net change to cash flow from investment in term deposits		(2.5)	9.1
Proceeds from new debt		25.6	386.7
Bond repayments		(44.3)	(447.7)
Net cash flows from financing activities		(115.7)	(164.6)
Net (decrease)/increase in cash and cash equivalents		(208.9)	200.7
Cash and cash equivalents at beginning of year		304.1	105.9
Exchange gains/(losses) on cash and cash equivalents		5.7	(2.5)
Cash and cash equivalents at end of the financial year		100.9	304.1

1. The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen comparative information is not restated.

2. Interest paid includes interest on finance lease payments of £1.5m (2017: £1.4m).

3. Includes £4.0m related to investment in working capital in acquired businesses

Notes to the Financial Statements

General accounting policies

Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted by the European Union as at 31 December 2018. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments).

The Group adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments with effect from 1 January 2018 and this is the first set of the Group's annual financial statements in which those standards are reflected. Changes to significant accounting policies are described on pages 114 to 116.

The Group uses a number of non-GAAP measures to present the financial performance of the business that are not defined under IFRS. An explanation of these Alternative Performance Measures (APMs), along with reconciliation to the nearest equivalent IFRS measure, can be found in Section E of these notes on pages 149 to 153.

After reviewing Group and Company cash balances, borrowing facilities and projected cash flows, the Directors believe that the Group and Company have adequate resources to continue operations over a period of at least 12 months from the date of approval of the financial statements. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements (see the Directors' Report on page 169).

Consolidation

(a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when (i) it has power over the entity; (ii) is exposed or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of these three elements of control.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Inter-company transactions, balances, and gains and losses on transactions between Group companies are eliminated on consolidation.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests which may cause the non-controlling interests to have a deficit balance. Consideration in excess of net identifiable assets acquired in respect of non-controlling interests in existing subsidiary undertakings is taken directly to reserves.

(b) Associates

Associates are those entities in which the Group has significant influence over the financial and operating policies, but not control. Significant influence is usually presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Group companies

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments or deemed to be quasi-equity, are taken to other comprehensive income. 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.

Notes to the Financial Statements

(c) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, or from the translation of monetary assets and liabilities denominated in foreign currencies at reporting period-end exchange rates, are recognised under the appropriate heading in the income statement, except when deferred in equity as qualifying net investment hedges or where certain intra-group loans are determined to be quasi-equity (normally not expected to be repaid).

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. Section C of these notes discusses accounting for financial instruments.

Financial assets

The Group classifies its financial assets depending on the purpose for which the financial assets were acquired. At initial recognition the Group carries out a solely payment of principal and interest (SPPI) and a business model test to establish the classification and measurement of its financial assets. Financial assets are classified in the following categories:

(a) Amortised cost

Financial assets under this classification are non-derivative financial assets held to collect the contractual cash flows until maturity and the cash flows are solely payment of principal and interest. Assets measured at amortised cost include trade and other receivables, and cash and cash equivalents.

(b) Fair value through other comprehensive income (FVTOCI)

These are non-derivative financial assets which can be for sale with cash flows that are solely payment of principal and interest. These assets are measured at fair value and changes to market values are recognised in other comprehensive income. The Group has no asset classified under this category.

(c) Fair value through profit and loss (FVTPL)

Financial assets under this classification are assets that cannot be classified in any of the other categories. These assets are measured at fair value and changes to market values are recognised in profit and loss.

Financial liabilities

All financial liabilities are stated at amortised cost using the effective interest rate method except for derivatives, which are classified as held for trading (except where they qualify for hedge accounting) and are held at fair value.

Financial liabilities held at amortised cost include trade payables, vacant property provisions, deferred consideration and borrowings.

Critical accounting estimates and judgements

Assumptions and estimation uncertainties

The Group makes estimates and assumptions concerning the future. Estimates and assumptions 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. Actual results may differ from these estimates and revisions to estimates are recognised prospectively.

Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant Notes to the Financial Statements. 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 listed below (please refer to the notes for further detail).

- Impairment of goodwill: growth rate and discount rate assumptions and forecast cash flow estimates (Note B2)
- Valuation of acquired intangible assets: customer termination, profit margin and discount rate assumptions (Note B1)
- Income taxes and deferred tax asset: key assumptions about the likelihood and magnitude of out flows in relation to tax provisions, and availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised (Notes A13 and A15)
- Retirement benefits: key actuarial assumptions and estimates over future costs of winding up a scheme (Note A10)
- Incremental cost of obtaining contracts: estimated contract duration and associated amortisation period when calculating the asset recognised on adoption of IFRS 15 (Note A1 'Contract costs')

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

- Revenue recognition: whether revenue is recognised over time or at a point in time (Note A1)
- Control over an investee: whether to recognise a non-controlling interest in an investee (Note A5)
- Retirement benefits: whether the bulk annuity contract entered into with PIC is a settlement event (Note A10)
- Equity-accounted investees: whether the Group has significant influence over an investee (Note B5)

Notes to the Financial Statements

Standards, amendments and interpretations to published standards that are mandatorily effective for the current year

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. The main effect of initially applying IFRS 15 Revenue from Contracts with Customers is the capitalisation and amortisation of commission fees that were previously expensed as incurred (see A below). There was no material effect of initially applying IFRS 9 Financial Instruments (see B below).

A. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has applied IFRS 15 using the cumulative effect method (adopting all practical expedients); therefore, comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The accounting policy that applies to comparative information can be found in the 2017 financial statements (Note A1). Substantially all of the Group's revenue is within the scope of IFRS 15. No material changes to the timing of revenue recognition were required, although there were some small alignment adjustments in some countries. Under IFRS 15 revenue is recognised when a customer obtains control of goods or services in line with identifiable performance obligations. In the majority of cases the Group considers that the contracts it enters into are contracts for bundled services which should be accounted for as a single performance obligation. Therefore, as under IAS 18 previously, the majority of revenue across the Group will continue to be recognised evenly over the course of the contract because this reflects the timing of the provision of the service.

The Group previously recognised commission expenses related to contracts as selling expenses when they were incurred. Under IFRS 15, the Group capitalises incremental commission fees as costs of obtaining contracts, if they are expected to be recovered, and amortises them consistently over the lives of the contracts to which they relate. The value of the initial adjustment was £38.1m net of £15.7m tax. The related amortisation for the reporting period was £21.9m. Where the expected amortisation period is one year or less, the Group adopts the practical expedient to expense these commission fees as incurred.

The following table summarises the impacts of adopting IFRS 15 on the Group's balance sheet as at 31 December 2018. There was no material impact on the Group's statement of profit or loss and other comprehensive income or statement of cash flows for the year ended 31 December 2018.

Impact on the consolidated balance sheet:

31 December 2018	As reported £m	Adjustments £m	Amounts without adoption of IFRS 15 £m
Assets			
Contract costs	60.9	60.9	–
Non-current assets	60.9	60.9	–
Trade and other receivables	485.7	(5.0)	490.7
Current assets	485.7	(5.0)	490.7
Liabilities			
Contract liabilities (On transition: (£114.8m))	(133.5)	(8.9)	(124.6)
Current liabilities	(133.5)	(8.9)	(124.6)
Deferred tax liabilities	(92.5)	(13.8)	(78.7)
Non-current liabilities	(92.5)	(13.8)	(78.7)
Equity			
Retained profits	(2,631.2)	(33.2)	(2,598.0)
Total equity	(2,631.2)	(33.2)	(2,598.0)

Notes to the Financial Statements

B. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and certain contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities, and the adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, see (ii) below).

The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

IFRS 9 changes the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. Under IFRS 9, on initial recognition, a financial asset is classified as:

- amortised cost;
- fair value through other comprehensive income (FVTOCI) – debt investment;
- FVTOCI – equity investment; or
- fair value through profit or loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets are subject to new rules regarding provisions for impairment, however as the Group has minimal financial assets (other than trade debtors), and a history of minimal impairments against these assets, the impact on transition is not material.

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses.

i. Classification and measurement of financial assets

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 £m
Financial assets				
Interest rate swaps used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	19.0	19.0
Forward exchange contracts used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	1.0	1.0
Trade and other receivables	Loans and receivables	Amortised cost	449.8	449.8
Cash and cash equivalents – Cash and short-term deposits	Loans and receivables	Amortised cost	225.2	225.2
Cash and cash equivalents – Liquidity funds	Loans and receivables	FVTPL	84.9	84.9
Derivatives	FVTPL	FVTPL	–	–
Total financial assets			779.9	779.9

ii. Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy, and to apply a qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases. The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

The Group has not changed the accounting for forward contracts under IFRS 9.

The Group generally uses cross-currency interest rate swaps to achieve appropriate net debt currency mix. Cross-currency swaps are generally either a cash flow hedge or a net investment hedge accounting relationship, except where there is a natural translation risk offset in the profit and loss account. A cross-currency swap in a net investment hedge will be accounted on the forward basis where all changes in fair value will be recognised in other comprehensive income except basis risk which is amortised over the remaining term of the swap contract.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. The same approach also applies under IFRS 9 except the amounts related to basis risk which excluded from the hedge relationship. The changes in the swap valuation related to basis risk is reported in a separate component of equity (cost of hedging reserve) and amortised over the life of the swap.

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Changes to hedge accounting policies have been applied prospectively.
- All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

Notes to the Financial Statements

Other changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with effect from 1 January 2018:

- Amendments to IFRS 2 Share Based Payments
- Annual Improvements in IFRSs – 2014-2016 Cycle (IAS 28 Investments in Associates and Joint Ventures)
- IFRCC 22 Foreign Currency Transactions and Advance Consideration

The application of these amendments has had no material impact on the disclosures of the amounts recognised in the Group's consolidated financial statements. Consequently, no adjustment has been made to the comparative financial information at 31 December 2017.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

The Group will adopt IFRS 16 Leases from 1 January 2019. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The lease liability will increase net debt. The Group does not act as a lessor in any material arrangements.

The Group will recognise new assets and liabilities for its operating leases, mainly property and motor vehicles. The nature of expenses related to those leases will now change because the Group will recognise a straight-line depreciation charge for ROU assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. The new standard is not expected to have a material impact on either profit before tax or the underlying net cash flows of the business, but it will change the presentation of the profit and loss account, the cash flow statement and the balance sheet. Under IFRS 16 it is anticipated that operating expenses will decrease by c. £5-10m and financing costs will increase by a similar amount.

In addition, the Group will no longer include rental payments in its calculation of vacant property provisions as described in Note A6, although other costs related to these properties will continue to be provided for. Instead, the Group will include the rental payments due under the lease in its lease liability. No significant impact is expected for the Group's existing finance leases.

Commitments under the Group's current operating leases are set out in Note A12.

The Group plans to apply the standard using the modified retrospective approach, therefore, any cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Based on the information currently available, the Group estimates that it will recognise ROU assets and corresponding lease liabilities with a value of c. £200m. The Group does not expect the adoption of IFRS 16 to impact its ability to comply with any of its banking covenants.

The assessment of the impact of IFRS 16 is preliminary as not all transition work requirements have been finalised and therefore may be subject to adjustment.

Notes to the Financial Statements

A. Operating

A1. Revenue recognition and operating segments

Revenue recognition

Revenue represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled. All revenue is considered revenue from contracts with customers as defined by IFRS 15, including non-contract service revenue (job work) and sale of goods. Under IFRS 15, revenue is recognised when a customer obtains control of goods or services in line with identifiable performance obligations. In the majority of cases the Group considers that the contracts it enters into are contracts for bundled services which are accounted for as a single performance obligation. Accordingly the majority of revenue across the Group is recognised evenly over the course of the contract because this reflects the timing of the provision of the service. Job work is short-term contract revenue whereby the period of service is less typically less than one month in duration. The performance obligations linked to this revenue type are individual to each job due to their nature with revenue being recognised on a percentage of completion basis. Where consumables are supplied separately from the service contract, revenue is recognised at the point the goods transfer.

The transaction price reported for all contracts is the price agreed in the contract and there are no material elements of variable consideration, financing component or non-cash consideration. The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations because the Group has a right to consideration from customers in an amount that corresponds directly with the value to the customer of the performance obligations completed to date.

Disaggregation of revenue into category, region and major type of revenue stream is shown below under Segment reporting and in Section E on pages 151 and 152.

Contract costs

Contract costs are mainly incremental costs of obtaining contracts (primarily sales commissions), and to a lesser extent costs to fulfil contracts which are not within the scope of other standards (mainly incremental costs of putting resources in place to fulfil contracts).

It is anticipated that these costs are recoverable over the life of the contract to which they relate. Accordingly the Group capitalises them as contract costs and amortises them over the expected life of the contracts. The expected length of contracts across the Group and associated amortisation periods are between three and six years.

The contract costs recognised in the balance sheet at the period end amounted to £60.9m. The amount of amortisation recognised in the period was £21.9m and impairment losses were nil.

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

Contract assets

Contract assets relate to the Group's right to consideration for performance obligations satisfied but where the customer has yet to be invoiced. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. All opening balances have been invoiced in the year.

Contract liabilities

Contract liabilities relate to advance consideration received from customers where the performance obligations have yet to be satisfied. All opening balances have subsequently been satisfied in the year. In most business categories where revenue is recognised over time customers are invoiced in advance or simultaneously with performance obligations being satisfied.

Segment reporting

Segmental information has been presented in accordance with IFRS 8 Operating Segments. Reporting segments reflect the internal management organisation and reporting structures. Each segment is headed by a Regional Managing Director who reports directly to the Chief Executive and is a member of the Group's Executive Leadership Team responsible for the review of Group performance. The operating businesses within each segment report to the Regional Managing Directors.

Given the international nature of the Group foreign exchange movements can have a significant impact on regional performance. As a result the segmental analysis is presented at constant exchange rates. Restructuring costs and central and regional costs are presented at a Group level as they are not targeted or managed at reportable segment level. The basis of presentation is consistent with the information reviewed by internal management. Revenue and profit are from Ongoing operations which is defined and reconciled to the nearest equivalent GAAP measure in Section E on page 150.

Notes to the Financial Statements

Revenue and profit from continuing operations

	Revenue 2018 £m	Revenue 2017 £m	Operating profit 2018 £m	Operating profit 2017 £m
France	297.4	293.7	45.4	44.1
Benelux	89.4	85.8	25.9	25.2
Germany	95.4	83.2	28.8	25.2
Southern Europe	128.2	96.9	18.8	14.8
Latin America	52.7	44.8	7.2	5.0
Europe	663.1	604.4	126.1	114.3
UK & Ireland	303.4	247.1	57.5	48.9
Rest of World	151.4	133.5	34.6	31.2
UK & Rest of World	454.8	380.6	92.1	80.1
Asia	220.7	187.5	22.3	19.4
North America	959.5	854.7	131.3	116.5
Pacific	194.9	175.3	40.5	37.8
Central and regional costs	–	–	(71.4)	(66.2)
Restructuring costs	–	–	(7.3)	(7.3)
Ongoing operations at constant exchange rates	2,493.0	2,202.5	333.6	294.6
Disposed businesses ^{1,2}	17.3	209.8	–	58.4
Continuing operations at constant exchange rates	2,510.3	2,412.3	333.6	353.0
Foreign exchange	(38.0)	–	(4.3)	–
Continuing operations at actual exchange rates	2,472.3	2,412.3	329.3	353.0
One-off items – operating			(22.2)	(6.8)
Amortisation and impairment of intangible assets ³			(61.6)	(53.8)
Operating profit			245.5	292.4

1. Disposed business for 2017 is restated for businesses disposed in 2018.

2. Includes revenue of £13.9m (2017: £8.8m) from product sales by the Group to CWS-boco International GmbH. Prior to 30th June 2017, this revenue was classified as intergroup revenue and eliminated on consolidation.

3. Excluding computer software

Revenue and operating profit relate to the main groups of business category and activity, as described on page 17: Pest Control, Hygiene and Protect & Enhance. Central and regional overheads represent corporate expenses that are not directly attributable to any reportable segment.

Revenue at actual exchange rates (AER) from external customers attributed to the UK amounted to £275.6m (2017: £225.0m), with overseas countries accounting for the balance of £2,196.7m (2017: £2,187.3m). The only countries accounting for more than 10% of revenue from external customers are USA, totalling £889.6m (2017: £804.6m), France, totalling £305.0m (2017: £348.7m), and United Kingdom, totalling £275.6m (2017: £225.0m). No customer accounts for more than 10% of total revenue.

One-off items – operating primarily relates to the acquisition and integration costs of Cannon Hygiene Services (acquired in January 2018) and the ongoing acquisition programme in North America.

Analysis of Ongoing Revenue and Ongoing Operating Profit by business category

	Ongoing Revenue 2018 £m	Ongoing Revenue 2017 £m	Ongoing Operating profit 2018 £m	Ongoing Operating profit 2017 £m
Pest Control	1,571.9	1,396.6	277.0	252.0
Hygiene	536.7	424.3	90.2	75.3
Protect & Enhance	384.4	381.6	45.1	40.8
Central and regional overheads	–	–	(71.4)	(66.2)
Restructuring costs	–	–	(7.3)	(7.3)
Ongoing operations at constant exchange rates	2,493.0	2,202.5	333.6	294.6

Notes to the Financial Statements

Analysis of Ongoing Revenue by type

	2018 £m	2017 £m
Recognised over time		
Contract service revenue	1,752.6	1,577.6
Recognised at a point in time		
Non-contract service revenue	464.8	372.9
Sales of goods	275.6	252.0
Ongoing operations at constant exchange rates¹	2,493.0	2,202.5

¹ All revenue types are in the scope of IFRS 15 Revenue from Contracts with Customers

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

	Amortisation and impairment of intangibles ¹ 2018 £m	Amortisation and impairment of intangibles 2017 £m
Europe	7.5	7.0
UK & Rest of World	10.0	7.3
Asia	3.6	5.3
North America	32.9	27.4
Pacific	4.1	2.8
Central and regional	4.8	4.0
Total at constant exchange rates	62.9	53.8
Foreign exchange	(1.3)	–
Total at actual exchange rates	61.6	53.8
Tax effect	(15.4)	(16.6)
Total after tax effect	46.2	37.2

¹ Excluding computer software.

A2. Earnings per share

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 (see note at the bottom of the Consolidated Statement of Changes in Equity) which are treated as cancelled, and including share options for which all conditions have been met.

Adjusted earnings per share is earnings per share adjusted for the after-tax effects of one-off items (including the net gain on disposal of businesses), amortisation and impairment of intangibles¹, and net interest credit from pensions. Adjusted profit and earnings per share measures are explained further in Section E on page 149.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group's potentially dilutive ordinary shares relate to the contingent issuable shares under the Group's long-term incentive share plans (LTIPs) to the extent the performance conditions have been met at the end of the period. These share options are issued for nil consideration to employees if performance conditions are met.

Notes to the Financial Statements

Details of the adjusted earnings per share are set out below:

	2018 £m	2017 £m
(Loss)/profit from continuing operations attributable to equity holders of the Company	(98.5)	682.8
One-off items – operating	22.2	6.8
One-off items – associates	4.8	7.0
Pension settlement	341.6	–
Net gain on disposal of businesses	–	(449.0)
Reversal of depreciation – assets held-for-sale	–	(38.5)
Amortisation and impairment of intangibles ¹	61.6	53.8
Net interest credit from pensions	(7.7)	(6.8)
Interest fair value adjustments	(0.4)	–
Tax on above items ²	(82.9)	(26.1)
US tax reform – net deferred tax credit	–	(6.4)
Adjusted profit from continuing operations attributable to equity holders of the Company	240.7	223.6
Weighted average number of ordinary shares in issue	1,841.2	1,834.8
Adjustment for potentially dilutive shares	14.5	15.7
Weighted average number of ordinary shares for diluted earnings per share	1,855.7	1,850.5
Basic earnings per share	(5.35)p	37.21p
Diluted earnings per share	(5.35)p	36.90p
Basic adjusted earnings per share	13.07p	12.19p
Diluted adjusted earnings per share	12.97p	12.08p

1. Excluding computer software.

2. One-off items operating £4.3m (2017: £5.1m), net gain on disposal of businesses £nil (2017: £5.7m), pension settlement £64.8m (2017: £nil), amortisation and impairment of intangibles £15.4m (2017: £16.6m), net interest credit from pensions £(1.6)m (2017: £(1.3)m).

A3. Trade and other receivables

The Group's trade receivables are recognised at the transaction price less provision for impairment. However, management also considers factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The amount of the provision is recognised in the income statement. Movements on provisions for impaired trade receivables are recognised within operating expenses in the income statement. Amounts charged to the provision for impairment of trade receivables are generally written off when there is no expectation of recovering additional cash.

There is limited concentration of credit risk with respect to trade receivables due to the Group's customer base being large and diverse. The maximum amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet. The Group policy is that credit facilities for new customers are approved by designated managers at regional level. Credit limits are set with reference to trading history and reports from credit rating agencies where they are available. Where this is not feasible the Group may request payment in advance of work being carried out, or settlement by credit card on completion of the work. Overdue accounts are regularly reviewed and impairment provisions are created where necessary with due regard to the historical risk profile of the customer. There were no new customers in 2018 where the Group considered there was a risk of significant credit default. There are no trade receivables that would otherwise be past due or impaired whose terms have been renegotiated.

	2018 £m	2017 £m
Trade receivables	421.0	388.5
Less: provision for impairment of trade receivables	(25.1)	(24.7)
Trade receivables – net	395.9	363.8
Other receivables	51.2	46.2
Prepayments	32.7	40.3
Contract assets ¹	16.7	10.5
Total	496.5	460.8
Less non-current portion:		
Other receivables	10.8	11.0
Current portion	485.7	449.8

¹ Contract assets represents revenue that has been recognised for performance obligations satisfied but where the customer has yet to be invoiced. All opening balances have subsequently been invoiced in the year. In most business categories our customers are invoiced in advance or simultaneously with performance obligations being satisfied.

Notes to the Financial Statements

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

	2018 £m	2017 £m
At 1 January	24.7	18.2
Exchange differences	0.4	2.3
Acquisition of companies and businesses	1.6	5.9
Disposal of companies and businesses	–	(2.4)
Additional provision	7.0	8.7
Receivables written off as uncollectable	(7.3)	(5.7)
Unused amounts reversed	(1.3)	(2.3)
At 31 December	25.1	24.7

The ageing of trade receivables is as follows:

	2018 £m	2017 £m
Not due	202.6	149.4
Overdue by less than 1 month	89.6	98.6
Overdue by between 1 and 3 months	54.0	73.1
Overdue by between 3 and 6 months	29.9	27.4
Overdue by between 6 and 12 months	22.2	20.1
Overdue by more than 12 months	22.7	19.9
Provision for impairment of trade receivables	(25.1)	(24.7)
	395.9	363.8

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

	2018 £m	2017 £m
Pounds sterling	40.1	40.9
Euro	131.5	136.7
US dollar	122.3	106.7
Other currencies	127.1	104.2
	421.0	388.5

A4. Inventories

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

	2018 £m	2017 £m
Raw materials	8.2	7.6
Work in progress	2.4	3.7
Finished goods	92.6	73.0
	103.2	84.3

There were no material inventory impairment charges in 2018 and 2017.

Notes to the Financial Statements

A5. Trade and other payables

	2018 £m	2017 £m
Trade payables	179.4	152.3
Social security and other taxes	62.5	58.2
Other payables	57.4	62.0
Accruals	154.7	126.5
Contract liabilities ¹	133.5	114.8
Deferred and contingent consideration (including put option liability of £54.1m (2017: £47.7m))	99.5	97.9
Total	687.0	611.7
Less non-current portion:		
Other payables	14.8	14.8
Deferred and contingent consideration (including put option liability of £54.1m (2017: £47.7m))	64.3	61.2
Total non-current portion	79.1	76.0
Current portion	607.9	535.7

1. Contract liabilities represents customer invoices where performance obligations have not yet been satisfied. All opening balances have subsequently been satisfied in the year. In most business categories our customers are invoiced in advance or simultaneously with performance obligations being satisfied.

Put options are held following the acquisition of Rentokil PCI in 2017, where the seller may require the Group to purchase the remaining shares of the business in stages over a fixed term. The put options are accounted for as an anticipated acquisition of the remaining shares and no non-controlling interest is recognised. The Group recognised a put option liability for the anticipated acquisition of these shares in deferred and contingent consideration, and any movements in the carrying value are recognised through equity.

A6. Provisions for other liabilities and charges

The Group has vacant property, environmental, self-insurance and other provisions. Provisions are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the 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 (Note D3).

Future cash flows relating to these obligations are discounted when the effect is material. The discount rates used are based on government bond rates in the country of the cash flows, and were between 0.3% and 0.7% (2017: between 0.3% and 0.5%) for the UK, and between 0.8% and 2.8% (2017: between 0.8% and 2.3%) for the US.

Judgement is required in determining the worldwide provision for environmental restoration. These provisions tend to be long-term in nature and the 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 forecast on which the provision is based.

	Vacant properties £m	Environmental £m	Self- insurance £m	Other £m	2018 Total £m	2017 Total £m
At 1 January	14.8	20.4	23.3	21.8	80.3	70.5
Exchange differences	–	0.3	0.8	0.1	1.2	(1.4)
Additional provisions	0.2	0.6	10.6	9.0	20.4	37.4
Used during the year	(5.5)	(4.3)	(7.0)	(15.3)	(32.1)	(25.3)
Unused amounts reversed	(0.9)	–	(1.2)	(0.1)	(2.2)	(4.9)
Acquisition of companies and businesses	–	–	0.1	3.2	3.3	3.8
Unwinding of discount on provisions	–	0.1	0.2	–	0.3	0.2
At 31 December	8.6	17.1	26.8	18.7	71.2	80.3
Analysed as follows:						
Non-current					42.5	55.0
Current					28.7	25.3

Notes to the Financial Statements

Vacant properties

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

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases at 31 December 2018 is £0.5m (2017: £1.2m).

Environmental

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

Self-insurance

The Group purchases external insurance from a portfolio of international insurers for its key insurable risks, but prior to 2008 the Group self-insured its risks. Provision is still held for self-insured past cover, primarily in relation to third party motor vehicle and employee liability. For the continuing self-insured programmes, individual claims are met in full by the Group up to agreed self-insured limits in order to limit volatility in claims. The calculated cost of self-insurance claims is based on an actuarial assessment of claims incurred at the balance sheet date and is accumulated as claims provisions. These provisions are expected to be substantially utilised within the next ten years.

Other

Other provisions principally comprise amounts required to cover obligations arising, costs relating to disposed businesses and restructuring costs. Existing provisions are expected to be substantially utilised within the next five years.

A7. Operating expenses by nature

Operating expenses from continuing operations include the following items:

		2018 £m	2017 £m
Employee costs	A9	1,191.2	1,165.9
Direct materials and services		511.9	473.6
Vehicle costs		120.6	109.2
Property costs		62.2	62.6
Depreciation and impairment of property, plant and equipment	B3	131.0	133.9
Amortisation and impairment of intangible assets	B2	77.7	67.0
Restructuring costs		7.2	7.3
One-off items – operating	A1	22.2	6.8
Other operating expenses		102.8	93.6
Total operating expenses		2,226.8	2,119.9

A8. Audit and non-audit services

	2018 £m	2017 £m
Fees payable to the Company's auditor for the audit of the Parent Company and Group accounts	0.6	0.6
Audit of accounts of subsidiaries of the Group	2.0	1.9
Audit-related assurance services	0.1	0.6
Total audit and audit-related assurance services	2.7	3.1
Taxation advisory services	0.1	–
All other non-audit services	–	0.1
Total non-audit services	0.1	0.1
Total audit and non-audit services	2.8	3.2

Notes to the Financial Statements

A9. Employee benefit expense

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on calculations of achievements of financial performance targets and based on the best estimate of the obligation to employees related to personal 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.

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.

Termination benefits

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

Employee benefit expense for the year is analysed as follows:

	2018 £m	2017 £m
Wages and salaries	1,022.5	991.8
Social security costs	129.5	136.6
Share-based payments	5.7	4.4
Pension costs:		
– defined contribution plans	32.3	29.7
– defined benefit plans	1.2	3.4
	1,191.2	1,165.9

Average number of people employed by the Group during the year:

	2018 Number	2017 Number
Processing and service delivery	28,997	26,341
Sales and marketing	4,916	4,473
Administration and overheads	5,567	5,222
	39,480	36,036

Emoluments of the Directors of Rentokil Initial plc are detailed below. Further details are also given in the Directors' Remuneration Report on pages 82 to 99.

	Highest paid Director 2018 £000	Other Directors 2018 £000	Highest paid Director 2017 £000	Other Directors 2017 £000
Aggregate emoluments excluding share options	1,457.2	866.1	1,376.3	850.9
Aggregate gains made by directors on exercise of share options	–	–	–	1,351.9
Aggregate amount receivable under long term incentive schemes	2,761.9	1,775.5	1,471.1	945.7
Aggregate value of Company contributions to defined contribution pension schemes	187.6	72.4	183.9	70.9
	4,406.7	2,714.0	3,031.3	3,219.4

	2018 Number	2017 Number
Number of Directors accruing retirement benefits		
– defined contribution schemes	2	2
– defined benefit schemes	–	–
Number of Directors exercising share options	–	1
Number of Directors receiving shares as part of long-term incentive schemes	2	2

Notes to the Financial Statements

A10. Retirement benefit obligations

Apart from contributions to legally required social security state schemes, the Group operates a number of pension schemes around the world covering many of its employees.

The principal pension scheme in the Group is the Rentokil Initial 2015 Pension Scheme (RIPS) in the UK which has a defined contribution section, and a number of defined benefit sections which are now closed to new entrants and future accrual of benefits. On 4 December 2018 the Group signed an agreement with Pension Insurance Corporation plc (PIC) to take over the payment of the liabilities in the scheme via a buy-in, which is anticipated to convert to a full buy-out before the end of 2020. This is discussed in further detail below.

A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee-administered funds or insurance companies.

Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions. Significant judgement is required in determining these actuarial assumptions.

Defined benefit pension plans

A defined benefit pension plan is a plan that estimates the amount of future pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the balance sheet date. The Group determines the net interest on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset. 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 have a credit rating of at least AA, are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The Group will recognise a pension surplus as an asset where there is an unconditional right to a refund or where the Group has a right to reduce future pension contributions, taking into account the adverse effect of any minimum funding requirements.

Current and past service costs, to the extent they have vested, and curtailments are recognised as charges or credits against operating profit in the income statement. In 2018 the settlement of the Rentokil Initial 2015 Pension Scheme was recognised separately on the income statement due to materiality. Interest costs on the net defined benefit are recognised in finance costs. Remeasurement gains and losses arising from experience adjustments, return on plan assets and changes in actuarial assumptions are charged or credited to the consolidated statement of comprehensive income.

Defined contribution pension plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

The Group pays contributions to publicly or privately administered pension 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 an 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.

GMP equalisation

On 26 October 2018 a High Court case in the UK confirmed that Guaranteed Minimum Pensions (GMP) need to be equalised between male and female pension scheme members. The Court did not specify the method to use to equalise GMP but did set out a number of possible approaches. Prior to this date the Group had excluded GMP equalisation from the valuation of scheme liabilities, but in the year an allowance has been made resulting in a past service cost of £12.0m.

Rentokil Initial 2015 Pension Scheme (RIPS)

The assets of the RIPS are legally separated from the Group. The Trustee of the pension fund is Rentokil Initial Pension Trustee Limited. The board comprises five company-nominated directors and three member-nominated directors. The Trustee is required by law to act in the best interests of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the RIPS.

On 4 December 2018 the Trustee entered into a binding agreement with Pension Insurance Corporation (PIC) to insure the liabilities of the scheme, known as a "buy-in". PIC has 162,800 insured pension scheme members¹, £27.9bn of financial investments² and an Insurer Financial Strength rating of A+ with Fitch³. The Group is committed to convert to a full buy-out within two years and therefore, while the legal form of the transaction at the balance sheet date is a buy-in, it has been accounted for as a full buy-out with the loss on settlement of £305.5m and past service cost of £36.1m being recognised in the income statement.

The Group achieved buy-in within the value of the assets held by the scheme and was not required to make any further contributions. While there are still some adjustments expected to the final price it is anticipated that there will be surplus assets when the scheme finally winds up in 2020. These assets are recognised as a retirement benefit asset. This asset has been recognised at management's estimate of the value of surplus that will be returned from the scheme to the Group.

1. From pensioncorporation.com/about-us/ 31 December 2018.

2. PIC HY2018 results

3. PIC press release 7 March 2018.

Notes to the Financial Statements

The defined benefit schemes are reappraised semi-annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19R requirements (including schemes which are insured under a buy-in contract). The assumptions used for the RIPS scheme are shown below:

	31 December 2018	31 December 2017
Weighted average %		
Discount rate	2.8%	2.5%
Future salary increases	n/a	n/a
Future pension increases	3.4%	3.4%
RPI inflation	3.5%	3.5%
CPI inflation	2.4%	2.4%

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Approximately 39% of the liabilities are attributable to current and former employees and 61% to current pensioners. There have been no significant changes to the membership of the scheme over the year. The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the RIPS as a whole, the duration is around 16 years.

The assets in the scheme consist of cash held in liquidity funds, and the fair value of the insurance policy. The fair value of the insurance policy asset is deemed to be equal to the present value of the related obligations that it covers at the balance sheet date.

Risks

As discussed above the trustee purchased an insurance policy that covers all retirement benefit obligations within the scheme, thereby removing exposure to the significant risks within the scheme (including changes in bond yields, inflation and longevity). The scheme's insurer (PIC) is now responsible for ensuring that there are sufficient assets to meet all future pension obligations, and is subject to EU solvency regulations. There is no volatility associated with the insurance policy asset as under IAS 19 its value is deemed to match the scheme liabilities. Asset volatility is limited only to the assets remaining in the scheme following this transaction which are expected to be returned to the Company on wind-up of the scheme. The surplus recognised (£20.5m) is management's estimate of the asset that will return to the Company on wind-up (subject to tax at 35%). It is subject to certain estimates and assumptions made at the balance sheet date which could lead to the overall surplus available being up to £40m.

Mortality assumptions

The mortality assumptions are based on the recent actual mortality experience of scheme members, and allow for expected future improvements in mortality rates. The mortality tables used are:

- 98% of the SAPS S2 All base tables for male pensioners;
- 107% of the SAPS S2 All base tables for female pensioners;
- 108% of the SAPS S2 All base tables for male and female non-pensioners; and
- 96% of the SAPS S2 All base tables for male and female dependent pensioners.

Future improvements are made in line with CMI_2017 Core Projections with a long-term rate of future improvement of 1.75% p.a.

Sensitivity of significant assumptions

The purchase of an insurance policy to cover all future benefits means that the sensitivity of the balance sheet and income statement to key assumptions is removed.

Notes to the Financial Statements

Pension benefits

The movement in the net defined benefit obligation for all pension schemes over the accounting period is as follows:

	Present value of obligation 2018 £m	Fair value of plan assets 2018 £m	Total 2018 £m	Present value of obligation 2017 £m	Fair value of plan assets 2017 £m	Total 2017 £m
At 1 January	(1,415.3)	1,715.4	300.1	(1,486.2)	1,728.0	241.8
Current service costs ¹	(1.2)	–	(1.2)	(0.5)	–	(0.5)
Past service costs ¹	(36.2)	–	(36.2)	(0.3)	–	(0.3)
Settlement of defined benefit obligation ¹	44.6	(350.0)	(305.4)	–	–	–
Administration expenses ¹	(1.1)	–	(1.1)	(1.2)	–	(1.2)
Interest on net defined benefit asset ¹	(34.0)	41.7	7.7	(36.8)	43.6	6.8
Exchange difference	(0.7)	0.5	(0.2)	(1.0)	0.3	(0.7)
Total pension (expense)/income	(28.6)	(307.8)	(336.4)	(39.8)	43.9	4.1
Remeasurements:						
– Remeasurement (loss)/gain on scheme assets	–	(20.2)	(20.2)	–	20.1	20.1
– Remeasurement gain on obligation ²	50.3	–	50.3	26.9	–	26.9
Transfers:						
– Transferred on disposal of business	–	–	–	1.3	–	1.3
– Transferred on acquisition of business	(4.3)	4.0	(0.3)	(0.9)	–	(0.9)
– Other transfers	(11.2)	8.5	(2.7)	–	–	–
Contributions:						
– Employers	0.7	1.3	2.0	(0.6)	1.8	1.2
– Participants	(0.1)	0.1	–	(0.1)	0.1	–
– Benefit payments	65.4	(64.0)	1.4	82.9	(78.5)	4.4
– Administration costs	1.1	–	1.1	1.2	–	1.2
At 31 December	(1,342.0)	1,337.3	(4.7)	(1,415.3)	1,715.4	300.1
Retirement benefit obligation schemes ³	(59.5)	33.3	(26.2)	(50.1)	24.0	(26.1)
Retirement benefit asset schemes ⁴	(1,282.5)	1,304.0	21.5	(1,365.2)	1,691.4	326.2

1. Service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to net interest credit from pensions.

2. The actuarial movement on the UK RIPS scheme comprises remeasurement gain arising from changes in demographic assumptions of £10.0m (2017: gain £55.2m), remeasurement gain arising from changes in financial assumptions of £60.1m (2017: loss of £22.2m) and remeasurement losses arising from experience of £22.0m (2017: £4.4m).

3. Benefit plans in an obligation position include plans situated in Austria, France, Germany, Hong Kong, India, Ireland, Italy, Korea, Martinique, Norway, Philippines, South Africa, Trinidad and UK.

4. Benefit plans in an asset position include plans situated in Australia, Barbados, India and UK.

Included in the table above is a net defined benefit surplus in relation to the UK RIPS scheme of £20.5m (2017: £325.4m) recognised as defined benefit obligation of £1,277.6m (2017: £1,360.7m) and plan assets of £1,298.1m (2017: £1,686.1m). Of the £1,342.0m (2017: £1,415.3m) of obligations, £15.5m (2017: £16.8m) is unfunded.

Total contributions payable to defined benefit pension schemes in 2019 are expected to be between £1m and £2m.

Notes to the Financial Statements

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

	2018 £m	2017 £m
Equity instruments	3.7	136.4
Debt instruments – quoted	–	1,548.2
Debt instruments – unquoted	14.0	13.0
Property	0.6	0.6
Insurance policies	1,261.6	–
Other	57.4	17.2
Total plan assets	1,337.3	1,715.4

Where available the fair values of assets are quoted prices (e.g. listed equity, sovereign debt and corporate bonds). In other cases the market value as provided by the fund managers has been used in accordance with IFRS 13 Fair Value Measurement:

- Unquoted debt instruments (Level 2)
- Interest and inflation rate hedging instruments (Level 2).

Other significant assets are valued based on observable market inputs. Insurance policies are valued at the present value of the related obligations. Other assets primarily consist of cash.

The history for the current and prior periods for the RIPS and other schemes combined is as follows:

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Present value of defined benefit plan liabilities	(1,342.0)	(1,415.3)	(1,486.2)	(1,232.0)	(1,366.2)
Fair value of plan assets	1,337.3	1,715.4	1,728.0	1,444.9	1,532.6
Net (liability)/surplus	(4.7)	300.1	241.8	212.9	166.4
Experience adjustments on plan liabilities	22.0	4.4	2.2	(18.1)	(10.4)
Experience adjustments on plan assets	18.6	(20.1)	(285.9)	45.2	(252.9)

The cumulative actuarial gain recognised in the Consolidated Statement of Comprehensive Income was £50.2m (2017: cumulative gain £20.1m). A remeasurement gain of £30.1m (2017: £47.0m gain) was recognised during the year.

A11. Share-based payments

Share-based compensation

The Group operates one equity-settled share-based long-term incentive plan. 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 shares that vest or 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.

Performance Share Plan

The Company introduced a share-based performance plan in 2006 for senior executives worldwide. The main features of the scheme are as follows:

- For awards made in 2012 and 2013, the performance conditions are total shareholder return (TSR) performance and an individual performance modifier. No shares will vest or options become exercisable if the share price does not reach median TSR performance at the end of the three-year performance period relative to the constituents of a comparator group, made up of FTSE 350 companies excluding financial services, primary resource and property sector companies. If TSR performance is above the upper quartile and all participants attain their maximum bonus target over the performance period, the full award will vest or become exercisable.
- For awards made between 2014 and 2018, one-third of the award is based on earnings per share (EPS) growth targets as outlined in the relevant year's Remuneration Report, and two-thirds of the award is based on TSR over the three-year performance period as explained above.
- The value of dividends paid during the vesting period are paid on the number of shares that ultimately vest in the form of additional shares (for awards that are nil-cost options, this is the value of dividends between grant and exercise).

The total net charge for the year relating to equity-settled share-based payment plans was £5.7m (2017: £4.4m).

Notes to the Financial Statements

A summary of the number of shares in active share option plans is shown below:

Year of grant	Vesting year	Share options outstanding					Share options exercisable				
		Scheme interest at 1 January 2018	Shares awarded during 2018	Shares lapsed during 2018	Shares vested during 2018	Outstanding at 31 December 2018	Shares exercisable at 1 January 2018	Shares vested during 2018	Shares exercised during 2018	Shares lapsed during 2018	Shares exercisable at 31 December 2018
2008	2011	–	–	–	–	–	43,538	–	(43,537)	–	1
2012	2015	–	–	–	–	–	381,760	–	(54,302)	–	327,458
2013	2016	–	22,716	–	(22,716)	–	2,247,871	22,716	(419,251)	–	1,851,336
2014	2017	–	29,889	–	(29,889)	–	2,801,680	29,889	(474,465)	–	2,357,104
2015	2018	7,380,616	351,094	(785,398)	(6,749,592)	196,720	–	6,749,592	(3,502,044)	–	3,247,548
2016	2019	7,310,041	–	(199,827)	(130,447)	6,979,767	–	130,447	–	–	130,447
2017	2020	5,522,355	–	(337,059)	(85,235)	5,100,061	–	85,235	–	–	85,235
2018	2021	–	7,175,881	(112,971)	–	7,062,910	–	–	–	–	–

The fair value of the 2018 awards made under the 2006 Performance Share Plan is charged to the income statement over the vesting period based on values derived from a model developed by Deloitte LLP. This is a closed-form solution (similar to a Monte Carlo simulation) which takes account of the correlation between share price performance and the likelihood of a TSR performance condition being met. For the shares awarded in March 2018, the significant inputs into the model were a share price of 271.2p (2017: 246.4p), an expected share price volatility of 18.4% (2017: 18.1%), a median share price correlation between the companies in the comparator group of 25.5% (2017: 31.2%), and an expected life commensurate with the three-year performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices. As the awards are nil-cost (i.e. there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards. Similarly, as dividend equivalents are paid on the vesting portion of awards, the fair value of these awards is not reduced to reflect dividends paid during the vesting period.

The fair value of awards granted during 2018 was £11.4m (2017: £9.8m).

A12. Operating leases

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

The Group leases properties, vehicles, and 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 £76.6m (2017: £74.7m).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Not later than one year	62.4	50.3
Later than one year and not later than five years	113.4	89.1
Later than five years	17.4	10.3
	193.2	149.7

Notes to the Financial Statements

A13. Income tax expense

Income tax expense for the period includes both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustment relating to prior years. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences between accounting and tax bases. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income. In this case the tax is also recognised in other comprehensive income.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income.

Analysis of charge in the year:

	2018 £m	2017 £m
UK corporation tax at 19% (2017: 19.25%)	7.0	6.4
Overseas taxation	34.5	35.2
Adjustment in respect of previous periods	4.0	2.4
Total current tax	45.5	44.0
Deferred tax credit	(57.2)	(7.0)
Deferred tax adjustment in respect of previous periods	(4.1)	(6.4)
Total deferred tax	(61.3)	(13.4)
Total income tax (credit)/expense	(15.8)	30.6

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

	2018 £m	2017 £m
Profit before income tax	(114.1)	713.6
Tax calculated at domestic tax rates applicable to profits in the respective countries	(15.7)	140.8
Adjustment in respect of previous periods	(0.1)	(4.0)
Deferred tax recognised on losses	4.0	0.4
Expenses not deductible for tax purposes – restructuring costs and one-off items	1.2	(1.8)
Expenses not deductible for tax purposes – interest payable	1.3	1.0
Expenses not deductible for tax purposes – other	2.3	2.9
Impairment of goodwill	–	0.4
Goodwill deductions	(1.0)	(0.8)
Income not subject to tax	(1.7)	(1.8)
Overseas financing deductions	(4.0)	(5.0)
Utilisation of previously unrecognised tax losses	(4.4)	(0.7)
Losses not relieved	0.8	3.6
Deferred tax impact of change in tax rates	(1.9)	0.2
Provisions utilised for which no deferred tax assets were recognised	(1.2)	(1.8)
Overseas withholding tax suffered	–	0.2
Deferred tax on unremitted earnings	0.5	(1.6)
Tax on overseas dividends	0.1	0.3
Local business taxes	1.9	2.2
Foreign exchange differences	(1.1)	0.5
Disposal gain not subject to tax	–	(98.0)
US tax reform impact	–	(6.4)
US BEAT liability	3.2	–
Total tax (credit)/expense	(15.8)	30.6

The Group's Effective Tax Rate (ETR) before amortisation of intangible assets (excluding computer software), one-off items and the net interest credit from pensions for 2018 was 21.8% (2017: 22.0%). This compares with a blended rate of tax for the countries in which the Group operates of 22% (2017: 24%). The Group's ETR is expected to remain above the UK tax rate due to the proportion of overseas profits which are taxed at a higher rate than UK profits. We expect our ETR for 2019 to be similar to 2018. We are not currently expecting any material change over the medium term.

Notes to the Financial Statements

The Group's tax charge and ETR will be influenced by the global mix and level of profits, changes in future tax rates and other tax legislation, the utilisation of brought forward tax losses on which no deferred tax asset has been recognised, the resolution of open issues with various tax authorities, the ability to benefit from existing financing arrangements, acquisitions, and disposals.

In the longer term the Group's adjusted ETR is likely to be similar to the blended tax rate once there is no further benefit from tax losses on which no deferred tax asset is currently recognised as their recoverability is not considered probable, but may become probable in the future. The blended tax rate is expected to increase to 23% in 2019 due to a change in the global mix of profits.

A14. Current tax liabilities

The Group is subject to income taxes in numerous jurisdictions. The Group is subject to various uncertainties relating to the determination of its tax liabilities where the ultimate tax liability cannot be known until a resolution has been reached with the relevant tax authority, or the issue becomes time barred. Issues can take many years to resolve and therefore assumptions on the likely outcome have to be made by management.

Where considered appropriate, management establishes provisions for uncertain tax positions on the basis of amounts expected to be paid to the tax authorities. The Group's current tax liabilities reflect management's best estimate of the future amounts of corporation tax that will be settled. Total tax provisions and accruals (including interest thereon) amounted to £59.7m as at 31 December 2018 (2017: £59.9m). Tax accruals can be built up over a number of years but in the year of resolution there could be adjustments to these accruals which could have a material positive or negative impact on the tax charge for a particular year. The settlement of a significant issue could also have a material impact on the amount of cash tax payable in any one year. Significant judgement is required in determining the worldwide provision for income taxes particularly in relation to the pricing of intra-group goods and services as well as debt financing.

The majority of the tax provisions relate to transfer pricing exposures where the Group faces a number of risks in jurisdictions around the world, and is subject to audits by tax authorities in the territories in which it operates.

Apart from transfer pricing issues the largest single provision relates to a financing structure where the amount provided is now £16.0m. This is a legacy issue going back to the years 2002 to 2005. The Group is fully provided for the potential tax and interest payable so there is not expected to be an adverse impact on the income statement. It is unclear when this issue will be resolved.

On 24 November 2017 the European Commission published an opening decision that the group finance partial exemption in the UK's controlled foreign company rules constitutes State Aid. A final decision is still awaited and may, in any event, be challenged by the UK tax authorities. Along with many other UK-based international companies the Group has relied upon the finance company exemption and therefore there is a risk that the benefits may be clawed back, together with interest. The Group is monitoring developments but does not currently consider that any provision is needed in relation to EU State Aid. The estimated maximum potential tax liability is approximately £14.0m.

A15. Deferred income tax

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in transactions other than a business combination that at the time of the transactions affect neither the accounting nor taxable profit or loss; and, differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred income tax is determined using tax rates (and laws) that have been enacted (or substantively enacted) at 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 profits will be available against which the temporary differences can be utilised. In recognising the deferred tax asset in respect of UK losses, management have estimated the quantum of future UK taxable profits over the next three years.

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

	2018 £m	2017 £m
At 1 January	(105.9)	(110.8)
Exchange differences	(1.9)	1.5
Acquisition of companies and businesses	(20.1)	(5.1)
Net impact of disposals	–	0.7
Credited to the income statement ¹	61.3	13.4
Charged to equity (of which £15.7m is related to the adjustment on initial application of IFRS 15)	(25.9)	(5.6)
At 31 December	(92.5)	(105.9)
Deferred taxation has been presented on the balance sheet as follows:		
Deferred tax asset within non-current assets	3.5	3.4
Deferred tax liability within non-current liabilities	(96.0)	(109.3)
	(92.5)	(105.9)

¹ Deferred taxation credited to the income statement includes £(66.0)m (2017: £nil) relating to the pension settlement

Notes to the Financial Statements

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

	Customer lists/ intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Tax losses £m	Share-based payments £m	Other £m	Total £m
At 1 January 2018	60.8	42.5	48.0	3.4	(31.0)	(3.4)	(14.4)	105.9
Exchange differences	2.1	0.9	(0.1)	–	(0.2)	–	(0.8)	1.9
Recognised in income statement	(3.7)	6.5	(64.1)	0.6	8.0	(1.0)	(7.6)	(61.3)
Recognised in other comprehensive income	–	–	15.7	–	–	(2.6)	12.8	25.9
Acquired in business combinations	19.4	0.7	–	–	–	–	–	20.1
At 31 December 2018	78.6	50.6	(0.5)	4.0	(23.2)	(7.0)	(10.0)	92.5

A deferred tax asset of £6.7m (2017: £12.3m) has been recognised in respect of UK losses carried forward at 31 December 2018. This amount has been calculated by estimating the future UK taxable profits, against which the UK tax losses will be utilised, and applying the tax rates (substantively enacted as at the balance sheet date) applicable for each year. Remaining UK tax losses of £151.8m have not been recognised as at 31 December 2018. The reduction in the deferred tax asset recognised on the UK tax losses is due to a decline in inter-group income earned in the UK post the transfer of certain overseas subsidiaries to the joint venture with CWS-boco.

At the balance sheet date the Group has tax losses of £216.3m (2017: £206.0m) on which no deferred tax asset is recognised. Of the losses £19.2m (2017: £23.2m) will expire at various dates between 2019 and 2037. In addition, there are capital losses carried forward of £276.9m (2017: £276.9m) on which no deferred tax asset is recognised. Other deferred tax assets relating to gross temporary timing differences of £2.7m (2017: £6.7m) have not been recognised due to the uncertainty regarding their utilisation.

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

Notes to the Financial Statements

B. Investing

B1. Business combinations

All business combinations are accounted for using the purchase method (acquisition accounting) in accordance with IFRS 3 Business Combinations. The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

An intangible asset is recognised if it meets the definition of an intangible asset under IAS 38 Intangible Assets. The intangible assets arising on acquisition are goodwill, customer lists and relationships, and brands. Goodwill represents the synergies, workforce and other benefits expected as a result of combining the respective businesses. Customer lists and relationships and brands are recognised at their fair value at the date of acquisition using an income-based approach, which involves the use of assumptions including customer termination, profit margins and discount rates. The use of these assumptions requires estimation in the valuation approach.

Deferred and contingent consideration is accounted for at fair value at the acquisition date with subsequent changes to the fair value of contingent consideration being recognised in the consolidated income statement.

Costs directly attributable to business combinations are charged to the income statement as incurred and presented as one-off items.

During the year the Group purchased 100% of the share capital or trade and assets of 47 companies and businesses. The total consideration in respect of these acquisitions was £289.6m and the cash outflow from current and past period acquisitions, net of cash acquired, was £294.4m. An overview of the acquisitions in the year can be found in the Financial Review on page 106.

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

	2018 £m	2017 £m
Purchase consideration:		
– Cash paid	258.4	269.9
– Deferred and contingent consideration	31.2	86.6
Total purchase consideration	289.6	356.5
Fair value of net assets acquired	(123.9)	(68.2)
Goodwill from current year acquisitions	165.7	288.3

Deferred consideration of £14.5m and contingent consideration of £16.7m is payable in respect of the above acquisitions. Contingent consideration is payable based on a variety of conditions including revenue and profit targets being met. Both deferred and contingent consideration are payable over the next five years. The Group has recognised the contingent and deferred consideration based on the fair value of the consideration at the acquisition date.

The provisional fair value¹ of assets and liabilities arising from acquisitions in the year are as follows:

	2018 £m	2017 £m
Non-current assets		
– Intangible assets ²	124.7	46.2
– Property, plant and equipment	16.5	18.5
Current assets ³	29.6	51.6
Current liabilities	(22.4)	(38.1)
Non-current liabilities ⁴	(24.5)	(10.0)
Net assets acquired	123.9	68.2

1. The provisional fair values will be finalised in the 2019 financial statements. The fair values are provisional since the acquisition accounting has not yet been finalised as a result of the proximity of many acquisitions to the year end.

2. Includes £124.3m (2017: £39.1m) of customer lists and relationships and £0.4m (2017: £7.1m) of other intangibles.

3. Includes trade and other receivables of £18.8m (2017: £36.4m) which represents the gross and fair value of the assets acquired.

4. Includes (£19.4m) of deferred tax relating to acquired intangibles (2017: £5.1m).

Notes to the Financial Statements

The cash outflow from current and past acquisitions are as follows:

	2018 £m	2017 £m
Total purchase consideration	289.6	356.5
Consideration payable in future periods	(31.2)	(86.6)
Purchase consideration paid in cash	258.4	269.9
Cash and cash equivalents in acquired companies and businesses	(4.4)	(8.1)
Cash outflow on current period acquisitions	254.0	261.8
Deferred consideration paid	40.4	19.3
Cash outflow on current and past acquisitions	294.4	281.1

From the dates of acquisition to 31 December 2018, these acquisitions contributed £122.7m to revenue and £19.2m to operating profit.

If the acquisitions had occurred on 1 January 2018 the revenue and operating profit of the Group would have amounted to £2,520.0m and £251.2m respectively.

B2. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, where applicable.

A breakdown of intangible assets is as shown below:

	Goodwill £m	Customer lists and relationships £m	Brands £m	Product development £m	Computer software £m	2018 Total £m	2017 Total £m
Cost							
At 1 January	1,004.8	604.2	63.0	22.9	96.6	1,791.5	1,526.8
Exchange differences	38.5	17.8	2.5	–	1.3	60.1	(86.7)
Additions	–	–	0.1	5.2	17.6	22.9	19.1
Disposals/retirements	–	–	–	–	(1.1)	(1.1)	(4.1)
Acquisition of companies and businesses	146.7	149.4	0.9	–	0.1	297.1	344.4
Disposal of companies and businesses	–	–	–	–	(0.2)	(0.2)	(8.0)
At 31 December	1,190.0	771.4	66.5	28.1	114.3	2,170.3	1,791.5
Accumulated amortisation and impairment							
At 1 January	(32.6)	(431.2)	(34.0)	(9.7)	(63.8)	(571.3)	(527.2)
Exchange differences	(0.6)	(10.2)	(1.2)	–	(1.0)	(13.0)	14.3
Disposals/retirements	–	–	–	–	0.7	0.7	3.4
Disposal of companies and businesses	–	–	–	–	0.1	0.1	5.2
Impairment charge	–	–	–	(0.4)	–	(0.4)	(2.2)
Amortisation charge	–	(52.3)	(4.6)	(4.3)	(16.1)	(77.3)	(64.8)
At 31 December	(33.2)	(493.7)	(39.8)	(14.4)	(80.1)	(661.2)	(571.3)
Net book value							
At 1 January	972.2	173.0	29.0	13.2	32.8	1,220.2	999.6
At 31 December	1,156.8	277.7	26.7	13.7	34.2	1,509.1	1,220.2

Notes to the Financial Statements

The main categories of intangible assets are as follows:

Intangible assets – finite useful lives

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

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

Customer lists and relationships	3 to 15 years
Brands	2 to 15 years
Product development	up to 5 years
Computer software	3 to 5 years

The following are the main categories of intangible assets with finite useful lives:

(a) Customer lists and relationships

Customer lists and relationships are acquired as part of business combinations. No value is attributed to internally generated customer lists or relationships.

(b) Brands

Brands are acquired as part of business combinations. No value is attributed to internally generated brands as expenditure incurred to develop, maintain and renew brands internally is recognised as an expense in the period incurred.

(c) Product development

Costs incurred in the design and testing of new or improved products are recognised as intangible assets only if the cost can be measured reliably, and it is probable that the project will be a success considering its commercial and technological feasibility. Capitalised product development expenditure is measured at cost less accumulated amortisation.

Other development expenditure, and all research expenditure is recognised as an expense as incurred.

Development costs recognised as an expense are never reclassified as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is made available.

(d) Computer software

Costs that are directly associated with the production of identifiable and unique software products that are controlled by the Group (including employee costs and external software development costs) are recognised as intangible assets if they are expected to generate economic benefits beyond one year, in excess of their cost. Purchased computer software is initially recognised based on the costs incurred to acquire and bring it into use.

Costs associated with maintaining computer software are recognised as an expense in the period in which they are incurred.

Intangible assets – indefinite useful lives

Goodwill

	2018 £m	2017 £m
France	9.7	9.5
Benelux	6.2	4.5
Germany	9.7	7.0
Southern Europe	31.9	22.6
Latin America ²	19.8	20.2
Europe	77.3	63.8
UK & Ireland	83.7	28.9
Rest of World	36.2	20.0
UK & Rest of World	119.9	48.9
Asia	141.0	122.4
North America ^{1,2}	746.5	673.9
Pacific	72.1	63.2
Total	1,156.8	972.2

1. Includes £654.8m (2017: £590.1m) relating to the US Pest Control CGU

2. Regional classifications have been revised in 2018 and comparative data has been restated

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 business at the date of acquisition. It is recognised as an intangible asset. Goodwill arising on the acquisition of an associate is included in investments in associates.

Notes to the Financial Statements

Impairment tests for goodwill

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs) identified according to country of operation and reportable business unit. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The recoverable amount of a CGU is determined based on the higher of value-in-use calculations using cash flow projections and fair value less costs to sell if appropriate. The cash flow projections are based on financial budgets approved by management, which are prepared as part of the Group's normal planning process. Cash flows for years two to five use management's expectation of sales growth, operating costs and margin, based on past experience and expectations regarding future performance and profitability for each CGU. Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates. It can be demonstrated that there is material headroom in the recoverable amount of the CGU goodwill balances based on the assumptions made, and there is not considered to be any reasonably possible scenario under which material impairment could be expected to occur based on the testing performed.

The key assumptions used by individual CGUs for value-in-use calculations were:

	2018 long-term growth rate ¹	2018 post-tax discount rate ²	2017 long-term growth rate ¹	2017 post-tax discount rate ²
France	1.6%	6.5%	1.9%	7.0%
Benelux	1.5 – 1.9%	6.5 – 7.5%	1.6%	7.5 – 8.0%
Germany	1.2%	6.5 – 7.5%	1.2%	7.5 – 9.0%
Southern Europe	0.8 – 1.7%	9.3 – 9.8%	0.9 – 1.7%	7.5 – 9.0%
Latin America	2.2 – 2.9%	9.8%	1.8 – 2.5%	9.0 – 11.0%
UK & Ireland	1.6 – 2.8%	6.5%	2.0%	7.5%
Rest of World	1.8 – 2.0%	6.5 – 15.0%	2.0 – 2.2%	7.5 – 15.0%
Asia	2.6 – 8.2%	9.3 – 9.8%	2.0 – 4.7%	7.5 – 8.5%
North America ^{3,4}	(0.8) – 1.6%	6.5%	(0.6) – 2.7%	8.0%
Pacific	2.4 – 2.5%	7.5%	2.5 – 2.7%	7.5 – 8.0%

1. Source: www.imf.org

2. The equivalent pre-tax discount rates range from 7.4% to 18.6% across the Group (2017: 8.4% to 19.7%).

3. Key assumptions used by the US Pest Control CGU were a long-term growth rate of 1.4% (2017: 2.0%) and a post-tax discount rate of 6.5% (2017: 8%).

4. The negative growth rate in the North America region is due to the Puerto Rico business.

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.

B3. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation with the exception of freehold land and assets under construction which are not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

A breakdown of property, plant and equipment is shown below:

	Land and buildings £m	Service contract equipment £m	Other plant and equipment £m	Vehicles and office equipment £m	2018 Total £m	2017 Total £m
Cost						
At 1 January	79.0	419.7	157.0	224.9	880.6	939.2
Exchange differences	1.3	2.5	2.5	6.9	13.2	12.7
Additions	2.1	106.4	17.4	35.1	161.0	192.7
Disposals	(0.8)	(60.6)	(6.6)	(20.6)	(88.6)	(119.0)
Acquisition of companies and businesses	1.8	7.8	1.6	7.8	19.0	18.2
Disposal of companies and businesses	–	(0.6)	–	–	(0.6)	(163.2)
At 31 December	83.4	475.2	171.9	254.1	984.6	880.6
Accumulated depreciation and impairment						
At 1 January	(23.9)	(222.4)	(113.4)	(130.7)	(490.4)	(522.9)
Exchange differences	(0.4)	(0.9)	(1.7)	(4.0)	(7.0)	(8.4)
Disposals	0.3	57.5	6.2	16.7	80.7	113.3
Disposal of companies and businesses	–	–	–	–	–	61.5
Impairment charge	(0.1)	–	–	–	(0.1)	–
Depreciation charge	(2.9)	(90.1)	(10.4)	(27.5)	(130.9)	(133.9)
At 31 December	(27.0)	(255.9)	(119.3)	(145.5)	(547.7)	(490.4)
Net book value						
At 1 January	55.1	197.3	43.6	94.2	390.2	416.3
At 31 December	56.4	219.3	52.6	108.6	436.9	390.2

Notes to the Financial Statements

Depreciation of assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

Freehold buildings	50 to 100 years
Leasehold buildings	shorter of the lease term or estimated useful life
Vehicles	4 to 5 years
Plant and equipment (including service contract equipment)	3 to 10 years
Office equipment, furniture and fittings	3 to 10 years

Residual values and useful lives of assets are reviewed annually and amended as necessary. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may exceed its recoverable amount. There were £0.1m of impairments in the year (2017: £nil).

When assets are sold, the gain or loss between sale proceeds and net book value is recognised in the Income statement.

The category of service contract equipment represents the pool of assets used by the Group in delivering contracted services to customers. Land and buildings comprise mainly factories and offices.

Finance 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. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

The net carrying amounts of assets held under finance leases are as follows:

	2018 £m	2017 £m
Vehicles and office equipment	41.7	36.0
Total	41.7	36.0

B4. Capital commitments

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

	2018 £m	2017 £m
Property, plant and equipment	7.8	10.7
Intangible assets	1.5	0.6
	9.3	11.3

B5. Investments in associated undertakings

	2018 £m	2017 £m
Interest in CWS-boco International GmbH	265.4	258.5
Interest in Nippon Calmic Ltd	26.3	20.2
At 31 December	291.7	278.7

Notes to the Financial Statements

CWS-boco International GmbH

CWS-boco International GmbH is an associated undertaking in which the Group has a 17.8% ownership interest. The classification as an associated undertaking has been determined based on quantitative and qualitative factors which indicate that significant influence is held by the Group. This included board representation, participation in policy making, interchange of managerial personnel and the provision of technical information. The associated undertaking is unlisted and the investment value is shown below:

	2018 £m	2017 £m
At 1 January	258.5	–
Acquisition	–	254.0
Exchange differences	3.2	3.2
Share of profit ¹	12.1	1.3
Dividends received	(8.4)	–
At 31 December	265.4	258.5

¹ Share of profit is net of tax of £5.2m (2017: £0.6m).

	Assets 2018 £m	Liabilities 2018 £m	Revenue 2018 £m	Profit 2018 £m	Assets 2017 £m	Liabilities 2017 £m	Revenue 2017 £m	Profit 2017 £m
CWS-boco International GmbH (17.8%)	276.0	(159.9)	180.0	12.1	277.9	(166.9)	88.7	1.3

Nippon Calmic Ltd

Nippon Calmic Ltd (Japan) is an associated undertaking in which the Group has a 49% interest. The associate is unlisted and the investment value is shown below.

	2018 £m	2017 £m
At 1 January	20.2	17.8
Exchange differences	2.1	(1.5)
Share of profit ¹	7.5	7.0
Dividends received	(3.5)	(3.1)
At 31 December	26.3	20.2

¹ Share of profit is net of tax of £3.7m (2017: £3.8m).

	Assets 2018 £m	Liabilities 2018 £m	Revenue 2018 £m	Profit 2018 £m	Assets 2017 £m	Liabilities 2017 £m	Revenue 2017 £m	Profit 2017 £m
Nippon Calmic Ltd (Japan) (49%)	41.4	(14.3)	48.9	7.5	33.6	(12.4)	46.6	7.0

Notes to the Financial Statements

C. Financing

C1. Financial risk management

The Group's central treasury function manages cash, borrows on behalf of the Group, and provides finance to Group companies in their local currencies. Treasury activity is governed by a Treasury Committee, which is chaired by the Chief Financial Officer.

The main financial risks faced by the Group are set out below.

(a) Liquidity risk

The Group is committed to ensuring it has sufficient liquidity to meet its business needs, and appropriate reserves to cover operational underperformance or dislocation in the financial markets. The Group's policy is to have headroom of unrestricted cash and available committed facilities of at least £150m, and the Treasury Committee manages financing requirements and associated headroom at least 12 months forward.

The Group has a Revolving Credit Facility (RCF) with 17 relationship banks and a committed bilateral term loan with another relationship bank (see Note C6 for details). All of these facilities contain covenants that require EBITDA: Net Interest to be at least 4.0:1.0 and that Net Debt: Adjusted EBITDA should be no greater than 3.5:1.0. Compliance with financial and other covenants is reviewed regularly and financial covenants are reported to the lenders semi-annually in line with the requirements under the facilities. The Group remains compliant with its covenants.

The Group targets a Standard & Poor's (S&P) investment grade credit rating for debt issuance of BBB over the medium term. In line with S&P liquidity ratio requirements, debt maturities are financed at least 12 months in advance using available cash or committed facilities, or by issuance of new debt. Management maintains an active dialogue with S&P, as well as the Group's relationship banks, to ensure that any changes to the Group's financing and acquisition strategies are understood.

In August 2018, the Group up-sized its RCF to £600m plus an accordion of £200m, and extended its maturity to 2023 with two one-year extension options. Available commitments of £580m under the RCF together with unrestricted cash of £58.4m gives the Group combined headroom of £638.4m at 31 December 2018 (2017: £645.3m of combined headroom) to meet the maturity of the September 2019 €500m bond. The Group has no other maturities falling due in 2019.

All of the Group's bonds issued under its Euro Medium-Term Note (EMTN) Programme, contain a coupon step-up which increases the coupon payable by 1.25% in the event that the Group is downgraded to BB+ or below (sub-investment grade). The Group's EMTNs may be called by their investors at par in the event of a change of control of the Group. They may also be called within 120 days if the Group's debt is downgraded below investment grade, or if the rating is withdrawn and the rating agency confirms in writing, either publicly or to the Group or the Trustee, that the rating action occurred either wholly or in part due to a change of control.

(b) Credit risk

The group has no significant concentration of credit risk. Sales are typically low-value, high-volume, spreading the risk across a large number of customers and geographies. Policies are in place to ensure that credit sales are only made to customers with an appropriate credit history. The Group operates in some territories where there is increased exposure to trade credit risks and in those territories the Group puts in place appropriate measures to manage its credit risk exposure.

In order to protect the liquid assets and funding relationships of the Group, management aims to maintain banking relationships with counterparties that carry a long-term credit rating of at least A-. In countries where no banks are rated A- or above, balances are monitored monthly and kept to a minimum. In addition, funds held with all counterparties are subject to limits. All exposures are monitored daily and reported to the Treasury Committee each month. The Group also monitors the credit worthiness of its lenders to ensure available commitments under its facilities are available as needed.

At 31 December 2018 the Group had a total of £10.2m of cash held on bank accounts with banks rated below A- by S&P. The highest concentration with any single bank rated below A- was £2.9m.

(c) Market risk

Foreign exchange risk

The Group's worldwide operations generate profits and cash flows in foreign currencies. Sales and purchases are typically denominated in the currency of the country in which they are transacted, and the Group's cross-border procurement is considered insignificant. Sterling procurement and central costs mean that foreign currencies constitute more than 100% of Group adjusted operating profit at approximately 110%.

The Group's primary exposure to foreign exchange risk is in relation to the translation of assets and liabilities, and the Group aims to hold debt in currencies in proportion to its forecast foreign currency profits and investments. FX derivatives are used to manage foreign currency exposures in excess of £0.5m that are not covered by debt or assets in the same (or another highly-correlated) currency. The Treasury Committee monitors foreign exchange exposures on a monthly basis. Dealing in foreign exchange products is controlled by dealing mandates approved by the Treasury Committee and all FX transactions are covered by ISDA documentation.

The most significant foreign currency groups are euros and US dollars, which make up 45.0% and 27.7% of Group adjusted operating profit respectively.

At 31 December 2018 the Group's net debt was approximately 64% euro (2017: 66%), reflecting that it is the Group's principal cash flow exposure; and 39% US dollars (2017: 54%), reflecting the size of the US market and the Group's strong growth and investment in this region. This is offset by 3% of cash held in other currencies. The translation of the interest element of euro and US dollar debt provides a partial income statement offset to the translation of earnings.

The Group calculates the impact on the income statement and other comprehensive income of a 10% movement in foreign exchange rates. The Group's principal foreign currency exposure is the euro. A 10% movement in £/€ would result in a £14.4m increase/decrease (2017: £13.9m) in adjusted operating profit, offset by a £2.1m decrease/increase (2017: £2.1m) in interest payable. For US dollars, a 10% movement in £/\$ would result in a £10.3m increase/decrease (2017: £8.8m) in adjusted operating profit, offset by a £1.6m decrease/increase (2017: £1.8m) in interest payable.

Where possible, currency cash flows are used to settle liabilities in the same currency in preference to selling currency in the market.

Notes to the Financial Statements

Interest rate risk

The Group seeks to manage interest rate risk to ensure reasonable certainty of its interest charge while allowing an element of risk exposure consistent with the variability of its cash flows. Interest rate risk is managed by the use of fixed interest debt and interest rate derivatives, which are approved in advance by the Treasury Committee. The Group policy is to fix a minimum of 50% of its estimated future interest rate exposures (excluding pensions) for a minimum period of 12 months forward. The Treasury Committee reviews this exposure monthly.

A hypothetical 1.0% increase in euro interest rates would reduce the market value of the Group's bond liabilities by £51.7m at 31 December 2018 (2017: £53.2m). The income statement impact is £nil as changes in interest rates do not change the expected cash flows on the bonds.

The Group had outstanding bond debt issues at 31 December 2018 with a market value of £1,146.6m (2017: £1,206.8m). This exceeds the book value of £1,120.1m (2017: £1,143.2m) as a result of reductions in interest rates in Europe. There are no circumstances where the Group would be obliged to pay the fair market value. The Group could however decide to redeem some or all of its bonds early and the fair market value is indicative of the price that would be required to do so.

Capital risk

The Group is committed to maintaining a debt/equity structure that allows continued access to a broad range of financing sources and sufficient flexibility to pursue commercial opportunities as they present themselves, without onerous financing terms and conditions. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to support the Group's strategy. Capital consists of ordinary shares, retained earnings and non-controlling interests in the Group. Management monitor the return on capital as well as the level of dividends to ordinary shareholders.

(e) Treasury risk

The Group's treasury activities are governed by a treasury policy, which is reviewed and approved by the Board on an annual basis. The treasury policy covers all activities associated with managing the above risks. The policy requires that financial instruments are only utilised to manage known financial exposures and speculative derivative contracts are not entered into. The treasury policy requires that treasury must approve opening and closing of all bank accounts, and that funds transfers and other payments are only made in accordance with bank mandates. To ensure an appropriate control environment exists in the treasury function, duties are segregated between front and back office teams. In addition a number of controls are in place to protect against potential cyber security and other risks.

C2. Net debt

Closing net debt comprises:

	Notes	2018 £m	2017 £m
Cash and cash equivalents	C3	129.8	310.1
Other investments – loans and receivables	C4	2.5	0.7
Fair value of debt-related derivatives		(20.1)	(3.4)
Bank and other short-term borrowings		(58.2)	(58.2)
Bank and other long-term borrowings		(1,165.8)	(1,139.2)
Finance leases		(41.7)	(37.3)
Total net debt		(1,153.5)	(927.3)

The currency of debt is as follows:

	2018 %	2017 %
Euro debt (principally bonds)	64%	66%
USD debt (principally cross-currency swaps)	39%	54%
Other cash	(3%)	(20%)
Total net debt	100%	100%

Notes to the Financial Statements

Reconciliation of net change in cash and cash equivalents to net debt:

	Opening 2018 £m	Cash flows £m	Non-cash (fair value changes) £m	Non-cash (Foreign exchange and other) £m	Closing 2018 £m
Cash and cash equivalents ¹	310.1	(186.0)	–	5.7	129.8
Other investments – loans and receivables	0.7	2.5	–	(0.7)	2.5
Fair value of debt-related derivatives	(3.4)	15.1	(13.8)	(18.0)	(20.1)
Bank and other short-term borrowings	(58.2)	28.0	(28.4)	0.4	(58.2)
Bank and other long-term borrowings	(1,139.2)	(3.8)	(5.8)	(17.0)	(1,165.8)
Finance leases	(37.3)	14.7	(17.0)	(2.1)	(41.7)
	(927.3)	(129.5)	(65.0)	(31.7)	(1,153.5)

¹ Excluding bank overdrafts

Foreign exchange loss on debt amounted to £(37.4)m (2017: gain of £24.2m) for 2018. The loss primarily resulted from a strengthening of US dollar by 8 cents and by a strengthening of the euro by 1 cent. Included within net decrease in cash and cash equivalents is £5.6m paid in cash settlement on debt-related foreign exchange forward contracts (2017: £32.5m).

C3. Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits, 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.

Cash at bank and in hand includes £11.7m (2017: £1.9m) of restricted cash. This cash is held in respect of specific contracts and can only be utilised in line with terms under the contractual arrangements.

Cash at bank and in hand also includes £33.2m (2017: £27.1m) of cash held in countries with foreign exchange regulations. This cash is repatriated to UK where possible.

The Group operates pooling arrangements whereby cash balances and overdrafts held within the same bank are offset to give a net balance which is included within cash and cash equivalents on the balance sheet. These cash and bank overdraft figures before netting are shown in the table below:

Offsetting financial assets and liabilities

	Gross amounts before offsetting £m	Gross amounts set off £m	Net amounts presented £m
At 31 December 2018			
Cash at bank and in hand	679.5	(553.9)	125.6
Short-term bank deposits	4.2	–	4.2
Cash and cash equivalents	683.7	(553.9)	129.8
Bank overdraft	(582.8)	553.9	(28.9)
	100.9	–	100.9
At 31 December 2017			
Cash at bank and in hand	997.8	(697.5)	300.3
Short-term bank deposits	9.8	–	9.8
Cash and cash equivalents	1,007.6	(697.5)	310.1
Bank overdraft	(703.5)	697.5	(6.0)
	304.1	–	304.1

Credit interest rates on bank balances range between 0.0% and 6.5% and debit interest rates range between 0.0% and 0.045%.

As far as it is practical to do so, cash balances are held centrally and are used first to repay borrowings under the Group's Revolving Credit Facility before being placed on deposit.

Notes to the Financial Statements

C4. Other investments

Other investments held at year end mainly comprised term deposits maturing in more than three months from the date that the deposit was placed. The weighted average effective interest rate earned is 0.0% (2017: 0.0%) and the weighted average rate was fixed for one year (2017: one year).

Financial assets are denominated in the following currencies:

	2018 €m	2017 €m
Pounds sterling	2.4	–
Other ¹	0.3	0.7
	2.7	0.7
Analysed as follows:		
Current portion	2.5	0.5
Non-current portion	0.2	0.2
	2.7	0.7

1. Includes an investment of €0.1m (2017: €0.2m) in development funds by an entity in South Africa. The investment is classified as available for sale.

None of the financial assets are either past due or impaired in 2018.

C5. Derivative financial instruments

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. At the inception of the transaction the Group documents 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 effective in offsetting changes in fair values of hedged items.

Certain financial instruments are not designated or do not qualify for hedge accounting. Typically the Group will not designate financial instruments for hedge accounting where a perfect or near perfect offset is expected between the change in value of assets and liabilities. Changes in the fair value of any derivative instruments in this category are immediately recognised in the income statement.

Where financial instruments are designated for hedge accounting they are designated as either fair value hedge, net investment hedge or cash flow hedge. When designating cross currency swaps, the cost of hedging has been excluded from the relationship and any movement in the fair value related to the cost of hedging is deferred in equity and amortised over the life of the hedged item.

(a) Fair value hedge

These instruments are used to hedge exposure to changes in the fair value of recognised assets or liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised 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

These instruments are used to hedge exposure on translation of net investments in foreign operations. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. In the event of disposal of a foreign operation, the gains and losses accumulated in other comprehensive income are recognised in the income statement.

(c) Cash flow hedge

These instruments are used to hedge a highly probable forecast transaction or a change in the cash flows of a recognised asset or liability. The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. Any ineffective portion is immediately recognised in the income statement. The gains or losses that are recognised in comprehensive income are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. In the event the hedged item occurs or is no longer expected to occur, accumulated gains or losses held in the cash flow hedge reserve are immediately recognised in the income statement. In the event the hedged item is expected to occur but no longer meets the requirements of hedge accounting, accumulated gains or losses remain in other comprehensive income and are only recognised in the income statement when the forecast transaction occurs or is no longer expected to occur.

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge' in the table on page 143) in accordance with IFRS 9. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedge is taken directly to finance costs. There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship. Cash flow hedge accounting has been applied to €54.4m of the €500m 2019 bond, hedging the changes in cash flow due to volatility in the GBP/EUR exchange rate. Cash flow hedge has also been applied to the floating interest of the \$50m term loan maturing in 2020 that has been swapped to a fixed rate.

At the end of the year, the amount in comprehensive income related to cash flow hedge accounting was a gain of £9.5m (2017: £2.6m loss).

Notes to the Financial Statements

Fair value estimation

All financial instruments held at fair value are classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability, either directly as prices or indirectly through modelling based on prices;

Level 3 – inputs for the asset or liability that are not based on observable market data.

The Group uses the following methods to estimate fair value of its financial instruments:

Financial instrument	Hierarchy level	Valuation method
Financial assets traded in active markets	1	Current bid price
Financial liabilities traded in active markets	1	Current ask price
Long-term debt	1	Quoted market prices
Liquidity fund	1	Quoted market prices or dealer quotes for similar instruments
Interest rate/currency swaps	2	Market swap rates at the balance sheet date
Forward foreign exchange contracts	2	Forward exchange market rates at the balance sheet date
Borrowings not traded in active markets	2	Cash flows discounted at current market rates
Financial instruments not traded in active markets	2 or 3	Valuation assumptions based on market conditions at the balance sheet date
Trade payables and receivables	3	Nominal value less estimated credit adjustments
Other financial instruments	3	Variety of techniques including discounted cash flows

	Fair value assets 2018 £m	Fair value liabilities 2018 £m	Fair value assets 2017 £m	Fair value liabilities 2017 £m
Interest rate swaps:				
– non-hedge	4.5	(16.9)	–	(4.6)
– cash flow hedge	4.9	–	4.9	(12.2)
– net investment hedge	–	(14.2)	14.1	(9.9)
– fair value hedge	–	–	–	(5.0)
Foreign exchange swaps:				
– non-hedge	0.2	(1.1)	0.1	(0.2)
– net investment hedge	–	–	0.6	–
Foreign exchange forwards:				
– non-hedge	–	–	0.3	–
	9.6	(32.2)	20.0	(31.9)
Analysed as follows:				
Current portion	4.2	(15.8)	6.3	(5.3)
Non-current portion	5.4	(16.4)	13.7	(26.6)
	9.6	(32.2)	20.0	(31.9)

The effective nominal value of foreign exchange swaps is £30.0m (2017: £12.1m) and foreign exchange forwards is £2.3m (2017: £48.2m).

Notes to the Financial Statements

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis, into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2018					
Cross-currency swaps:					
– outflow	(72.4)	(19.8)	(33.5)	(325.9)	(451.6)
– inflow	53.7	11.3	8.7	308.5	382.2
Foreign exchange swaps:					
– outflow	(65.4)	–	–	–	(65.4)
– inflow	63.7	–	–	–	63.7
Foreign exchange forwards:					
– outflow	(8.1)	–	–	–	(8.1)
– inflow	8.1	–	–	–	8.1
Net outflow	(20.4)	(8.5)	(24.8)	(17.4)	(71.1)
At 31 December 2017					
Cross-currency swaps:					
– outflow	(192.2)	(21.1)	(22.9)	(311.9)	(548.1)
– inflow	196.0	16.2	8.6	307.6	528.4
Foreign exchange swaps:					
– outflow	(28.0)	(13.5)	–	–	(41.5)
– inflow	27.9	13.3	–	–	41.2
Foreign exchange forwards:					
– outflow	(105.9)	–	–	–	(105.9)
– inflow	106.3	–	–	–	106.3
Net outflow	4.1	(5.1)	(14.3)	(4.3)	(19.6)

C6. Analysis of bank and bond debt

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

The Group's bank debt comprises:

	Facility amount £m	Drawn at year end £m	Headroom £m	Interest rate at year end %
Non-current				
£600m RCF due August 2023	600.0	0.0	580.0	1.13
\$50m term loan due June 2020	39.2	39.2	–	2.17
Average cost of bank debt at year end rates	639.2	59.2	580.0	1.82

In August 2018 the Group amended and extended its main revolving credit facility (RCF). £360m available for cash drawings was increased to £600m, and the £60m available for guarantees and letters of credit was cancelled and the guarantees previously issued under the RCF were transferred to an uncommitted bilateral facility. The maturity date of the RCF was extended to August 2023 with two one-year extension options. At the year end, £20m was drawn under the RCF.

The commitment under a \$25m bilateral revolving credit facility that matures in December 2019 was cancelled and the commitment was transferred to the main RCF.

Notes to the Financial Statements

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Current		
€500m bond due September 2019	Fixed 3.375%	Fixed 4.30%
Non-current		
€350m bond due October 2021	Fixed 3.25%	Fixed 3.02%
€400m bond due November 2024	Fixed 0.95%	Float 3.00%
£1.3m perpetual debentures	Fixed 5.00%	Fixed 5.00%
£0.3m perpetual debentures	Fixed 4.50%	Fixed 4.50%
Average cost of bond debt at year end rates		3.54%

The effective interest rate reflects the interest rate after the impact of interest from currency swaps. The Group hedging strategy is to hold debt in proportion to the group profit and cash flow which are mainly EUR and USD. As a result the group has swapped a proportion of the bond issue into USD debt which has increased effective interest rate.

On 22 November 2017 the Group issued a new €400m bond at a coupon of 0.95% under its EMTN Programme. Part of the proceeds were swapped into USD. The rate on the USD swaps was floating for the first year at 3 month LIBOR +1.08% and fixed at 3.38% from November 2018 until maturity.

The Group considers the fair value of other current liabilities to be equal to the carrying value.

C7. Analysis of financial liabilities

The table below analyses financial liabilities into currencies and ageing:

	Borrowings 2018 £m	Finance leases 2018 £m	Trade payables and other ¹ 2018 £m	Total 2018 £m	Borrowings 2017 £m	Finance leases 2017 £m	Trade payables and other ¹ 2017 £m	Total 2017 £m
Pounds sterling	33.0	–	75.7	108.7	0.3	–	69.9	70.2
Euro	793.6	1.9	102.8	898.3	851.0	2.6	115.5	969.1
US dollar	405.9	36.2	139.2	581.3	338.8	32.7	134.2	505.7
Other currencies	11.6	3.6	174.1	189.3	7.5	2.0	134.0	143.5
Carrying value	1,244.1	41.7	491.8	1,777.6	1,197.6	37.3	453.6	1,688.5
Undiscounted cashflows as follows:								
Less than 1 year	529.6	14.4	408.0	951.4	79.5	13.0	367.6	460.1
Between 1 and 5 years	394.4	27.1	83.8	505.3	815.6	24.2	38.3	878.1
Over 5 years	363.0	0.2	–	363.2	361.9	0.2	150.5	512.6
Future minimum payments	1,287.0	41.7	491.8	1,819.9	1,257.0	37.4	556.4	1,850.8

¹ Other includes £8.6m (2017: £14.8m) in respect of provisions related to onerous lease contracts and £99.5m (2017: £97.9m) in respect of deferred consideration

C8. Interest payable and similar charges

	2018 £m	2017 £m
Hedged interest payable on medium-term notes issued ¹	28.6	24.7
Interest payable on bank loans and overdrafts ¹	3.2	1.2
Interest payable on revolving credit facility ¹	2.3	7.5
Interest payable on foreign exchange swaps	19.3	12.5
Interest payable on finance leases	1.5	1.4
Amortisation of discount on provisions	0.3	0.3
Fair value loss on hedge ineffectiveness ^{2,3}	–	0.3
Foreign exchange loss on translation of foreign denominated assets and liabilities	–	0.5
Total interest payable and similar charges	55.2	48.4

¹ Interest expense on financial liabilities held at amortised cost.

² Loss on financial assets/liabilities at fair value through the income statement

³ The fair value loss on other derivatives includes fair value losses relating to interest rate swaps.

Notes to the Financial Statements

C9. Interest receivable

	Note	2018 €m	2017 €m
Bank interest		2.0	1.0
Interest receivable on foreign exchange swaps		7.5	4.5
Fair value gain on hedge ineffectiveness ¹		0.4	–
Interest on net defined benefit asset	A10	7.7	6.8
Total interest receivable		17.6	12.3

¹ Gain at fair value through the income statement, includes £18.3m gain on foreign exchange translation offset by £17.9m loss on €400m bond hedge ineffectiveness

On 22 November 2017 the Group issued a new €400m bond at a coupon of 0.95% under its EMTN Programme. Part of the proceeds were swapped into USD for floating interest rate in the first year. The swaps did not qualify for hedge accounting in its first year therefore the movement was reported to the P&L giving rise to a loss of £17.9m. The loss from the hedge was offset by £18.3m gain on retranslation of intercompany loans.

C10. Operating cash and free cash flow

	2018 €m	2017 ¹ €m
Operating profit	(96.1)	741.4
Adjustments for:		
– Depreciation of property, plant and equipment	131.0	133.9
– Amortisation and impairment of intangible assets (excluding computer software)	61.6	53.8
– Amortisation and impairment of computer software	16.1	13.2
– Other non-cash items	5.1	(4.7)
– Profit on sale of businesses	–	(449.0)
– Pension settlement (non-cash)	341.6	–
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	(10.9)	(1.8)
– Contract costs	(6.9)	–
– Trade and other receivables	1.9	(46.1)
– Contract assets	(16.3)	–
– Trade and other payables and provisions	18.1	21.7
– Contract liabilities	9.9	–
Cash generated from operating activities before special pension contributions	455.1	462.4
Special pension contributions	(1.1)	(1.1)
Cash generated from operating activities	454.0	461.3
Add back: special pension contributions	1.1	1.1
	455.1	462.4
Purchase of property, plant and equipment	(147.2)	(174.3)
Purchase of intangible fixed assets	(22.9)	(19.1)
Leased property, plant and equipment	(16.3)	(18.7)
Proceeds from sale of property, plant and equipment	2.9	4.9
Dividends received from associates	11.9	3.2
Operating cash flow	283.5	258.4
Interest received	7.7	5.1
Interest paid	(53.0)	(46.5)
Income tax paid	(45.1)	(40.1)
Special pension contributions	(1.1)	(1.1)
Free cash flow from continuing operations	192.0	175.8

¹ The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen comparative information is not restated

Notes to the Financial Statements

D. Other**D1. Dividends**

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

	2018 £m	2017 £m
2016 final dividend paid – 2.38p per share	–	43.5
2017 interim dividend paid – 1.14p per share	–	20.8
2017 final dividend paid – 2.74p per share	50.2	–
2018 interim dividend paid – 1.31p per share	24.0	–
	74.2	64.3

An interim dividend of 1.31p per share was paid on 12 September 2018 amounting to £24.0m. A final dividend in respect of 2018 of 3.16p (2017: 2.74p) per share, amounting to £58.2m (2017: £50.2m), is to be proposed at the Annual General Meeting on 8 May 2019. These financial statements do not reflect this recommended dividend.

D2. Share capital

The Company's share capital is made up of the shares that have been issued to its members, whether on, or subsequent to, its incorporation. At the year end the Company's issued share capital consisted of ordinary shares of one pence each, with one voting right per share, as detailed below.

During the year six million new shares were issued in relation to employee share schemes. The Company does not hold any shares in treasury.

	2018 £m	2017 £m
Issued and fully paid		
At 31 December – 1,843,332,965 shares (2017: 1,837,332,965)	18.4	18.4

D3. Contingent liabilities

The Group has contingent liabilities relating to guarantees in respect of leasehold properties, pensions, third parties, environmental issues, tax and litigation. The possibility of any significant loss in respect of these items is considered to be remote.

D4. Related party transactions**Subsidiaries**

Related party transactions and outstanding balances between subsidiaries within the Group are eliminated in the preparation of the consolidated financial statements and accordingly are not disclosed in this note.

Key management personnel

The Group's strategy and policy are managed by the Executive Board (Executive Directors and senior management as shown on pages 58 to 60). Their compensation and the compensation payable to the Non-Executive Directors are shown below:

	2018 £m	2017 £m
Salaries and other short-term employee benefits	6.8	6.8
Post-employment benefits	0.5	0.4
Share-based payments	2.4	1.4
	9.7	8.6

Notes to the Financial Statements

Joint ventures and associate entities

The Group operates in a number of joint ventures and associate entities as indicated on pages 154 to 158 where a percentage shareholding is shown. All transactions between these entities and the Group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation. Joint venture and associate entity balances are disclosed in Note B5.

The value of transactions and outstanding balances with joint ventures and associate entities are shown below.

	Transaction values for the year ended 31 December		Balance outstanding as at 31 December	
	2018 £m	2017 £m	2018 £m	2017 £m
Sales of goods and services	14.5	10.2	1.4	2.0
Purchase of goods and services	7.5	5.9	0.5	0.9

Pension scheme

The Group bears the costs of administration and independent pension advice of the Rentokil Initial 2015 Pension Scheme. The total amount of costs in the year ended 31 December 2018 was £1.5m (2017: £1.1m) of which £0.5m (2017: £0.2m) was recharged to the scheme.

D5. Post balance sheet events

There were no significant post balance sheet events that affected the Group since 31 December 2018.

Notes to the Financial Statements

E. Alternative Performance Measures

Definitions and reconciliation of non-GAAP measures to GAAP measures

The Group uses a number of measures to present the financial performance of the business which are not GAAP measures as defined under IFRS. Management believes these measures provide valuable additional information for users of the financial statements in order to understand the underlying trading performance. The Group's internal strategic planning process is also based on these measures and they are used for incentive purposes. They should be viewed as complements to, and not replacements for, the comparable GAAP measures.

Constant exchange rates (CER)

Given the international nature of the Group's operations, foreign exchange movements can have a significant impact on the reported results of the Group when they are translated into sterling (the functional reporting currency of the Group). In order to help understand the underlying trading performance of the business, unless otherwise stated, percentage movements for revenue and profit measures are presented at constant exchange rates (CER). Constant exchange rates are calculated by retranslating current year reported numbers at the full year average exchange rates for the prior year, in order to give management and other users of the accounts better visibility of underlying trading performance against the prior period. The major exchange rates used are £/\$ FY 2018 1.3321 (FY 2017 1.2968) and £/€ FY 2018 1.1288 (FY 2017 1.1461). Comparisons are to the year ended 31 December 2017 (2017) unless otherwise stated.

Ongoing Revenue and Ongoing Operating Profit

Ongoing Revenue and Ongoing Operating Profit represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Operating Profit is an adjusted measure and is presented before amortisation and impairment of intangible assets (excluding computer software), one-off items (see below), gain or loss on disposal of businesses, and add-back of depreciation on held-for-sale assets.

Ongoing measures enable the users of the accounts to focus on the performance of the businesses retained by the Group and that will therefore contribute to future performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. A reconciliation of Ongoing Revenue and Ongoing Operating Profit measures to the equivalent GAAP measure is provided in the table below and in the segmental analysis in Note A1.

Adjusted profit and earnings per share measures

Adjusted profit measures are used to give management and other users of the accounts a clear understanding of the underlying profitability of the business over time. Adjusted profit measures are calculated by adding the following items back to the equivalent GAAP profit measure:

- Amortisation and impairment of intangible assets (excluding computer software)
- One-off items (operating and associates) – including the pension settlement on buy out of the UK RIPS
- Net profit on disposal of businesses
- Net interest credit from pensions
- Interest fair value adjustments

Intangible assets (excluding computer software) are recognised on the acquisition of businesses which, by their nature, can vary by size and amount each year. As a result, amortisation of intangibles is added back to assist with the understanding of the underlying trading performance of the business and to allow comparability across regions and categories.

One-off items are significant expenses or income which will have a distortive impact on the underlying profitability of the Group. Typical examples are costs related to the acquisition of businesses (including aborted acquisitions), gain or loss on disposal or closure of a business, material gains or losses on disposal of fixed assets, adjustments to legacy property-related provisions (vacant property and environmental liabilities), and payments or receipts as a result of legal disputes. Similar adjustments where appropriate are also made to the share of profits from associates.

Other non-cash gains and losses that can cause material fluctuations and distort understanding of the performance of the business such as net interest on pension schemes and interest fair value adjustments are also adjusted.

The net profit on disposal of businesses of £nil (2017: £449.0m) and the pension settlement (non-cash) of £341.6m (2017: £nil) have been separately presented on the face of the profit and loss below operating profit.

Restructuring costs are presented in the segmental analysis in order to provide comparability.

Adjusted earnings per share is calculated by dividing adjusted profit from continuing operations attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. Note A2 shows the adjustments made in arriving at adjusted profit from continuing operations attributable to equity holders of the Company.

Notes to the Financial Statements

A reconciliation of non-GAAP measures to the comparable GAAP equivalents is provided below at both AER and CER:

	2018 AER £m	2018 CER £m	2017 £m	% change	
				AER	CER
Ongoing Revenue	2,455.0	2,493.0	2,203.8	11.5%	13.2%
Revenue – disposed and closed businesses ¹	17.3	17.3	208.5	(91.7%)	(91.8%)
Revenue	2,472.3	2,510.3	2,412.3	2.5%	4.1%
Ongoing Operating Profit	329.3	333.6	294.6	11.8%	13.3%
Operating Profit – disposed and closed businesses	–	–	58.4	(99.9%)	(99.9%)
Operating profit – continuing operations	329.3	333.6	353.0	(6.7%)	(5.5%)
Depreciation – held-for-sale assets	–	–	(38.5)	100.0%	100.0%
Adjusted Operating Profit	329.3	333.6	314.5	4.7%	6.1%
One-off items – Operating	(22.2)	(22.6)	(6.8)	(225.6%)	(231.3%)
Depreciation – held-for-sale assets	–	–	38.5	(100.0%)	(100.0%)
Amortisation and impairment of intangible assets	(61.6)	(62.9)	(53.8)	(14.5%)	(16.9%)
Operating profit	245.5	248.1	292.4	(16.0%)	(15.1%)
Profit on disposal of businesses	–	–	449.0	(100.0%)	(100.0%)
Pension settlement (non-cash)	(341.6)	(341.6)	–	–	–
Share of profit from associates (net of tax)	19.6	19.5	8.3	136.3%	135.0%
Net interest payable (excluding pensions)	(45.7)	(45.8)	(42.9)	(6.5%)	(6.9%)
Net interest credit from pensions	7.7	7.7	6.8	13.2%	14.0%
Interest fair value adjustments	0.4	0.4	–	–	–
Profit before tax	(114.1)	(111.7)	713.6	(116.0%)	(115.7%)
Net interest credit from pensions	(7.7)	(7.7)	(6.8)	13.2%	14.0%
Interest fair value adjustments	(0.4)	(0.4)	–	–	–
One-off items – operating	22.2	22.6	6.8	(225.6%)	(231.3%)
One-off items – associates ²	4.8	4.7	7.0	(31.4%)	(32.5%)
Profit on disposal of businesses	–	–	(449.0)	(100.0%)	(100.0%)
Depreciation – held-for-sale assets	–	–	(38.5)	100.0%	100.0%
Pension settlement (non-cash)	341.6	341.6	–	–	–
Amortisation and impairment of intangible assets	61.6	62.9	53.8	(14.5%)	(16.9%)
Adjusted profit before tax	308.0	312.0	286.9	7.4%	8.8%
Basic earnings per share	(5.35)p	(5.25)p	37.21p	(114.4%)	(114.1%)
Basic adjusted earnings per share	13.07p	13.24p	12.19p	7.3%	8.6%

1. Includes revenue of £13.9m (2017: £8.8) from product sales by the Group to CWS-boco International GmbH. Prior to 30 June 2017, this revenue was classified as intergroup revenue and eliminated on consolidation.

2. Rentokil Initial Group's post tax share of one-off items and amortisation of intangibles of the CWS-boco International GmbH associated undertaking.

Notes to the Financial Statements

Organic Revenue measures

Acquisitions are a core part of the Group's growth strategy. Organic Revenue growth measures are used to help understand the underlying performance of the Group. Organic Revenue growth represents the growth in Ongoing Revenue excluding the effect of businesses acquired during the year. Acquired businesses are included in organic measures in the year following acquisition, and the comparative period is adjusted to include an estimated full year performance for growth calculations (pro forma revenue).

	Europe		UK & RoW		Asia		North America		Pacific		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
2017 Ongoing Revenue (as reported)	604.4	—	380.6	—	187.5	—	854.7	—	175.3	—	2,202.5	—
Pro forma revenue from 2017 and 2018 acquisitions	37.5	6.2	63.5	16.7	22.2	11.8	71.3	8.4	15.0	8.6	209.5	9.5
Organic growth	21.2	3.5	10.7	2.8	11.0	5.9	33.5	3.9	4.6	2.6	81.0	3.7
2018 Ongoing Revenue (as reported)	663.1	9.7	454.8	19.5	220.7	17.7	959.5	12.3	194.9	11.2	2,493.0	13.2

	Pest Control		Hygiene		Protect & Enhance		Total	
	£m	%	£m	%	£m	%	£m	%
2017 Ongoing Revenue (as reported)	1,396.6	—	424.3	—	381.6	—	2,202.5	—
Pro forma revenue from 2017 and 2018 acquisitions	108.5	7.8	100.6	23.7	0.4	0.1	209.5	9.5
Organic growth	66.8	4.8	11.8	2.8	2.4	0.6	81.0	3.7
2018 Ongoing Revenue (as reported)	1,571.9	12.6	536.7	26.5	384.4	0.7	2,493.0	13.2

Segmental analysis

Segmental information has been presented in accordance with IFRS 8 Operating Segments (Note A1). The "Geographic" reporting segments reflect the internal management organisation and reporting structure of the Group.

Segmental analysis is presented at CER unless otherwise stated.

Regional analysis

	Ongoing Revenue 2018		Change from FY 2017		Ongoing Operating Profit 2018		Change from FY 2017	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
France	302.0	297.4	2.8	1.2	46.1	45.4	4.5	2.9
Benelux	90.8	89.4	5.8	4.2	26.3	25.9	4.5	3.0
Germany	96.2	95.4	15.7	14.6	29.1	28.8	15.1	14.2
Southern Europe	130.2	128.2	34.3	32.3	19.1	18.8	29.5	27.5
Latin America	49.9	52.7	11.4	17.6	6.9	7.2	37.5	43.2
Total Europe	669.1	663.1	10.7	9.7	127.5	126.1	11.5	10.4
UK & Ireland	303.9	303.4	23.0	22.8	58.3	57.5	19.1	17.7
Rest of World	148.5	151.4	11.3	13.4	34.0	34.6	9.0	10.8
UK & Rest of World	452.4	454.8	18.9	19.5	92.3	92.1	15.2	15.0
Asia	214.2	220.7	14.2	17.7	21.7	22.3	12.4	15.1
North America	934.2	959.5	9.3	12.3	127.9	131.3	9.8	12.8
Pacific	185.1	194.9	5.6	11.2	38.5	40.5	1.7	7.0
Central and regional overheads	—	—	—	—	(71.4)	(71.4)	(7.8)	(7.8)
Restructuring costs	—	—	—	—	(7.2)	(7.3)	0.6	(1.3)
Ongoing operations	2,455.0	2,493.0	11.5	13.2	329.3	333.6	11.8	13.3
Disposed businesses	17.3	17.3	(91.7)	(91.8)	—	—	(99.9)	(99.9)
Continuing operations	2,472.3	2,510.3	2.5	4.1	329.3	333.6	(6.7)	(5.5)
Depreciation – held for sale	—	—	—	—	—	—	100.0	100.0
Adjusted – Continuing operating	2,472.3	2,510.3	2.5	4.1	329.3	333.6	4.7	6.1

Notes to the Financial Statements

Category analysis

	Ongoing Revenue 2018		Change from FY 2017		Ongoing Operating Profit 2018		Change from FY 2017	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
Pest Control	1,537.9	1,571.9	10.1	12.6	273.0	277.0	8.3	9.9
– Growth	1,316.8	1,341.4	10.3	12.3	241.9	244.9	9.4	10.8
– Emerging	221.1	230.5	9.3	13.9	31.1	32.1	0.7	4.0
Hygiene	533.0	536.7	25.6	26.5	89.2	90.2	18.5	19.9
Protect & Enhance	384.1	384.4	0.7	0.7	45.7	45.1	12.1	10.6
Central and regional overheads	–	–	–	–	(71.4)	(71.4)	(7.8)	(7.8)
Restructuring costs	–	–	–	–	(7.2)	(7.3)	0.6	(1.3)
Ongoing operations	2,455.0	2,493.0	11.5	13.2	329.3	333.6	11.8	13.3
Disposed businesses	17.3	17.3	(91.7)	(91.8)	–	–	(99.9)	(99.9)
Continuing operations	2,472.3	2,510.3	2.5	4.1	329.3	333.6	(6.7)	(5.5)
Depreciation – held for sale	–	–	–	–	–	–	100.0	100.0
Adjusted – Continuing operations	2,472.3	2,510.3	2.5	4.1	329.3	333.6	4.7	6.1

Operating Margin

Operating Margin is calculated by dividing Ongoing Operating Profit by Ongoing Revenue, expressed as a percentage. Net Operating Margin by region and category is shown in the tables below (on a trailing 12 month basis):

	2018 %	2017 %	Variance % points
France	15.3	15.0	0.3
Benelux	29.0	29.4	(0.4)
Germany	30.2	30.4	(0.2)
Southern Europe	14.7	15.2	(0.5)
Latin America	13.6	11.2	2.4
Total Europe	19.0	18.9	0.1
UK & Ireland	19.0	19.8	(0.8)
Rest of World	22.8	23.4	(0.6)
UK & Rest of World	20.3	21.1	(0.8)
Asia	10.1	10.3	(0.2)
North America	13.7	13.6	0.1
Pacific	20.8	21.6	(0.8)
Ongoing operations¹	13.4	13.4	–
Disposed businesses	0.2	9.5	(9.3)
Continuing operations¹	13.3	13.0	0.3

1. Operating Margin for ongoing operations and continuing operations is calculated after central and regional overheads and restructuring costs

	2018 %	2017 %	Variance % points
Pest Control	17.6	18.0	(0.4)
– Growth	18.3	18.5	(0.2)
– Emerging	13.9	15.3	(1.4)
Hygiene	16.8	17.7	(0.9)
Protect & Enhance	11.7	10.7	1.0
Ongoing operations¹	13.4	13.4	–
Disposed businesses	0.2	9.5	(9.3)
Continuing operations¹	13.3	13.0	0.3

1. Operating Margin for ongoing operations and continuing operations is calculated after central and regional overheads and restructuring costs.

Notes to the Financial Statements

Free Cash Flow

The Group aims to generate sustainable cash flow (Free Cash Flow) in order to support its acquisition programme and to fund dividend payments to shareholders. Free Cash Flow is measured as net cash from operating activities, adjusted for cash flows related to the purchase and sale of property, plant, equipment and intangible fixed assets, and dividends received from associates. These items are considered by management to be non-discretionary, as continued investment in these assets is required to support the day-to-day operations of the business. A reconciliation of Free Cash Flow from Net Cash from Operating Activities is provided in the table below:

	2018 AER £m	2017 AER £m
Net cash from operating activities	363.6	379.8
Purchase of property, plant, equipment and intangible fixed assets	(170.1)	(193.4)
Leased property, plant and equipment	(16.3)	(18.7)
Proceeds from sale of property, plant, equipment and software	2.9	4.9
Dividends received from associates	11.9	3.2
Free Cash Flow	192.0	175.8

Adjusted Free Cash Flow Conversion

Adjusted Free Cash Flow Conversion is calculated by dividing Adjusted Profit from continuing operations attributable to equity holders of the Company (further adjusted for any post tax profits and one-offs from the CWS-boco International GmbH associate) by Adjusted Free Cash Flow, expressed as a percentage. Adjusted Free Cash Flow is measured as Free Cash Flow adjusted for one-off items – operating and product development additions.

	2018 AER £m	2017 AER £m
Adjusted profit after tax from continuing operations attributable to equity holders of the Company	240.7	223.6
Share of profit of CWS-boco International GmbH associate (net of tax)	(12.1)	(1.3)
One-off items – associates	(4.8)	(7.0)
	223.8	215.3
Free Cash Flow from continuing operations	192.0	175.8
Dividend received from CWS-boco International GmbH	(8.5)	–
One-off items – operating	22.2	6.8
Product development additions	5.2	4.7
	210.9	187.3
Adjusted Free Cash Flow conversion	94.2%	87.0%

Effective Tax Rate

Effective Tax Rate is calculated by dividing adjusted income tax expense by adjusted profit before income tax, expressed as a percentage. The measure is used by management to assess the rate of tax applied to the Group's adjusted profit before tax from continuing operations.

	Notes	2018 AER £m	2018 CER £m	2017 £m
Unadjusted income tax (credit)/expense	A13	(15.8)	(15.3)	30.6
Tax adjustments on:				
Amortisation and impairment of intangible assets (excluding computer software)		15.4	15.7	16.6
One-off items – operating		4.3	4.4	5.1
Disposal of businesses		–	–	5.7
Pension settlement		64.8	64.8	–
Net interest credit from pensions		(1.6)	(1.6)	(1.3)
US tax reforms – net impact		–	–	6.4
Adjusted income tax expense (a)		67.1	68.0	63.1
Adjusted profit before income tax (b)		308.0	312.0	286.9
Effective Tax Rate (a/b)		21.8%	21.8%	22.0%

Related undertakings

Subsidiaries and other associated undertakings At 31 December 2018

Company name	Share class	% held by Group companies
Subsidiaries:		
Australia		
Unit A1, Lidcombe Business Park, 3-29 Birnie Avenue 2141, Australia		
Ant-Eater Environmental Services Pty Limited	Ordinary	100%
Cannon Hygiene Australia Pty Limited	Ordinary	100%
Copes Pest Control Pty Limited	Ordinary	100%
Green Fingers Plant Hire Pty Limited	Ordinary	100%
Knock Out National Pty Limited	Ordinary	100%
Knock Out Pest Control Pty Limited	Ordinary	100%
Pest Away Australia Pty Limited	Ordinary	100%
Rentokil Australia Pty Limited	Ordinary	100%
Rentokil Initial Asia Pacific Pty Limited	Ordinary	100%
Rentokil Initial Pty Limited	Ordinary	100%
Rentokil Pest Control (QLD) Pty Limited	Ordinary	100%
Rentokil Pest Holdings Pty Limited	Ordinary	100%
Rentokil Pest Services Pty Limited	Ordinary	100%
	Ordinary-C	100%
	Ordinary-D	100%
Rentokil Pty Limited	Ordinary	100%
	Preference	100%
Samson Hygiene Services Pty Limited	Ordinary	100%
Austria		
Brown-Boveri-Straße 8/2/8, 2351, Wiener Neudorf, Austria		
Rentokil Initial GmbH	Ordinary	100%
Bahamas		
Corporate Services International, 308 East Bay Street, Nassau, PO Box N-7527, Bahamas		
Rentokil Initial (Bahamas) Limited	Ordinary	100%
5th Terrace Centreville, PO Box N-1388 Nassau, New Providence, Bahamas		
Tropical Exterminators Limited	Common	100%
Tropical Exterminators (Holdings) Limited	Common	100%
Barbados		
One Welches, Welches St. Thomas, Barbados		
Rentokil Initial (Barbados) Limited	Ordinary	100%
Belgium		
Ingberthoeveweg, 17, Aartselaar 2630, Belgium		
Ambius N.V.	Ordinary	100%
Rentokil N.V.	Ordinary	100%
Brazil		
Estrado de Gábal, 957, Bairro da Freguesia Rio de Janeiro, CEP 22760-151, Brazil		
Asa Rio Saneamento Ambiental Limitada	Ordinary	100%
Avenida Ceci 348 Predio Anexo, Tamboré, São Paulo, Brazil		
Asseio Saneamento Ambiental Limitada	Ordinary	100%
Rua Marques Amorim, 99, Boa Vista, Pernambuco, Recife, CEP 50070-355, Brazil		
F Genes & Cia Limitada	Ordinary	100%
Rua CP 23, Quadra CP 21, Lote 08 Setor Celina Park, Goiania, CEP 74373-220, Brazil		
MP Centro Oeste Saneamento Ambiental Limitada	Ordinary	100%
SHC/Norte, Comercio Local, Quadra 115, Bloco A, Loja 45 S Subsolo 49 S, Asa Norte, Brasília, CEP 70772-510, Brazil		
MP Saneamento Ambiental Limitada	Ordinary	100%
R Vitor Valpirio, 789, Anchieta – Porto Alegre – RS CEP: 90200-230, Brazil		
Multicontrole Controle de Pragas e Servicos	Ordinary	100%
Sociedade Simples Ltda		

Company name	Share class	% held by Group companies
Brunei		
Unit D1 & D1-1 Block D, Bangunan Hj Lajim & Anak-anak, Kg Kiarong Bandar Seri Begawan Brunei Darussalam, BE1318, Brunei Darussalam		
Rentokil Initial (B) Sdn Bhd	Ordinary	90%
Canada		
3325 North Service Road, Burlington ON L7N 3G2, Canada		
Direct Line Sales Limited	Class A	100%
8699 Escarpment Way, Milton, ON L9T 0J5, Canada		
Residex Canada Inc.	Common	100%
Suite 900, 1959 Upper Water Street, Halifax NS B3J 2X2, Canada		
Rentokil Canada Corporation	Class A	100%
	Class B	100%
Chile		
Galvarino 8481, Bodega 3, Quilicura, Santiago, Chile		
Comercializadora de Insumos y Servicios	Social Rights	100%
Mauro Limitada		
Av. El Salto 4001, 91-92 Huechuraba, Región Metropolitana, Chile		
Rentokil Initial Chile SpA	Ordinary	100%
Lote Numero 1, Cancha de Rescoldero, Sagrada Familia, Curico, Chile		
Fumigaciones del Maule Limitada	Social Rights	100%
El Salto 4001, piso 9, Huechuraba, Santiago, Chile		
Comercial e Industrial Premasec Limitada	Social Rights	100%
Fox Sanidad Ambiental y Compania Limitada	Share Rights	100%
Colombia		
Calle 93# 11A – 28 office 303, Bogotá, Colombia		
Rentokil Initial Colombia SAS	Common	100%
Calle 169 # 19 A 26, Bogotá, Colombia		
Vida Fresh Limitada	Ordinary	100%
Calle 73 No 69 K 36, Colombia		
Excel Gestion Ambiental SAS	Ordinary	100%
Costa Rica		
Avenida 18, calles 17 y 19, edificio 47, Barrio Luján, San José, Costa Rica		
Fumigadora Control Tecnico De Plagas S.A.	Common	100%
Curaçao		
Parke Comercial Korsau, A 24 Veeris, 102077, Curaçao		
Professional Pest Control of Curaçao N.V.	Ordinary	100%
Czech Republic		
Praha 2, Vyšehradská 1349/2, Prague, PSČ 12800, Czech Republic		
Services PCM, s.r.o.	Ordinary	100%
Denmark		
Paul Bergsøes Vej 22, 2600 Glostrup, Denmark		
Rentokil Initial A/S	Ordinary	100%
Dominican Republic		
1125 Berkshire Blvd, Suite 150, Reading PA 19610, United States		
Oliver Exterminating Dominicana Corp.	Common	100%
Estonia		
Turi Str. 3/1, 11313, Tallinn, Estonia		
Rentokil Oü	Ordinary	100%

Related undertakings

Company name	Share class	% held by Group companies
El Salvador		
Avenida Calzada Guarda Barranco Urbanizacion, Lomas de Altamira, #14 Pasaje Clarineros, Central America, El Salvador		
Sagrip SA de CV	Ordinary	100%
Fiji		
Lot 15, Kaula Road, Laucala Beach Estate, Suva, Fiji Islands, Fiji		
Rentokil Initial Limited	Ordinary	100%
Finland		
Valuraudankuja 3, 00700 Helsinki, Finland		
Rentokil Initial Oy	Ordinary	100%
France		
6 Rue Livio, 67100 Strasbourg, France		
CAFI SAS	Ordinary	100%
CAWE FTB Group SAS	Ordinary	100%
34, rue du Général Malleret, 94400, Joinville, Vitry-sur-Seine, France		
Medicline SAS	Ordinary	100%
13-27 avenue Jean Moulin, 93240, Stains, France		
Ambius SAS	Ordinary	100%
Rentokil Initial Environmental Services SAS	Ordinary	100%
Rentokil Initial SAS	Ordinary	100%
145, rue de Billancourt, 92100 Boulogne Billancourt, France		
IH Services SAS	Ordinary	100%
Initial SAS	Ordinary	100%
Rentokil Initial Holdings (France) SA	Ordinary	100%
SCI Gragny	Ordinary	100%
SCI Vargan	Ordinary	100%
Z.A. des Quatre Chemins, BP 21, 95540 Mery-sur-Oise, France		
Technivap SAS	Ordinary	100%
50 Route de Bergues, 59180, Cappelle-la-Grande		
Traitement des Nuisances Environnementales SAS	Ordinary	100%
French Guyana		
PAE de Degrad des cannes, Remire-Montjoly, 97354, French Guiana		
Rentokil Initial Guyane Sarl	Ordinary	100%
Germany		
An der Ziegelei, 47 27383, Scheeßel-Westerholz		
S & A Service und Anwendungstechnik GmbH	Ordinary	100%
S & A Vertriebs GmbH	Ordinary	100%
Heuesch 1, 49808 Lingen (Ems), Germany		
Mc Clean Küchenabluftservice GmbH	Ordinary	100%
Rentokil Holdings GmbH	Ordinary	100%
Rentokil Initial Beteiligungs GmbH	Ordinary	100%
Herzförder Str. 9, 49808 Lingen (Ems), Germany		
Rentokil Initial GmbH & Co. KG	Ordinary	100%
Piderits Bleiche 11, 33689, Bielefeld, Germany		
Medentex GmbH	Ordinary	100%
Rentokil Dental GmbH	Ordinary	100%

Company name	Share class	% held by Group companies
Greece		
7 Aristotelous Street, Tavros, Athens 177 78, Greece		
Rentokil Initial Hellas EPE	Ordinary	100%
Guadeloupe		
7 Allée des Papillon, Dothemare, 97139 Abymes, Guadeloupe		
Rentokil Initial Guadeloupe Sarl	Ordinary	100%
Guatemala		
9 Av. 39-97, Zona 8, Ciudad Guatemala, Guatemala		
Servicios Agricolas Profesionales S.A.	Ordinary	100%
Guernsey		
PO Box 34 St Martin's House St Peter Port GY1 4AU Guernsey		
Felcourt Insurance Company Limited	Ordinary	100%
Guyana		
Lot 8, Charles and Drysdale Streets, Charlestown, Georgetown, Guyana		
Rentokil Initial Guyana Limited	Ordinary	100%
Honduras		
Departamento de Cortes, San Pedro Sula, Honduras		
Sagrip Honduras S.A.	Nominative	100%
Hong Kong		
23/F Westin Centre, 26 Hung To Rd, Kwun Tong, Hong Kong		
Rentokil Hong Kong Investment Limited	Ordinary	100%
Rentokil Initial Hong Kong Limited	Ordinary	100%
India		
2nd floor, Narayani, Ambabai Temple Compound, Aarey Road, Goregaon (West), Mumbai 400062, India		
Rentokil Initial Hygiene India Private Limited	Ordinary	100%
No. 105, 4th Floor, Sreela Terrace, 1st Main Road, Gandhi Nagar, Adyar, Chennai, 600 020, India		
Rentokil India Private Limited	Ordinary	57%
Villa No.3, Crescent Village, Candolim, Goa, 403515, India		
PCI Pest Control Private Limited	Ordinary	57%
Ground Floor, Gala No.4, Bldg No.18B, Sagedpool, Andheri Kurla Road, Andheri East, Mumbai, Maharashtra 400072		
Corporate Millennium Hygiene Solutions Private Limited	Ordinary	100%
Indonesia		
South Quarter Tower B, Lantai 21, Unit E,F,G,H. Jl. R.A., Kartini Kav. 8, RT. 010/RW. 004 Kel. Cilandak Barat, Kec Cilandak, Jakarta Selatan, Indonesia		
PT Calmic Indonesia	Common	100%
PT Rentokil Indonesia	Common	100%
Gedung JDC Lt.6, Jl. Gatot Subroto Kav. 53 Petamburan, Tanah Abang, Jakarta, Pusat, Indonesia		
PT Wesen Indonesia	Ordinary	100%
Italy		
Via Laurentina, km. 26,500 157 a/c 00071, Pomezia, Italy		
Rentokil Initial Italia SpA	Ordinary	100%
Via A. Grandi 8, 20063, Cernusco sul Naviglio (MI) Italy		
Ecotoinet Srl	Ordinary	85%
Initial Italia SpA	Ordinary	100%

Related undertakings

Company name	Share class	% held by Group companies
Jamaica		
8 Terrence Avenue, Kingston 10, Jamaica		
Rentokil Initial (Jamaica) Limited	Ordinary	100%
Kenya		
Unit 5 Sameer Industrial Park, Road C, Off Enterprise Road Industrial Area, Nairobi, Kenya		
Rentokil Initial Kenya Limited	Ordinary	100%
Lesotho		
No 7 Arrival Centre, Kofi Annan Road, Maseru, Lesotho		
Rentokil Initial Lesotho (Pty) Limited	Ordinary	100%
Libya		
Janzour, Tripoli, Libya		
Rentokil Delta Libya for Environmental Protection JSCO	Ordinary	65%
Lithuania		
A. Smetonos al. 67B, Kaunas 45309, Lithuania		
UAB Dezinfra	Ordinary	100%
Luxembourg		
Rue de la Chapelle 47, 4967 Clemency, Luxembourg		
R-Contrôl Désinfections SA	Ordinary	100%
Rentokil Luxembourg Sàrl	Ordinary	100%
Malawi		
Plot No. LE 377, Patridge Avenue, Limbe, PO Box 5135, Malawi		
Antipest (2009) Limited	Ordinary	100%
Malaysia		
Level 8 Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, Petaling Jaya, 47301 Selangor Darul, Selangor, Malaysia		
Rentokil Initial (M) Sdn Bhd	Ordinary	100%
UFTC Sdn Bhd	Ordinary	100%
Martinique		
Soudon, Le Lamentin 97232, Martinique		
Rentokil Initial Martinique Sarl	Ordinary	100%
Mexico		
Juan Álvarez 482, Centro, 64000 Monterrey, N.L., Mexico		
Balance Urbano Control de Plagas SA de CV	Ordinary	100%
Mozambique		
Avenida da Namaacha, kilometro 6, Residencial Mutateia, Cidade da Matola, Mozambique		
Rentokil Initial Mozambique Limitada	Ordinary	100%
Netherlands		
Impact 6, 6921 RZ Duiven, Netherlands		
Amblus BV	Ordinary	100%
Oude Middenweg 75, 2491 AC Den Haag 1191 BN Ouderkerk, Den Haag, Netherlands		
BET Finance BV	Ordinary	100%
BET (Holdings) V BV	Ordinary	100%
BET (Properties) BV	Ordinary	100%
BV Rentokil Funding	Ordinary	100%
Pest Control Services Europe BV	Ordinary	100%
Rentokil Initial International BV	Ordinary	100%
Rentokil Initial Overseas (Holdings) BV	Ordinary	100%

Company name	Share class	% held by Group companies
Ravenswade 54-s, 3439, Nieuwegein, LD, Netherlands		
Rentokil Initial BV	Ordinary	100%
Frontstraat 1a, 5405 AK, Uden, Netherlands		
Holland Reconditioning BV	Ordinary	100%
Scharenburg 6, 1046 BB, Amsterdam, Netherlands		
Medentex BV	Ordinary	100%
New Zealand		
Level 1, 89 Carbine Road Mount Wellington, Auckland 1060, New Zealand		
Rentokil Initial Limited	Ordinary	100%
Norway		
Sanitetsveien 17, Postboks 84, SKJETTEN, 2026 Norway		
Rentokil Initial Norge AS	Ordinary	100%
People's Republic of China		
Room 103, Building 2, Yuzhongxili#42, Beijing, China		
Rentokil Initial China Limited	Ordinary	100%
Philippines		
No. 73 Elisco Road, Bo, Kalawaan, Pasig City 1600, Philippines		
Rentokil Initial (Philippines) Inc	Ordinary	100%
Poland		
Ul. Jana Pawla Woronicza, Nr 31, Lok. 78, 02-640 Warszawa, Poland		
Rentokil Polska Sp. z o.o.	Ordinary	100%
Portugal		
Zona Industrial da Aveleda Park, Rua 1º de Maio, nº 10, 1485 010 Aveleda VCD, Portugal		
Cleanstation, S.A.	Ordinary	100%
Complexo Industrial de Vialonga, Fracção C-1 e C-21, Granja Alprate 2626-501, Vialonga, Portugal		
Rentokil Initial Portugal – Serviços de Protecção Ambiental Limitada	Ordinary	100%
Puerto Rico		
1125 Berkshire Blvd, Suite 150, Reading PA 19610, United States		
Oliver Exterminating Services Corporation	Common	100%
Republic of Ireland¹		
Hazel House, Millennium Park, Naas, County Kildare W91P XP3, Ireland		
Cannon Hygiene International Limited	Ordinary	100%
Initial Medical Services (Ireland) Limited	Ordinary	100%
Rentokil Initial Limited	Ordinary	100%
RTO Investments (Ireland) Limited	Ordinary	100%
Rentokil Initial Holdings (Ireland) Limited	Ordinary	100%
Saudi Arabia		
PO Box 30164, Office No. 401, 4th Floor, Al Tamimi Building, Al Khobar, North Al Khobar 31952, Saudi Arabia		
Rentokil Saudi Arabia Limited	Ordinary	60%
Singapore		
No. 16 & 18 Jalan Mesin, 368815, Singapore		
Pestterminator Pte Limited	Ordinary	100%
Rentokil Initial Asia Pacific Management Pte Limited	Ordinary	100%
Rentokil Initial Singapore Private Limited	Ordinary	100%
Slovakia		
Kopcianska 10, 851 01 Bratislava, Slovakia		
Services PCM s.r.o.	Registered Capital	100%

Related undertakings

Company name	Share class	% held by Group companies
South Africa		
2 Stignant Road, Claremont 7708, South Africa		
Newshelf 1232 Pty Limited	Preference	100%
Rentokil Initial (Dikapi) JV Pty Limited	Ordinary	59%
Rentokil Initial (Proprietary) Limited	Ordinary	100%
Unit D12 Connaught Park, Riley Road, Beaconvale, Parow, 7000, South Africa		
Cannon Hygiene (SA) Proprietary Limited	Ordinary	100%
South Korea		
2nd Floor, Korea Disaster Relief Association, 371-19 Sinsu-Dong, Mapo-Gu, Seoul 121-856, Republic of Korea		
Rentokil Initial Korea Limited	Common	100%
Spain		
Calle Mar Mediterráneo 1, 28830 San Fernando de Henares (Madrid), Spain		
Initial Gaviota SAU	Ordinary	100%
Rentokil Initial España S.A.	Ordinary-A	100%
	Ordinary-B	100%
	Ordinary-C	100%
37 Pol. Ind., 28891, Velilla de San Antonio, Madrid, Spain		
Cannon Hygiene, S.A.	Ordinary	100%
Pol. Ind. San Ginés-C/Europa módulo D7 Parcela 19-5 30169-Murcia, Spain		
Hisamur, S.L.	Ordinary	100%
Swaziland		
Umkhwiwa House, Lot 195, Kai Grant Street, Mbabane, Swaziland		
Rentokil Initial Swaziland (Pty) Limited	Ordinary	100%
Sweden		
Avestagatan 61, 163 53 Spånga, Sweden		
Ambius AB	Ordinary	100%
Rentokil AB	Ordinary	100%
Sweden Recycling AB	Ordinary	100%
Rent a Plant Interessenter AB	Ordinary	100%
Verkstadsvägen 3, 24534, Staffanströf, Sweden		
PreventiQ AB	Ordinary	100%
Switzerland		
Hauptstrasse 181, 4625 Oberbuchsitzen, Switzerland		
Rentokil Schweiz AG	Ordinary	100%
Bertschenackerstrasse 15, 4104 Oberwil, Switzerland		
Medentex GmbH	Ordinary	100%
Taiwan		
7F No.56 Lane 258, Rueiguang Rd, Neihu District, Taipei, 114 Taiwan, Province of China		
Initial Hygiene Co Limited	Ordinary	100%
Rentokil Ding Sharn Co Limited	Ordinary	100%
Tanzania		
1st Floor, Opal Place, 77 Haile Selassie Road, Masaki, PO Box 79651, Dar es Salaam, Tanzania		
Initial Hygiene (T) Limited	Ordinary	100%
Thailand		
160 Vibhavadi Rangsit Road, Khwaeng Dindaeng, Khet Dindaeng, Bangkok 10400, Thailand		
Rentokil Initial (Thailand) Limited	Ordinary	100%

Company name	Share class	% held by Group companies
Trinidad and Tobago		
Field no. 82, KK-LL Aranguez South, Trinidad and Tobago		
Rentokil Initial (Trinidad) Limited	Ordinary	100%
Tunisia		
Zone Industrielle route de Moknine, 5080 Teboulba, Tunisia		
CAP Tunis	Ordinary	100%
Turkey		
1201, 1 Sokak No:2 K:3 D:301-302 Su Plaza Yenisehir, Konak, Izmir, Turkey		
Rentokil Initial Çevre Sağlığı Sistemleri	Ordinary	100%
Ticaret ve Sanayi AŞ		
Kayisdagi, Mah. Akdeniz, Cad. No:14/A, Atasehir, Istanbul, Turkey		
Envirocon Çevre Sağlığı Danışmanlık Tic.A.S.	Ordinary	100%
United Arab Emirates		
1001 & 1009 Tameem, House Tecom, Dubai, United Arab Emirates		
Rentokil Initial Pest Control LLC	Ordinary	100%
Office no 523, Oud Metha Office, Oud Metha Dubai		
National Pest Control LLC	Ordinary	100%
United Kingdom		
Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB, England		
Anzak Landscapes Limited	Ordinary	100%
AW Limited	Ordinary	100%
BET Environmental Services Limited	Ordinary	100%
B.E.T. Building Services Limited	Ordinary	100%
BET (No.18) Limited	Ordinary	100%
BET (No.68) Limited	Ordinary	100%
	Deferred Ordinary	100%
BET Pension Trust Limited	Ordinary	100%
BPS Offshore Services Limited ²	Ordinary	100%
Broadcast Relay Service (Overseas) Limited ²	Ordinary	100%
Cannon Hygiene Limited	Ordinary	100%
Castlefield House Limited	Ordinary	100%
Chard Services Limited	Ordinary	100%
Dudley Industries Limited	Ordinary	100%
Enigma Laundries Limited	Ordinary	100%
Enigma Services Group Limited	Ordinary	100%
Enviro-Fresh Limited	Ordinary	100%
Euroguard Technical Services Limited ²	Ordinary	100%
Grayston Central Services Limited	Ordinary	100%
Hometrust Limited	Ordinary	100%
Initial Limited	Ordinary	100%
Initial Medical Services Limited	Ordinary	100%
MPCL Limited	Ordinary	100%
Opel Transport & Trading Company Limited	Ordinary	100%
Peter Cox Limited	Ordinary-A	100%
Plant Nominees Limited	Ordinary	100%
Prokill (UK) Limited ²	Ordinary-A	100%
	Ordinary-B	100%
	Ordinary-C	100%
	Ordinary-D	100%
Prokill Limited ²	Ordinary-A	100%
	Ordinary-B	100%
	Ordinary-C	100%
	Ordinary-D	100%
Rentokil Dormant (No. 6) Limited	Ordinary	100%
Rentokil Initial (1896) Limited	Ordinary	100%
Rentokil Initial (1993) Limited ²	Ordinary	100%
	6% Non-Redeemable Preference	100%

Related undertakings

Company name	Share class	% held by Group companies
Rentokil Initial 1927 plc	Ordinary	100%
	AUD Redeemable Preference	100%
	DKK Redeemable Preference	100%
	EUR Cumulative Preference (Non-Redeemable)	100%
	NOK Redeemable Preference	100%
	NZD Redeemable Preference	100%
	USD Redeemable Preference	100%
Rentokil Initial Americas Limited ²	Ordinary	100%
Rentokil Initial Asia Pacific Limited ²	Ordinary	100%
Rentokil Initial Brazil Limited ²	Ordinary	100%
Rentokil Initial Finance Limited ²	Ordinary	100%
Rentokil Initial Holdings Limited ²	Ordinary	100%
Rentokil Initial Investments Limited ²	Ordinary	100%
Rentokil Initial Investments South Africa ²	Ordinary	100%
Rentokil Initial Pension Trustee Limited	Ordinary	100%
Rentokil Initial Services Limited	Ordinary	100%
Rentokil Initial UK Limited	Ordinary	100%
Rentokil Insurance Limited	Ordinary	100%
Rentokil Limited ²	Ordinary	100%
Rentokil Overseas Holdings Limited ²	Ordinary	100%
Rentokil Property Care Limited	Ordinary	100%
Rentokil Property Holdings Limited	Ordinary	100%
RI Dormant No.18 Limited	Ordinary	100%
RI Dormant No.20 Limited	Ordinary	100%
Stratton House Leasing Limited ²	Ordinary	100%
Target Express Holdings Limited	Ordinary	100%
Target Express Limited	Ordinary	100%
Target Express Parcels Limited	Ordinary	100%
TEB Cleaning Services Limited	Ordinary	100%
The Ca'D'Oro, 45 Gordon Street, Glasgow, G1 3PE, Scotland		
RI Dormant No.12 Limited	Ordinary	100%
Industrial Clothing Services Limited	Ordinary	100%
	Convertible Participating Preference	100%
Pest Protection Services (East) Limited	Ordinary	100%
Pest Protection Services (Scotland) Limited ²	Ordinary	100%
Wise Property Care Limited	Ordinary	100%
Uganda		
Plot No 2012, Kalinabiri Road, Ntinda Kampala, Uganda		
Rentokil Initial Uganda Limited	Ordinary	100%
United States		
1201 Peachtree Street, NE Suite 1240, Atlanta GA 30361, United States		
Initial Contract Services LLC	US\$ Interests	100%
The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801, United States		
Longgo LLC	Ordinary	100%
Anza LLC	Ordinary	100%
1125 Berkshire Blvd, Suite 150, Reading PA 19610, United States		
Advanced Pest Management of CO, LLC	Common	100%
Medentex LLC	Common	100%
Mississippi Mosquito Control, LLC	Common	100%
Mosquito Control of Hancock County, LLC	Common	100%
Mosquito Control of Jackson County, LLC	Common	100%
Mosquito Control of Lafourche, LLC	Common	100%
Mosquito Control Services of Florida, LLC	Common	100%

Company name	Share class	% held by Group companies
Mosquito Control Services of Georgia, LLC	Common	100%
Mosquito Control Services, L.L.C	Common	100%
Mosquito Control Services, LLC	Common	100%
Premier Resorts International LLC	Ordinary	100%
Residex, LLC	Common	100%
Rentokil Initial Environmental Services LLC	US\$ Interests	100%
Rentokil North America, Inc.	Ordinary	100%
Rittiner Group, L.L.C.	Common	100%
Solitude Lake Management, LLC	Common	100%
St. Charles Mosquito Control, L.L.C.	Common	100%
St. John Mosquito Control, L.L.C.	Common	100%
Terrebonne Mosquito Control, LLC	Common	100%
Vector Disease Acquisition, LLC	Common	100%
	Series A	100%
	Series B	100%
Vector Disease Control International, LLC	Common	100%
7600 Little Ave, Charlotte, NC 28226, United States		
Steritech-Canada Inc.	Common	100%
1780 Corporate Drive, STE 440 Norcross, GA 30093, United States		
United Transport America LLC	US\$ Interests	100%
Virginia Properties Inc	Ordinary	100%
Rentokil Initial Inc	Common	100%
Asiatic Holdings LLC	Ordinary	100%
PO Box 4510, 10 Free Street, Portland, ME 04112, United States		
Asiatic Investments Inc	Ordinary	100%
500 Spring Ridge Drive, Wyomissing, PA 19610, United States		
Creative Plantings Inc	Ordinary	100%
Vietnam		
268 To Hien Thanh, Ward 15, District 10, Ho Chi Minh City, Vietnam		
Rentokil Initial (Vietnam) Company Limited	Ordinary	100%

Associated undertakings:

France

41 Avenue de La Porte de Villiers, 92200 Neuilly-Sur-Seine, France		
SCI Pierre Brossolette	Ordinary	26.247%

Germany

Franz-Haniel-Platz 6, 47119, Duisburg, Germany		
CWS-boco International GmbH	Ordinary	17.8%

Japan

Kyoritsu Seiyaku Building, 1-5-10 Kudan, Minami Chiyoda-Ku, Tokyo, Japan		
Nippon Calmic Limited	Ordinary	49%

United Kingdom

Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB, England		
Torchsound Properties Limited	Ordinary	50%
Hometrust Kitchens Limited	Ordinary	25%

Rentokil Initial plc owns directly 100% of the shares of Rentokil Initial Holdings Limited and indirectly 100% of the shares in all subsidiaries except where a lower percentage is shown.

Undertakings operate and are incorporated in the country underneath which each is shown.

1 As permitted under s 17 of the Companies (Amendment) Act 1986, the Company intends to take advantage of the exemption to file individual accounts for its Irish subsidiary companies listed on page 156.

2 As permitted by s.479A of the Companies Act 2006, the Company intends to take advantage of the audit exemption in relation to the individual accounts of these companies

Five-year summary

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue from continuing operations	2,472.3	2,412.3	2,168.1	1,759.0	1,740.8
Operating profit from continuing operations	245.5	292.4	232.4	187.8	202.1
Adjusted operating profit from continuing operations	329.3	314.5	284.4	225.0	232.2
(Loss)/profit before income tax from continuing operations	(114.1)	713.6	208.5	159.0	163.2
(Loss)/profit for the year from continuing operations	(98.3)	683.0	167.8	124.3	126.1
Profit for the year from discontinued operations	—	—	—	—	135.4
(Loss)/profit for the year (including discontinued)	(98.3)	683.0	167.8	124.3	261.5
(Loss)/profit attributable to equity holders of the Company	(98.5)	682.8	167.5	124.3	261.8
Profit/(loss) attributable to non-controlling interests	0.2	0.2	0.3	—	(0.3)
	(98.3)	683.0	167.8	124.3	261.5
Basic earnings per share:					
Continuing operations	(5.35)p	37.21p	9.19p	6.83p	6.96p
Adjusted earnings per share ¹ – continuing operations	13.07p	12.19p	10.73p	7.98p	8.05p
Dividends for the period per 1p share	4.471p	3.88p	3.37p	2.93p	2.59p
Gross assets	3,081.5	3,107.7	2,542.8	2,160.8	1,788.4
Gross liabilities	(2,248.9)	(2,173.7)	(2,182.1)	(1,948.7)	(1,688.4)
Net assets	832.6	934.0	360.7	212.1	100.0
Share capital	18.4	18.4	18.3	18.2	18.2
Reserves	813.8	915.3	342.3	194.1	82.0
Non-controlling interests	0.4	0.3	0.1	(0.2)	(0.2)
Capital employed	832.6	934.0	360.7	212.1	100.0

1. Prior to 2016 restructuring costs were an adjustment in arriving at adjusted profit. Since 2016 they are no longer adjusted for and 2015 was restated accordingly.

Parent Company Balance Sheet


At 31 December

	Notes	2018 £m	2017 £m
Non-current assets			
Investments	4	277.6	274.2
Debtors – amounts falling due after more than one year	5	2,457.9	2,457.9
Deferred tax assets	6	13.7	16.5
Retirement benefit assets	7	20.5	325.4
Derivative financial instruments	8	5.4	13.7
		2,775.1	3,087.7
Current assets			
Debtors – amounts falling due within one year	5	54.7	336.7
Cash and cash equivalents		–	167.2
Derivative financial instruments	8	4.2	6.2
		58.9	510.1
Current liabilities			
Creditors – amounts falling due within one year	9	(553.1)	(955.8)
Bank and other borrowings	10	(53.3)	(124.8)
Derivative financial instruments	8	(15.8)	(5.1)
		(622.2)	(1,085.7)
Net current liabilities		(563.3)	(575.6)
Non-current liabilities			
Bank and other borrowings	10	(1,158.3)	(1,135.8)
Deferred tax liabilities	6	(7.2)	(55.3)
Derivative financial instruments	8	(16.4)	(26.6)
		(1,181.9)	(1,217.7)
Net assets		1,029.9	1,294.4
Equity capital and reserves			
Share capital	11	18.4	18.4
Share premium	12	6.8	6.8
Retained earnings		1,004.7	1,269.2
Capital employed		1,029.9	1,294.4

The financial statements on pages 160 to 166 were approved by the Board of Directors on 27 February 2019 and were signed on its behalf by:



Andy Ransom
Chief Executive



Jeremy Townsend
Chief Financial Officer

Parent Company Statement of Changes in Equity

For the year ended 31 December

	Called up share capital £m	Share premium account £m	Retained earnings £m	Total equity £m
At 1 January 2017	18.3	6.8	1,238.5	1,263.6
Profit for the year	–	–	77.0	77.0
Other comprehensive income:				
Remeasurement of net defined benefit asset	–	–	46.4	46.4
Net exchange adjustments offset in reserves	–	–	(21.1)	(21.1)
Movement on cash flow hedge	–	–	(2.6)	(2.6)
Tax related to items taken directly to other comprehensive income	–	–	(9.1)	(9.1)
Total comprehensive income for the year	–	–	90.6	90.6
Transactions with owners:				
Dividends paid to equity shareholders	–	–	(64.3)	(64.3)
Share-based payments charged to profit and loss	–	–	1.3	1.3
Share-based payments debited to investments	–	–	3.1	3.1
Shares issued in the year	0.1	–	–	0.1
At 31 December 2017	18.4	6.8	1,269.2	1,294.4
Profit for the year	–	–	(225.1)	(225.1)
Other comprehensive income:				
Remeasurement of net defined benefit asset	–	–	29.5	29.5
Net exchange adjustments offset in reserves	–	–	(0.1)	(0.1)
Movement on cash flow hedge	–	–	9.5	9.5
Tax related to items taken directly to other comprehensive income	–	–	(9.8)	(9.8)
Total comprehensive income for the year	–	–	29.1	29.1
Transactions with owners:				
Dividends paid to equity shareholders	–	–	(74.2)	(74.2)
Share-based payments charged to profit and loss	–	–	2.3	2.3
Share-based payments debited to investments	–	–	3.4	3.4
At 31 December 2018	18.4	6.8	1,004.7	1,029.9

Shares of £0.1m (2017: £0.1m) have been netted against retained earnings. This represents 8.2m (2017: 6.7m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2018 was £27.6m (2017: £21.2m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

Notes to the Parent Company Accounts

1. Accounting convention

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The amendments to FRS 101 (2014/15 Cycle) issued in July 2017 have been applied. The financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivatives). No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006. The results of Rentokil Initial plc are included in the consolidated financial statements of Rentokil Initial plc which are presented on pages 108 to 159.

The Company has taken advantage of the following disclosure exemptions under FRS 101, all of which have equivalent disclosures included in the consolidated financial statements:

- The requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment
- The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations
- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; (iii) paragraph 118(e) of IAS 38 Intangible Assets; (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property; and (v) paragraph 50 of IAS 41 Agriculture
- The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statement of Cash Flows
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of paragraph 17 of IAS 24 Related Party Disclosures
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- The requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets

2. Principal accounting policies

Judgement and key areas of estimation

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the Company's Directors to exercise judgement in applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in Note 3 and the consolidated financial statements.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. In the opinion of the Directors the value of such investments are not less than shown at the balance sheet date.

Borrowings

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

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 its committed bank credit facility.

Deferred tax

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax assets/liabilities are settled/recovered.

Financial Instruments and risk management

The Company policy in respect of financial instruments and risk management is disclosed in the Financing section of the notes to the consolidated financial statements. Disclosures have been made on financial instruments as required by the Companies Act 2006.

Share capital

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

Notes to the Parent Company Accounts

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.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid. See Note D1 of the Consolidated Financial Statements for details of dividends paid in the year.

3. Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. 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 shown below (please refer to the notes in the consolidated financial statements for further detail). Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant notes to the consolidated accounts.

- Income taxes and deferred tax asset (Notes A13 and A15)
- Retirement benefits (Note A10 and Note 6)

4. Investments

	2018 £m	2017 £m
At 1 January	274.2	271.1
Share-based payments to employees of subsidiaries	3.4	3.1
At 31 December	277.6	274.2

The Company's sole direct subsidiary undertaking is Rentokil Initial Holdings Ltd. All other indirect subsidiary undertakings are listed on pages 154 to 158.

5. Debtors

	2018 £m	2017 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings (non-interest bearing loans repayable on demand)	51.9	334.4
Other debtors	2.8	2.3
	54.7	336.7
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings (interest bearing loan with effective interest rate of 5%)	2,457.9	2,457.9

6. Deferred taxation

	2018 £m	2017 £m
The deferred tax asset is made up as follows:		
Tax losses	6.7	12.3
Long-term incentive plan	7.0	3.7
Other	–	0.5
	13.7	16.5
The deferred tax liability is made up as follows:		
Defined benefit pension scheme	7.2	55.3
	7.2	55.3

Notes to the Parent Company Accounts

7. Pension commitments

At 31 December 2018 the RIPS pension asset amounted to £20.5m (2017: £325.4m). As there is no contractual agreement or stated policy for charging the net defined benefit cost of RIPS to participating entities, the net defined benefit cost is recognised fully by the Company. On 4 December 2018 the Group signed an agreement with Pension Insurance Corporation plc (PIC) to take over the payment of the liabilities in the scheme via a buy-in, which is anticipated to convert to a full buy-out before the end of 2020. For more information on pension commitments and the pension settlement, see Note A10 of the consolidated financial statements.

The movement in the net defined benefit asset for the RIPS pension schemes over the accounting period is as follows:

	Present value of obligation 2018 £m	Fair value of plan assets 2018 £m	Total 2018 £m	Present value of obligation 2017 £m	Fair value of plan assets 2017 £m	Total 2017 £m
At 1 January	(1,360.7)	1,686.1	325.4	(1,431.0)	1,703.0	272.0
Past service cost ¹	(36.1)	–	(36.1)	–	–	–
Settlement of defined benefit obligation ¹	44.5	(350.0)	(305.5)	–	–	–
Administration expenses ¹	(1.0)	–	(1.0)	(1.1)	–	(1.1)
Interest on net defined benefit asset ¹	(32.6)	39.8	7.2	(36.2)	43.2	7.0
Total pension (expense)/income	(25.2)	(310.2)	(335.4)	(37.3)	43.2	5.9
Remeasurements:						
– Remeasurement (loss)/gain on scheme assets	–	(18.6)	(18.6)	–	17.8	17.8
– Remeasurement gain on obligation ²	48.1	–	48.1	28.6	–	28.6
Transfers:						
– Other transfers	(4.0)	4.0	–	–	–	–
Contributions:						
– Benefit payments	63.2	(63.2)	–	77.9	(77.9)	–
– Administration costs	1.0	–	1.0	1.1	–	1.1
At 31 December	(1,277.6)	1,298.1	20.5	(1,360.7)	1,686.1	325.4

1. Service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to net interest credit from pensions.

2. The actuarial movement on the UK RIPS scheme comprises remeasurement gain arising from changes in demographic assumptions of £10.0m (2017: remeasurement gain £55.2m), remeasurement gain arising from changes in financial assumptions of £60.1m (2017: loss of £22.2m) and remeasurement losses arising from experience of £22.0m (2017: £4.4m).

8. Derivative financial instruments

	Fair value assets 2018 £m	Fair value assets 2017 £m	Fair value liabilities 2018 £m	Fair value liabilities 2017 £m
Interest rate swaps:				
– non-hedge	4.5	–	(16.9)	(4.6)
– cash flow hedge	4.9	4.9	–	(12.2)
– net investment hedge	–	14.1	(14.2)	(9.9)
– fair value hedge	–	–	–	(5.0)
Foreign exchange swaps				
– non-hedge	0.2	–	(1.1)	–
– net investment hedge	–	0.6	–	–
Foreign exchange forwards				
– non-hedge	–	0.3	–	–
	9.6	19.9	(32.2)	(31.7)
Analysed as follows:				
Current portion	4.2	6.2	(15.8)	(5.1)
Non-current portion	5.4	13.7	(16.4)	(26.6)
	9.6	19.9	(32.2)	(31.7)

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge' in the table above) in accordance with IFRS 9. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedge is taken directly to finance costs. There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship.

Cash flow hedge accounting has been applied to €54.4m of the €500m 2019 bond, hedging the changes in cash flow due to volatility in the GBP/EUR exchange rate. A new bond was issued on 22 November 2017 for €400m maturing on 22 November 2024. €340m of the bond issue was swapped to dollars and a cash flow hedge has been applied to the volatility in GBP/EUR exchange rate. Cash flow hedge has also been applied to the floating interest of the €50m bond maturing in 2018 that has been swapped to a fixed rate, and to the \$50m term loan maturing in 2020.

Notes to the Parent Company Accounts

9. Creditors

	2018 £m	2017 £m
Amounts due to subsidiary undertakings (non-interest bearing loans repayable on demand)	543.5	951.1
Other creditors	9.6	4.7
	553.1	955.8

10. Bank and other borrowings

	2018 £m	2017 £m
Amounts falling due within one year	53.3	124.8
Amounts falling due after one year	1,158.3	1,135.8

Current and non-current loans include £6.9m (2017: £51.7m) and £1,119.1m (2017: £1,098.8m) respectively of notes issued under the Company's €2.5bn Euro Medium-Term Note Programme.

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Current		
€500m bond due September 2019	Fixed 3.375%	Fixed 3.65%
Non-current		
€350m bond due October 2021	Fixed 3.25%	Fixed 4.31%
€400m bond due November 2024	Fixed 0.95%	Float 3.43%
£1.3m perpetual debentures	Fixed 5.00%	Fixed 5.00%
£0.3m perpetual debentures	Fixed 4.50%	Fixed 4.50%
Average cost of bond debt at year end rates		3.49%

On 22 November 2018 the Company issued a new €400m bond at a coupon of 0.95% under its EMTN Programme. Part of the proceeds were swapped into USD.

The Group's bank debt comprises:

	Facility amount £m	Drawn at year end £m	Headroom £m	Interest rate at year end %
Non-current				
£600m RCF due August 2023	600.0	20.0	580.0	1.13
\$50m term loan due June 2020	39.2	39.2	–	2.17
Average cost of bank debt at year end rates	639.2	59.2	580.0	1.82

In August 2018 the Group amended and extended its main revolving credit facility (RCF). £360m available for cash drawings was increased to £600m, and the £60m available for guarantees and letters of credit was cancelled and the guarantees previously issued under the RCF were transferred to an uncommitted bilateral facility. The maturity date of the RCF was extended to August 2023 with two one-year extension options. At the year end, £20m was drawn under the RCF.

The commitment under a \$25m bilateral revolving credit facility that matures in December 2019 was cancelled and the commitment was transferred to the main RCF.

Notes to the Parent Company Accounts

11. Share capital

	2018 £m	2017 £m
Issued and fully paid:		
At 31 December – 1,843,332,965 shares of 1p each (2017: 1,837,332,965)	18.4	18.4

12. Share premium

	2018 £m	2017 £m
At 1 January and 31 December	6.8	6.8

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 and pensions, none of which are expected to give rise to any material loss.

14. Employees

The Company has 9 employees (2017: 9 employees). Detail on employee costs are in Note D4 of the consolidated financial statements. Services for finance, taxation, treasury, legal, HR and IT are provided by Rentokil Initial 1927 plc and recharged to the Company.

15. Share-based payments

Share-based payments for the financial period were £5.7m (2017: £4.4m) of which £2.3m (2017: £1.3m) was charged to the profit and loss account and £3.4m (2017: £3.1m) debited to investments. Share options relating to the board are disclosed in the Directors' Remuneration Report and detailed share-based payment disclosures are shown in Note A11 of the consolidated financial statements.

16. Related party transactions

The Company has not undertaken any transactions with related parties during the year, other than transactions with wholly owned fellow members of Rentokil Initial plc. Such transactions are exempt from disclosure under FRS 101. There were no transactions with non-wholly owned fellow members of Rentokil Initial plc.

17. Post balance sheet events

There were no significant post balance sheet events that affected the Company since 31 December 2018.

Directors' Report

The Directors submit their report and audited financial statements of the Company and the Group to the members of Rentokil Initial plc (the Company) for the year ended 31 December 2018. Details of the Directors of the Company during 2018 can be found on pages 58 and 59.

The Corporate Governance Report for the year on pages 56 to 97 forms part of the Directors' Report, together with the sections of the Annual Report incorporated by reference.

The Company has chosen to disclose the following information in the Strategic Report on pages 1 to 54 and 104 to 107:

- particulars of any important events affecting the Company which have occurred since the end of the financial year;
- an indication of likely future developments in the business of the Company;
- an indication of the Company's research and development activities (digital technology and innovation solutions are referred to throughout the Strategic Report but particularly on pages 2 to 13, 25 to 27 and 32 to 37);
- details of employee involvement and human rights (Corporate Responsibility, pages 48 to 54);
- information on greenhouse gas emissions and energy use (Corporate Responsibility, page 51); and
- principal risks and uncertainties (Risks and Uncertainties, pages 42 to 47).

The Strategic Report and the Directors' Report constitute the management report as required under the Disclosure and Transparency Rule 4.1.8R.

Information to be disclosed under Listing Rule 9.8.4 in relation to allotment of shares for cash (Listing Rule 9.8.4(7)) and waiver of dividends (Listing Rule 9.8.4(12)) is set out on page 168. No other paragraphs under Listing Rule 9.8.4 apply.

Company constitution

Rentokil Initial plc is a company incorporated in England and Wales, with company number 5393279. The Company is a holding company with limited trading in its own right and with subsidiary undertakings in 73 countries (the Group operates in 75 countries). The Company's related undertakings are listed on pages 154 to 158.

Articles of association

The articles of association set up the internal regulations of the Company and cover such matters as the rights of shareholders, the conduct of the Board and general meetings. The articles themselves may be amended by special resolution of the shareholders.

Amendments to the articles of association have to be approved by at least 75% of the votes cast by those voting in person or by proxy. Subject to company law and the articles of association, the Directors may exercise all the powers of the Company and may delegate authority to Committees and day-to-day management and decision-making to individual Executive Directors. The articles of association are available upon request and are displayed on our website at rentokil-initial.com.

Re-election of Directors and service contracts

In accordance with the articles of association, Directors can be appointed by the Board and must be subsequently elected by shareholders in general meeting. In accordance with the articles of association and the UK Corporate Governance Code 2016 (the Code), Directors submit themselves for re-election annually. Directors can be removed, and their replacements appointed, by shareholders in general meeting.

Information on our Board of Directors, including full biographical details, and changes during 2018, can be found in the Corporate Governance Report on pages 58 and 59. All Board members will seek re-election at the 2019 Annual General Meeting (AGM), other than John McAdam and Richard Burrows who will be stepping down at the conclusion of the AGM, and Richard Solomons who will stand for election for the first time.

The terms of the Directors' service contracts are disclosed in the Directors' Remuneration Report starting on page 81. Directors' service contracts and the letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office and the offices of the Company's legal advisors, Freshfields Bruckhaus Deringer LLP, at 65 Fleet Street, London EC4Y 1HS until the conclusion of the AGM and will be available at the AGM which will take place on 8 May 2019. A pro-forma of the Non-Executive Directors' letter of appointment is available on our website.

Directors' powers

Under the articles of association, the Directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes and the Company's articles of association. For example, the articles contain specific provisions and restrictions regarding the Company's power to borrow money. The articles of association also give power to the Board to appoint and replace Directors as detailed above.

Powers relating to the issuing of shares are also included in the articles of association and such authorities are renewed by shareholders each year at the AGM, as detailed below.

Directors' interests

The beneficial interests of the Directors, including the interests of any connected persons, in the share capital of the Company are shown on page 91. During the year no Director had any material interest in any contract of significance to the Group's business.

Dividend

The Directors have recommended a final dividend of 3.16p per share for the 52 weeks ended 31 December 2018. Payment of this dividend is subject to shareholder approval at the 2019 AGM. Further information on the Company's dividend policy can be found on page 107.

Share capital

The Company has a premium listing on the London Stock Exchange and an over-the-counter American Depositary Receipt (ADR) listing to facilitate shareholding in the United States. All ordinary shares carry the same rights and no shareholder enjoys any preferential rights, regardless of the size of their holding.

The Company's share capital during the year consisted of ordinary shares of 1p each. There were 1,843,332,965 shares in issue at 31 December 2018, which represents 100% of the Company's issued share capital (2017: 1,837,332,965). Each ordinary share (other than treasury shares, which have no voting rights) carries the right to vote at a general meeting of the Company. The Company did not hold any treasury shares between 31 December 2017 and 31 December 2018 and accordingly the Company did not sell any treasury shares. The Company's articles of association provide that on a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder.

The articles do not contain special control rights or restrictions on transfer or limitations on the holding of ordinary shares and no requirements for the prior approval of any transfers. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

The Company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements which may at a subsequent date result in a change in control of the Company.

Authority for the Company to allot shares or grant rights to subscribe for shares up to an aggregate nominal amount of £12,248,000 was obtained at the AGM on 9 May 2018. The authority remains in force and approval will be sought from shareholders at the 2019 AGM to renew the authority for a further year.

Directors' Report

During the year a total of 6,000,000 ordinary shares with an aggregate nominal value of £60,000 were issued and allotted to Computershare Nominees (Channel Islands) Limited, the account nominee of Computershare Trustees (Jersey) Limited who acts as trustee for the Rentokil Initial Employee Share Trust (the Trustee). These shares were issued to satisfy awards that vested in 2018 under the Company's Performance Share Plan. Details of the shares held by the Trustee are contained in the Consolidated Statement of Changes in Equity table on page 110. As at 31 December 2018 the Trustee holds on trust 0.44% of the issued share capital of the Company to satisfy awards that vest under the Company's Performance Share Plan. The Trustee has agreed to waive any right to all dividend payments on shares held by it and the voting rights in relation to these shares are exercised by the Trustee. The Trustee may vote or abstain from voting with the shares or accept or reject any offer relating to the shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision.

Repurchase of shares

Authority for the Company to make purchases of its own shares of up to 183,700,000 shares was obtained at the AGM on 9 May 2018 and such authority will be valid until the 2019 AGM. No purchases of its shares were made by the Company during 2018. The authority is normally renewed annually and approval will be sought from shareholders at the 2019 AGM to renew the authority for a further year.

Change of control provisions

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as some financial and commercial agreements and employee long-term incentive or share plans. None of these are deemed to be significant in terms of their potential impact on the Group as a whole. A description of the Group's debt funding arrangements is set out in Note C6 to the Financial Statements. Note C1 describes the change of control provisions relating to the Group's Euro Medium-Term Note Programme.

Substantial shareholders

The Company has been notified pursuant to the Disclosure Guidance and Transparency Rules (DTR 5) that the following shareholders held, or were beneficially interested in, 3% or more of the Company's issued share capital at 31 December 2018.

Substantial interests in shares as at 31 December 2018

	%	No. of ordinary shares	Nature of holding
Ameriprise Financial Inc. ¹	9.99	182,682,307	Indirect
Majedie Asset Management Ltd	5.61	101,963,126	Indirect
BlackRock, Inc.	5.05	93,128,464	Indirect
Schroders plc	4.91	89,878,920	Indirect
Invesco Ltd	4.89	89,477,118	Indirect
Artemis Investment Management LLP	4.80	87,765,202	Direct
AXA SA	4.80	87,093,421	Indirect

¹ Ameriprise Financial Inc. includes Threadneedle Asset Management Holdings Ltd.

Between 31 December 2018 and 27 February 2019 the Company was notified of the following change to the above table.

	%	No. of ordinary shares	Nature of holding
Aviva plc and its subsidiaries	3.00	55,339,110	Direct

Since these dates, the interest of any shareholder listed above may have increased or decreased. No requirement to notify the Company of any increase or decrease would have arisen unless the holding moved up or down through a whole number percentage level.

Financial risk management

Details of financial risk management and the relevant policies and certain exposures of the Company are disclosed in Note C1 on pages 139 and 140 of the Financial Statements.

Key contracts

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

Post balance sheet events

There were no significant post balance sheet events affecting the Group since 31 December 2018.

Political donations

It is the Company's policy not to make payments to political organisations. The Company does however maintain a shareholder authority to make payments of a political nature but does so only in order to ensure that the Company has authority from shareholders for the limited number of activities associated with the operation of the business which might be caught by the broad definition of payments of a political nature contained within current legislation. There were no payments to political organisations during 2018 (2017: £nil).

Equal opportunities

The Company regards equality and fairness as a fundamental right of all of its colleagues. Every colleague is required to support the Company to meet its commitment to provide equal opportunities in employment and avoid unlawful discrimination. People with disabilities should have full and fair consideration for all vacancies, and disability is not seen to be an inhibitor to employment or career development. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. In the event of any colleague becoming disabled while with the Company, their needs and abilities would be assessed and, where possible, we would work to retain them and seek to offer alternative employment to them if they were no longer able to continue in their current role.

Branches

The Company, through various subsidiaries, has branches in several different jurisdictions in which the business operates outside the UK.

Directors' Indemnity and Insurance

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

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

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

Directors' Report

Related party transactions

Other than in respect of arrangements relating to the employment of Directors, details of which are provided in the Directors' Remuneration Report, or as set out in Note D4 on page 147 of the Financial Statements, which also provides details of transactions with joint ventures and associate entities, there is no indebtedness owed to or by the Company to any colleague or any other person considered to be a related party.

Disclosure of information to the auditor

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

Going concern

The Directors, having made enquiries, consider that the Company and the Group have adequate resources to continue in operation for a period of at least 12 months from the date of approval of these annual financial statements. For this reason, they consider it appropriate to adopt the going concern basis in preparing the financial statements.

Further details on the Group's net debt, borrowing facilities and financial risk management policies are provided in section C. Financing of the Notes to the Financial Statements on pages 139 to 146.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

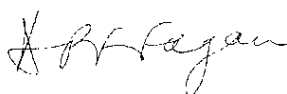
Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations. The Directors are responsible for the maintenance and integrity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

Each of the Directors, whose names and functions are set out on pages 58 and 59, confirms that, to the best of their knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each Director considers the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Directors' Report on pages 56 to 97 and pages 167 to 169 and the Strategic Report on pages 1 to 54 and 104 to 107 were approved by a duly authorised Committee of the Board of Directors on 27 February 2019 and signed on its behalf by Daragh Fagan, the Company Secretary.



DARAGH FAGAN
Company Secretary
27 February 2019

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

Additional shareholder information

Registrar

The Company's Registrar is Equiniti Limited (Equiniti). All enquiries relating to the administration of shareholdings, dividends, change of address and lost share certificates should be directed to Equiniti. Information and advice can be found on their website.

Contacting Equiniti:

📧 help.shareview.co.uk

☎ 0333 207 6581 (+44 (0)121 415 0077 if calling from outside the UK)
Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

✉ Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, UK.

Shareview Portfolio service

You can manage your shareholding online via Equiniti's Shareview Portfolio at shareview.co.uk. This allows shareholders to access a range of information about their shareholdings on registers maintained by Equiniti and includes shareholding details (such as name and address), indicative share prices, recent balance changes and dividend information.

Share dealing services

Equiniti offers shareholders a dealing service which allows you to buy or sell Rentokil Initial plc shares.

📧 shareview.co.uk

☎ 0371 384 2233 (+44 (0)121 415 7065 if calling from outside the UK).

Calls are charged at standard national and international rates. Please note that both the internet share dealing and telephone share dealing services are subject to commission charges. Full details can be found on shareview.co.uk.

ShareGift

Shareholders with small holdings in shares, whose value makes them uneconomical to sell, may wish to donate them to ShareGift (registered charity no. 1052686).

For further information, contact:

📧 sharegift.org

@ help@sharegift.org

☎ +44 (0)20 7930 3737

✉ ShareGift, PO Box 72253, London, SW1P 9LQ

Share price information and history

The current price of the Company's shares can be found at rentokil-initial.com/investors.

Mid-market price 31 March 1982 – 7.5375p*

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

Mid-market price 31 December 2018 – 337.2p

2018 high/low – 355.1p/258.7p

Dividends

2018 final dividend

The Directors have recommended a final dividend of 3.16p per share, for the 52 weeks ended 31 December 2018. Payment of this dividend is subject to approval at the 2019 AGM. When taken with the interim dividend of 1.311p per share paid on 12 September 2018 this gives a total dividend of 4.471p per share (2017: 3.88p).

Key dates relating to this dividend are given below.

Ex-dividend date	11 April 2019
Record date	12 April 2019
Last day for DRIP elections	23 April 2019
Annual General Meeting	8 May 2019
Payment date	15 May 2019

For further dividend information please see the Financial Review on page 107 or go to rentokil-initial.com/investors.

Dividend payments

Rentokil Initial dividends can be paid directly into your bank or building society accounts instead of being sent to you by cheque. More information about the benefits of having dividends paid directly into your bank or building society account, and the mandate form to set this up, can be found at shareview.co.uk.

Dividend reinvestment plan (DRIP)

The Company has a DRIP provided by Equiniti Financial Services Limited (Equiniti FS), which is a convenient, easy and cost effective way to build a shareholding by using cash dividends to buy additional shares. Rather than receiving a dividend cheque or having a bank account credited with a cash dividend, Equiniti FS will use the dividends payable to DRIP participants to purchase shares on your behalf in the market. Please go to shareview.co.uk for further information.

Dividend history

Details of the Company's dividend history can be found on our website at rentokil-initial.com/investors.

American depository receipts (ADR)

The Company has an ADR programme that trades on the over-the-counter market in the United States. This is a sponsored Level 1 ADR programme for which the Bank of New York Mellon acts as depository. Each ADR is equivalent to five Rentokil Initial plc ordinary shares.

For enquiries relating to ADRs, please contact:

📧 mybnymdr.com

@ shareholders@cpushareownerservices.com

☎ Freephone from the US: +1 888 269 2377

International calls: +1 201 680 6825

✉ BNY Mellon Shareowner Services, P.O. Box 30170, College Station, TX 77842-3170, USA.

Exchange, OTC (over the counter)

Symbol: R1OKY

CUSIP: 760125104

Ratio (ADR: Ord) 1:5

Additional shareholder information

Indirect owners of shares with information rights

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to Equiniti.

How to avoid share fraud

Reject cold calls: If you've been cold called with an offer to buy or sell shares, the chances are it's a high risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

Check the firm on the Financial Conduct Authority register at fca.org.uk/register. The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.

Get impartial advice: Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

If you suspect that you have been approached by fraudsters please tell the FCA using the share fraud reporting form at fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have lost money to investment fraud, you should report it to **Action Fraud on 0300 123 2040** or online at actionfraud.police.uk.

Find out more at fca.org.uk/scamsmart.

ALWAYS REMEMBER: If it seems too good to be true, it probably is!

Unsolicited mail

The Company is legally obliged to make its register of members available to the public, subject to a proper purpose test. As a consequence of this, some shareholders may receive unsolicited mail. Shareholders wishing to limit the amount of such mail should contact the Mailing Preference Service (MPS) at:

🌐 mpsonline.org.uk

☎ 0207 291 3310

✉ MPS FREEPOST LON20771, London, W1E 0ZT

Annual General Meeting

The AGM will be held in the Ascot Suite at the Hilton London Gatwick Airport, South Terminal Gatwick Airport, Gatwick, RH6 0LL on Wednesday 8 May 2019 at 12 noon. The Notice of Meeting is available on our website.

Published Information

If you would like to receive a hard copy of this Annual Report please contact the Company Secretariat at the Company's registered office below. A PDF copy of this report can also be downloaded from our website.

Registered office and headquarters

Rentokil Initial plc

Registered in England and Wales; Company Number: 5393279

Registered Office: Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey GU17 9AB

🌐 rentokil-initial.com

✉ investor@rentokil-initial.com

☎ +44 (0)1276 607444

Glossary

AER	Actual exchange rates
AGM	Annual General Meeting
APM	Alternative Performance Measure
Benelux	Belgium, the Netherlands and Luxembourg
Board	The Board of Directors of Rentokil Initial plc
B2B	Business to business
CAGR	Compound annual growth rate
CER	Constant exchange rate
CGU	Cash-generating unit
CMA	UK Competition & Markets Authority
Company	Rentokil Initial plc
CVC	Customer Voice Counts
CWS-boco	CWS-boco International GmbH
CWS Italy	Initial Italia SpA (formerly CWS-boco Italia SpA)
Director	A Director of Rentokil Initial plc
EBITDA	Earnings before interest, tax, depreciation and amortisation
ELT	Executive Leadership Team
EMTN	Euro Medium-Term Note
ETR	Effective tax rate
EPS	Earnings per share
FRC	Financial Reporting Council
FRS	Financial Reporting Standards
GAAP	Generally Accepted Accounting Practice
GDPR	EU General Data Protection Regulation
Group	Rentokil Initial plc and its subsidiaries
Growth and Emerging markets	Rentokil Initial defined markets for Pest Control operations (see pages 30 and 31)
H&S	Health and safety
Haniel	Franz Haniel & Cie. GmbH
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association
IRR	Internal rate of return
JV	Joint venture
KPI	Key performance indicator
LTA	Lost time accident
LTIP	Long-term incentive plans
M&A	Mergers and acquisitions
MENAT	Middle East, North Africa and Turkey
NED	Non-Executive Director
NPS	Net Promoter Score
Parent Company	Rentokil Initial plc
PSP	Rentokil Initial plc Performance Share Plan
RCF	Revolving credit facility
R&D	Research and development
RIPS	Rentokil Initial 2015 Pension Scheme
S&P	Standard & Poor's
SHE	Safety, health and environment
SID	Senior Independent Director
SLF	Senior Leadership Forum
TSR	Total shareholder return
UK & RoW	United Kingdom and Rest of World
VDCI	Vector Disease Control International LLC
WDL	Working days lost

About us

Rentokil Initial is a global leader in the provision of route-based services which protect people and enhance lives. Our services include Pest Control, Hygiene and Workwear, as well as a range of other smaller specialist services including Plants, Medical Services, Property Care and Specialist Hygiene.

We protect people from the dangers of pest-borne disease and the risks of poor hygiene. We enhance lives with services that protect the health and wellbeing of people, and the reputation of our customers' brands.

Rentokil is the world's leading commercial pest control company and our engine for growth. Initial Hygiene is a global leader in hygiene services.

We have over 1,800 local service teams across the world covering over 90% of global GDP in over 90 of the world's 100 largest cities across North America, Europe, UK & Rest of World, Asia and the Pacific. Operating in 75 countries, approximately 90% of our revenues are derived outside of the UK.

We have over a million customers to service from the largest multinational pharmaceutical, industrial and food production companies to local shops, restaurants and homes. With high levels of customer service and retention rates, we continue to build our portfolio.

Find out more at rentokil-initial.com

Cautionary statement This report contains statements that are, or may be, forward-looking regarding the Group's financial position and results, business strategy, plans and objectives. Such statements involve risk and uncertainty because they relate to future events and circumstances and there are accordingly a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements. Forward-looking statements speak only as of the date they are made and no representation or warranty, whether expressed or implied, is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Other than in accordance with the Company's legal or regulatory obligations (including under the Listing Rules and the Disclosure Guidance and Transparency Rules), the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Information contained in this 2018 Annual Report relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing in this 2018 Annual Report should be construed as a profit forecast.



This Report is printed on Magno Satin paper and has been independently certified on behalf of the Forest Stewardship Council (FSC®). The inks used are all vegetable based.

Printed at Principal Colour Ltd, ISO14001 and FSC® certified.

Design
mslgroup.co.uk

Print
Principal Colour Ltd

rentokil-initial.com

rentokil.com

initial.com

ambius.com