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Rentokil Initial

Strategy and performance

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Annual report 2010

Financial highlights

	2010 £m	Increase/ (decrease) %	2009 £m
Revenue	**2,496 5**	(1 4%)	2,530 8
Adjusted operating profit[1]	**239 3**	8 4%	220 8
Adjusted profit before tax[1]	**192 3**	15 5%	166 5
Profit before tax	**14 5**	(77 7%)	65 0
Operating cash flow[2]	**220 1**	(30 5%)	316 7
Adjusted EPS[3]	**7 81p**	18 2%	6 61p

1 before amortisation and impairment of intangibles (excluding computer software) and one off items
2 cash flow before interest tax acquisitions, disposals and foreign exchange adjustments
3 earnings per share before the after tax effects of one off items and amortisation and impairment of intangibles (excluding computer software)

Statement by the Chairman and the Chief Executive

Overview of performance in 2010

Full year revenue of £2.5bn declined by 1.4% on 2009 at actual exchange rates (1.2% at constant rates). Revenue performance showed an improving trend during the year but was held back principally by Textiles & Hygiene in the Benelux and City Link, both of which suffered from a combination of difficult market conditions and ineffective management. Facilities Services recorded revenue growth largely due to the contributions from Knightsbridge Guarding (acquired in June) and a new Transport for London cleaning contract. Pest Control revenue was broadly flat year on year, held back by a decline in the UK Hygiene business, but nevertheless reported good levels of growth in its UK, North American, Northern European and East Africa & Caribbean Pest Control businesses. While Ambius revenue declined 3.6%, the division moved into positive revenue growth in Q4 2010, the first time since Q4 2008. Asia Pacific revenue declined by 4.9%, impacted by the exit of the low-margin Hong Kong Government contract. However, underlying revenue growth was broadly flat year on year, with Asia growing by 1.4% and the Pacific declining by 1.1%.

Contract portfolio, which accounts for 74.3% of revenue, grew by 1.8% year on year of which 1.0% is due to the net effect of acquisitions and disposals and the remainder to significantly improved customer retention rates.

Adjusted operating profit (before amortisation and impairment of intangible assets and one-off items) amounted to £239.2m (at CER), an increase of 8.3% on the prior year. Adjusted profit before tax (before amortisation and impairment of intangible assets and one-off items) grew by 15.1% to £191.7m (at CER) and adjusted earnings per share (at AER) grew 18.2% to 7.81p. Strong divisional profit performances were recorded in Pest Control, Facilities Services and Asia Pacific. The after tax loss for the year was £20.3m, primarily due to the recognition of a £95m impairment of goodwill in City Link.

Strategy update

The company's strategy is focused on five key strategic thrusts We outline our 2010 progress below

1. Delivering outstanding customer service

State of service at the end of December was 97% versus our 2010 target of 95% Service levels in the Pest Control, Asia Pacific and Ambius divisions were high in 2010 with improved customer satisfaction scores across the businesses Textiles & Hygiene showed major improvements in service, aided in part by the implementation across all countries of a standard operating framework Apart from periods of heavy snow when service levels were severely impacted, City Link service levels were at 98 5%

Customer retention improved from 80 8% to 83 9% during the year due to improvement in service levels

Customer care improvement is a key objective for 2011 Our aim is to deliver immediate, effective and even surprising customer care for all our customers This will be driven through a range of initiatives and Programme Olympic Good progress has already been made in the UK Pest Control business in driving front line incentives and recognition, with further roll-out across the group planned for 2011 We will select and implement a Customer Contact Management system to allow account managers to track dialogue with customers across a broad range of media and across multiple sites, thereby generating a single, real time, view of customer contact Systems improvements will include investment in telephony to facilitate call sharing and call handling across multiple sites The initial focus will be City Link

2. Developing the capability of our organisation and people

Since 2008 we have made considerable progress in improving the capability of our organisation and people However, operational control weakness in a small number of operations was exposed during 2010, most notably in the Benelux operations of Textiles & Hygiene and in City Link

Functional expertise
During the year management was strengthened further and the majority of key positions are now filled We were delighted to welcome in August Jeremy Townsend, formerly Finance Director at Mitchells & Butlers plc, as Chief Financial Officer After a long and successful career with Rentokil Initial Peter Lloyd, Divisional MD of Facilities Services, retired in September 2010 He was succeeded by Mike Brown, formerly Group Director of Operations for Serco Prior to that, Mike was CEO of Integrated Services at Serco, a £400m facilities services business in the UK, continental Europe and the Middle East

In Q4 we announced the resignation of City Link's Managing Director, Stuart Godman The Chief Executive has taken responsibility for running City Link until a new Managing Director is appointed The senior management team in the Benelux operations of Textiles & Hygiene was replaced during 2010 with a new Managing Director joining the business at the start of 2011

The Marketing Director of the Pest Control division and the Sales Director of Textiles & Hygiene have been given responsibility for coordinating the global marketing and sales agendas across the Rentokil Initial group

During 2010 we invested in productivity, processes and capability of sales teams notably in Pest Control and Ambius Pest Control implemented a Sales Performance Assessment programme for sales colleagues This follows the global roll out in 2010 of Service Performance Assessment programmes for technicians Modules for developing the capability of Supervisors and Managers will be implemented in 2011 Asia Pacific also invested in its sales and marketing capability in 2010

Good progress was made during the year in Textiles & Hygiene and Pest Control in service improvements through technical training, work scheduling, route optimisation, customer care (as outlined above) and lead generation

Common systems and processes
Development of our capabilities and IT systems continue at pace across all our divisions and functions A number of strategic initiatives, such as Programme Olympic, are placing further emphasis on the need to implement common systems for our business processes, in addition to the current roll-out plans for our branch and depot solutions The group wide roll-out of Google Apps™ was completed in 2010 to improve cohesion and collaboration across the group Major projects in key data centre and network infrastructure have been delivered and form a solid platform for future developments

Programmes are also underway to consolidate and standardise HR, Finance and Accounting systems across the group During the year we invested in time and attendance and work scheduling systems in Initial Facilities Services In addition to key business systems, we continue to innovate in a number of other areas, such as route optimisation and systems to support sales and service productivity

Procurement
Excellent progress was made in 2010 in developing our capability in procurement Procurement activity has now been restructured as a group function to facilitate leverage across the group, supported by a strong team of dedicated specialist category management resources covering direct and key indirect categories Key

developments during the year include the establishment of an Asian sourcing hub in Singapore to enable efficient low cost country sourcing of products Significant progress has also been made in rationalising the Hygiene product range with further programmes launched in the Pest Control and Facilities Services divisions

During the year the company selected Ariba software (which allows companies to automate, monitor, and control the complete purchasing life cycle from requisition to payment) as the common transactional platform for Procure to Pay, to drive compliance and reduce administration costs This system will go live in UK Pest Control during Q2 2011

3. Delivering operational excellence

Though good progress was made during 2010 in improving City Link's hub and depot structure and IT capability, overall performance was disappointing While severe weather at the beginning and the end of the year was a contributing factor, the operational management of the business was poor, evidenced by high usage of subcontractors, inadequate contingency planning to deal with extreme conditions and poor engagement of front-line colleagues Significant management change has taken place and a detailed operating plan is now being implemented which should deliver substantial operational improvement prior to the 2011 Christmas seasonal peak

Performance from our Textiles & Hygiene operations in the Benelux also proved disappointing during the year, impacted by higher processing and distribution costs associated with the Belgian restructuring and significant pricing pressure, particularly in the Netherlands In addition, the business suffered from weak operational control Although controls have improved since the appointment of new management in December and pricing pressures have eased, the recovery plan remains at an early stage of development

Increasing the scale of our country operations to drive efficiency Increasing the scale of certain of our country operations creates efficiencies through reduced back office costs and improved service productivity, as well as increasing cross-selling opportunities Pest & Hygiene UK & Ireland were merged with effect from 1 July 2010 The combined business now reports to Andy Ransom, Divisional MD of Pest Control On 1 January 2011 the Hygiene businesses in Denmark, Finland, Norway, Sweden (excluding the Medical business), Poland, Portugal and Spain were also merged with Pest Control, allowing the Textiles & Hygiene division to focus primarily on its major businesses in France, the Benelux, Germany, Austria and Italy

4. Operating at lowest possible cost consistent with our service objectives and delivering maximum cash

Cost savings of £60m were achieved during 2010 Of this year's reductions, £17m came from indirect procurement savings and the remainder from further divisional and central cost savings programmes However, delays in delivering savings arising from the use of subcontractors in the City Link business resulted in a savings shortfall of over £10m

In Textiles & Hygiene the reorganisation programme in France, and its associated benefits, was completed during the year, ahead of plan and at a lower cost than initially anticipated The plant rationalisation programme in Belgium was also completed but implementation and initial plant running costs were higher than anticipated A significant number of smaller restructuring projects across the division have delivered expected benefits

Further cost savings of £60m are targeted in 2011 driven through further improvements in service productivity, procurement and reduction in overheads In year savings of £20m are targeted in City Link through a reduction in the use of subcontractors, route optimisation and depot/hub rationalisation Procurement savings are anticipated through the rationalisation of the Textiles & Hygiene ranges as well as continued savings in indirect costs driven by the group procurement team Overhead savings will be delivered through continued back office rationalisation and the re-platforming of systems and processes through the relevant Programme Olympic work streams

The group generated operating cash flow of £220 1m (2009 £316 7m) representing 114% conversion from profit (after adjusting for one-off cash flows of £52 8m) We achieved our target of 47 days sales outstanding (DSO) and we are targeting further improvement to 45 days by the end of 2011 Capital expenditure was again well controlled at 87% of depreciation (2009 83%)

5. Delivering profitable growth

In 2010 we focused particularly on improving sales management and sales organisation and piloted a number of front-line incentive schemes to reward improvements in growth and service The investments in capability and infrastructure improvements noted above both support the delivery of underlying profitability as well as providing a platform for revenue growth in due course

During 2010 the Olympic programme has piloted various initiatives that help underpin sales and provide potential for growth These include IT investments to aid sales productivity, cross selling, job sales and pricing, customer account management and customer complaint management

Service line expansion – in June we were pleased to announce the acquisition of Knightsbridge Guarding Limited The business, which has a strong reputation as an expert provider of high calibre, bespoke security for the corporate sector, has performed particularly well during its first six months, winning a substantial integrated services contract alongside the cleaning business

On 14 February 2011 we announced the acquisition of the Services division of Santia Group, previously known as Connaught Compliance Ltd, for a cash consideration of £5 6m with up to an additional £3m payable depending on various post closing adjustments The business comprises three business units – Fumigation & Pest Control, Water Treatment & Hygiene and Fire Safety & Prevention and is expected to generate annualised revenues of £24m Pest Control will be merged with our UK Pest Control business and Water will be merged with the existing UK Water Hygiene business within the Facilities Services division Fire will form a separate business unit within the Facilities Services division Our immediate priorities will be to deliver excellent service to our new customers and to engage with the 430 colleagues who will join us as a result of this acquisition

Funding

We have delivered another year of strong cash performance in 2010, generating £220 1m (2009 £316 7m) representing 114% conversion from profit (after adjusting for one-off cash flows of £52 8m)

At 31 December 2010 the group had net debt of £954m Of this, £868m is represented by capital market notes issued by the group and the earliest maturity of any of these instruments is 2013 The group has good headroom in its bank facilities in terms of funds available to withdraw and has good and improving headroom in relation to its covenant

The company has commenced discussions with the pension trustees in relation to the triennial valuation of the UK Pension Scheme as at 31 March 2010 and any funding implications arising from this

Dividend

The board continues to keep dividends under review and is committed to their resumption when i) the company's cash flow is robust and ii) when the foundations of sustainable and profitable growth have been established in all of the company's principal businesses Only one of these criteria has been met in the financial year to 31 December 2010

Objectives for 2011

The group has four key objectives for 2011 They are to turn around City Link and Textiles & Hygiene Benelux, to expand the group's focus on customer service to customer care, to deliver consistent and profitable organic growth and to deliver further cost savings of £60m

While financial controls have improved in Benelux Textiles & Hygiene since the appointment of new management in December and pricing pressure appears to have eased, the recovery plan for this business remains at an early stage of development

City Link's operational plan for improvement is further advanced and focuses on the four key areas of customer care, contingency planning for periods of peak trading, operations, and sales and marketing Customer care initiatives include investment in superior telephony and customer care tools, while contingency plan measures include developing pre-determined guidelines in response to major infrastructure disruption such as severe weather Operational improvements will include reducing the reliance on ad hoc subcontractors to below 5% and the closure of the head office in Camberley Sales and marketing initiatives include targeting profitable growth in a small number of key sectors and the deployment of 'My City Link' to give real-time, detailed access on the transit of customers' parcels through the network

Our focus on the customer service agenda will be extended in 2011 to customer care Our aim is to be proactive in contacting, listening to and responding to all our customers, not just the very large In 2010 we began to lay the foundations for growth and aim in 2011 to deliver consistent and profitable organic growth through excellent customer retention and greatly improved marketing, sales and innovation capability

Building on our successful cost savings programmes over the last two years, we anticipate further savings of £60m, to be achieved through service productivity improvements, procurement (product rationalisation and indirects) and reduction in overheads

Outlook for 2011

A little over half way into our five-year turnaround plan the group has undergone considerable and, in most cases, successful structural change Good progress has been made in customer service, evidenced by continued improvement in customer retention on our contract business Cash delivery has also been excellent Nevertheless, much remains to be done on customer care and on capability development

In the coming year we anticipate continued good progress in Pest Control, Facilities Services, Asia Pacific and Ambius City Link's operational inefficiencies are expected to be largely resolved by October 2011 but financial delivery will be weak until then Textiles & Hygiene Benelux controls have improved and pricing pressures have reduced but the recovery plan is at an early stage of development

Programme Olympic is performing well, driving capability in growth, customer care and administration We expect these initiatives to deliver organic revenue growth in our contract businesses during the second half of 2011

To conclude, your company is well underway on its programme of operational change which is already driving efficiency, capability and which will in time underpin future profitable growth There remains, however, much still to do – while we have seen good progress during 2010 in the Pest Control, Facilities Services and Asia Pacific divisions, the performance from City Link and Textiles & Hygiene (Benelux) has been disappointing

We are determined to introduce fundamental operational improvement plans at both these businesses in the coming financial year and to demonstrate organic revenue growth in our contract businesses from the second half of 2011 Our shareholders, employees and customers continue to give strong support to Rentokil Initial and we thank them for their loyalty, commitment and trust

John McAdam
Chairman
14 March 2011

Alan Brown
Chief Executive

Strategy update

How are we doing?

- Strong progress
- Progress
- Limited progress

Strategic aim	Key metrics
Outstanding Customer Service	Achieve 95% state of service across group Ensure personal accountability for customer relationships Customer Care – management of customers throughout entire life cycle Customer responsiveness and proactive communication Front line incentives and recognition
Developing Capability	Develop service and sales capability Upgrade functional and operational management Administration – Programme Olympic Drive performance management, global grading and HR information systems
Delivering Operational Excellence	Consistent KPIs across the organisation City Link and Textiles & Hygiene turnarounds Develop common information systems and processes Transfer and sharing of best practice
Lowest Cost and Maximum Cash	Deliver £75m cost savings in 2010 Achieve 102% + cash conversion target in 2010 Drive down administration costs Increase textiles processing productivity Deliver procurement savings
Profitable Growth	Market segmentation and brand development Sales effectiveness Service expansion Developing markets Acquisitions

Progress in 2010

- State of service 97.2%
- Tier 1 customers receiving good attention
- Account Management Cycles for new and existing contracts, but lifecycle management largely weak
- Proactive customer management to improve query resolution times and retention and identify growth opportunities
- Good progress in UK Pest in roll-out of front-line incentives and recognition

- Sales capability – good traction in Pest Control and Ambius, Hygiene improving, but progress slow
- Service capability – traction in technical training, scheduling, route optimisation, customer care and lead generation
- Management strengthened in Asia, Textiles & Hygiene and group functions
- Programme Olympic delivering insight in sales productivity, account management and bids and tenders

- Roll-out of 16 standard KPIs down to branch level
- Good progress in improving City Link hub and depot structure and IT capability, poor performance from weak operational management
- Textiles & Hygiene Benelux impacted by weak operational control and challenging markets
- Further roll-out of iCABS and PDAs, Navision implementation in US, development of common Textiles operating system
- Progress in transfer and sharing of best practice

- £60m cost savings (City Link hub/depot consolidation, Textiles & Hygiene procurement and plant rationalisation, Pest Control and other group programmes incl. £17m savings from indirect procurement)
- Further reduction in administration and overheads from 18% to 17%
- Further reduction in DSO from 49 to 47 days, cash conversion 114%, capex 87% of depreciation (2010 target 95%)

- Growth pilots to underpin sales and growth potential – IT investments to aid sales productivity, cross-selling, job sales and pricing, customer account management/complaint management, traction in 2010 and adoption of new procedures underway
- Service expansion through acquisitions of Knightsbridge Guarding, Sweden dental reclamation business and services division of Connaught plc (acquired early 2011)
- Pipeline of acquisition opportunities identified in existing and developing markets (North America, Middle East, China and India)

What to expect from 2011

- Service target 98%, develop customer experience across group – target 86% customer retention on contract business
- Tiers 2 and 3 customers to receive greater attention
- Improvement in lifecycle management
- Improvements in first-time query resolution, customer responsiveness and proactive communication
- Wider roll-out of front-line incentives and recognition

- Revenue growth in contract businesses from H2
- Focus on customer care and lead generation, roll-out of route optimisation across businesses (City Link, Textiles & Hygiene)
- Appointment of new MD City Link
- Programme Olympic to drive improvements in retention, customer complaints, cross-selling and bids and tenders

- Further improvement in KPIs across group
- City Link improvement plan in place by October focused on operations, contingency planning, customer care and sales and marketing, financial performance weak until then
- Financial control stabilised in Benelux, pricing pressures easing and operational plans in development to improve profitability, update on recovery plan at Q1
- Further development of common systems and processes across group

- £60m cost savings (incl. £20m from City Link) through service productivity improvements, procurement (product rationalisation and indirects) and reduction in overheads
- City Link savings from reduction in use of sub-contractors, route optimisation and hub/depot rationalisation
- Two-day reduction in DSO from 47 to 45, cash conversion at 100%, ongoing control of capital expenditure at 95% of depreciation

- Increasing traction from pilots evidenced by improvements in retention, new contract sales and reduced customer complaints
- Ongoing development of service expansion and innovation agenda
- Acquisitions in existing and developing markets (North America, Middle East, China and India)

Measuring achievement in 2010

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

Explanation of 2010 KPIs

Colleague engagement – "Your Voice Counts" is an employee engagement survey and represents the aggregate engagement rating from these reports

Sales colleague retention is the reciprocal of total sales heads leaving in the year as a percentage of the sales head count at the beginning of the year Service colleague retention is the reciprocal of total service heads leaving in the year as a percentage of the service head count at the beginning of the year

H&S lost time through accidents (LTA) is defined as a work-related injury or illness to an employee which results in them being absent from work for one day/shift or more (this excludes the day/shift in which the accident occurred) The number of lost time accidents is expressed as a rate per 100,000 standard working hours

Gross sales percentage of opening portfolio are additions to the portfolio (new business and additions to existing business but excluding price increases) expressed as a percentage of the opening portfolio Customer retention percentage is the reciprocal of total terminations (reductions and terminations) expressed as a percentage of opening portfolio Net gain percentage of opening portfolio is the movement in the portfolio expressed as a percentage of the opening portfolio

State of Service is the total number of service visits performed divided by the total number of visits due "Customer Voice Counts" (i e net promoter score) is measured by the average net promoter score rating across all branches in the business

Organic revenue growth is revenue growth excluding the effect of acquisitions Total revenue growth (incl acquisitions) is the year-on-year increase in total revenue expressed as a percentage of the previous year's revenue Both measures are at constant exchange rates

APBITA margin (%) is the adjusted profit before interest, tax and amortisation ("APBITA") expressed as a percentage of total revenue

Debtors days sales outstanding (DSO) are trade debtors gross of provisions calculated on the exhaust basis (i e going back over the relevant number of preceding days' invoicing until the debt balance is zero) The number of days this takes is the debtor days

Cost savings are savings delivered in the year related to permanent cost reductions Cash conversion targets as percentage of operating profit is operating cash flow expressed as a percentage of APBITA

Gross capex as percentage of depreciation means cash capital additions (net of proceeds from disposals) expressed as a percentage of depreciation

Business overview

We provide on pages 10 and 11 an overview of the group by division, activity and country Pest Control & Hygiene UK & Ireland were merged with effect from 1 July 2010 and this change is reflected in these charts On 1 January 2011 the Textiles & Hygiene businesses in Denmark, Finland, Norway, Sweden (excluding the Medical business), Poland, Portugal and Spain also merged with Pest Control While these changes are not reflected here they will be shown in the 2011 Annual Report

Key performance indicators

How are we doing?

○ Strong progress
● Progress
● Limited progress

Categories	Goals	Results 2010	Results 2009	
Colleagues	Colleague engagement	70%	70%	
	Sales colleague retention	63.8%	63.5%	●
	Service colleague retention	75.9%	74.4%	●
	Health and safety (H&S) lost time through accidents (LTA) rate	1.72	1.53	●
Customers	Gross sales % of opening portfolio	16.3%	14.6%	●
	Customer retention	83.9%	80.8%	○
	Net gain % of opening portfolio	1.8%	−3.6%	●
	State of Service	97.2%	98.1%	○
	Customer satisfaction (Customer Voice Counts)	19%	N/A	●
Shareholders	Organic revenue growth	−1.6%	−3.1%	●
	Total revenue growth (incl acquisitions)	−1.2%	−2.2%	●
	APBITA margin	9.6%	8.3%	●
	Debtors (days sales outstanding – DSO)	47	49	○
	Cost savings delivered in year	£60m	£82m	●
	Cash conversion targets as % of operating profit	114%	143%	○
	Gross capex as % of depreciation	87%	83%	○

Business overview

Textiles & Hygiene

Initial

The Textiles & Hygiene division comprises the hygiene, linen hire, garment rental, floorcare, medical services and specialist hygiene activities in continental Europe It provides services to customers in a diverse range of industries from manufacturing to retail and from banking to hospitality

£847.0m
2010 revenue

(1.5%)
% change

£124.9m
2010 APBITA

(2.7%)
% change

9,914
Employees

Pest Control

Rentokil

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

As of 1 July 2010 the division also includes the UK & Ireland Hygiene business
The full year results are included above

£511.1m
2010 revenue

(0.3%)
% change

£98.1m
2010 APBITA

10.0%
% change

7,783
Employees

Asia Pacific

Initial Rentokil

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

Excludes share of associate in Japan

£192.2m
2010 revenue

(4.9%)
% change

£25.4m
2010 APBITA

20.4%
% change

6,615
Employees

Ambius

ambius

The Ambius division provides interior landscaping, design installation and maintenance services in North America, the UK and continental Europe

£116.6m
2010 revenue

(3.6%)
% change

£8.4m
2010 APBITA

(4.5%)
% change

1,660
Employees

City Link

City Link

City Link is a leading next day parcel delivery service operating in the UK

£335.5m
2010 revenue

(5.0%)
% change

£(9.6)m
2010 APBITA

(71.4%)
% change

4,862
Employees

Facilities Services

Initial

The Facilities Services division comprises a number of related businesses including Cleaning, Catering, Hospital Services, Specialist Hygiene and Manned Guarding in the UK

£556.4m
2010 revenue

1.6%
% change

£25.9m
2010 APBITA

21.6%
% change

35,103
Employees

Business review

This review of performance takes a close look at each of our business areas – Textiles & Hygiene, Pest Control, Asia Pacific, Ambius, City Link and Facilities Services. In each case we report on market conditions, record our progress against key performance indicators and discuss the most important developments in 2010 and our expectations for 2011.

Basis of preparation

Segmental information has been presented in accordance with IFRS 8 "Operating Segments" which the group has implemented with effect from 1 January 2009 This statement reflects internal organisation changes made on 1 January 2010 resulting in UK Hygiene and Ireland Healthcare businesses moving from Facilities Services to Textiles & Hygiene and also the changes made on 1 July 2010 resulted in these same businesses moving from Textiles & Hygiene to Pest Control and the transfer of the UK Shared Service Centre from Facilities Services to Central Costs on 1 November 2010 Prior year comparisons have been restated In all cases references to operating profit are for continuing businesses before amortisation and impairment of intangible assets (excluding computer software) References to adjusted operating profit and adjusted profit before tax also exclude items of a one-off nature, totalling a net cost of £25 9m at constant exchange rates, £25 1m at actual exchange rates (2009 £40 2m at constant and actual exchange rates) that have had a significant impact on the results of the group £28 0m (at constant exchange rates, £27 9m at actual exchange rates) of these relate directly to the group's major reorganisation programme and consists mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties One-off items also include the profit or loss on the disposal of businesses, which totalled £3 7m (at constant exchange rates, £3 0m at actual exchange rates) in 2010 In 2010, a credit of £35 0m (at constant and actual exchange rates) in respect of a change in pension liabilities as a result of using CPI rather than RPI for calculating certain future pensions increases and a £29 2m (at constant and actual exchange rates) charge in respect of a claim under a lease guarantee, given by a subsidiary following the disposal of a business some 20 years ago, are also included in one-off items These costs have been separately identified as they are not considered to be "business as usual" expenses and have a varying impact on different businesses and reporting periods Details of one-off items incurred in the period, for which adjustments have been made, are set out in Note 1 All comparisons are at constant 2009 full year average exchange rates Constant exchange rate refers to the translation of two different periods using the same exchange rate for a particular currency (the prior year's average rate of exchange) Both the current and prior years' currencies are translated at the prior years' rate of exchange (£/$ 1 5620, £/€ 1 1196) This gives a clearer indication of the actual performance of the business when measured against the previous year by separately identifying the impact of foreign exchange by providing information on both an actual and constant exchange rate basis When using actual exchange rates, currencies are translated using the rate of exchange for that year

Full year financial overview

Full year revenue of £2,499 7m (at constant exchange rates) declined by 1 2% on 2009 (a decline of 1 4% at actual exchange rates) Revenue performance showed an improving trend during the year but was held back principally by Textiles & Hygiene in the Benelux and City Link, both of which suffered from a combination of difficult market conditions and issues arising from weak management Facilities Services recorded revenue growth largely due to the contributions from Knightsbridge Guarding (acquired in June) and a new Transport for London cleaning contract Pest Control revenue was broadly flat year on year, held back by a decline in the UK Hygiene business, but nevertheless reported good levels of growth in its UK, North American, Northern European and East Africa & Caribbean Pest Control businesses While Ambius revenue declined 3 6% this represents a significant improvement on 2009's decline of 10 5% and reflects an easing of market conditions and improving retention The division moved into positive revenue growth in Q4 2010, the first time since Q4 2008 Asia Pacific revenue declined by 4 9%, impacted by the exit in 2009 of the low-margin Hong Kong Government contract However, underlying revenue growth was broadly flat year on year, with Asia growing by 1 4% and the Pacific declining by 1 1%

The contract portfolio, which accounts for 74 3% of revenue, grew by 1 8% year on year of which 1 0% is due to the net effect of acquisitions and disposals and the remainder to significantly improved customer retention rates

Adjusted operating profit (before amortisation and impairment of intangible assets and one-off items) amounted to £239 2m, an increase of 8 3% on the prior year Adjusted profit before tax (before amortisation and impairment of intangible assets and one-off items) grew by 15 1% to £191 7m and adjusted earnings per share (at AER) grew by 18 2% to 7 81p Strong divisional profit performances were recorded in Pest Control, Facilities Services and Asia Pacific The after tax loss for the year was £20 3m, primarily due to the recognition of a £95m impairment of goodwill in City Link

Textiles & Hygiene

Market conditions

Trading conditions in many of our markets in 2010 continued to be difficult, especially in the Benelux, and to a lesser extent in France and Austria Competitor activity coupled with general price pressure were the main factors involved There is, however, evidence that volumes have begun to slowly recover, with positive sentiments continuing in Germany in particular This will enable the Textiles & Hygiene division to mitigate the impact of challenging market conditions

	Fourth Quarter			Full Year		
£m	2010	2009	change	2010	2009	change
At 2009 constant exchange rates						
Revenue	211 9	217 3	(2 5%)	847 0	859 6	(1 5%)
Adjusted operating profit (before amortisation and impairment of intangible assets[1] and one-off items)	30 9	38 2	(19 1%)	124 9	128 4	(2.7%)
At actual exchange rates						
Adjusted operating profit (before amortisation and impairment of intangible assets[1] and one-off items)	29 8	38 5	(22 6%)	120 7	128 4	(6 0%)

1 Excluding computer software

Revenue fell 1 5%, an organic decline of 0 5% after adjusting for the disposals of the Spanish Textiles and Finnish Mats operations and acquisition of the Swedish dental reclamation business While robust performances were recorded in Germany (up 2 6%), the Nordics, and the Medical and Hygiene business units, overall performance was impacted by challenging market conditions, in particular competitive pricing pressure in the Netherlands, Belgium and France Revenue in the Netherlands declined by 7 6%, while France remained flat year on year, reflecting contract losses in Q1 The Medical business recorded strong organic growth of 12 3%

Profit declined by 2 7%, an organic decline of 3 7% excluding acquisitions and disposals All territories with the exception of the Benelux and Portugal grew profits year on year, reflecting the impact of new management, robust cost control and restructuring programmes There was a significant profit decline in the Benelux, impacted by higher processing and distribution costs associated with the restructuring in Belgium and competitive pricing pressure There were non-recurring items in the year in Benelux (negative) and in France (positive) with a net positive impact on profit of £2 3m

2011 preview

The expectation for 2011 is that price pressure will continue albeit not at the same levels witnessed in 2010 Divisional initiatives are being launched across many areas including sales and service productivity improvement programmes These will enable the Textiles & Hygiene division to mitigate the impact of challenging market conditions and inflation Continued focus will remain on the cost base with cost saving programmes ongoing across all countries The start of the year has been marked by the launch of the new Initial brand This, coupled with the ongoing roll out of new customer propositions, should strengthen our market position in 2011 New leadership is in place in Benelux and a thorough business review is underway, the results of which will yield benefits in the course of the year

Pest Control

Market conditions

Market conditions improved marginally in northern Europe, the UK and North America during 2010 However, they remained extremely challenging in the southern European economies, and the Caribbean countries experienced slightly less buoyant growth than in previous years

	Fourth Quarter			Full Year		
£m	2010	2009	change	2010	2009	change
At 2009 constant exchange rates						
Revenue	123.8	124 0	(0 2%)	511 1	512 7	(0 3%)
Adjusted operating profit (before amortisation and impairment of intangible assets[1] and one-off items)	23 4	23 3	0 4%	98 1	89 2	10 0%
At actual exchange rates						
Adjusted operating profit (before amortisation and impairment of intangible assets[1] and one-off items)	23 3	23.3	–	98 0	89 2	9 9%

1 Excluding computer software

Revenue in the Pest Control division declined by 0 3% This was largely due to an 8 5% decline in the UK & Ireland Hygiene business where a 21% improvement in terminations failed to compensate declines in portfolio and contract sales Consistent with contract structure, lower revenue from the Libyan contract following the move in Q1 to locally resourced service provision also impacted revenue growth Europe, North America, the UK and East Africa & Caribbean (EAC) businesses all recorded revenue growth North America performed particularly well, increasing revenue by 5 2%, attributable to new contract sales, reduced terminations and 7 5% growth in the products distribution business The turnaround of the UK Pest Control business has been a particular success story of 2010, with the business moving into positive growth (up 1 7%) versus a prior year decline of 5 8% Overall, Europe was flat, with modest growth in Northern Europe largely offset by declines in France, Spain, Portugal and Greece Revenue in EAC grew by 7 9%

Profit rose by 10 0% with strong performances across most areas, most notably UK Pest which grew profit by 21 1% reflecting strong jobs, service productivity and lower overheads Growth in Europe increased by 13 1%, impacted largely by Spain (+189 1%), Switzerland (+19 3%) and Germany (+15 1%) with all countries showing positive growth Growth in Spain was supported by an insurance receipt of £1 1m in 2010 and the impact of a number of unusual costs taken in 2009 Profit in North America rose by 13 7% on solid revenue growth, while EAC and South Africa grew by 10 2% and 6 3% respectively

2011 preview

We expect conditions in 2011 to be similar to those experienced in 2010 with the exception of Libya, where the current outlook is extremely uncertain

Asia Pacific

Market conditions

The Asian Pest Control and Hygiene markets were challenging in the first half of 2010 but recovered well in the second half of the year as growth initiatives gained traction Asia had significant growth momentum in the second half with strong performances from India, China and Vietnam The growth bounce-back was less marked in Pacific and remains fragile but positive

	Fourth Quarter			Full Year		
£m	2010	2009	change	2010	2009	change
At 2009 constant exchange rates						
Revenue	49 0	48 9	0 2%	192 2	202 1	(4.9%)
Adjusted operating profit (before amortisation and impairment of intangible assets' and one-off items)	6 7	1 7	294.1%	25 4	21 1	20 4%
At actual exchange rates						
Adjusted operating profit (before amortisation and impairment of intangible assets' and one-off items)	8 2	2.1	290 5%	29 6	21 1	40 3%

1 Excluding computer software

Asia Pacific revenue declined by 4 9%, impacted by the exit in 2009 of the low-margin Hong Kong Government contract Underlying revenue growth was broadly flat year on year with Asia growing by 1 4% and the Pacific declining by 1 1% Asia showed solid revenue growth momentum in its established markets of Indonesia (up 9 6%) and Thailand (up 4 5%), while the emerging businesses in Vietnam, India and Brunei delivered greater than double digit growth of 42 5%, 15 7% and 14 2% respectively Throughout the year China decreased its dependency on Government sales, developing a fast growing commercial business In the Pacific region New Zealand performed well but prior year contract losses in Australia Hygiene and Ambius and weaker residential job work in Australia Pest resulted in overall revenue decline of 1 1%

Profit grew by 20 4%, supported by strong cost control and fewer asset write-offs Both 2009 and 2010 had adjustments, mostly related to acquisitions made prior to 2008

2011 preview

Asia and Pacific are expected to continue the growth momentum established in the second half of 2010 as the sales capability initiatives develop further Both regions expect to show positive growth with Asia expected to show close to double digit growth performance by the year end

Ambius

Market conditions

Growth declined in 2010 as a result of the portfolio shrinkage from 2009 However retention levels improved significantly during the year as the major economies stabilised and the level of gross contracts sales increased over 2009 All markets are highly fragmented with a large number of small operators, although the larger companies have a competitive advantage in terms of route density and product offering Ambius currently has approximately 55,000 customers over 13 countries

	Fourth Quarter			Full Year		
£m	2010	2009	change	2010	2009	change
At 2009 constant exchange rates						
Revenue	36 2	34 8	4 0%	116 6	121 0	(3 6%)
Adjusted operating profit (before amortisation and impairment of intangible assets' and one-off items)	4 7	5 0	(6 0%)	8 4	8 8	(4.5%)
At actual exchange rates						
Adjusted operating profit (before amortisation and impairment of intangible assets' and one-off items)	4 8	4.9	(2.0%)	8 6	8 8	(2.3%)

1 Excluding computer software

While Ambius experienced a difficult trading environment during the first half of 2010, conditions showed signs of easing in the second half with the division moving into positive revenue growth in Q4, the first time since Q4 2008 Full year revenue declined by

3 6% year on year, but represents a significant improvement on 2009's decline of 10 5% Job revenue grew by 9 1%, aided by good performances from the UK (+40%), France (+38%), the Netherlands (+22%) and North America (+6%) There were good increases in US Christmas job sales and the UK also benefited from gritting work during the period of heavy snow in December While these are encouraging trends, they could not compensate for significant portfolio erosion during 2009

Profit fell by 4 5%, reflecting portfolio reductions offset by cost savings programmes and adjustments in service headcount in line with portfolio movement Despite a 4 9% reduction in revenue, the North America business delivered a modest 0 6% profit increase, attributable to strong cost control and increased service productivity

2011 preview

Trading for Ambius in 2011 is anticipated to show some improvements over 2010 especially in gross sales Retention trends are expected to continue to show modest improvements The cost savings initiatives implemented in 2009 and 2010 will continue throughout 2011 to support profitability

City Link

Market conditions

Despite the bouts of severe weather experienced in 2010 the domestic parcel market grew by some 3%, albeit still remaining some 3% below its 2007 peak However total parcel revenue remained broadly flat as excess capacity in the industry continued to keep prices competitive

	Fourth Quarter			Full Year		
£m	2010	2009	change	2010	2009	change
At 2009 constant exchange rates						
Revenue	87 6	100 9	(13 2%)	335 5	353 1	(5 0%)
Adjusted operating loss (before amortisation and impairment of intangible assets[1] and one-off items)	(3.6)	2 7	(233 3%)	(9 6)	(5 6)	(71 4%)
At actual exchange rates						
Adjusted operating loss (before amortisation and impairment of intangible assets[1] and one-off items)	(3.6)	2.7	(233.3%)	(9 6)	(5 6)	(71 4%)

1 Excluding computer software

City Link's operating loss of £9 6m is £4 0m worse than the corresponding loss in 2009 on a £17 6m (5 0%) reduction in reported revenue The operation was severely impacted at the beginning and end of the year by heavy snow fall resulting in lower levels of productivity and higher delivery costs, with an estimated in year impact of £4m

The UK Parcels industry continued to be extremely competitive during 2010 with price cutting a continuing market dynamic However, pricing pressure softened slightly on 2009, with revenue per consignment declining by 3 3% (2009 4 5%) Parcel volumes were down 1 8% on 2009

Service levels throughout 2010 were generally above 98 5% However, service levels were severely impacted during the period of heavy snow in the run up to Christmas and temporarily during the closure of the Wednesbury Hub in July

Though good progress was made during 2010 in improving City Link's hub and depot structure and IT capability, its overall performance was particularly disappointing The principal issue was that operational management of the business was poor, evidenced by high usage of subcontractors, inadequate contingency planning to deal with extreme conditions and poor engagement of front-line colleagues Significant management change has taken place and a detailed operating plan is now being pursued which should deliver substantial operational improvement prior to the 2011 Christmas seasonal peak

2011 preview

Whilst there have been some signs of recovery in the market in 2010, early signs for 2011 indicate that this recovery may be slower to develop Excess capacity in the industry is also likely to ensure that the market remains very competitive, thereby limiting the ability to pass on real cost increases

Facilities Services

Market conditions

Economic conditions in 2010 remained weak, with customers continuing to look for cost reduction opportunities

	Fourth Quarter			Full Year		
£m	2010	2009	change	2010	2009	change
At 2009 constant exchange rates						
Revenue	148 6	136 3	9 0%	556 4	547 6	1 6%
Adjusted operating profit (before amortisation and impairment of intangible assets[1] and one-off items)	9 1	8 5	7 1%	25 9	21 3	21 6%
At actual exchange rates						
Adjusted operating profit (before amortisation and impairment of intangible assets[1] and one-off items)	9 2	8 5	8 2%	25 9	21 3	21 6%

1 Excluding computer software

Despite challenging market conditions Facilities Services delivered an excellent performance on profit and cash in 2010, with an improving revenue line as the year progressed Revenue grew 1 6% year on year, 9 0% in Q4, reflecting the contribution from Knightsbridge Guarding Underlying revenue, excluding Knightsbridge, declined by 2 2% but grew by 1 6% in Q4, aided by a strong performance in Catering

During the year Facilities Services continued to drive margin improvement and reduce its cost base through initiatives to improve operational efficiency, including an organisational simplification in Q4 Contract wins, margin improvement and cost reductions all contributed to strong profit growth of 21 6% Excluding Knightsbridge, profit growth was 18 8%

2011 preview

Uncertainty remains around the UK economic outlook for 2011 Consumer confidence remains weak in an environment of rising taxes and rising inflation Further, the UK is braced for considerable public sector spending cuts Despite this obvious economic uncertainty, the division is well placed to support its cost conscious customers through the provision of innovative facilities services The acquisition of Knightsbridge Guarding in 2010 has also strengthened the division's capability in security, further supporting its fully integrated facilities offering

Central costs

	Fourth Quarter			Full Year		
£m	2010	2009	change	2010	2009	change
At 2009 constant exchange rates						
Central costs	(4.5)	(8 0)	43.8%	(33.9)	(42 4)	20 0%
At actual exchange rates						
Central costs	(4.5)	(8 0)	43.8%	(33.9)	(42 4)	20 0%

Central costs for the year were £8 5m lower than in 2009 primarily due to lower incentive costs and the impact of central accruals made in 2009

Risks and uncertainties

Principal risks

The group operates through a wide range of activities across multiple geographies and therefore from a group wide perspective the principal risks and uncertainties identified by the directors relate to the market conditions in which we operate and to management's capability to deliver the large number of change programmes and recovery strategies currently underway across the businesses

The principal risks are:

- A weakening of the economies in which we operate, and
- The number, scope, complexity and interdependencies of many initiatives – risk of management stretch and overlapping priorities

These are discussed in more detail below as well as in the strategy review and in the review of operational performance Financial and other risks are set out below

Risk of economic weakening in the economies in which we operate

The group is exposed to the economic environments in over 50 countries across the world and whilst the UK represents a large proportion of the group's businesses our international diversification means that our economic and geopolitical risks are spread widely At the date of this report political and economic change in the North Africa and the Middle East will have some impact on the group's operations in those territories The pest control operations in Libya have been suspended and the small number of non-Libyan colleagues involved have left the country Some current examples of the economic impact on our divisional operations are provided in the following paragraphs

In 2010 the group's Textiles & Hygiene division experienced difficult trading conditions in a number of territories France, Belgium and the Netherlands were impacted particularly by competitive pricing pressure which resulted in a number of contract losses earlier in the year and which also affected the division's ability to win new contracts A further risk to this division is an inability to cover various cost increases such as wage inflation, which within some of our countries of operation, is determined by the governments of those countries and not under our own control Actions to mitigate these risks include passing on price increases to customers to counter cost inflation and pricing contracts appropriately to remain competitive In those circumstances where our competitors are engaging in aggressive price discounting and where we believe that to offer similar prices would compromise service levels, our only mitigating course of action is to ensure that contract losses do not directly result from poor customer care, service or relationships Further mitigating actions include improving the competitiveness of the business through significant restructuring programmes in Belgium and France and through extensive cost-savings programmes across all businesses

In the Asia Pacific region our Asia Pest Control and Hygiene markets experienced a slow down in 2009 with tightening economic conditions impacting a number of countries of operation Growth in the Australia and Pacific Pest Control and Hygiene businesses has also been impacted by weaker markets caused by a nervous economic backdrop The division also experienced a severe decline in the fumigation business as a result of slower international trade in 2009 Further, job revenue has been impacted by reduced demand for pre-construction termite barriers as a result of a downturn in building construction Mitigating actions include efforts to improve customer retention through focusing on high levels of service and implementing a continuing series of cost reduction measures

In the Ambius division revenue declined in 2009 and 2010 as demand for products and services softened in the major markets, especially in the US, UK, France and Belgium and principally the result of challenging economic conditions Mitigating actions include adjusting service head count in line with portfolio movement and the ongoing pursuit of cost savings initiatives to mitigate revenue decline

The UK parcels market has been extremely competitive over the past two years with severe price cutting by competitors in order to drive volumes through their networks There have been some signs of recovery in pricing in 2010 but the market is expected to remain very competitive throughout the coming year as excess capacity in the industry still remains the predominant feature

The group's Facilities Services division has also been impacted by weakened market conditions in the UK and Spain, particularly in 2009, with severe price cutting from competitors, site closures and reductions in service frequency Conditions eased however in 2010 Deteriorating market conditions may result in customers seeking cost reductions, fewer service lines and reductions in service frequency In some instances, activities which are typically outsourced to FM businesses such as our own are brought in house and contracts terminated in their entirety

While our Pest Control business is least impacted by weakening global conditions, the business is not immune to economic impact Most countries within the Pest Control division experienced difficult market conditions in 2010

Risk of the number, scope, complexity and interdependencies of many initiatives giving rise to management stretch and overlapping priorities

The company has been going through a period of significant change since 2005 with new chief executives being appointed in 2005 and 2008 The company's current management team is implementing a five-year recovery plan based on operational excellence which itself is built around five key strategic thrusts namely to deliver outstanding customer service, to develop capability, to drive operational excellence, to operate at lowest cost and to generate profitable growth Within each of these thrusts are a large number of improvement initiatives which individually are managed through a proper risk control process but the principal risk for the group is that management has the capacity and capability to deliver the strategic thrusts

As an illustration of the scope of change, all but one of Rentokil Initial's Executive Committee has been changed over the past 28 months, major physical restructuring programmes are underway in our Textiles & Hygiene and City Link businesses, common systems (IT, finance etc) are being introduced across our more than 50 countries of operation and major cost savings programmes are being undertaken across most of the group These programmes are described in the strategy update on pages 6 and 7 and collectively their delivery is the principal risk to the execution of the company's operational excellence strategy Financial and other risks are set out below

Financial and other risk
The group's activities expose it to capital risk, liquidity risk, market risk and credit risk

Capital risk
The group is committed to maintaining a debt/equity structure which allows continued access to a broad range of financing sources and sufficient flexibility to pursue commercial opportunities in a timely manner as they present themselves, without onerous financing terms and conditions The group has in issue Medium Term Notes and a £500m Revolving Credit Facility (see note 21 for details) These contain a single covenant requiring that EBITDA Interest should be at least 4 0 1 0 at each semi-annual reporting date The group was compliant throughout the year

The group targets an investment grade rating of BBB or above for debt issuance over the medium term Currently the group is rated BBB- with a stable outlook

The group's Medium Term Notes may be recalled by its investors in the event of a change of control of the group and within 120 days if

(a) the group's debt is down-graded below investment grade or the rating is withdrawn, and

(b) the rating agency confirms in writing, either publicly or in writing to the issuer or the Trustee that the rating action occurred either wholly or in part due to the change of control

Liquidity risk
The group is committed to ensuring it has sufficient liquidity to meet its payables as they fall due To achieve this it aims to maintain minimum committed financing headroom of £200m, over the medium term, when measured against the latest forecast cash flows over a rolling 12-month horizon At 31 December 2010 the group had headroom of £390m

Market risk
The group is exposed to market risk primarily related to foreign exchange and interest rate risk The group's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign

currency rates and the exposure of certain net investments in foreign subsidiaries To achieve this, management actively monitors these exposures and the group enters into currency and interest rate swaps, forward rate agreements and forward foreign exchange contracts to manage the volatility relating to these

Foreign exchange rate risk
The group is exposed to the following foreign exchange risks pre-transaction risk, transaction risk, translation risk and economic risk

The group's policy response is as follows

- Pre-transaction risk – The majority of sales and purchases are local, limiting pre-transaction risk The policy is therefore to accept the risk
- Transaction risk – The majority of sales and purchases are local, limiting transaction risk The policy is therefore to accept the risk, except where significant acquisitions or disposals (not internally funded) are to be undertaken, where the transaction may be hedged to give certainty of pricing
- Translation risk – The group is exposed to translation risk as a result of its worldwide operations The group aims to hold debt in currencies broadly matching its forecast cash flows, meaning that currency interest costs reduce the net profit retranslation exposure This reduces the volatility of earnings affecting the group's interest cover covenant Foreign currency debt is designated for hedge accounting as a hedge of its currency net assets, so reducing its net currency assets Retranslation gains and losses are recognised in reserves, rather than in the income statement
- Economic risk – Economic risk is a core risk to the business, which the business therefore accepts

The group calculates the impact on the income statement and equity of a 10% shift in foreign exchange rates The group's principal foreign currency exposure is to Euro, and a 10% shift in GBP/EUR would result in a £8 7m (2009 £8 7m) increase/decrease in operating profit, offset by a £1 9m (2009 £1 9m) increase/decrease in interest payable Equity reserves would decrease/increase by £5 9m (2009 £17 1m)

Interest rate risk
The group is exposed to cash flow interest rate risk on borrowings and cash balances held at variable rates, resulting in variable interest cash flows

The group seeks to manage interest rate risk to ensure reasonable certainty of its interest cash flows whilst allowing an element of risk exposure consistent with the variability of the group's cash flows

The group has a policy of fixing (or capping) a minimum of 50% of the group's estimated future interest rate exposures (excluding pensions) for a minimum of 12 months forward

At the end of December 2010 approximately 89% of the group's debt was at a fixed rate of interest The impact on profit and loss of a 1% shift would be a maximum increase/decrease of £0 6m (2009 £4 1m)

Credit risk
The group has no significant concentration of credit risk Sales are typically low value, high volume, spreading the risk across a number of customers Policies are in place to ensure that sales are only made to customers with an appropriate credit history Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions The group operates in some territories where there is increased exposure to trade credit risks and in those cases the group seeks to put in place appropriate additional measures where possible to manage its credit exposure

Treasury risk
The company utilises financial instruments to manage known financial exposures in line with policies agreed by the board and outlined above The company does not enter into any speculative derivative contracts

Other risks
The group has contingent and other exposures relating to liabilities over property, environmental and commercial matters and pension funding obligations which are properly reflected in the financial statements The level of such exposures changes over time and is kept under review by management Pension funding risk includes investment and counterparty risk within the pension scheme in relation to the assets held by the pension scheme A contingent risk remains that unidentified historic risks relating to acquired entities emerge, which if material would need to be reflected in future financial statements

Financial review

Overview

Full year revenue of £2,499 7m (at constant exchange rates) declined by 1 2% on 2009 (a decline of 1 4% at actual exchange rates) Revenue performance showed an improving trend during the year but was held back principally by Textiles & Hygiene in the Benelux and City Link, both of which suffered from a combination of difficult market conditions and issues arising from weak management Facilities Services recorded revenue growth largely due to the contributions from Knightsbridge Guarding (acquired in June) and a new Transport for London cleaning contract Pest Control revenue was broadly flat year on year, held back by a decline in the UK Hygiene business, but nevertheless reported good levels of growth in its UK, North American, Northern European and East Africa & Caribbean Pest Control businesses While Ambius revenue declined 3 6% this represents a significant improvement on 2009's decline of 10 5% and reflects an easing of market conditions and improving retention The division moved into positive revenue growth in Q4 2010, the first time since Q4 2008 Asia Pacific revenue declined by 4 9%, impacted by the exit in 2009 of the low margin Hong Kong Government contract However, underlying revenue growth was broadly flat year on year, with Asia growing by 1 4% and the Pacific declining by 1 1%

Contract portfolio, which accounts for 74 3% of revenue, grew by 1 8% year on year of which 1 0% is due to the net effect of acquisitions and disposals and the remainder to significantly improved customer retention rates

Adjusted operating profit (before amortisation and impairment of intangible assets and one-off items) amounted to £239 2m, an increase of 8 3% on the prior year Adjusted profit before tax (before amortisation and impairment of intangible assets and one-off items) grew by 15 1% to £191 7m at constant exchange rates and adjusted earnings per share (at AER) grew by 18 2% to 7 81p Strong divisional profit performances were recorded in Pest Control, Facilities Services and Asia Pacific The after tax loss for the year was £20 3m, primarily due to the recognition of a £95m impairment of goodwill in City Link

One-off items including reorganisation costs

Net one-off costs in the year amounted to £25 9m at constant exchange rates, £25 1m at actual exchange rates (2009 £40 2m at constant and actual exchange rates) £28 0m (at constant exchange rates, £27 9m at actual exchange rates) of these relate directly to the group's major reorganisation programme and consists mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties One off items also include the profit or loss on the disposal of businesses, which totalled £3 7m (at constant exchange rates, £3 0m at actual exchange rates) in 2010 In 2010, a credit of £35 0m (at constant and actual exchange rates) in respect of a change in pension liabilities as a result of using CPI rather than RPI for calculating certain future pensions increases and a £29 2m (at constant and actual exchange rates) charge in respect of a claim under a lease guarantee given by a subsidiary following the disposal of a business some 20 years ago are also included in one-off items These costs have been separately identified as they are not considered to be "business as usual" expenses and have a varying impact on different businesses and reporting periods

	Year to date		
£m at actual exchange rates	2010 £m	2009 £m	Change £m
Adjusted profit[1]	239 3	220 8	18 5
One-off items	(25 1)	(40 2)	15 1
Depreciation	212 9	215 9	(3 0)
Other non cash	10 5	7 7	2 8
EBITDA	437 6	404 2	33 4
Working capital	(32 8)	91 7	(124 5)
Capex – additions	(197 7)	(189 2)	(8 5)
Capex – disposals	13 0	10 0	3.0
Operating cash flow	220 1	316 7	(96 6)
Interest	(43 9)	(61 5)	17 6
Tax	(35 0)	(17 5)	(17 5)
Purchase of available for-sale investments	–	(0 8)	0 8
Free cash flow	141 2	236 9	(95 7)
Acquisitions/disposals	(7 9)	(6 8)	(1 1)
Foreign exchange translation and other items	21 2	24 0	(2 8)
Decrease in net debt	154 5	254 1	(99 6)
Closing net debt	(953 6)	(1,108 1)	154 5

1 before amortisation and impairment of intangibles (excluding computer software) and one off items

Net debt and cash flow

Operating cash flow continues to be strong with a full year conversion rate of 114 0% after adjusting for one-off cash flows of £52 8m Despite this strong performance, operating cash flow was £96 6m lower than 2009 due to lower inflows from working capital, slightly higher capex partly offset by higher EBITDA

Inflows from working capital were £124 5m lower than last year due to lower debtor inflows (2009 benefiting from unusually high debtors at the end of 2008) and the spend against restructuring provisions made in 2009 EBITDA was £33 4m higher than last year due mainly to improved trading performance Net capital expenditure was £5 5m higher than 2009

Tax and interest payments (including finance lease interest) were £0 1m lower than last year with 2009 benefiting from tax repayments not repeated in 2010 Lower interest payments reflected lower debt, interest rates and the timing of payments under various facilities Free cash flow was therefore £95 7m lower than last year at £141 2m inflow

Acquisition and disposal cash flows (acquisition of Knightsbridge Guarding, acquisition of the dental reclamation business in Sweden and the disposal of the Textiles business in Spain) amounted to a £7 9m outflow Foreign exchange translation and other items reduced net debt by £21 2m, leaving net debt at £953 6m at 31 December 2010

Goodwill impairment

In accordance with the group's accounting policy, goodwill is tested for impairment annually using cash flow projections based on financial budgets and long-range plans During the year an impairment charge of £97 8m has been recognised and charged in the income statement – £95 0m relates to City Link and £2 8m relates to a small number of businesses in Asia Pacific

Funding

We have delivered another year of strong cash performance in 2010, generating £220 1m (2009 £316 7m) representing 114% conversion from profit (after adjusting for one off cash flows of £52 8m)

At 31 December 2010 the group had net debt of £954m Of this, £868m is represented by capital market notes issued by the group and the earliest maturity of any of these instruments is 2013 The group has good headroom in its bank facilities in terms of funds available to withdraw and has good and improving headroom in relation to its covenant

The company has commenced discussions with the pension trustees in relation to the triennial valuation of the UK Pension Scheme as at 31 March 2010 and any funding implications arising from this

Dividend

The board continues to keep dividends under review and is committed to their resumption when i) the company's cash flow is robust and ii) when the foundations of sustainable and profitable growth have been established in all of the company's principal businesses Only one of these criteria has been met in the financial year to 31 December 2010

Interest

Net interest payable of £51 1m for the year was £6 5m lower than in 2009 Favourable interest rates and lower net debt reduced the year on year charge by £5 8m and mark to market moves by a further £7 1m These benefits were offset by lower net pension interest receivable of £5 8m and other smaller items amounting to £0 6m

Tax

The income tax expense for the year was £34 8m on the reported profit before tax of £14 5m The reason for the high tax charge on the reported profit was that there is no tax relief on the goodwill impairment of £97 8m or the provision of £29 2m in respect of a lease guarantee claim reported within one-off items Adjusting for these two items the effective tax rate is 24 6% of profit before tax This compares with a blended rate of tax for the countries in which the group operates of 29% The principal factor that caused the lower effective tax rate (after adjusting for the two items mentioned above) is the release of prior year provisions for tax no longer considered necessary as various issues were either settled or became statute barred in the year The blended tax rate for 2011 is also expected to be 29%

IFRS 8

Segmental information has been presented in accordance with IFRS 8 "Operating Segments" which the group has implemented with effect from 1 January 2009 This statement reflects internal organisation changes made on 1 January 2010 resulting in UK Hygiene and Ireland Healthcare businesses moving from Facilities Services to Textiles & Hygiene and also the changes made on 1 July 2010 resulted in these same businesses moving from Textiles & Hygiene to the Pest Control division and the transfer of the UK Shared Service Centre from Facilities Services to Central costs on 1 November 2010 Prior year comparisons have been restated

Financial risk management policies

Financial risk management polices are shown in the Business Review on pages 12 to 18

Acquisitions

The group acquired businesses in the year for a net consideration of £19 6m Details of businesses acquired and revenue and operating profit therefrom are set out in note 30 to the accounts

Pensions

The group's total IAS 19 net deficit was £11 9m at the end of 2010 compared with £64 3m at December 2009 The group has a number of small defined benefit schemes outside the UK but the principal scheme ("the Scheme") is in the UK

The Scheme had a net surplus of £5 0m at December 2010 compared with a net deficit of £47 9m a year earlier This positive movement of £52 9m was due primarily to an increase in the fair value of assets and a £35 0m credit to pension liabilities as a result of using CPI rather than RPI for calculating certain pension increases

The net surplus comprises the aggregate of the value of the Scheme assets and liabilities

- the Scheme assets increased by £69 6m to £1,048 4m driven primarily by an increase in the value of our interest rate swap portfolio The Scheme comprises approximately 20% equities and 80% bonds and other financial instruments, and
- the Scheme liabilities increased by £16 7m to £1,043 4m driven by
  - a reduction in yield on AA corporate bonds – the yield determines the discount factor used to calculate the net present value of the future scheme liabilities (the lower the yield, the greater the liabilities)
  - this was partially compensated for by the use of CPI (3 0%) rather than RPI (3 7%) as longer-term outlook for inflation – this drives our view on future pension increases

Asset allocation is determined by the pension trustees in conjunction with the company

The company has commenced discussions with the pension trustees in relation to the triennial valuation of the Scheme as at March 2010 and any funding implications arising from this

Further details are shown in note 24 on pages 91 to 93

Accounting standards

The financial statements included in this annual report have been prepared and presented under IFRS as adopted by the EU The group's accounting policies are set out on pages 59 to 66

Board of directors

John McAdam
Chairman

Aged 62 Appointed Chairman in May 2008 Chairman of United Utilities Group plc and non executive director of Rolls Royce PLC, J Sainsbury plc and Sara Lee Corporation (USA) Formerly Chief Executive of Imperial Chemical Industries plc (ICI") from 2003 to 2008 and prior to joining ICI in 1997 held a number of positions at Unilever, from 1974 within its Birds Eye Walls, Quest International and Unichema International businesses.

Alan Brown
Chief Executive

Aged 54 Barrister and Chartered Management Accountant Appointed Chief Executive in April 2008 A non executive director of Intertek Group plc (from 15 April 2011) Formerly Chief Financial Officer of ICI (2005 2008) prior to which he held various corporate and operational roles in the Unilever group (1980 2005) including Senior Vice President Finance, Unilever Food and Beverage Europe and latterly Executive Chairman, Unilever China

Peter Bamford
Non-Executive Director

Aged 57 Appointed a director in July 2006 Chairman of SuperGroup plc and MCPC PRS Alliance Limited Formerly Chief Marketing Officer and director of Vodafone Group plc having held senior executive roles at Vodafone, including as Chief Executive of Northern Europe, Middle East and Africa operations and Chief Executive of Vodafone UK An independent non executive director

Richard Burrows
Non-Executive Director

Aged 65 Chartered Accountant Appointed a director in January 2008 Chairman of British American Tobacco plc Non executive director of Carlsberg A/S (Denmark) Formerly Governor of the Bank of Ireland and joint Chief Executive (and latterly a non executive director) of Pernod Ricard SA (France) and Chairman and Chief Executive of Irish Distillers and a director of CityJet Limited (Ireland) and Mey İçki (Turkey) An independent non-executive director

Alan Giles
Non-Executive Director

Aged 56 Appointed a director in May 2006 Chairman of Fat Face World Ltd, a director of the Office of Fair Trading and of Book Tokens Limited Formerly Chief Executive of HMV Group plc, Managing Director of Waterstone s, director of WH Smith PLC, non executive director of Somerfield plc and Wilson Bowden plc. An independent non executive director

Peter Long
Non-Executive Director

Aged 58 Chartered Management Accountant Appointed a director in October 2002 Chief Executive of TUI Travel PLC Formerly non executive director of Debenhams plc and Chief Executive of Sunworld Ltd The senior independent non executive director

Andy Ransom
Executive Director

Aged 47 Solicitor Appointed an executive director in May 2008 Responsible for the Pest Control division and for the Ambius division and the group legal function and previously responsible for the group's Asia Pacific businesses Formerly a senior executive at ICI (1987 2008) where he was responsible for a number of group functions and international businesses including ICI s regional and industrial divisions

William Rucker
Non-Executive Director

Aged 47 Chartered Accountant Appointed a director in February 2008 Chief Executive of Lazard & Co Ltd in the UK Deputy Chairman of Lazard LLC and Chairman of Quintain Estates and Development plc. Joined Lazard in 1987 from Arthur Andersen An independent non executive director

Duncan Tatton-Brown
Non-Executive Director

Aged 46 Chartered Management Accountant Appointed a director in July 2005 Chief Financial Officer of Fitness First Group Ltd Formerly Group Finance Director of Kingfisher plc, having been previously Finance Director of B&Q plc and Chief Financial Officer of Virgin Entertainment Group An independent non executive director

Jeremy Townsend
Chief Financial Officer

Aged 47 Chartered Accountant Appointed a director in August 2010 Formerly Finance Director of Mitchells & Butlers plc, having been previously an executive at J Sainsbury plc where he held various finance roles including Group Financial Controller, Corporate Finance Director and Strategy Director Prior to Sainsbury s, he was employed by Ernst & Young, working in audit and corporate finance

Paul Griffiths
Company Secretary

Senior management

Xuemei Bennink Bai
Divisional Managing Director, Asia Pacific
Aged 44 Appointed in October 2009 Formerly Managing Director of Unilever Food Solutions China and a member of the Unilever Food Solutions Board for Asia, Africa and the Middle East Prior to this she held a wide range of positions with Unilever in general management, sales, project management and research in China, Vietnam, the Netherlands and the UK

Mike Brown
Divisional Managing Director, Facilities Services
Age 54 Appointed in September 2010 Formerly Group Director of Operations and prior to that CEO of Integrated Services at Serco Group plc Prior to this spent most of his career with BOC Group holding managing director positions in Europe, China and South East Asia and globally Originally qualified as a Chartered Accountant and has also worked for Nestle Ltd and GKN A non executive director of N G Bailey Ltd

Bryan Kinsella
Chief Information Officer
Aged 54 Joined in 2007 Formerly Senior Vice President and Chief Information Officer of the Society of International Telecommunications and Aeronautics having previously held board positions at Vertex (part of United Utilities), the Computer Science Corporation and executive roles at ASDA and International Computers

Martin Sawkins
Group HR Director
Aged 55 Joined in November 2008 Previously held positions as Group HR Director, HomeServe plc, Group HR Director, The AA Limited and HR Director, Centrica Home and Road Services Prior to this held a number of senior positions in HR and operations in British Aerospace and United Biscuits

Peter Slator
Divisional Managing Director, Textiles & Hygiene Services
Aged 50 Appointed Divisional Managing Director in April 2009 Previously worked for 28 years with Unilever, having been Executive Chairman in Australasia and prior to that the Group Head of IT and before that Managing Director of the Foods business in Japan

Statement of directors' responsibilities

(in respect of the annual report and the financial statements)

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

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

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

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

Each of the directors, whose name and functions are set out on page 22 confirms that, to the best of their knowledge

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

(b) the directors' report set out on pages 24 to 28 includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

Directors' report

Principal activities, business review and key performance indicators

The company is the holding company of a group which through its operating businesses in some 50 countries provides a range of, principally, business to business support services A summary description of the group's principal activities is given on pages 10 and 11 The principal subsidiary undertakings and joint ventures of the company are shown on page 102 The development and performance of the business during the year, the position of the group at the end of the financial year and expected future developments are discussed in the Chairman and Chief Executive's statement on pages 01 to 05, the strategy update on pages 06 and 07, the key performance indicators on pages 08 and 09 and the business overview on pages 10 and 11, the business review, including the principal risks and uncertainties facing the group on pages 12 to 18 and the financial review on pages 19 to 21

Results and dividend

The consolidated profit before income tax for 2010 was £14 5m (the tax on this was £34 8m) Net consolidated capital employed is £(125 2)m compared to £(150 1)m last year

The company has not paid a dividend since the interim payment in respect of 2008 The board continues to keep dividends under review and is committed to their resumption when i) the company's cash flow is robust and ii) when the foundations of sustainable and profitable growth have been established in all of the company's principal businesses Only one of these criteria has been met in the financial year to 31 December 2010

Substantial interests in shares and share capital

The company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements in operation which may at a subsequent date result in a change in control of the company As at 14 March 2011 the shareholders shown below had indicated that they were interested in 3% or more of the company's issued share capital and were not subject to the 5% disclosure exemption under the Disclosure and Transparency Directive There were no movements in the company's ordinary shares during the period

Authority for the company to make purchases of its own shares of up to 181,483,101 was obtained at the annual general meeting on 14 May 2010 No purchases of its shares were made by the company during 2010 The authority is normally renewable annually and approval will be sought from shareholders at the 2011 annual general meeting to renew the authority for a further year

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

Substantial shareholding	%	No of ordinary shares	Nature of holding
Invesco Ltd	15 38	279,128,559	Direct
Schroders plc	11 99	217,591,010	Indirect
Aviva plc (and subsidiaries)	6 90	125,188,391	Direct
Orbis Holdings Limited	7 02	127,347,545	Indirect
Ameriprise Financial Inc(i)	5 00	90,790,221	Indirect
Blackrock Inc(ii)	4 96	90,090,116	Indirect
AXA SA	4 80	87,093,421	Indirect
Legal and General Group plc	3 99	72,494,739	Indirect

(i) Ameriprise Financial Inc includes Threadneedle Asset Management Holdings Ltd
(ii) Blackrock Inc includes Blackrock Investment Management (UK) Ltd

There are no 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

Electronic communications

In accordance with the Companies Act 2006, the company will distribute its printed annual report only to shareholders who have indicated to the company that they wish to receive it in that form The company will periodically canvas new shareholders on how they wish to receive their shareholder communications and did so in April 2010 Further information on shareholder services is available on page 112 and the inside back cover

Directors and re-election process

Biographical information on the current directors of the company, including their ages and their dates of appointment, is shown on page 22 and is also set out in the notes accompanying the notice of the annual general meeting

Michael Murray resigned as a director and chief financial officer on 31 March 2010 Jeremy Townsend was appointed a director and chief financial officer on 31 August 2010 All of the other current directors served throughout the year

In line with the provisions of the 2010 UK Corporate Governance Code which will apply to the company's annual report next year, the board has decided that all members of the board will submit themselves for re-election at the annual general meeting in 2011 Service contracts and letters of appointment for all directors are available for inspection at the registered office and will be available at the annual general meeting on 11 May 2011

Corporate governance

The Corporate Governance statement on pages 29 to 47 forms part of the Directors' Report

Statement of directors' responsibilities

The statement of directors' responsibilities in respect of the annual report and the financial statements can be found on page 23

Corporate responsibility

A summary of the group's corporate responsibility report can be found on pages 48 to 52

Directors' interests

The interests of the directors and their families in the share capital of the company on 1 January 2010, or their date of appointment if later, and at 31 December 2010 are set out below

Rentokil Initial plc ordinary shares of 1p each	31 December 2010 Beneficial interests number	1 January 2010 Beneficial interests number
John McAdam	20,800	20,800
Alan Brown	20,800	20,800
Andy Ransom	52,000	52,000
Jeremy Townsend	nil	nil
Peter Bamford	38,000	38,000
Richard Burrows	25,000	25,000
Alan Giles	12,000	12,000
Peter Long (remuneration committee chairman and senior independent director)	2,000	2,000
William Rucker	100,000	100,000
Duncan Tatton-Brown (audit committee chairman)	12,000	12,000
Michael Murray (resigned 31 March 2010)	N/A	52,000
Total	282,600	334,600

Details of incentive awards to directors are shown in the remuneration report on page 47 No director has any beneficial interest in the shares of any of the company's subsidiaries Any changes in the interests of the directors and their families in the company and its subsidiary companies during the year and from the end of the year to 14 March 2011 are shown in the directors' remuneration report

Directors' indemnity and insurance

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

Interests of directors in contracts

The board has a formal process for considering and, if appropriate, authorising potential conflicts of interest which is reviewed annually by the nomination committee During 2010 no director had any material interest in any significant contract to which the company or any subsidiary was a party Further information on the authorisation process is provided in the report of the nomination committee on page 39

Related party transactions

Other than in respect of arrangements relating to the employment of directors, details of which are provided in the remuneration report or as set out in note 34 on page 101, there is no material indebtedness owed to or by the company to any employee or any other person considered to be a related party

Going concern

At 31 December 2010, the group had net debt of £953 6m Of this, £867 5m had been issued under the group's debt capital market programme and the earliest maturity of any of these instruments is 2013 Of the balance, £23 9m is held as net cash and other borrowings in the businesses and £110m is drawn under the group's bank facility, which matures in October 2012 This facility provides the group's principal source of day-to day liquidity

The group's practice is to reforecast the expected full-year outcome in terms of profit and cash every month and current and prospective performance is reviewed formally with each of the group's divisions monthly These forecasts, together with supplementary short-term cash forecasts, which are provided by the divisions to group treasury, allow the group's cash and debt position to be managed actively

At 31 December 2010 and 14 March 2011 the group had undrawn headroom in its committed bank facilities of £390m and £385m, respectively After reviewing group and company cash balances, borrowing facilities and projected cash flows, the directors believe that the group and company have adequate resources to continue operations for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the accounts

In reaching this conclusion, the directors have considered carefully the risks to the group's trading performance and cash flows as a result of the economic environment and the shortage of credit available in the bank finance market in particular The directors have also had regard to the group's operating plan and budget for 2011 and have considered a number of risk factors The group has a good level of headroom in its bank facilities in terms of both the amount of funds available to withdraw and the financial covenants

The group's bank facilities contain a single financial ratio covenant which requires EBITDA to be no less than 4x interest payable (on the basis of the definitions and subject to the adjustments set out in the bank facility documentation) The covenant is tested on 30 June and 31 December for the previous 12 months At 31 December 2010 the covenant ratio was 8 3x, equivalent to £219m of EBITDA headroom

Full details of the group's net debt and borrowing facilities are set out in notes 21, 22 and 28 to the financial statements

Employees

The company attaches considerable importance to communicating with colleagues Internal communications take place at a group, divisional, business and team level in order to ensure that colleagues receive accurate information in a timely manner and a variety of structures exist for two-way communications at all levels At a corporate level the group intranet which has been refreshed in 2010 is used to announce company news with the support of direct e mail communication from the executive team This is supplemented by a periodic electronic magazine called "Horizons" which features interviews with senior executives about major initiatives and performance

In Europe, the company meets its European Forum (European Works Council) usually twice a year to communicate with colleagues' representatives from across the continent The company maintains an open dialogue with the Forum at times of business change Divisional communications use a wide range of channels such as e-mail, divisional intranets, electronic newsletters and quarterly magazines to communicate business issues including financial and economic factors affecting the operations Great importance is placed on face-to-face team meetings

Applications for employment by disabled persons are always fully considered, taking into account the aptitudes of the applicants In the event of members of staff becoming disabled, every effort is made to ensure that their employment with Rentokil Initial continues and that appropriate re-training is made available It is the policy of Rentokil Initial that the training, career development and promotion of disabled persons should, as far as possible, be identical with those of other employees

Auditors and auditor independence

KPMG Audit Plc replaced PricewaterhouseCoopers LLP as the company's auditors in September 2009 In concluding that KPMG Audit Plc should be reappointed as auditors, the board and the audit committee took into account the need to ensure that auditor independence was safeguarded

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

A resolution to re-appoint KPMG Audit Plc as auditors of the company and to authorise the directors to determine their remuneration will be proposed at the annual general meeting

Directors' statement on the disclosure of information to auditors

Insofar as each of the directors is aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each of the directors has taken all of the steps that he should have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information

Post balance sheet events

Please refer to note 35 to the accounts on page 101

Policy in relation to payment of suppliers

Rentokil Initial has a variety of payment terms with its suppliers in various countries These are either negotiated along with other contract terms or conform to standard terms applied either by the relevant group company or by the supplier It is the company's policy to pay suppliers in accordance with either negotiated or standard terms, provided that the relevant invoice is properly presented in a timely manner and is not the subject of dispute The company is a signatory to the UK "Prompt Payment Code" At 31 December 2010 the trade creditors of the group represented 51 days of annual purchases and the UK businesses' trade creditors represented 35 days of purchases, UK trade debtors represented 34 days of turnover During the year the parent company did not have any trade creditors

Other performance areas

As a means of helping shareholders assess the success and impacts of our strategies, the company uses non-financial performance indicators, which are shown in the table on page 09 and further information on these and on other performance areas is set out in the corporate responsibility section of the governance review on pages 48 to 52 Further details of the company's corporate responsibility performance can be found in the company's web-based corporate responsibility report 2010, which is available at www rentokil-initial com/csr/

Communities and charitable donations

The company's approach to the community consists of three separate elements – charitable cash donations (mainly linked to employees' initiatives), community support and community investment Community support and investment is locally rather than centrally driven Charitable donations amounted to £130,000 (£150,000 in 2009) This amount excludes value in kind donations or colleagues' time

Donations for UK charitable purposes in 2010 amounted to £47,000 and a further £83,000 was donated in other countries There were no payments to political organisations The company operates a matched giving scheme whereby the company matches donations raised by employee fundraising No company donation was greater than £2,000 Payments are made to a wide range of charitable organisations both in the UK and overseas

Key contracts

The group does not have any dominant customer or supplier relationships

Research and development

The company invests in an active programme of research and development in support of its major international business streams This programme includes the conception, design, testing and manufacture of new products to enhance the quality, effectiveness and safety of the company's services and minimise their environmental impact Where appropriate, work may be sponsored at universities with expertise in relevant areas The company's total research and development expenditure in 2010 was £1 9m (2009 £1 7m)

Financial instruments

The company's financial risk management objectives and policies are set out within the financial review on pages 12 to 18, which includes the policy for hedging certain forecast financial transactions The review and notes 16, 21 and 22 to the accounts also detail the company's exposure to price, credit and liquidity risks The company is not materially exposed to foreign exchange risks arising from cross-border trading transactions, although it is significantly exposed to foreign exchange investment risks

EU Takeovers Directive

Pursuant to section 992 of the Companies Act 2006, which implemented the EU Takeovers Directive, the company is required to disclose certain additional information Those further disclosures, which are not made elsewhere in this annual report, are as follows

- The company's articles of association give power to the board to appoint and replace directors, but also require directors to retire and submit themselves for re election at the first annual general meeting following the appointment and for re-election by rotation The articles themselves may be amended by special resolution of the shareholders
- The board is 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 memorandum and articles of association For example, the articles contain specific provisions and restrictions regarding the company's power to borrow money
- Powers relating to the issuing of shares are also included in the articles of association and such authorities are renewed by shareholders each year at the annual general meeting A copy of the articles of association is available to view on the company's website
- The company's Euro Medium Term Note Programme contains conditions that in general terms allow the notes in issue by the company to be put back to the company in the event of a change of control of the company coupled with either a credit rating downgrade below "investment grade" or where the company's credit rating is already below "investment grade"
- The company's main central committed bank facilities require mandatory prepayment and cancellation in the event of a change of control of the company
- There are a number of other agreements that take effect, alter or terminate upon a change of control of the company, such as some commercial agreements, financing arrangements and employee share plans None of these are deemed to be significant in terms of their potential impact on the group as a whole The remuneration and contractual arrangements for the executive directors and senior management do not contain any matters that are required to be disclosed under The Takeovers Directive Copies of executive directors' service contracts are available for inspection by shareholders at the company's registered office and at the annual general meeting

Annual general meeting

The annual general meeting of the company will be held at No 4 Hamilton Place, London W1J 7BQ on Wednesday 11 May 2011 at 11 a m

In addition to the adoption of the 2010 report and accounts, resolutions dealing with re-election of all directors and the resolution dealing with the approval of the directors' remuneration report, there are resolutions on the following matters the appointment and remuneration of the auditors, a routine authority to re-purchase the company's shares, authorities to allot shares and disapply pre-emption rights and a general authority to make donations to EU political organisations

A separate letter to shareholders containing the notice of the annual general meeting and explanatory information on the resolutions to be proposed as special business accompanies this annual report This annual report and the notice of the annual general meeting can be found on the company's website, www rentokil-initial com

On behalf of the board,

Paul Griffiths
Secretary
14 March 2011

Registered office
2 City Place
Beehive Ring Road
Gatwick Airport
West Sussex
RH6 0HA

Registered in England and Wales No 5393279

Board corporate governance statement

Put simply, the highest standards of governance are critical to the board's ability to do its job. They underpin the board's objectivity and effectiveness in carrying out its duties covering the oversight and reporting of business performance, risk management, executive remuneration, succession planning and ensuring that business is conducted responsibly with a proactive approach to sustainability.

John McAdam
Chairman

Board composition and independence

The board currently comprises the chairman, six independent non-executive directors and three executive directors The only changes in the composition of the board during the year were the resignation of Michael Murray as a director and chief financial officer at the end of March 2010 and the appointment of Jeremy Townsend as a director and chief financial officer at the end of August 2010, with our chief executive, Alan Brown, taking board responsibility for financial matters in the intervening months

The chairman, John McAdam, is not classified as independent The board regards Peter Long, Peter Bamford, Richard Burrows, Alan Giles, William Rucker and Duncan Tatton-Brown as being independent in all circumstances which are likely to affect, or could appear to affect, their judgement in carrying out their duties as directors

In the ordinary course, each non-executive director serves for a fixed term not exceeding three years that may be renewed by mutual agreement for a further two terms of three years, subject to the board being satisfied with a director's performance, independence and commitment Peter Long was appointed in October 2002 and serves as the senior independent director and as chairman of the remuneration committee He will have served as a director for nine years in October 2011 Peter Long continues to demonstrate independence of mind and an effective challenge to management and most importantly has a detailed knowledge of the challenges facing the company over the next several years The board is fully supportive of him being re-elected as a director at the annual general meeting in 2011

The UK corporate governance code, which will apply to the company's next annual report, provides that all directors should submit themselves for re-election on an annual basis and the board has decided that all directors will submit themselves for re-election at the 2011 annual general meeting

The board has authorised a number of potential conflicts of interest regarding the non-executive directors 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 Authorised conflicts are reviewed by the board periodically The process for authorising potential conflicts is reviewed by the nomination committee and described in the nomination committee report below

The board's policy is to appoint and retain non-executive directors who can apply their wider knowledge and experience to their understanding of the company's affairs Appointments to the board are made on the recommendation of the nomination committee following a rigorous selection process New members of the board receive appropriate training and induction which includes spending time in the company's operations

The senior independent director, Peter Long, is available to be consulted by shareholders should they have concerns that they are unable to resolve through normal channels He is also responsible for leading the performance review process in respect of the chairman, further details of which are provided below

There have been no changes in the board since the year end The board continues at the date of this report to consist of the chairman, six independent non-executive directors and three non-independent executive directors

Board effectiveness

The board has a formal schedule of matters specifically reserved for its decision including strategy, risk evaluation, the review and approval of the financial statements, significant changes in accounting policies, remuneration of the company's auditors (delegated from shareholders), external reporting, approval of the annual operating plan and major transactions and other major capital transactions above the level delegated to the chief executive

The board held ten meetings in 2010 and one two-day meeting in November to review and update the group's strategic plan The board has a rolling programme of items for discussion which ensures that all matters reserved for its attention and other key issues are considered by the board at appropriate times For example, during the year the board was briefed by senior executives on operational priorities and financial performance in operating divisions The chairman, supported by the company secretary, ensures that the board is kept properly informed and that all matters reserved to it are given appropriate attention Board papers and other information and resources are provided in sufficient time to allow directors to be properly briefed in advance of meetings

In 2010, the board visited the group's largest textiles and hygiene business, which is based in France, as part of an ongoing programme through which the board visits operations in the UK and overseas

Board committees

The board reviewed the terms of reference for the nomination committee, the audit committee and the remuneration committee during the year and a number of relatively minor changes were approved during the board's annual review of its governance procedures and practices Agendas, papers and minutes of committee meetings are generally provided to all board members for information and comment Further information on the membership of the committees and their activities as well as directors' attendance is set out in the following pages Copies of the current terms of reference for the principal board committees are available on the company's website, www rentokil-initial com or on application to the company secretary

In addition to the principal board committees (audit, remuneration and nomination) the board operates a number of ad hoc committees dealing with specific matters The main ad hoc committee being the finance committee which comprises the chairman, the chief executive, the chief financial officer and three non-executive directors with relevant financial experience The finance committee reviews matters concerning company financing and group treasury policy and makes recommendations to the board on specific financing matters referred to it

Audit committee

Throughout 2010 the audit committee comprised, Duncan Tatton Brown, Peter Bamford and William Rucker, all of whom are independent non-executive directors The committee chairman, Duncan Tatton-Brown and William Rucker are considered by the board to have recent and relevant financial experience, details of which are set out on page 22 The company secretary acts as secretary to the committee The chairman, chief executive and chief financial officer, the group controller, the director of internal audit and representatives of the company's auditors attend by invitation The committee meets routinely four times a year and additionally when necessary and also meets the company's auditors and director of internal audit without executive directors present Details of the committee's responsibilities and activities during the year are set out in the audit committee report on pages 36 to 38

Remuneration committee

Throughout 2010 the remuneration committee comprised Peter Long, Richard Burrows and Alan Giles, all of whom are independent non-executive directors The company secretary acts as secretary to the committee Advice on remuneration matters is provided to the committee both from the company's human resources director and independently by Deloitte LLP, who act as independent advisers to the committee The committee has responsibility for making recommendations to the board on the company's policy on the remuneration of executive directors and of the senior management population The committee also considers and determines specific remuneration packages for executive directors and for senior executives reporting to the chief executive The committee also considers and authorises incentive arrangements for executive directors and senior executives reporting to the chief executive and also considers and authorises any payments on termination of employment and related benefits to those individu als Further information on the activities of the committee and audited information on directors' remuneration, benefits and long-term incentive arrangements is provided in the directors' remuneration report on pages 40 to 47 A resolution to approve the directors' remuneration report will be proposed at the annual general meeting

Nomination committee

Throughout the year the nomination committee comprised John McAdam, Peter Long, Duncan Tatton-Brown and Alan Giles The committee is chaired by John McAdam who, while not an independent director, is considered by the board to be the appropriate person to chair the board's nomination committee

The committee has responsibility for considering the size, structure and composition of the board and for reviewing succession planning amongst the senior management population and for reviewing the board's process for considering and authorising directors' potential conflicts of interest

Attendance at meetings

The attendance of directors at board and committee meetings during 2010 is shown in the following table

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
John McAdam	10/10	–	–	4/4
Alan Brown	10/10	–	–	–
Jeremy Townsend	4/4*	–	–	–
Andy Ransom	10/10	–	–	–
Duncan Tatton-Brown	9/10	6/6	–	3/4
Richard Burrows	8/10	–	5/6	–
William Rucker	10/10	6/6	–	–
Peter Long	9/10	–	5/6	3/4
Peter Bamford	10/10	6/6	–	–
Alan Giles	10/10	–	6/6	4/4
Michael Murray	1/1			
Total number of meetings	10	6	6	4

* Prior to his appointment Jeremy Townsend attended by invitation a board meeting in June 2010

Performance evaluation

The evaluation conducted in 2009 concluded that the board and the principal committees were functioning effectively and that individual director performance including that of the chairman was effective It was agreed that in 2010 the evaluation process would be focused on a more limited range of topics and conducted by external advisers who tailored the information gathering element of the process to the board's specific requirements The individual director and committee evaluation processes were constructed on the basis recommended by the external advisers The 2010 report from the external advisers was reviewed by the board

The report covered the board's composition, expertise, dynamics, support arrangements, oversight of strategy, risk management and control, succession planning and human resource management all in the context of the board's priorities over the coming year In general the report concluded that the directors had the appropriate range of skills and experience and constituted an effective and unified board The report noted that the board currently lacked gender diversity and had limited international diversity in its membership although acknowledged that the board contained substantial international operational experience which gave the board the appropriate international reach and experience

The report also drew out a number of areas where some changes in board and audit committee oversight of the risk management and internal control framework could be improved, on which the chief financial officer was giving attention The board acknowledged that gender diversity would be an active consideration when changes in the board's composition were next contemplated

Individual director evaluation showed that the directors, all of whom would be seeking re-election at the annual general meeting in 2011, continued to demonstrate commitment to their roles The non-executive directors, led by the senior independent director, Peter Long, carried out a performance evaluation of the chairman after taking account of the views of the executive directors The review concluded that the chairmanship of meetings and the leadership of the board was conducted effectively The board intends to carry out further performance evaluations on a regular basis

Corporate governance across the group

The directors apply a governance approach that currently complies with the provisions of the Combined Code on Corporate Governance adopted by the Financial Reporting Council in June 2008 ("the Combined Code") An analysis of compliance is set out in the table on pages 33 and 34 The company will be adopting the 2010 UK Corporate Governance Code in respect of the 2011 financial year A copy of the UK corporate governance codes can be obtained from www frc org uk

The board has delegated to the chief executive the development and execution of strategy as well as the day-to-day management of the group's businesses The chief executive is supported by the heads of the group's operating divisions and of the finance, human resources and information services functions that together comprise the company's executive board under the chief executive's chairmanship They meet 5/6 times a year to review performance, priorities and operational actions In addition, the chief executive and chief financial officer lead monthly and quarterly business performance reviews with local management teams The group's change programmes are monitored by a programme board chaired by the chief executive The HR, Finance and IT functions each has a governance structure that oversees the delivery of functional change programmes to drive capability improvements across the group

The governance process in the business units comprises the application of group and local policies and procedures, management oversight, the analysis and management of risk, all underpinned by the group's values and behaviours This framework is designed to ensure that decisions are taken at the right time by colleagues with appropriate authority, after considering all relevant factors from commercial to reputational The group operates through locally constituted and governed legal entities in some

50 countries Corporate entities are managed in compliance with local law and regulation and under principles set out in the group's code of conduct The group's internal control framework is described below

The chief executive has board level responsibility for all corporate responsibility matters The board and the company's executive board review, at least annually, the group's corporate responsibility performance The group's corporate responsibility performance is set out in the corporate responsibility report below and more extensively in the group's web-based corporate responsibility report which can be found at www rentokil-initial com/csr/

The management of risk

The board has responsibility for evaluating and reviewing the overall level of risk that is inherent in its strategy and for the execution of that strategy and specifically owns the risks attaching to the matters reserved for its own decision The board reviews the strategic risks facing the group as part of its annual review of strategy and operational risks are reviewed routinely The principal external risk factor continues to be the economic and competitive environments in the territories in which the company chooses to operate which are routinely considered by the board when reviewing business performance Collectively, the execution of change programmes and management's capability to deliver change is a key risk and is the subject of regular board review An assessment of risk is intrinsic to individual decisions concerning investment, organisational changes and commercial issues such as entry into new markets or territories

The board has delegated to the audit committee the role of assessing the effectiveness of the group's internal control processes as well as reviewing the risk mapping methodology used to identify generic or business specific risks and the management actions taken to mitigate specific risks This process provides the audit committee with an analysis of the gross and net (after mitigating actions) risk taken by the group The board makes its assessment of whether the residual risk is acceptable based on this analysis As an additional analysis of risk, risks have been mapped against the group's five strategic thrusts

The board also delegates to the audit committee stewardship of the internal and external assurance processes that test the effectiveness of the control and risk mitigation framework The committee reports on these matters to the board on a regular basis but it remains the board's responsibility to be satisfied with the level of assurance gained over individual risks

The board gains its confidence over the effectiveness of control processes through regular and transparent management reporting, through the governance processes of the group and from the external and internal assurance processes the output of which is reported to the audit committee and available to the board As reported elsewhere in this report, failings in the control framework in a small number of businesses have highlighted weaknesses both of capability and systems which have required corrective actions Lessons learned in individual cases are discussed by the audit committee and reviewed by the board

Engaging with shareholders

The company places great importance on communications with shareholders, including with employee shareholders, and the chairman, chief executive and chief financial officer make themselves available to shareholders at all appropriate times The company has a regular dialogue with institutional shareholders through one-to-one and group meetings, formal investor and analyst conference calls as well as ad hoc communications, where appropriate

Formal presentations are held after full year and half year results, to which investors and sell/buy side analysts are invited These presentations are web-cast and any investor is able to hear the presentation and related questions and answers via the company's website Accompanying slide presentations are hosted on the company's website as are recordings of meetings Conference calls for investors and analysts are hosted after the first and third quarter trading updates, with typical levels of participation in excess of 80 shareholder and analysts Investor road shows are conducted after full year and interim results, involving extensive investor meetings on each occasion The chairman and senior independent director are available to attend meetings with investors, as required The company also provides opportunities for private client investor presentations across the UK

The company sees the annual general meeting as an important opportunity for all shareholders to engage with the board over performance and other matters on the agenda for the meeting and encourages both private and institutional shareholders to attend

In 2010, the Chairman led a programme of investor meetings involving the chief executive and chief financial officer and the company secretary for small groups of leading shareholders held principally to take have an exchange of views on the evolving corporate governance environment

The board is briefed on the company's investor relations programme through a comprehensive quarterly report from the head of investor relations (who is responsible for day-to-day communications with shareholders and the financial community) as well as by periodic updates from the chief executive and the chief financial officer In addition, published broker reports are provided to the board The company's financial and investor relations advisers also maintain a regular dialogue with major shareholders and reports are provided to the board on investors' views on key issues and management performance following major investor presentations of results

The company's annual report and other investor presentation material is available to all shareholders via the company's website at www rentokil-initial com

Corporate governance compliance statement

During the year ended 31 December 2010 the company complied with all relevant provisions of the Combined Code This report and the following committee reports, the directors' remuneration report and the summary table below together describe how the company applied the main and supporting principles of the Combined Code during the year An extract of the relevant Combined Code provision is shown in italics The company's annual report for 2011 will report on the company's compliance with the 2010 UK Corporate Governance Code

Directors and board
Section A1 – the board " an effective board collectively responsible for the success of the company"
The board is responsible to shareholders for the overall direction and control of the company and specifically reserves certain matters for its consideration The schedule of matters reserved to the board for its own and its committees' decisions covers matters such as strategy, risk appetite, the control environment, major investment decisions, financial reporting, accounting policies and the capital structure These are set out in governance procedures and practices manual which is reviewed annually The current schedule of matters reserved formally to the board is available in the "corporate governance" area of the "investor relations" section of the company's website or on application to the company secretary

The board meets routinely nine times a year and additionally when necessary and follows an agreed formal schedule of matters which are considered at individual meetings In 2010, the board met on ten occasions Details of directors' attendance at board and principal committee meetings are set out in this report

Section A2 – chairman and chief executive " clear division of responsibilities"
The role of the chairman, John McAdam, is set out in his letter of appointment and is included in board's governance procedures and practices manual The chairman's priority is the management of the board whereas the chief executive's priority is the management of the company The chairman received an award under the 2008 Share Incentive Plan, which was formally approved by shareholders at the time of his appointment As a consequence of this one-off award, he is not regarded as independent under the provisions of the Combined Code The chairman's main interests outside the company are set out in his biographical details on page 22

The chief executive has delegated authority from the board to manage the company, subject to the strategic direction of the board He is also responsible for the achievement of the objectives set by the board and preparing an overall strategy for the company to achieve such objectives and the implementation of the overall strategy decided by the board

Section A3 – Board balance and independence
" a balance of executive and non executive directors (in particular independent NEDs)"
Information on the balance of the board is set out earlier in this report

The board regards Peter Long, Peter Bamford, Richard Burrows, Alan Giles, William Rucker and Duncan Tatton-Brown as independent non-executive directors

The board has appointed Peter Long to act as senior independent director whose main responsibility is to be available to shareholders should they have concerns that they are unable to resolve through normal channels and for leading the performance review process in respect of the chairman

Section A4 – Appointments to the board
" formal, rigorous and transparent procedure for the appointment of new directors expected time commitments of NEDs"
The company's articles of association set out the powers of removal, appointment, election and re-election of directors The process for nomination to the board and for considering succession planning is set out in the nomination committee's report The board continues to satisfy itself that the chairman has sufficient time available to devote to his duties The letters of appointment of the chairman and other non-executive directors set out the expected minimum time commitment to the company, which in general covers days required for meetings plus a further day per meeting for preparation and other training or company related activities

Section A5 – Information and professional development
" timely quality information induction on joining regular update of skills and knowledge"
Material is provided to the board in a timely manner and in appropriate detail to enable it to discharge its duties and to give appropriate challenge to executive management In addition, executive directors and senior executives of the company provide such additional information, as is required by the board, on specific business issues or on functional or technical developments that are material to the group's operations as a whole

The company maintains a director induction programme which operated in 2010 following the appointment of Jeremy Townsend as chief financial officer, through which an extensive familiarisation process was undertaken which included not only briefings on all aspects of the group's operations but also visits to key operational

Governance

sites and functional locations The group HR director facilitates the induction process

The board and its committees are supported by the company secretary who, under the direction of the chairman, advises the board on all governance matters and helps ensure good communication and information flows within the board, including between executive and non-executive directors and between the board and its committees

Section A6 – Performance evaluation
"formal and rigorous annual valuation of its own performance"
The board and the audit, remuneration and nomination committees complete an annual evaluation of their performance as do the directors of their own performance In 2010, the evaluation was conducted with the assistance of an external facilitator The process was initiated by a targeted questionnaire completed by each director giving an assessment of individual performances and the board's functioning as a whole The results are considered by the board and by each committee during February of each year As a part of the process, the chairman discusses any issues which arose during the process with each director individually The chairman also discussed with each director the ongoing professional development needs which might enhance individual performance The chairman appraises the performance of the chief executive and the senior independent director appraises the performance of the chairman and discusses with the chairman any issues arising from the appraisal process

Remuneration
Section B1 – the level and make up of remuneration
"levels sufficient to attract, retain and motivate directors avoid paying more than is necessary significant proportion (of remuneration) to the variable"
The directors' remuneration report on pages 40 to 47 sets out the policies and practices which demonstrate the company's implementation of the Code principles and provisions

Section B2 – Remuneration procedure
"formal and transparent procedure"
The remuneration committee's processes and procedures are described in the directors' remuneration report The committee meets when required and usually at least four times annually The remuneration committee's terms of reference which are described in the report are available on the company's website and the report also sets out the terms relating to the appointment and remuneration of non-executive directors

Accountability and audit
Section C1 – Financial reporting
"present balanced and understandable assessment of position and prospects"
A report from the audit committee is provided on pages 36 to 38 It is the audit committee's responsibility to ensure that reporting meets the standards of transparency and balance that are required A "going concern" statement is provided to shareholders in the directors' report on page 26

Section C2 – Internal control
"sound system of internal control"
The board's statement and commentary on its review of the effectiveness of the group's system of internal control is set out in this report below

Section C3 – Audit committee and auditors
"formal and transparent arrangements for (applying) financial reporting and internal control principles"
The role of the audit committee and the conduct of the relationship with the auditors is set out in the audit committee report on page 36

Relations with shareholders
Section D1 – Dialogue with institutional shareholders
"dialogue based on mutual understanding of objectives"
The chief executive and chief financial officer hold regular meetings with analysts and institutional shareholders to discuss the company's strategy and financial performance The board is regularly provided with an analysis of the company's shareholder base and with commentary on market views and sentiment The chairman, the senior independent director and other non-executive directors make themselves available for discussions with shareholders as required by circumstances or as requested by shareholders

Section D2 – Constructive use of annual general meeting
"use AGM to communicate with investors and encourage their participation"
Shareholders are encouraged to attend the AGM which offers an opportunity for all shareholders to ask questions and provide comments on the company's strategy, the performance of the business and any other matter which is within the scope of the meeting The company provides electronic proxy voting on resolutions and in 2010 adopted the process of all resolutions being conducted through a poll, giving all shareholders voting by proxy the opportunity to participate in voting on the day of the meeting

Board internal control statement

The board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance controls and risk management and also for reviewing its effectiveness To discharge these responsibilities, the board has established the processes necessary to comply with the UK governance regime, including having clear lines of responsibility, documented levels of delegated authority and appropriate operating procedures This framework represents a continuous process for evaluating and managing the control related risks the group faces The process has been in place from the start of 2010 to the date of approval of this report It has been reviewed by the board and accords with the Turnbull guidance for directors

The company has in place internal control and risk management systems in relation to its financial reporting process and the processes for the preparation of financial statements These systems are designed to facilitate the proper collection and recording of financial data in order to give reasonable assurance that transactions are recorded in a way that will allow financial information to be prepared in compliance with all statutory and regulatory requirements

Business performance is monitored through processes which include the supervision of the group's business operations by executive management, through monthly and quarterly business performance reviews, the results of which are reported to the board on a regular basis Management and financial information is delivered to the board through a comprehensive financial planning, accounting and reporting process The monitoring of controls includes financial, operational and compliance controls and risk management processes

The audit committee assists the board in the performance of its responsibilities by reviewing the board procedures as they relate to internal controls and risk management processes The committee also considers internal and external auditors' reports on internal control issues and internal control and risk management systems and reports its findings to the board A report on the activities of the audit committee in 2010 is reported below and further information on the risk management and internal control processes can be found in the financial review on pages 19 to 21 and in the business review on pages 12 to 18

As reported in 2009 the company is engaged in a process of modernising and standardising its business processes over a three to five year period which will enhance and improve the control environment by removing many non-standard processes In addition, the company has introduced a more standard approach towards the management of projects which is being embedded across the group The calibre of financial management within the group has been strengthened significantly but continues to be an area of focus

Through the monitoring processes set out above, the board has conducted a review of the effectiveness of the system of internal control during the year ended 31 December 2010 The system is designed to manage, rather than eliminate, risk and can only provide reasonable and not absolute assurance against material misstatement or loss In that context, the review, in the opinion of the board, indicated that the system overall was satisfactory

In relation to instances of individual failings in control environments, actions have been or are being taken to remedy identified control weaknesses The audit committee and the board have received reports from management on individual instances

Refining the internal control framework is iterative and improvement measures are continually under review

On behalf of the board,

Paul Griffiths
Secretary
14 March 2011

Audit committee report

The aim of the committee is to ensure high standards of corporate controls, risk management, reporting and compliance to enhance the effectiveness of control processes and to reduce risk. The committee makes recommendations to the board on reporting, control, risk management and compliance and provides independent monitoring and challenge to executive management in the committee's area of responsibility.

Duncan Tatton-Brown
Committee chairman

Terms of reference

The terms of reference of the audit committee ("the committee") require it to review the appropriateness and effectiveness of the company's external financial reporting and its internal control and risk management processes They also place upon the committee the responsibility of overseeing the appointment and performance of the external auditors, the scope of their duties, their independence and also to approve the appointment of the head of internal audit and to receive and act upon reports from the external and internal auditors The committee has unrestricted access both to the external auditors and to the head of internal audit The activities of the company's risk committee are reported to the committee by the chief financial officer providing additional support to the committee in carrying out its duty to oversee on behalf of the board the internal control framework of the group

The committee's terms of reference were reviewed and updated by the board during 2010 and a copy is available on the company's website or by application to the company secretary The committee's terms of reference take full account of the Smith guidance on the role of audit committees The committee did not find it necessary to seek external advice during the year, other than through its dialogue with the external auditors

Membership, meetings and attendance

The membership of the committee and details of the number of meetings held and attendance at each during the year are set out earlier in this corporate governance statement The committee meets quarterly and additionally when necessary and during 2010 met on six occasions The committee invites the chairman, the chief executive, the chief financial officer, the group controller, the director of internal audit and representatives of the external auditors to attend its meetings The company secretary attends meetings in his role as secretary of the committee

During the year, the committee has had a dialogue with the external auditors without executives present

Activities

A summary of the committee's activities during the year is set out below

Financial reporting and external audit
The committee reviewed and approved the company's annual and interim financial statements and first and third quarter trading updates after reviewing reports on the financial information prepared by the company's auditors The committee received reports routinely on the current status of material litigation to gain comfort that potential financial exposures had been appropriately dealt with in the financial statements The committee also considered an analysis demonstrating that it was appropriate for the company to prepare its accounts on a going concern basis The committee also reviewed and approved a paper proposing the reappointment of KPMG as the company's auditors at the 2010 AGM

As part of the committee's responsibility to monitor the independence of the external auditors the committee reviewed the company's existing policy on the provision of non-audit services by the company's auditors and approved a minor clarification in the policy The committee regularly reviews a schedule of non-audit matters carried out by the auditors which mainly relate to technical advice on taxation and other matters together with a limited amount of investigation activity The level of non-audit fees incurred in the year is described in note 4 to the accounts on page 71

The committee considered a report setting out the findings of an internal evaluation of the 2009 audit process, which was the first audit conducted by KPMG The results showed that overall the audit was considered to have met expectations The auditors presented to the committee the audit strategy for 2010 which set out the areas of audit focus The committee considers that the company's auditors remain independent

Risk
In the governance section above the board's approach to risk management has been summarised and set out below are some of the committee's actions on risk management during the year

Early in the year, the committee considered a paper on the development of the group assurance map, which had been amended to more clearly identify the specific risks in business units and the effectiveness of management responses alongside the proposed internal audit work in relation to the risks and the levels of assurance to be gained for each risk

Later in the year, the committee reviewed the approach taken by the company to identify risks facing individual business units and the group as a whole The committee reviewed the assessment made by management of the mitigating actions in place to identify the net residual risk taken in each of a range of matters relating to the group's businesses, using assurance mapping methodology The net risk position formed the basis of the group's internal audit plan for 2011 During the year the company categorised risk against each of the group's strategic thrusts The committee found that the additional categorisation was a helpful tool in the analysis of risk In relation to the group as a whole, the principal risks continued to relate to economic and market conditions and to the overall delivery of the operational excellence programme and the related issue of the capability of management to deliver change anticipated in the group's strategic plan, further details on which are provided in the risks and uncertainties section on pages 16 to 18

The committee was updated on the activities of the group's risk committee which had been re-constituted during the year to provide improved efficiency over the provision of functionally-led control mechanisms The risk committee had reviewed the risk management processes relating to the commencement and monitoring of individual projects forming part of the Programme Olympic work streams and also reviewed the process developed in 2010 of a standardised approach to business continuity management across the group

The committee reviewed the measures the company had in place and was introducing to ensure that there were appropriate processes to combat the risk of individuals committing acts that would be regarded under any jurisdiction as corrupt This included the approval of a new anti-corruption policy that would supplement the group's updated code of conduct on business ethics, distributed in 2010 to the management population and, in a simplified format, to colleagues worldwide The committee was updated on the group's management of its corporate tax arrangements, including the level of tax risks within the group and was satisfied that the group's tax management was compliant with the risk tolerance set out in the group's tax policy previously approved by the board

Internal control
During the year the committee received presentations on the status of the internal control environment from the finance directors of the Asia Pacific division, the Textiles & Hygiene division and also of the Pest Control division

During the year the company suffered from a breakdown in the control environment in the Philippines business, which although not significant to the group as a whole triggered a thorough review of systems and processes in the Philippines business utilising both internal and external resources The committee reviewed on more than one occasion the circumstances of the breakdown and assessed implications for the group's control framework in the region

The Textiles & Hygiene division made a number of appointments to improve the quality of financial leadership However, the Benelux businesses in particular suffered from relatively weak financial management and some control failings in respect of which action was initiated during the year

The committee reviewed the work underway as part of Programme Olympic to modernise the financial and other transactional processing activities of the group, through the gradual creation of shared service centres These are being established in the UK, Germany, Switzerland, Austria, the Benelux area, Spain and in Scandinavia These changes are designed to improve the control environment and reduce risk as well as delivering operational efficiencies

The committee considered a paper prepared to assist the committee and the board in carrying out its review of the effectiveness of the group's system of internal controls The paper set out the risk management process together with other measures such as the control self-assessment process, quarterly representation letters from business unit managers, the incidence of control failings and weaknesses and internal control developments during 2010 The committee reviewed the proposed statement to be provided to shareholders and confirmed that the statement was appropriate

Internal audit
During the year the group's internal audit resources were strengthened Since the appointment of KPMG in September 2009 the internal audit function has utilised the output of the financial controls testing carried out by the external auditors to more efficiently target internal audit resources to deliver an improved level of assurance

At each meeting the committee considered reports from the director of internal audit on control incidents including any matter which arose under the group's whistle-blowing arrangements No incident was material to the group as a whole Any whistle-blowing report is investigated by the group's internal audit function and the outcome reported to the committee

At each meeting, the committee considers a report on the status of internal audit review outcomes and the progress of their resolution Primary responsibility for the adequacy of the financial control environment rests with line management, with the internal audit function and the results of the external auditors' controls testing programmes providing the committee with assurance

Committee evaluation

The committee conducted a review of its effectiveness which in 2010 was supported by an external evaluator The review concluded that the committee had received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities and highlighted some areas to improve the effectiveness of the committee's oversight of the control environment and associated assurance processes The result of the evaluation process was reported to the board early in 2011

On behalf of the board,

Duncan Tatton-Brown
Chairman, Audit Committee
14 March 2011

Nomination committee report

The nomination committee provides a focus for the key task of ensuring that there are proper plans in place to ensure that the board continues to comprise a group of individuals who work effectively together as a team and who possess the right mix of experience and talent to provide effective oversight and challenge to management on behalf of shareholders as well as to deal with individual appointments as they arise.

John McAdam
Chairman, Nomination Committee

Terms of reference

The main purpose of the nomination committee ("the committee") is to assist the board by keeping its composition under review and conducting a rigorous and transparent process when making or renewing appointments of directors to the board During the year the board approved an adjustment to the committee's terms of reference to make clear the duty to consider diversity issues when contemplating board appointments

Membership, meetings and attendance

Membership has not changed during the year and comprises the chairman, John McAdam, the senior independent director, Peter Long and the next two longest serving non-executive directors, Duncan Tatton-Brown and Alan Giles The nomination committee met on four occasions during the year

Activities

The committee oversaw the process of identifying an appropriate candidate to join the board as chief financial officer and with the assistance of external advisers put forward to the board a proposal that Jeremy Townsend should be appointed chief financial officer The proposal followed a rigorous and transparent selection process which involved all members of the committee as well as other members of the board Jeremy Townsend was appointed to the board at the end of August 2010

The committee has specific responsibilities for succession planning to ensure that the board has the correct balance of individuals to discharge its duties effectively During the year, the committee was briefed on succession planning issues relating to executive director and senior management roles and satisfied itself that action plans are in place to deal with longer term and, as far as is practicable, unexpected short-term gaps or weaknesses in the executive team The committee is principally concerned with roles at board level and at the level below The board as a whole is briefed by the group HR director on the more general aim of ensuring that employees with the required skills and experience are developed for the future and adequate procedures are in place to encourage the develop ment of talent across the group

In order to satisfy itself that it would be appropriate for all directors to submit themselves for re election at the annual general meeting, the committee reviewed the results of the board evaluation process, including the assessment of individual independence and commitment The committee noted that Peter Long (who took no part in the discussion) would have served three consecutive terms of three years as a non-executive director in October 2011 but agreed that it would be extremely valuable to retain Peter Long's detailed knowledge of the range of issues that have affected the company in recent years

In accordance with the provisions of the Code, the committee reviewed the process conducted by the company for identifying and considering potential conflicts of interest and concluded that the process which was introduced in 2008 remains effective The review consisted of considering a report from the secretary and reviewing the process and the related documentation, including the questionnaire provided to directors The committee also reviewed the current authorised potential conflicts of directors and was satisfied that the authorisations remained appropriate

Committee evaluation

In common with the processes conducted by other committees, the committee with the assistance of an external facilitator, has conducted a review of how it operates which concluded that the committee operates effectively

On behalf of the board,

John McAdam
Chairman, Nomination Committee
14 March 2011

Directors' remuneration report

Rentokil Initial's remuneration policies are designed to support the delivery of the group's strategic objectives, specifically to ensure that there is the maximum possible alignment between the interests of executive directors and senior employees with the creation of value for shareholders and the ambition of the company to succeed. Success can only be achieved if Rentokil Initial can attract, retain and motivate high quality people to deliver the business turnaround and performance shareholders rightly expect. This requires levels and structures of remuneration that are appropriate to achieve these goals.

Peter Long
Chairman, Remuneration Committee

Overview

This remuneration report sets out the company's policy on the remuneration of executive and non executive directors, together with details of directors' pay, employment agreements, letters of appointment and interests in shares The remuneration committee aims to comply with best practice guidelines, including guidance produced by the Association of British Insurers and the National Association of Pension Funds, in producing this report All information disclosed in the directors' remuneration report is unaudited save where it is stated that the information is audited An ordinary resolution to approve the directors' remuneration report will be put to the annual general meeting on Wednesday 11 May 2011

The committee, its advisers and terms of reference

The members of the committee are Peter Long (chairman), Richard Burrows and Alan Giles, all of whom are independent non-executive directors The committee's membership has not changed during the year

The duties of the committee cover the following key areas

- establishing the framework of broad policy for the remuneration of the chairman, the executive directors, the divisional managing directors and the functional heads reporting to the chief executive,
- setting the targets for performance-related pay schemes for executive directors and senior executives,
- determining the policy and scope of pension arrangements for each executive director and other direct reports of the chief executive,
- approving the contractual terms for departing executive directors and senior executives and ensuring that payments made are fair to the individual and the company and that failure is not rewarded and that any duty to mitigate loss is fully recognised,
- setting the total remuneration package of each executive director including, where appropriate, benefits, the structure and payment of bonuses and share incentive awards, and
- approving material changes in reward structures across the group

The terms of reference of the committee were reviewed during the year and the board approved a number of relatively minor adjustments A copy of the committee's terms of reference is available on the company's website or on application from the company secretary

The committee met six times in 2010 and in addition was consulted on various remuneration issues between formal meetings The company secretary is secretary to the committee and the group HR director is invited to attend meetings of the committee to provide advice on remuneration matters The chairman, chief executive and chief financial officer attend by invitation when appropriate No individual is present during any discussion relating to their own remuneration

Deloitte LLP has been retained by the committee to provide advice on executive remuneration and on the company's long-term incentive plan (the Performance Share Plan approved by shareholders in 2006) and on incentive arrangements relating to John McAdam, Alan Brown and Andy Ransom, approved by shareholders in May 2008 Details of incentive arrangements in place in respect of both schemes are provided in this report During the year, Deloitte have provided the company with a limited level of advice over non-remuneration matters such as taxation, although they are not the company's main source of advice in such areas Deloitte also provided a limited level of resource to support the internal audit function Towers Watson advised the company on its UK pension matters

During the year the committee considered the following matters

- assessment of performance in relation to the 2009 bonus outcomes,
- determination of 2010 salaries for executive directors and senior executives,
- the company's remuneration report for the financial year 2009,
- awards under the performance share plan and related policy issues concerning the level of participation in the scheme,
- bonus arrangements for 2010 and target setting for bonus purposes in respect of executive directors and senior executives,
- contractual and remuneration/incentive arrangements relating to the resignation of Michael Murray as chief financial officer and to the appointment of Jeremy Townsend as his successor,
- arrangements in connection with the appointment or departure of a number of individual senior executives,
- review of the likely impact of the economic and financial environment on salary inflation in directors and senior executive remuneration, and
- a preliminary review of alternative structures for performance criteria to apply to awards to be made under the performance share plan in 2011

Committee evaluation

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

Remuneration policy

A new remuneration structure/framework was established in 2008 which

- enables the company to attract and retain the leadership talent necessary to reinvigorate and grow the business,
- rewards individual contributions for improving financial performance and implementing the organisational and process changes identified in the 2008 strategic review, and
- fully aligns each executive's interests with those of the shareholders

This policy is reflected in the PSP awards made during 2008, 2009 and 2010 which are subject to performance conditions relating to both financial performance and shareholder value creation (described further below) The committee regularly reviews the effectiveness and competitiveness of the total remuneration and benefits packages of executive directors and senior executives, with assistance from Deloitte and respected market surveys prepared by Towers Watson

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

Components of remuneration	Commentary
Base salary	Set at a competitive level by reference to the market median, taking into account individual skills and experience within the roles.
Annual bonus	Set at a competitive level assuming financial and operational targets are met Links pay to the achievement of financial, strategic and operational goals
Long term incentive	Senior executives participate in a performance share plan designed to deliver a market competitive contribution to total remuneration relative to companies of comparable size and complexity Performance conditions attached to these awards are intended to reward achievements against budget related targets and the creation of shareholder value A one off equity incentive award was approved by shareholders for the leadership team appointed in 2008, based on achieving stretching absolute share price performance targets
Pension	Executive director pension arrangements are by way of a defined contribution arrangement with the value of contributions set at market level or through a cash alternative of a similar value

The table below shows the approximate mix between fixed and variable pay for executive directors based on the achievement of "on-target" and "maximum" performance The company's policy is that a significant proportion of total remuneration should be performance related

2010	On target performance	Maximum performance
Base salary	50%	20%
Pension	10%	5%
Annual cash incentive	25%	25%
Long term incentive	15%	50%

This illustrates the current remuneration and incentive policy and therefore does not take into account the one-off awards which were made in 2008 under the 2008 Share Incentive Plan to facilitate the appointment of Alan Brown and Andy Ransom (further details relating to these awards are provided below)

Base salaries
Executive directors and senior management salaries are reviewed with effect from 1 January each year The committee takes into account company performance, experience and the contribution of individuals Deloitte provides the committee with market analysis using data for companies of comparable size, complexity and market sector When setting compensation arrangements the committee also derives base salary and other data for senior executives from relevant survey data compiled by Towers Watson

Based upon advice from the group HR director the committee has accepted the proposal that in the context of the general economic environment, and taking into account pay and conditions within the Group, there should be no increase in base salaries for executive directors and members of the company executive board for 2011 (as was also the case in 2009 and 2010), although it was acknowledged that below that level consideration would be given by group businesses to providing some recognition of cost inflation

The company has completed the implementation of a global grading programme to deliver a simple, understandable and consistent framework across all businesses providing a clear and transparent structure for conducting HR processes

Annual cash incentive
At the start of a year the committee sets the performance measures and targets that must be met if a bonus is to be paid under the Senior Executives' Bonus Scheme ("the Scheme") For 2010 as was the case in 2009, the chief executive and other executive directors have a potential cash bonus opportunity of 100% base salary, subject to the application of a personal performance modifier (based on the outcome of the company's performance development review process) that could increase or decrease the bonus outcome subject to an overall maximum payment of 110% of salary for executive directors and 120% for the chief executive The performance measures for executive directors are focused on group profit, cash flow and revenue and other performance targets necessary to turn around the financial and operational performance of the group businesses and are designed to focus on business priorities and fully align directors' interests with those of shareholders

In addition to executive directors, over 500 senior executives also participate in the Scheme The performance measures for 2010 (as in 2009) related to group, divisional and business revenue, profit and cash performance as well as non-financial personal objectives Bonuses are typically awarded in March following the end of the financial year to which they relate and specific information on 2010 bonus outcomes for executive directors are set out below

In 2011 participants in the Scheme will be measured against revenue, profit, cash and meeting strategic operational targets and personal performance measures The weighting given to financial measures will vary by individual and will be between 60% and 100% of the total bonus opportunity For 2011, the personal performance modifier has been adjusted to provide the committee with greater flexibility to differentiate bonus outcomes to reflect individual performance and contributions The bonus modifier will therefore operate within a range of 85% 120% for all individuals in the senior management population, and accordingly the maximum bonus will be 120% for executive directors, and will remain at this level for the chief executive

Long-term share incentive plans
In 2008 shareholders approved a new share scheme under which one off share awards were made to the new senior leadership team Details of the awards are set out below

The performance share plan introduced during 2006 was developed in keeping with the remuneration policy as applied at that time Awards were made to some 500 senior managers in over 40 countries around the world in 2006 and 2007 In 2008, the committee refocused participation in the plan, and the performance conditions that apply In 2010 approximately 270 participants, in senior management roles across the Group received awards under the plan These awards are subject to a total shareholder return performance condition, and subject to an underpin based on individual contribution to business financial performance

The 2008 Share Incentive Plan

The Rentokil Initial 2008 Share Incentive Plan ("the 2008 Plan") approved by shareholders in 2008 was designed to facilitate the appointment of John McAdam, chairman, Alan Brown, chief executive, and Andy Ransom, executive director, and to motivate them over a sufficient period to deliver a turnaround in corporate performance The key features of the 2008 Plan are as follows

- an award to each of John McAdam, Alan Brown and Andy Ransom of 7 5 million shares, with vesting of the awards based on absolute share price performance targets,
- until a minimum share price of £1 20 has been met over a sustained period, no shares will be earned At £1 20, 20% of the award would be earned, rising on a straight-line basis to full vesting at a share price of £1 80,
- for achieving growth in market value between a share price of £1 80 and £2 80 further shares may be earned on a straight-line basis up to a maximum of a further 50% of the original award,
- the performance condition will only be satisfied if the share price target is achieved over a sustained period, measured on the basis of an average share price over any 60 consecutive dealing days during the performance measurement period, demonstrating realisable value creation for shareholders,
- up to one-third of the award may vest following the end of the third year, two-thirds following the end of the fourth year and the final third following the end of the fifth year, based on the extent to which performance targets have been achieved, and
- any unvested portion of the award following the end of the fifth year will lapse

During the first half of 2010 the company's share price achieved a 60 day highest average price of 130 82 pence and therefore under the terms of the plan it is expected that 34 43% of the award will vest with participants being entitled to receive a third of the award from May 2011, a second third a year later and the balance in May 2013 Additional amounts can be earned based on share price appreciation beyond the 130 82 pence level during the remaining life of the scheme No further awards may be made under this plan

The Performance Share Plan ("the PSP plan")

In 2006 shareholders approved the PSP plan which was designed to enable participants selected on a discretionary basis to earn shares in the company based on achieving stretching performance targets The principal features of the plan are as follows

- awards are made over shares with a face value set by reference to a multiple of base salary, which vest subject to the achievement of performance conditions over a three-year period,
- under normal circumstances, awards will be granted annually with a maximum face value of awards ranging between 25% and 200% of base salary depending on seniority In exceptional circumstances, a grant of up to 250% of base salary may be made to a participant in any year,
- following the appointment of the company's new leadership early in 2008, the committee considered that for 2008 only it would be appropriate to align the performance criteria for awards under the Performance Share Plan with the share price appreciation targets contained in the 2008 Plan described in the previous section, as well as the achievement of budget related financial performance conditions used to manage the business The performance condition for the 2008 award is described in more detail below,
- awards made in 2009 and 2010 reverted to a relative TSR measure (replacing absolute share price targets), to reflect market practice and shareholder preferences The financial performance underpin introduced in 2008 continues to operate as the committee considers this to be helpful in aligning the plan with shareholders' wider interests, and
- the committee considers that this combination of performance conditions continues to be an effective basis for incentivising the senior management group on an on-going basis, and the committee currently intends to maintain this approach for awards made in 2011
- PSP Plan performance conditions are summarised as follows
  - Awards made under the PSP in 2006 and 2007 failed to meet the TSR or EPS performance condition on their maturity in 2009 and 2010, respectively and awards made under it have lapsed
  - Share price growth (2008 awards) - For 2008 only, the committee considered that it was appropriate to use a share price target performance condition which mirrored the share price targets contained within the 2008 plan for the senior leadership team appointed in 2008 These targets are based on the highest average share price achieved over any 60 consecutive dealing days during the period from 1 April 2008 to 61 dealing days following the announcement of the company's results for the financial year ended 31 December 2010 The table below shows the percentage of an award that could be released based on different levels of absolute share price performance

Highest average market value	Applicable percentage
Less than £1 20	0%
£1 20	20%
£1 80	100%

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

- The committee believes that delivering strong and consistent financial and operational performance on a year-by-year basis is key to creating long-term shareholder value For this reason, an individual performance modifier (based on annual bonus outcomes), has been introduced to provide additional motivation for every individual who participates in the PSP to work towards delivering the business plan
- The effect of the individual performance modifier would be to reduce the level of award that would otherwise vest to zero if an individual fails to reach threshold performance under the annual bonus in each of the three years following grant If "target" bonus outcomes are achieved in each year, there will be no impact on the vesting of the PSP award If an individual's performance is such that they achieve maximum levels of award under the bonus plan in each of the three years, the level of vesting based on the share price appreciation targets above would be doubled This modifier also has the benefit across the group of ensuring that exceptional performance in individual cases is rewarded, while individuals who have not made an equitable contribution to the overall performance of the group do not benefit disproportionately
- The performance multiplier will be based on achievement of annual bonus targets reflecting individual contribution to business financial performance in respect of each financial year, as set out in the following table

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

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

- During the first half of 2010 the company's share price achieved a 60 day highest average share price of 130 82 pence and therefore under the rules of the scheme 34 43% of the awards to participants will vest, provided that each individual achieved 'on target' annual bonus performance in 2008, 2009 and 2010 Awards will be scaled according to each participant's individual performance multiplier, which is based on their average annual bonus outcome in respect of financial performance conditions over the 2008–2010 period
- TSR (2009 and 2010 awards) – awards made in 2009 and 2010 are subject to a relative TSR measure, reflecting market practice and shareholder preferences TSR performance will be measured relative to the constituents of the FTSE 350 index, excluding financial services and primary resources sectors The FTSE 350 is recognised as a broad index, and was considered to be an appropriate benchmark for measuring performance given the company's membership of the FTSE 250, the scope and scale of the company's international operations, and the diverse nature of companies in the business services sector
- The performance modifier introduced in respect of 2008 awards will continue to operate as the committee considers this to be helpful in aligning the plan with shareholders' wider interests Accordingly, there is the possibility that awards could vest at two times the target number of shares, if the business achieves upper quartile TSR performance over the performance period and financial performance that leads to maximum bonus outcomes in each of the three consecutive financial years for the relevant business unit The committee considers this to be an appropriately ambitious goal that will not be easily achieved The performance modifier challenges the executive group, and all participants in the PSP, to deliver strong and consistent financial performance in each year If bonus targets are not met, awards under this plan will be proportionately scaled back, and awards will lapse completely if a threshold financial performance level is not achieved
- Forward looking policy (2011 onwards) – the committee considered that the level of awards and nature of the performance conditions for the awards in 2010 continues to be an effective basis for incentivising the senior management population

Chairman and non-executive directors

The chairman, John McAdam, has a letter of appointment setting out his responsibilities for the management of the board under which he receives fees of £350,000 per annum He received an award on appointment under the 2008 plan, approved by shareholders, details of which are described above and in the schedule of interests in shares shown below He is not eligible to participate in the company's annual cash bonus plan or in the company's other incentive arrangements His appointment is for an initial three-year term, terminable by 12 months' notice (company) and six months' notice (chairman) and is subject to appropriate post termination restrictive covenants

The appointment policy for non executive directors is that they should be appointed for an initial period of three years, which would be extended for two further periods of three years by mutual consent Non-executive directors do not have service contracts and they do not participate in any of the company's incentive schemes, nor are they eligible to join the company's pension scheme There are no provisions for notice periods or compensation in the event of termination of the appointment of a non-executive director and no element of their remuneration is performance related No non-executive director has any personal interest (other than as a shareholder) in the matters under consideration, or any conflicts of interest arising from other directorships which would impinge upon their independence or objectivity or any day-to-day involvement in running the business No director plays a part in any discussion about his own remuneration Expenses reasonably incurred in the performance of their duties are reimbursed

In addition to the arrangements concerning the chairman described above, all other non-executive directors have specific terms of engagement and their remuneration is determined by the board on the recommendation of the non-executive directors' fees committee of the board (comprising the chairman, the chief executive and the chief financial officer) within the limits set by the articles of association and based on independent surveys of fees paid to non-executive directors of similar companies The levels of fees for non-executive directors were reviewed by the non-executive directors' fees committee in 2009 based on external market data at which time they were set at £55,000 per annum The chairmen of the remuneration and audit committees are each paid an additional £15,000 per annum and the senior independent director receives a further £5,000 per annum for acting in that capacity These amounts are included in the remuneration table on page 47 which has been audited

Executive directors' contracts

It is the company's policy that executive directors should have rolling contracts subject to one year's notice by the company The current executive directors have rolling contracts which are subject to one year's notice by the company and six months' notice by the director Alan Brown's and Andy Ransom's service agreements are dated 7 October 2008

Michael Murray resigned as a director with effect from 31 March 2010 and received only amounts to which he was contractually entitled details of which are shown in the table on page 47

Jeremy Townsend was appointed a director and chief financial officer on 31 August 2010 He has a service agreement dated 4 March 2010 On appointment he became entitled to an award under the company's performance share plan for 2010 at the rate of 100% of basic salary and was granted compensatory awards of shares which will vest 113,273 in September 2011 and 90,618 in September 2012 The remuneration committee considered that these awards adequately compensated him for the value of equity awards given up on leaving his previous employer

The company's policy in respect of the notice periods for the termination of executive directors' contracts conforms to the Code The committee is fully aware that under the Code, and acting within the contractual framework, it should take a robust line over payments to departing directors On termination without notice, executive directors are entitled to a payment equal only to base pay and the value of benefits for the duration of the notice period

External appointments

Executive directors are entitled, subject to board approval of the specific appointment, to accept one non-executive directorship or similar appointment outside the company and to retain the fees in connection with such appointment No executive director held any external appointments during the year or at the date of this report The chief executive, Alan Brown, will join the board of Intertek Group plc on 15 April 2011 as a non-executive director Jeremy Townsend is a director of a business run by a member of his family for which he received no remuneration

Executive shareholding requirements

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

Pensions

Executive directors participate in defined contribution pension arrangements or receive additional gross salary in lieu of pension contributions from the company at the rate of up to 25% of base salary Alan Brown and Andy Ransom received a cash supplement in lieu of a pension contribution in 2010, Jeremy Townsend participated in the company's defined contribution pension scheme for approximately 50% of the 15% of salary employer contribution to which he is entitled under current group policy and received a cash supplement for the balance A cash supplement in lieu of pension scheme contribution is not counted as salary for bonus purposes

Bonus

In respect of Alan Brown and Andy Ransom and, on his appointment, Jeremy Townsend, the committee approved a bonus plan for 2010 under which they could each earn 100% of salary (before the application of the modifier – see below) with the following features for the chief executive, 30% of the bonus opportunity related to revenue growth, a further 20% related to cash conversion and 50% related to the achievement of profit performance for the group For other executive directors the percentages and measures varied depending on specific operational priorities The plan provided that any earned bonus is subject to a modifier which is based on personal performance achievements which at an exceptional level would increase the bonus payment by up to a further 10% for executive directors and by up to 20% for the chief executive

The committee reviewed the 2010 bonus plan outcome for the group's senior management population based on the targets set at the start of the financial year No bonus was awarded to the chief executive, Alan Brown as the group profit threshold was not met Andy Ransom's bonus shown in the table on page 47 related to the performance of the Pest Control division for which he is responsible and no element relates to group performance The bonus paid to Jeremy Townsend was an agreed minimum bonus for 2010 approved on appointment and was compensatory for value forfeited on leaving his previous employer

For 2011 the committee has approved a bonus plan for executive directors and the group's senior management, which is similar in structure to the 2010 bonus plan Some adjustments were approved to the modifier factors and threshold levels to better incentivise higher performing businesses in the group and to better reward higher individual achievement, and penalise under achievement

Interests in shares

The interests of directors, who were directors on 31 December 2010, in the shares of the company are set out in the directors' report on page 25

TSR performance graph

This report is required to include a graph showing total shareholder return (TSR) over a five-year period reflecting a holding of the company's shares, plotted against the movement of a broad equity market index The following graph shows the company's total shareholder return (TSR) performance relative to the FTSE 100 Index and FTSE 250 Index, on a consistent basis with the graph shown last year, and is compliant with these requirements The company has been a constituent of both these indices over the five-year period that is shown The FTSE 350 index is also shown, on the basis that the constituents of the comparator group for LTI purposes are drawn from this index (although the comparator group excludes financial services and primary resources companies) The basis of assessment of relative TSR performance in respect of awards made under the company's PSP differs from the basis on which the chart is prepared, and is described on pages 43 and 44

This chart has been prepared by Deloitte LLP for Rentokil Initial plc, for inclusion in the annual report for the year ended 31 December 2010 This is based on data sourced from ThomsonReuters DataStream, and uses spot Return Index data

Rentokil Initial versus the FTSE 100, 250 and 350 indices

Status of report
The schedule of total pay and benefits for directors and details of share incentive awards are set out on page 47 and form part of this report

The directors' remuneration report has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the Regulations") and to comply with the provisions of the UK corporate governance regime applicable to these accounts The company's auditors, KPMG Audit Plc, are required to report to the company's members on the matters set out in the Regulations, and the elements of the report which have been audited are highlighted

On behalf of the board,

Peter Long
Chairman, Remuneration Committee
14 March 2011

Total pay and benefits for directors

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

	Salary £000	Termination payments £000	Pension provision £000	Bonus £000	Allowances/ benefits £000	2010 Total £000	2009 Total £000
John McAdam	350					350	350
Alan Brown	775		194		20	989	1656
Peter Bamford	55					55	48
Richard Burrows	55					55	48
Alan Giles	55					55	48
Peter Long	75					75	64
Andy Ransom	450		113	216	18	797	934
William Rucker	55					55	48
Jeremy Townsend	143		20	125	8	296	-
Duncan Tatton-Brown	70					70	59
Michael Murray	120	133	17		11	281	824
2010	2,203	133	344	341	57	3,078	
2009	2,287	-	406	1,328	58		4,079

(i) Executive directors are provided with life insurance private health cover and a company car or a car allowance The value of the benefits is included under "Allowances/benefits" in the above table
(ii) Alan Brown Andy Ransom and Jeremy Townsend had a maximum bonus opportunity for 2010 of 100% of salary in the year, subject to an additional 10% modifier (20% for Alan Brown) based on personal performance and actual payments earned in respect of the year are shown above
(iii) Details of long term incentives for directors are shown in the table below
(iv) William Rucker s fees are paid to Lazard & Co Ltd
(v) Jeremy Townsend was appointed a director on 31 August 2010 The bonus shown above was an agreed minimum bonus for 2010 approved on appointment and was compensatory for value forfeited on leaving previous employment
(vi) Michael Murray resigned as a director on 31 March 2010

Share incentive awards

Share incentive awards to directors as follows – the table has been audited

	Date of award	Plan	Market price at award	At 1 January 2010	Shares awarded during 2010	Vesting date	At 31 Dec 2010
John McAdam	26/06/08	2008 Plan(i)	100 50p	7,500,000	–	2011/13(i)	7,500,000
Alan Brown	26/06/08	2008 Plan(i)	100 50p	7,500,000	–	2011/13(i)	7,500,000
Andy Ransom	26/06/08	2008 Plan(i)	100 50p	7,500,000	–	2011/13(i)	7,500,000
Alan Brown	12/06/09	2009 PSP	88 25p	2,144,092(iii)	–	31/12/12	2,144,092
Andy Ransom	12/06/09	2009 PSP	88 25p	1,037,464(iii)	–	31/12/12	1,037,464
Michael Murray	05/01/09	2008 PSP	45 50p	1,318,681(ii)	–	–	nil(ii)
Michael Murray	12/06/09	2009 PSP	88 25p	922,19(ii)	–	–	nil(ii)
Alan Brown	14/05/10	2010 PSP	125 00p	–	1,240,000(iii)	31/12/13	1,240,000
Andy Ransom	14/05/10	2010 PSP	125 00p	–	720,000(iii)	31/12/13	720,000
Jeremy Townsend	30/09/10	2010 PSP	103 00p	–	825,242(iii)	31/12/13	825,242
Jeremy Townsend	01/09/10	2010 APPT	96 75p	–	113,273(iv)	01/09/11	113,273
Jeremy Townsend	01/09/10	2010 APPT	96 75p	–	90,618(iv)	01/09/12	90 618

(i) The awards under the 2008 Plan to John McAdam Alan Brown and Andy Ransom can be increased from the initial award of 7 5 million shares by 50% to 11 25 million shares in the event that the share price performance condition reaches £2 80 per share (subject to the rules of the plan) Awards under the Plan are subject to a performance condition determined at the date of grant of the awards which relate to share price performance between 1 April 2008 and three specified vesting dates in 2011, 2012 and 2013 These vesting dates will be 61 dealing days after the announcement of the company s financial results for years ending 31 December 2010 ("first vesting date"), 31 December 2011 ("second vesting date") and 31 December 2012 ("third vesting date")
(ii) Michael Murray s awards lapsed on 31 March 2010 when he left the group
(iii) The maximum performance share plan vesting is only applicable in the event of upper quartile TSR performance and maximum annual bonus outperformance for participants for the three year performance measurement period No shares will vest if the share price does not reach median TSR performance at the end of the vesting period or if threshold financial performance conditions are not met
(iv) Jeremy Townsend was awarded compensatory share awards on 1 September 2010

Governance

Corporate responsibility report

Last year we highlighted that we are increasingly "working together, responsibly". There was no let-up in the pace of change in 2010 as we integrated more businesses and activities and increasingly "acted as one" to enhance the colleague and customer experience. Our broad range of actions is delivering the momentum needed to create successful change.

Responsible business practice is embedded within the company's strategic plan, and builds upon our values of Service, Relationships and Teamwork, enhancing performance for all stakeholders.

Alan Brown
Chief Executive

Corporate Responsibility Review

In 2010 we improved many aspects of our core responsible business practices We introduced a new group-wide code of conduct, continued embedding our values worldwide, undertook the second global "Your Voice Counts" colleague survey, continued focusing on energy and water saving, developed health and safety programmes, piloted innovative new ways of working, and enhanced product stewardship for customers

We participated in Business in the Community's Corporate Responsibility Index, the Dow Jones Sustainability Index and the Carbon Disclosure Project We are highly ranked within our sector across these benchmarks

Governance

The chief executive has responsibility for corporate responsibility The board reviews progress at least once a year, and specific items, e g health and safety, more regularly The senior safety, health and environment professionals across the group now meet regularly to develop and embed more standard processes across the group

Divisions are responsible for setting operational corporate responsibility priorities, whilst complying with group policies in areas such as on health and safety, the environment and business conduct

2010 saw the launch of a new code of conduct, accompanied by a governance guide for all managers Front line colleagues received a pocket guide to promote responsible business practices across the group Produced in 22 different languages, this was distributed either directly to homes or as part of team meetings The internal control self assessment system and the "Speak Up" system contribute to effective governance The audit committee reviews outputs

Our training in competition and antitrust law continued and is part of induction training for new colleagues in relevant areas of activity In 2011, refresher assessments will be introduced, together with training about anticorruption issues

The Board reviews the following indicators

Non Financial Performance Indicators

	2008	2009	2010
CO_2 emissions(i)	134	119	108
Water consumption(ii)	14	13	12
Colleague engagement	n/a	70%	70%
Colleague enablement	n/a	68%	68%
Sales colleague retention	55%	64%	64%
Service colleague retention	74%	74%	76%
Customer satisfaction(iii)	n/a	n/a	19%
State of Service	89%	98%	97%
Number of Lost Time Accidents(iv)	1 82	1 53	1 72

(i) Total CO_2 emissions in tonnes per £m turnover reported on a total company basis
(ii) Water consumed – litres per kilogramme of textiles processed in continental European plants
(iii) Customer satisfaction score using Net Promoter Index, represents the net balance of those customers promoting our service compared with those neutral or not promoting
(iv) LTA equals accidents per 100 000 hours worked

The Environment

In 2010 we improved each of our environmental KPIs Key activities included the consolidation of a number of our textiles processing plants into better located more efficient plants, the development of our first textiles plant which uses no boilers and a major energy efficiency programme in Germany We increased focus on waste reduction and recycling to support our customers' requirements

These were some of our key activities

- Rentokil's Authorised Product List (APL) enhances control of active ingredients and their dosage The APL has been introduced across Rentokil's worldwide operations, to ensure that unacceptable toxic products are avoided, chemical usage compliance is maintained and excessive dosage avoided
- Ambius adopted a plan to reduce its carbon footprint In 2010 it established a target to reduce vehicle fuel consumption by 10-15% and property energy by a similar amount
- Improving IT systems results in cost and service improvements as well as energy reduction Introducing four data centres across the world led to significant energy reductions Developments in "cloud" computing and Google Apps result in reduced branch technology use and efficiency improvements for mobile colleagues
- Similarly, our UK operations' change to fuel cards using consumption reporting focuses on efficient driving and fuel consumption The UK's introduction of Drive Smart combines the benefits of improved safety, reduced damage costs and improved fuel consumption
- Proactive waste management is a focus for many businesses City Link reviews its waste streams including waste in wooden pallets and recycling plastic packaging, often generating revenue as a bi-product

Greenhouse gas emissions

In 2010 CO_2 emissions were 269,415 tonnes compared with 301,509 tonnes in 2009 Emissions per £m turnover decreased by 9 4% year-on-year Improvement in business unit reporting has led to greater consistency in reporting this year

As service delivery tends to be on customers' premises our property environmental impact is limited and we focus on carbon emissions and water consumption Our main environmental impacts are from our processing plants, our vehicle fleet, and process chemicals

	2008 ('000)	2009 ('000)	2010 ('000)
Total emissions tonnes	324	302	269
Emissions in tonnes per £m turnover on a total company basis	134	119	108
Energy consumption, from property usage – million kWh	595	569	489
Energy consumption, from vehicle usage – million litres	73	66	60

Our emissions indicator is normalised CO_2 emissions (tonnes per £million turnover) Emissions conversion is based on DEFRA guidance using scope 1 and 2 emissions factors Reporting includes all property energy and all vehicle fuel Further details including on air travel emission can be found in the company's Corporate Responsibility Report 2010

CO_2 emissions data has been collated by the group since 2000 for its major European textiles operations, with the data for all European processing plants being reported since 2006 They are currently responsible for 66% of the group's CO_2 property and process emissions (2009 – 65%) – and just over 32% for all sources of scope 1 and 2 emissions (2009 – 40%)

The chart below shows the trend since 2006 for continental European processing plants (the larger plants in Belgium, France, Germany and the Netherlands and the smaller plants in Austria, Czech Republic and Spain), showing 5% reduction in emissions in 2010 (2009 – 3% reduction)

Water Consumption
In 2010, the water consumption, based on kilogrammes of laundry washed in all the company's European processing plants, fell by 8% to 12 42 litres (2009 13 40 litres) The chart below shows the trend in water consumption for both our continental plants and the plants in the UK

The Workplace

The company continued its HR strategy to deliver capability-led change and drive engagement and enablement of colleagues

Engagement and enablement
Rentokil Initial measures and acts to improve both colleague engagement and enablement Your Voice Counts (YVC) is the company's annual, confidential colleague survey In 2010 this was completed worldwide for the second consecutive year 33,364 colleagues took part, an increase of 8% on 2009, representing a 69% response rate Both engagement and enablement levels remained constant at a group level Ambius and Initial Facilities Services showed positive improvements, while scores in City Link were generally down year on year 1,497 reports and presentations were produced to enable communication and action planning locally

This table shows responses to relevant corporate responsibility questions

YVC 2010 (Rentokil Initial)	Favourable %	Neutral %	Unfavourable %
I feel proud to work for the company	73	21	6
The company is customer focused	73	17	9
Finding betters way to meet customer needs is a high priority	77	17	6
Company places high priority on health and safety	76	15	9
Colleagues know what is expected of them	90	7	3
Poor performance is not accepted	75	16	9
Colleagues are treated with respect	73	16	11

Skills and talent development
In 2010, 451 employees undertook accredited learning, mainly within the Initial Facilities Services division, in subjects such as business administration, cleaning and support services, and team leading While this is lower than previous years due to the change in the UK Government framework, the success rate increased by 22% In line with the new framework, the company has appointed two skills training providers and begun to develop its own core values training programme with three modules to reflect the company's three core values of – Service, Relationships and Teamwork – which will underpin future numeracy and literacy training This is planned to be piloted in 2011 and the company will seek official accreditation for this new initiative

The Rentokil pest control business further developed its learning and development approach – the Rentokil Academy – with global reach and alignment to the strategic agenda Its business benefits are considered considerable with the sales community showing positive engagement score improvements post Academy participation

At a management level, the talent development process was reviewed with a focus on the senior 450 managers, and middle managers with high potential, across the group Key programmes included "Coaching for Senior Teams" and "Living Leadership"

The Marketplace

Customer service levels reached 97% (state of service) during 2010 ahead of the company's 95% target Levels of customer satisfaction, measured using the process which we call Customer Voice Counts (CVC), also showed improvements across the group, particularly City Link The group CVC score was 19% in 2010 We measure customer retention levels at a business unit and divisional level, while the group score improved to 83 9% in 2010, compared with 80 8% in 2009

These were some of our key activities

- Customers rightly expect proactive approaches, anticipating future developments Following success last year achieving product registration under the EU Biocidal Products Directive for its RADAR unit, Rentokil has now achieved USA regulatory approval for RADAR
- To better understand customers' specific issues, divisions use various survey techniques in addition to the CVC process Ambius undertook customer preference research, especially concerning "green" services and Rentokil undertook mystery shopper research, focusing on branches' response to customers
- Eden, one of the UK's largest school catering services providers, worked with Croydon Council to achieve Silver accreditation for the Food for Life catering mark Eden is the first to have achieved this recognition for a group contract
- Rentokil introduced Entotherm, a chemical-free process utilising dry heat to tackle bed bugs and cockroaches, which was awarded a Best Innovation in the Private Sector award as part of the Best Business Awards 2010
- Initial Hygiene introduced Eco Soaps, a range of environmentally friendly, low allergy soaps, to meet the strict ecological requirements of the Nordic Swann Council and EU Eco-Label
- City Link developed a range of initiatives to offer the industry's highest level of parcel security This includes VanCam and the recent introduction of Eteligencia, analysing products sold on auction sites such as eBay, helping locate missing or stolen products
- Initial Hygiene developed service propositions linked to customer segments, which are currently under trial Ambius's customer research led to specific service propositions for customers seeking more environmentally friendly service Rentokil offers larger commercial customers improved service information using online information – PestNet Online – which enables improved reporting and monitoring

Supply chain management

The company combines a central procurement team with divisional specialists in areas such as textiles and Asia sourcing

The central procurement department seeks out the most acceptable purchasing decisions, taking into account corporate responsibility issues, using techniques like whole life costing To ensure consistent procurement approaches, the group utilises a supply chain academy, to deliver training on sustainability including courses on "Sustainability in Suppliers" and "Best Practices" In 2010 the procurement team signed an agreement to introduce in 2011 Ariba® Procure-to-Pay™ to drive a best-practice procurement process

In many businesses, where product supply categories represent high risks, we adopt higher supplier involvement levels In the Textiles & Hygiene division a focus is on materials, much of which is sourced from a few countries known to be "countries to watch" Textiles contracts require suppliers to meet ethical, environmental and labour standards and uses ACTE, together with OEKO-TEX certification, to ensure compliance

Procurement activities In Rentokil and Ambius often link with regulatory management Technical colleagues specify products and ingredients, based on regulatory and technical knowledge and our procurement teams Internal specifiers advise procurement in procuring environmentally safe products

Health and Safety

Health and safety is routinely reviewed at all management levels and is on the main board's agenda at every meeting The focus is on colleagues, customers and those individuals affected by the company's operational activities

These were some of our key activities

- The company rolled out the "Success Is No Accident" incident and accident management programme into operations in Australia, New Zealand and North America, following its success in the UK The programme provides an early reporting and management action process related to work-related accidents and near misses
- Driving on company business is a major area of risk Drive Smart was introduced for all UK drivers to achieve a "crash free culture", by proactively identifying "at risk" drivers and providing a range of targeted and effective interventions UK results showed third party claims per vehicle reducing by 4% and more minor accidental damage incidents down by 20%, with resulting cost benefits

- The group has continued its drive to install more common processes for managing health and safety risks such as working at height and risk assessments
- Businesses introduced a variety of health and safety initiatives and training schemes during 2010 City Link introduced the "Don't Look Away" campaign to raise awareness of potential hazards, ensuring they are "sorted and reported" It also launched "Safety Zone", an online health and safety induction course Rentokil Academy introduced a health and safety module in technician's performance assessment training materials and an "ATEX Awareness" training package for colleagues working in explosive atmospheres

Health and safety management

The company's approach to health and safety compliance is backed by internal health and safety management requirements to which businesses must conform These are based around OHSAS 18001

In this year's Your Voice Counts survey a question was asked about colleagues' perceptions about the group's priority towards health and safety The response to "The company places high priority on health and safety" increased by 2 percentage points to 76% which is above General Industry norm rates

Our businesses report on their lost time accident rate (LTA) – a frequency measure Currently, there is one formal health and safety KPI – Lost Time Accident Rate (LTA) To improve focus on absence management, the Working Days Lost Rate (WDL) – a severity measure – will be formally reported as a KPI from 2011

In 2010 the group identified 21 priority businesses targeted for improvements and Lost Time Accidents (LTA) performance improved significantly in 10 of the 21 priority businesses For 2011, the company will focus on five key business units for targeted interventions The five units include City Link and Textiles & Hygiene Benelux which are undergoing performance improvement plans These units accounted for 52% of the total LTAs and WDL in 2010 The group LTA and WDL rate increased by 12 5% and 13% respectively in 2010 Part of this increase is accounted for by improved processes of reporting in 2010 compared to 2009

KPI	2009 Performance	2010 Performance
Number of Lost Time Accidents (injuries and illnesses)/100,000 hours worked – group LTA	1 53	1 72
Working Days Lost because of Lost Time Accidents/ 100,000 hours worked – group WDL	39 66	45 63

The Community

Rentokil Initial's community approach consists of three activities charitable cash donations, community support, and community investment The latter two tend to be at a country or divisional level, and are likely to combine financial support, operational or marketing support and employee volunteering

Significant community investment programmes occurred in South Africa (supporting individuals impacted by Aids/HIV), in Australia (supporting Rainforest Rescue), and in Europe (supporting organisations in the developing world, as well as local charities)

In 2010, Rentokil Initial's charitable donations amounted to £130,000 (£150,000 in 2009) split between UK donations £47,000 (2009 £61,000) and overseas £83,000 (2009 £89,000) This excludes value in kind donations or provision of management time or colleagues' own fundraising

More details of the community initiatives and projects, and other aspects of Corporate Responsibility, can be found in the web-based Corporate Responsibility Report 2010

Consolidated income statement

For the year ended 31 December

	Notes	2010 £m	2009 £m
Revenue	1	2,496 5	2,530 8
Operating expenses	2	(2,435 0)	(2,411 5)
Operating profit		61 5	119 3
Analysed as			
Operating profit before amortisation and impairment of intangible assets[1] and one-off items	1	239 3	220 8
One-off items	1	(25 1)	(40 2)
Amortisation and impairment of intangible assets[1]	11	(152 7)	(61 3)
Operating profit		61 5	119 3
Interest payable and similar charges	5	(114 4)	(125 0)
Interest receivable	6	63 3	67 4
Share of profit from associates, net of tax of £3 1m (2009 £2 6m)	4 1	3 3	
Profit before income tax		14 5	65 0
Income tax expense[2]	7	(34 8)	(16 1)
(Loss)/Profit for the year		(20 3)	48 9
Attributable to			
Equity holders of the company		(23 4)	47 6
Non controlling interests		3 1	1 3
		(20 3)	48 9
Basic earnings per share	9	(1 29p)	2 63p
Diluted earnings per share	9	(1 29p)	2 63p
Adjusted earnings per share	9	7 81p	6 61p
Diluted adjusted earnings per share	9	7 75p	6 60p

1 excluding computer software
2 taxation includes £22 6m (2009 £14 8m) in respect of overseas taxation

Consolidated statement of comprehensive income

For the year ended 31 December

	Notes	2010 £m	2009 £m
(Loss)/Profit for the year		(20 3)	48 9
Other comprehensive income			
Net exchange adjustments offset in reserves		33 5	28 7
Actuarial gain/(loss) on defined benefit pension plans	24	15 4	(211 4)
Revaluation of available-for-sale investments		1 1	(2 5)
Movement on cash flow hedge reserve		(1 3)	(0 8)
Tax on items taken directly to reserves		(4 2)	49 0
Cumulative exchange recycled to income statement on disposal of foreign operations		(2 3)	(2 0)
Net profit/(loss) not recognised in income statement		42 2	(139 0)
Total comprehensive income/(expense) for the year		21 9	(90 1)

Attributable to			
Equity holders of the company		17 7	(93 6)
Non controlling interests		4 2	3 5
		21 9	(90 1)

Consolidated balance sheet

At 31 December

	Notes	2010 £m	2009 £m
Assets			
Non-current assets			
Intangible assets	11	552.1	668.2
Property, plant and equipment	12	589.7	636.3
Investments in associated undertakings	13	18.7	13.4
Other investments	14	2.8	1.4
Deferred tax assets	23	10.3	26.0
Retirement benefit assets	24	5.0	–
Other receivables	15	29.6	26.5
Derivative financial instruments	16	39.7	27.3
		1,247.9	1,399.1
Current assets			
Other investments	14	0.9	2.3
Inventories	17	44.7	47.3
Trade and other receivables	15	414.1	437.5
Derivative financial instruments	16	0.9	13.1
Cash and cash equivalents	18	93.0	101.7
		553.6	601.9
Liabilities			
Current liabilities			
Trade and other payables	19	(533.8)	(543.3)
Current tax liabilities		(96.5)	(102.4)
Provisions for other liabilities and charges	20	(31.1)	(56.8)
Bank and other short-term borrowings	21	(58.6)	(89.7)
Derivative financial instruments	16	(3.0)	(13.3)
		(723.0)	(805.5)
Net current liabilities		(169.4)	(203.6)
Non-current liabilities			
Other payables	19	(12.3)	(14.0)
Bank and other long term borrowings	21	(988.0)	(1,120.1)
Deferred tax liabilities	23	(69.9)	(73.8)
Retirement benefit obligations	24	(16.9)	(64.3)
Provisions for other liabilities and charges	20	(86.8)	(69.0)
Derivative financial instruments	16	(29.8)	(4.4)
		(1,203.7)	(1,345.6)
Net liabilities		(125.2)	(150.1)
Equity			
Capital and reserves attributable to the company's equity holders			
Called up share capital	25	18.1	18.1
Share premium account		6.8	6.8
Other reserves		(1,747.4)	(1,777.3)
Retained profits		1,586.8	1,593.0
		(135.7)	(159.4)
Non controlling interests		10.5	9.3
Total equity		(125.2)	(150.1)

The financial statements on pages 53 to 102 were approved by the board of directors on 14 March 2011 and were signed on its behalf by

Alan Brown
Chief Executive

Jeremy Townsend
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December

	Attributable to equity holders of the company					
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Non controlling interests £m	Total equity £m
At 1 January 2009	18 1	6 8	(1,798 5)	1,702 7	9 0	(61 9)
Profit for the year	–	–	–	47 6	1 3	48 9
Other comprehensive income						
Net exchange adjustments offset in reserves	–	–	26 5	–	2 2	28 7
Actuarial loss on defined benefit pension plans	–	–	–	(211 4)	–	(211 4)
Revaluation of available-for-sale investments	–	–	(2 5)	–	–	(2 5)
Movement on cash flow hedge reserve	–	–	(0 8)	–	–	(0 8)
Tax on items taken directly to reserves	–	–	–	49 0	–	49 0
Cumulative exchange recycled to income statement on disposal of foreign operations	–	–	(2 0)	–	–	(2 0)
Total comprehensive expense for the year	–	–	21 2	(114 8)	3 5	(90 1)
Transactions with owners						
Cost of share options and long term incentive plan	–	–	–	5 1	–	5 1
Transactions with non controlling interests						
Acquisition of non controlling interests	–	–	–	–	(0 7)	(0 7)
Dividends paid to non controlling interests	–	–	–	–	(2 5)	(2 5)
At 31 December 2009	18 1	6 8	(1,777 3)	1,593 0	9 3	(150 1)
At 1 January 2010	18 1	6 8	(1,777 3)	1,593 0	9 3	(150 1)
Loss for the year	–	–	–	(23 4)	3 1	(20 3)
Other comprehensive income						
Net exchange adjustments offset in reserves	–	–	32 4	–	1 1	33 5
Actuarial gain on defined benefit pension plans	–	–	–	15 4	–	15 4
Revaluation of available-for-sale investments	–	–	1 1	–	–	1 1
Movement on cash flow hedge reserve	–	–	(1 3)	–	–	(1 3)
Tax on items taken directly to reserves	–	–	–	(4 2)	–	(4 2)
Cumulative exchange recycled to income statement on disposal of foreign operations	–	–	(2 3)	–	–	(2 3)
Total comprehensive income for the year	–	–	29 9	(12 2)	4 2	21 9
Transactions with owners						
Cost of share options and long-term incentive plan	–	–	–	6 0	–	6 0
Transactions with non controlling interests						
Acquisition of non controlling interests	–	–	–	–	(0 4)	(0 4)
Dividends paid to non controlling interests	–	–	–	–	(2 6)	(2 6)
At 31 December 2010	18 1	6 8	(1,747 4)	1,586 8	10 5	(125 2)

Treasury shares of £11 1m (2009 £11 1m) have been netted against retained earnings Treasury shares represent 7 4 million (2009 7 4 million) shares held by the Rentokil Initial Employee Share Trust The market value of these shares at 31 December 2010 was £7 2m (2009 £8 6m) 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 £m	Cash flow hedge reserve £m	Translation reserve £m	Available for sale £m	Total £m
At 1 January 2009	(1,722 7)	10 4	(4 2)	(84 3)	2 3	(1,798 5)
Net exchange adjustments offset in reserves	–	–	–	26 5	–	26 5
Revaluation of available-for-sale investments	–	–	–	–	(2 5)	(2 5)
Movement on cash flow hedge reserve	–	–	(0 8)	–	–	(0 8)
Cumulative exchange recycled to income statement on disposal of foreign operations	–	–	–	(2 0)	–	(2 0)
Total comprehensive income for the year	–	–	(0 8)	24 5	(2 5)	21 2
At 31 December 2009	(1,722 7)	10 4	(5 0)	(59 8)	(0 2)	(1,777 3)
At 1 January 2010	(1,722.7)	10 4	(5 0)	(59 8)	(0 2)	(1,777 3)
Net exchange adjustments offset in reserves	–	–	–	32 4	–	32 4
Revaluation of available-for-sale investments	–	–	–	–	1 1	1 1
Movement on cash flow hedge reserve	–	–	(1 3)	–	–	(1 3)
Cumulative exchange recycled to income statement on disposal of foreign operations	–	–	–	(2 3)	–	(2 3)
Total comprehensive income for the year	–	–	(1 3)	30 1	1 1	29 9
At 31 December 2010	(1,722 7)	10 4	(6 3)	(29 7)	0 9	(1,747 4)

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 1982 to introduce a new holding company, Rentokil Initial plc, and the subsequent reduction in capital approved by the High Court whereby the nominal value of each ordinary share was reduced from 100p to 1p The effect of this capital reorganisation transaction, which was treated as a reverse acquisition in the group financial statements, was to increase distributable reserves by £1,792 3m

Consolidated cash flow statement

For the year ended 31 December

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operating activities	27	405 5	496 6
Interest received		5 3	5 5
Interest paid		(48 3)	(65 9)
Income tax paid		(35 0)	(17 5)
Net cash generated from operating activities		327 5	418 7
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		(183 2)	(176 2)
Purchase of intangible fixed assets		(9 4)	(6 3)
Proceeds from sale of PPE		13 0	10 0
Acquisition of companies and businesses, net of cash acquired	30	(17 9)	(11 2)
Disposal of companies and businesses	8	10 0	4 4
Purchase of available-for-sale investments		–	(0 8)
Dividends received from associates		1 9	1 8
Net cash flows from investing activities		(185 6)	(178 3)
Cash flows from financing activities			
Dividends paid to non controlling interests		(2 6)	(2 5)
Interest element of finance lease payments		(0 9)	(1 1)
Capital element of finance lease payments		(7 4)	(9 3)
Loan repayments		(122 9)	(216 0)
Net cash flows from financing activities		(133 8)	(228 9)
Net increase in cash and bank overdrafts	28	8 1	11 5
Cash and bank overdrafts at beginning of year	18	59 7	62 4
Exchange gains/(losses) on cash and bank overdrafts		5 9	(14 2)
Cash and bank overdrafts at end of the financial year	18	73 7	59 7

Accounting policies

Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as adopted by the European Union as at 31 December 2010

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

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

Consolidation

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

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

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

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

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

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

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

Segment reporting

Reporting segments reflect the internal management organisation and reporting structures Each segment is headed by a divisional managing director who reports directly to the chief executive officer and is a member of the company executive board responsible for the review of group performance Operating businesses within each segment report to segment divisional managing directors

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

Segmental revenues and profits are shown at constant exchange rates consistent with our internal reporting and review process Other segmental information is stated at actual exchange rates Constant exchange rate refers to the translation of two different periods using the same exchange rate for a particular currency (the prior year's average rate of exchange) Both the current and prior years' currencies are translated at the prior years rate of exchange (£/$ 1 5620, £/€ 1 1196) This gives a clearer indication of the actual performance of the business when measured against the previous year by separately identifying the impact of foreign exchange by providing information on both an actual and constant exchange rate basis When using actual exchange rates, currencies are translated using the rate of exchange for that year

One-off items including reorganisation costs

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

One-off items relate directly to the group's major reorganisation programme and consists mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties One-off items also include the profit or loss on the disposal of businesses, a credit in respect of a change in pension liabilities as a result of using CPI rather than RPI for calculating certain future pensions increases and a charge in respect of a claim under a lease guarantee given by a subsidiary following the disposal of a business some 20 years ago

Foreign currency translation

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

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying net investment hedges Other foreign exchange differences are taken to the income statement.

(c) Group companies
The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows

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

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

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

Property, plant and equipment

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

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

4 to 5 years – Vehicles

3 to 10 years – Plant, equipment (including equipment for rental), tropical plants and their containers on rental

3 to 10 years – Office equipment, furniture and fittings

Assets' residual values and useful lives are reviewed annually and amended as necessary Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable

An asset's carrying amount is written down immediately to its recoverable amount if the asset s carrying amount exceeds the higher of the asset's fair value less cost to sell or value-in-use

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

Business combinations

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method ("acquisition accounting") The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date The acquisition date is the date on which the acquirer effectively obtains control of the acquiree An intangible asset, such as customer relationships, brands, patents and royalties, is recognised if it meets the definition of an intangible asset in IAS 38, Intangible Assets" The intangible assets identified in all acquisitions made since 1 January 1998 are goodwill, customer lists and relationships, reacquired franchise rights and contract portfolios Consideration in excess of net identifiable assets acquired in respect of non controlling interests in existing subsidiary undertakings is taken directly to reserves Costs directly attributable to business combinations made after 1 January 2010 are charged to the income statement as incurred Costs directly attributable to business combinations prior to this date were included as part of the purchase price of the business combination Contingent consideration is accounted for at fair value at the acquisition date with subsequent changes to the fair value being recognised in the consolidated income statement

Intangible assets

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

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

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

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

The estimated useful economic lives of intangible assets are as follows

Customer lists and relationships	5 to 16 years
Brands and patents	2 to 15 years
Reacquired franchise rights	3 to 5 years
Computer software	3 to 5 years

The following are the main categories of intangible assets

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

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

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

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

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

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

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

Other development expenditure is recognised as an expense as incurred

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

Inventories

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

Trade receivables

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

Cash and cash equivalents

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

Share capital

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

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred Borrowings are subsequently stated at amortised cost, any difference between the fair value (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method

Where fair value hedge accounting is applied, the carrying value is adjusted for any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk

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

Deferred income tax

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

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

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

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

Employee benefits

(a) Defined benefit pension plans
The group operates a number of pension schemes throughout the world The principal scheme is the UK scheme, which has a number of defined benefit sections, which are now closed to new entrants (other than the Initial No 2 section, accounting for 0 5% of the total scheme's liabilities, which remains open) and a defined contribution section The defined benefit scheme is funded through payments to a trustee-administered fund, determined by periodic actuarial calculations A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee administered funds or insurance companies A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability The group will recognise a pension surplus as an asset where there is an unconditional right to a refund or where the group has a right to reduce future pension contributions

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

(b) Defined contribution pension plans
The group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis The group has no further payment obligations once the contributions have been paid The contributions are recognised as employee benefit expense when they are due Prepaid contributions

are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available

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

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

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

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

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

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

Provisions

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

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

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

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

Revenue recognition

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

(a) Service revenue
Revenue excludes VAT and other similar sales based taxes, rebates and discounts and represents the fair value of consideration receivable from the customer for services rendered outside the group

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

(b) Rental income
Rental assets such as tropical plants, washroom equipment, garments, linen, security equipment, etc which are owned by group entities or where at least substantially all the risks and rewards of ownership of

such equipment are retained by group entities are capitalised as fixed assets and depreciated over their estimated useful lives

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

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

Taxation

The tax expense for the period comprises current and deferred tax Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity In this case the tax is also recognised in equity

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities

Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding

The corresponding rental obligations, net of finance charges, are included in other payables The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term

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

Dividend distribution

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

Financial instruments

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

Financial assets

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

All financial assets are held at amortised cost except for derivatives, which are classified as held for trading unless in a hedging relation ship and certain assets classified as available for-sale, which are held at fair value

(a) Financial assets at fair value through the income statement
Assets are classified as current if they are expected to be realised within 12 months of the balance sheet date

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

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

Available-for-sale investments are fair valued and changes to market values are recognised in equity On subsequent disposal or impairment, the accumulated gains and losses, previously recognised in equity, are recognised in the income statement as "gains and losses from investment securities" Loans and receivables are measured at amortised cost using the effective interest rate method, subject to impairment

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement

Financial liabilities

All financial liabilities are stated at amortised cost using the effective interest rate method except for derivatives, which are classified as held for trading (except where they qualify for hedge accounting) and are held at fair value

Financial liabilities held at amortised cost include trade payables, vacant property provisions, deferred consideration and borrowings

Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re measured at their fair value at the balance sheet date The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged The group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities, (2) hedges of net investments in foreign operations or (3) cash flow hedges

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

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

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

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

(d) Cash flow hedge
The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity Any ineffective portion is recognised in the income statement The gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement

Discontinued operations

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

Fair value estimation

The fair value of any financial instruments traded in active markets is based on quoted market prices at the balance sheet date The quoted market price used for financial assets held by the group is the current bid price, the appropriate quoted market price for financial liabilities is the current ask price

Quoted market prices or dealer quotes for similar instruments are used for long term debt Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments The fair value of interest rate and currency swaps is calculated as the present value of the estimated future cash flows The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date

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

Critical accounting estimates and assumptions

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

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

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

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

(c) Provision for impairment of trade receivables
Provision is made against accounts that in the estimation of management may be impaired Within each of the businesses, assessment is made locally of the recoverability of accounts receivable and the creditworthiness of the customer Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payment

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

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

(f) Retirement benefits
Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions Significant judgement is required in determining these actuarial assumptions Refer to note 24 for the principal assumptions used for the Rentokil Initial Pension Scheme in the United Kingdom

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

With effect from 1 January 2010, the group adopted 'Improvements to IFRSs 2010 which makes minor amendments to seven existing standards These amendments impact disclosures and, therefore, have had no impact on the reported results or financial position of the group

The following new standards and amendments to standards as adopted by the European Union at 31 December 2010 have been adopted by the group from 1 January 2010

IFRS 3 (revised), 'Business combinations', introduces changes to the accounting treatment of acquisitions, such as accounting for acquisition related costs, the initial recognition and subsequent measurement of contingent consideration, and business combinations achieved in stages The change in accounting policy has been applied prospectively and has not had a material impact on the reported results Amendments to IAS 27, 'Consolidated and separate financial statements', requires that acquisitions of non controlling interests that do not result in a change of control are accounted for as transactions with equity holders and, therefore, no goodwill is recognised as a result The change in accounting policy has been applied prospectively and has not had a material impact on the reported results

Other new standards and amendments to standards effective in the year did not have an impact on the group

The following new standards and amendments to standards which are applicable to the group and have been issued, are not effective for the financial year beginning 1 January 2010 The group does not believe the adoption of the below standards and amendments to standards will have a material impact on the consolidated results or the financial position of the group

IAS 24 Related party disclosures (revised 2009)

IAS 32 Amendments to financial instruments – classification of rights issues

IFRIC 19 Extinguishing financial liabilities with equity instruments

IFRIC 14 Prepayments of a Minimum Funding Requirement

Notes to the accounts

1. Segment information

Revenue and profit

	Revenue 2010 £m	Revenue 2009 £m	Operating profit 2010 £m	Operating profit 2009 £m
At constant exchange rates[1]				
Textiles & Hygiene	847 0	859 6	124 9	128 4
Pest Control	511 1	512 7	98 1	89 2
Asia Pacific	192 2	202 1	25 4	21 1
Ambius	116 6	121 0	8 4	8 8
City Link	335 5	353 1	(9 6)	(5 6)
Facilities Services	556 4	547 6	25 9	21 3
Central costs	–	–	(33 9)	(42 4)
Total segmental	2,558 8	2,596 1	239 2	220 8
Inter group revenue	(59 1)	(65 3)	–	–
	2,499 7	2,530 8	239 2	220 8
Exchange	(3 2)	–	0 1	–
At actual exchange rates	2,496 5	2,530 8	239 3	220 8
One-off items	–	–	(25 1)	(40 2)
Amortisation of intangible assets[1]	–	–	(54 9)	(57 0)
Impairment of goodwill	–	–	(97 8)	(4 3)
Operating profit	–	–	61 5	119 3
Interest payable and similar charges	–	–	(114 4)	(125 0)
Interest receivable	–	–	63 3	67 4
Share of profit from associates (net of tax)				
– Asia Pacific	–	–	4 1	3 3
Profit before income tax	–	–	14 5	65 0
Income tax expense	–	–	(34 8)	(16 1)
Total for the year	2,496 5	2,530 8	(20 3)	48 9

1 revenue and operating profit for both 2010 and 2009 have been translated using 2009 average exchange rates Consequently, revenue and operating profit for 2009 has been restated from the amounts disclosed in the 2009 financial statements which were translated using 2008 average exchange rates See accounting policies for basis of calculation

Revenues relate to the following groups of product and service Pest control £492 9m (2009 £488 5m), Washrooms £457 7m (2009 £465 8m), Textiles £455 5m (2009 £462 7m), Parcel delivery £335 5m (2009 £353 1m), Cleaning £331 3m (2009 £341 3m) and Other £485 9m (2009 £484 7m)

Revenue from external customers attributed to the United Kingdom amounted to £973 9m (2009 £979 9m), with overseas countries accounting for the balance of £1,522 6m (2009 £1,550 9m) The only other country accounting for more than 10% of revenue from external customers is France, totalling £348 1m (2009 £364 2m) No major customer accounts for more than 10% of total revenue Inter group revenue represents trading with other Rentokil Initial business units which is eliminated on consolidation

	Inter group revenue[2]		One-off items[3]		Amortisation and impairment of intangibles[3]	
	2010	2009	2010	2009	2010	2009
Textiles & Hygiene	34 3	38 0	11 1	29 4	6 1	7 3
Pest Control	3 7	3 4	3 3	2 1	16 1	17 6
Asia Pacific	0 2	0 5	(1 6)	0 1	20 7	19 8
Ambius	0 2	0 2	–	0 7	2 2	3 1
City Link[4]	1 1	0 3	10 5	3 3	104 8	11 0
Facilities Services	19 6	22 9	3 1	1 8	2 5	2 2
Central items	–	–	(1 3)	2 8	0 3	0 3
Total	59 1	65 3	25 1	40 2	152 7	61 3
Tax effect	–	–	3 3	(12 1)	(16 5)	(17 4)
After tax effect	59 1	65 3	28 4	28 1	136 2	43 9

1 excluding computer software
2 at constant exchange rates
3 at actual exchange rates
4 included in the £104 8m amortisation and intangibles charge is an impairment charge of £95 0m for City Link

One off items including reorganisation costs (before tax at actual exchange rates)

	2010 £m	2009 £m
Textiles & Hygiene		
Reorganisation costs – plant rationalisation[1]	0 4	22 7
Reorganisation costs – Shared Service Centres[2]	3 6	–
Reorganisation costs – other businesses	2 5	6 7
Loss on disposal of businesses[3]	4 6	–
Total – Textiles & Hygiene	11 1	29 4
Pest Control		
Reorganisation costs – Shared Service Centres[4]	3 0	–
Reorganisation costs – UK Hygiene business[4]	0 3	2 1
Total – Pest Control	3 3	2 1
Asia Pacific		
Reorganisation costs – management restructure	–	0 7
Reorganisation costs – other	–	0 5
Profit on disposal of businesses[5]	(1 6)	(1 1)
Total – Asia Pacific	(1 6)	0 1
Ambius		
Reorganisation costs	–	0 7
Total – Ambius	–	0 7
City Link		
Reorganisation costs[6]	3 3	3 3
Reorganisation costs – closure of hub[7]	7 2	–
Total – City Link	10 5	3 3
Facilities Services		
Reorganisation costs – project Chablis[8]	2 2	–
Reorganisation costs – other	0 9	1 8
Total – Facilities Services	3 1	1 8
Central costs		
Reorganisation costs – relocation of group head office	–	2 8
Reorganisation costs – programme Olympic[9]	4 5	–
Pension changes – past service costs[10]	(35 0)	–
Lease Guarantee[11]	29 2	–
Total – Central Costs	(1 3)	2 8
Total	25 1	40 2

Additional notes in respect of one-off items

1 relates to the closure of major processing plants in France, Belgium and the Netherlands including asset write offs and redundancy costs net of the profit on the disposal of certain properties
2 relates to the introduction of Shared Service Centres in Europe for back office processing and includes redundancy of employees and consultancy incurred in the implementation of these Shared Service Centres
3 loss on the disposal of the Spanish textiles business partly offset by a small profit on disposal of the mats business in Finland including recycled exchange
4 redundancy costs – transfer of administration to Pest Control and reorganisation in the UK Hygiene business
5 profit on disposal of businesses including adjustments made to the profit on disposal of businesses sold in earlier years
6 costs associated with the integration of Target Express and City Link businesses and represents redundancy, provision for the exit of non operational properties and the exit of vehicle leases
7 loss on disposal of the main City Link hub
8 consultancy and redundancy costs associated with the reorganisation of the division into three business streams
9 consultancy and pilot running costs associated with the various performance improvement initiatives
10 reduction in pension liabilities following a change (move from RPI to CPI) in the calculation of certain future pension increases (see note 24)
11 charge in respect of a claim under a lease guarantee given by a subsidiary following the disposal of a business some 20 years ago (see note 20)

Segmental information has been presented in accordance with IFRS 8 'Operating Segments which the group implemented with effect from 1 January 2009 This segment information presented reflects internal organisation changes made on 1 January 2010 resulting in UK Washrooms and Ireland Healthcare businesses moving from Facilities Services to Textiles & Hygiene and also the changes made on 1 July 2010 resulted in these same businesses moving from Textiles & Hygiene to the Pest Control division and the transfer of the UK Shared Service Centre from Facilities Services to Central costs on 1 November 2010 Prior year comparisons have been restated

Reported segments represent groups of businesses providing similar products and services and are headed by a divisional managing director Businesses in Asia Pacific are grouped together under one segment and one divisional managing director Central items represent corporate expenses that are not directly attributable to any reportable segment A description of the segments is provided on pages 10 and 11

Segmental revenue and segmental profit (adjusted operating profit) are presented at constant exchange rates (2009 average exchange rates) to give a clearer indication of the actual performance of the business when measured against the previous year by separately identifying the impact of foreign exchange by providing information on both an actual and constant exchange rate basis See Segmental Reporting under accounting policies on page 59 for further details

Other segmental information is shown at actual exchange rates

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

	Depreciation 2010 £m	Depreciation 2009 £m	Amortisation 2010 £m	Amortisation 2009 £m
Textiles & Hygiene	132 2	138 9	8 2	9 3
Pest Control	24 1	28 1	17 0	18 5
Asia Pacific	19 2	17 0	18 7	16 6
Ambius	12 6	12 5	2 2	3 1
City Link	12 5	5 7	10 5	11 5
Facilities Services	5 7	7 1	2 7	2 4
Central items	1 0	1 3	1 2	0 9
Total for the year	207 3	210 6	60 5	62 3

1 including computer software

The consolidated segment operating assets and liabilities at 31 December 2010 and 31 December 2009 and capital expenditure for the years then ended are as follows

	Assets 2010 £m	Assets 2009 £m	Liabilities 2010 £m	Liabilities 2009 £m	Capital expenditure 2010 £m	Capital expenditure 2009 £m
Textiles & Hygiene	669 5	719 9	181 7	230 0	138 0	124 4
Pest Control	290 5	300 2	141 5	115 0	24 8	23 7
Asia Pacific[1]	235 6	229 7	54 3	57 8	15 6	17 3
Ambius	69 6	69 7	18 4	18 0	12 2	9 7
City Link	216 0	341 2	63 4	89 2	11 7	3 3
Facilities Services	127 5	131 8	100 0	82 5	13 4	3 8
Central items	89 5	80 8	154 4	172 6	1 9	2 0
Total	1,698 2	1,873 3	713 7	765 1	217 6	184 2

1 includes associates

Non-current assets other than financial instruments, deferred tax assets and post-employment assets located in the UK amount to £276 9m (2009 £385 8m), with overseas countries accounting for the balance of £916 0m (2009 £960 0m) The only other countries accounting for more than 10% of the total are France (£218 8m, 2009 £230 5m) and the USA (£128 3m, 2009 £133 8m)

Reconcılıatıon of segment assets/lıabılıtıes to total assets/lıabılıtıes

	Assets 2010 £m	Assets 2009 £m	Liabilities 2010 £m	Liabilities 2009 £m
Segment assets/lıabılıtıes as above	1,698 2	1,873 3	713 7	765 1
Deferred tax assets	10 3	26 0	–	–
Cash and cash equıvalents	93 0	101 7	–	–
Current tax lıabılıtıes	–	–	96 5	102 4
Bank and other short term borrowıngs	–	–	58 6	89 7
Bank and other long-term borrowıngs	–	–	988 0	1,120 1
Deferred tax lıabılıtıes	–	–	69 9	73 8
Total assets/lıabılıtıes	1,801 5	2,001 0	1,926 7	2,151 1

Segment assets prımarıly consıst of property, plant and equıpment, ınvestments, ıntangıble assets, ınventorıes and receıvables Segment lıabılıtıes prımarıly consıst of payables and provısıons for other lıabılıtıes and charges Cash and cash equıvalents and bank and other short-/long-term borrowıngs are managed by group treasury and therefore ıt ıs not consıdered approprıate to analyse these by reportable segment Assets and lıabılıtıes are allocated to reportable segments on a specıfıc basıs

Capıtal expendıture comprıses addıtıons to property, plant and equıpment and ıntangıble assets, ıncludıng addıtıons resultıng from acquısıtıons through busıness combınatıons

Analysıs of revenue by category

	Total 2010 £m	Total 2009 £m
Contract servıce revenue (ıncludıng rental ıncome)	1,854 3	1,873 2
Non-contract servıce revenue	561 7	577 6
Sales of goods	80 5	80 0
	2,496 5	2,530 8

2. Operating expenses by nature

Operatıng expenses ınclude the followıng ıtems

	Total 2010 £m	Total 2009 £m
Employee costs (note 3)	1,113 4	1,165 2
Depreciatıon – owned assets	200 3	202 9
– under finance leases	7 0	7 7
Amortısatıon – ıntangıble assets[1]	54 9	57 0
– computer software	5 6	5 3
Impaırment of ıntangıbles	97 8	4 3
Cost of ınventorıes expensed[2]	73 5	84 2
Loss on dısposal of PPE	1 9	3 5
Loss on dısposal/retırement of ıntangıble assets	0 3	0 7
Audıt and non-audıt servıces[3] (note 4)	3 5	3 1
Hıre of machınery and equıpment	3 3	5 2
Other operatıng lease rentals	72 6	75 4
Net foreıgn exchange losses	(0 3)	0 1
Research and development costs (external)	1 9	1 7

1 excludıng computer software
2 the 2009 figure has been restated due to a reclassıfıcatıon of ıtems from another category
3 the 2009 comparatıve ıncludes amounts paıd to both KPMG Audıt Plc and ıts assocıates and PrıcewaterhouseCoopers LLP and ıts assocıates

3. Employee benefit expense

	Total 2010 £m	Total 2009 £m
Wages and salaries	937 8	989 6
Social security costs	149 1	150 8
Share-based payments	6 0	5 1
Pension costs		
defined contribution plans	19 0	18 4
Pension costs		
defined benefit plans (note 24)	1 5	1 3
	1,113 4	1,165 2

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

	Number	Number
Processing and service delivery	57,470	58,168
Sales and marketing	3,285	3,351
Administration and overheads	5,609	5,996
	66,364	67,515

Emoluments of directors of Rentokil Initial plc are included in staff costs above and in the key management compensation table in note 34

Further details are also given in the directors' remuneration report on pages 40 to 47

4. Audit and non-audit services

	2010 £m	2009 £m
Fees payable to the company's auditors for the audit of the parent company and group accounts	0 4	0 4
Fees payable to the company's auditors and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	2 2	2 1
Other services pursuant to legislation	0 3	–
Other services relating to taxation	0 5	–
All other services	0 1	0 1
Total audit and non audit services	3 5	2 6

KPMG Audit Plc were appointed as group auditors in September 2009 The amounts included in the above table relate to fees payable to KPMG Audit Plc and its associates

Fees amounting to £nil (2009 £0 1m) were payable to auditors other than KPMG Audit Plc and its associates in respect of the audit of the company's subsidiaries, pursuant to legislation

Included within "fees payable to the company's auditors for the audit of the company's subsidiaries, pursuant to legislation" are amounts payable to KPMG Audit Plc and its associates incurred in respect of the audit work undertaken on financial controls This work may include an element which goes beyond that strictly required by relevant Auditing Standards The amount is estimated not to exceed £0 2m (2009 £0 2m) Also included within other services pursuant to legislation is £0 2m in respect of the review of the 2010 interim financial statements

Prior to the appointment of KPMG Audit Plc in 2009 the group had paid its previous auditors, PricewaterhouseCoopers LLP and its associates, £0 2m in respect of their review of the 2009 interim financial statements and £0 3m in respect of other services for the year ended 31 December 2009 In addition, PricewaterhouseCoopers LLP act as auditors to the Rentokil Initial Pension Scheme The aggregate fees paid to PricewaterhouseCoopers LLP for audit services to the pension scheme during 2009 were £70,000

5. Interest payable and similar charges

	2010 £m	2009 £m
Hedged interest payable on medium term notes issued[1]	44 0	42 7
Interest payable on bank loans and overdrafts[1]	3 0	7 1
Interest payable on revolving credit facility[1]	4 0	6 4
Interest payable on foreign exchange swaps	3 2	4 0
Interest payable on finance leases	0 9	1 2
Amortisation of discount on provisions	0 8	0 9
Underlying interest payable	55 9	62 3
Interest on defined benefit plan liabilities	58 5	55 3
Foreign exchange gain on translation of foreign denominated loans	(0 3)	(1 3)
Net ineffectiveness of fair value hedges[2]	-	(3 1)
Fair value loss on other derivatives[2,3]	0 3	11 8
	58 5	62 7
Total interest payable and similar charges	114 4	125 0

1 interest expense on financial liabilities held at amortised cost
2 (gain)/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 forward rate agreements of £nil (2009 £8 4m) and interest rate swaps of £0 3m (2009 £3 4m)

6. Interest receivable

	2010 £m	2009 £m
Bank interest[1]	4 1	5 8
Interest receivable on foreign exchange swaps	0 6	0 4
Underlying interest receivable	4 7	6 2
Return on defined benefit plan assets	58 6	61 2
Total interest receivable	63 3	67 4

1 interest income on loans and receivables

7. Income tax expense

	2010 £m	2009 £m
Analysis of charge in the year		
UK Corporation tax at 28% (2009 28%)	2 1	1 0
Double tax relief	–	(0 2)
	2.1	0 8
Overseas taxation	36 9	29 8
Adjustment in respect of previous periods	(10 2)	0 9
Total current tax	28 8	31 5
Deferred tax charge/(credit)	4 7	(18 8)
Deferred tax adjustment in respect of previous periods	1 3	3 4
Total deferred tax*	6 0	(15 4)
Total income tax expense	34 8	16 1
*The deferred tax charge/(credit) comprises		
Accelerated tax depreciation	(0 2)	4 6
Deferred tax on retirement benefit obligations	3 2	3 2
Unremitted overseas profits/(losses)	0 6	(6 8)
Customer lists and other intangibles amortisation	(8 8)	(12 5)
Tax losses	14 9	(5 8)
Share based payments	(3 7)	–
Other temporary differences	–	1 9
Deferred tax charge/(credit)	6 0	(15 4)
Tax on items charged to equity		
Deferred tax debit/(credit) in respect of actuarial gain/loss on defined benefit pensions	4 2	(49 0)
Total tax debited/(credited) to equity	4 2	(49 0)

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

	2010 £m	2009 £m
Profit before income tax	14 5	65 0
Tax calculated at domestic tax rates applicable to profits in the respective countries	4 1	17 6
Adjustment in respect of previous periods	(9 0)	4 3
Expenses not deductible for tax purposes – other	3 9	4 4
Expenses not deductible for tax purposes – one-off items	10 8	–
Income not subject to tax	(2 0)	(2 0)
Goodwill deduction for which no deferred tax asset was recognised	(0 3)	(0 3)
Utilisation of previously unrecognised tax losses	(4 0)	(2 0)
Deferred tax on unremitted profits/(losses)	0 6	(6 8)
Goodwill impairment	27 4	1 0
Overseas withholding tax suffered	2 1	–
Losses not relieved	1 7	3 2
Provisions utilised for which no deferred tax assets were recognised	(2 4)	(1 6)
Local business taxes	3 4	0 4
Other	(1 5)	(2 1)
Total tax expense	34 8	16 1

Adjustments in respect of previous periods represent the creation or release of tax provisions in respect of previous periods Tax provisions are released when no longer required following agreement of the relevant liabilities with fiscal authorities

As a substantial proportion of profits are generated outside the UK, the standard rate of tax has been determined as the weighted average of the standard rates of tax in each of the different countries where profits are generated The relevant rates were approximately 29% in 2010 and 27% in 2009 The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries

8. Disposals

The group disposed of its Spanish Textiles business on 1 September 2010 Other includes the disposal of a small business in Finland, consideration deferred and the write off of liabilities in respect of prior period disposals The results of these businesses, up to the date of disposal, are included in continuing businesses

Details of net assets disposed and disposal proceeds are as follows

	Spain Textiles £m	Other £m	2010 £m
Non current assets			
– Intangible assets	1 4	0 2	1 6
– Property, plant and equipment	11 2	0 3	11 5
Current assets	5 2	–	5 2
Current liabilities	(2 2)	(1 9)	(4 1)
Net assets disposed	15 6	(1 4)	14 2
(Loss)/profit on disposal	(7 5)	2 2	(5 3)
Consideration	8 1	0 8	8 9
Consideration deferred from prior periods	–	1 1	1 1
Cash inflow from disposals of companies and businesses	8 1	1 9	10 0

The loss on disposal above of £5 3m excludes translation exchange gains of £2 3m, which are recycled to the income statement, giving a total pre-tax loss on disposal of companies and businesses of £3 0m This loss on disposal is included in one off items

9. Earnings per share

Basic

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

	2010 £m	2009 £m
(Loss)/Profit attributable to equity holders of the company	(23 4)	47 6
Weighted average number of ordinary shares in issue	1,807 4	1,807 4
Basic earnings per share	(1 29p)	2 63p

Diluted

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

	2010 £m	2009 £m
(Loss)/Profit attributable to equity holders of the company	(23 4)	47 6
Weighted average number of ordinary shares in issue	1,807 4	1,807 4
Adjustment for share options and LTIPs[1]	–	2 9
Weighted average number of ordinary shares for diluted earnings per share	1,807 4	1,810 3
Diluted earnings per share	(1 29p)	2 63p

Adjusted

Adjusted earnings per share is the basic earnings per share adjusted for the after tax effects of one-off items and the amortisation and impairment of intangibles[2]

	2010 £m	2009 £m
(Loss)/Profit attributable to equity holders of the company	(23 4)	47 6
One off items and amortisation and impairment of intangibles[2] before tax	177 8	101 5
Tax on one-off items and amortisation and impairment of intangibles[2]	(13 2)	(29 5)
After tax effect of one off items and amortisation and impairment of intangibles[2] attributable to non controlling interests	(0 1)	(0 1)
Adjusted profit attributable to equity holders of the company	141 1	119 5
Weighted average number of ordinary shares in issue	1,807 4	1,807 4
Adjusted earnings per share	7 81p	6 61p

Diluted adjusted

	2010 £m	2009 £m
Adjusted profit attributable to equity holders of the company	141 1	119 5
Weighted average number of ordinary shares in issue	1,807 4	1,807 4
Adjustment for share options and LTIPs	12 7	2 9
Weighted average number of ordinary shares for diluted earnings per share	1,820 1	1,810 3
Diluted adjusted earnings per share	7 75p	6 60p

1 potential issue of shares under share option and LTIPs schemes are not dilutive in 2010 as the group reported a loss
2 excluding computer software

10. Dividends

No dividend payments were made in 2010 The board is not recommending the declaration of a dividend for 2010

11. Intangible assets

	Goodwill £m	Customer lists and relationships £m	Brands £m	Reacquired franchise rights £m	Computer software £m	Total £m
Cost						
At 1 January 2009	503 3	479 8	25 9	25 4	36 1	1,070 5
Exchange differences	(11 4)	(16 9)	(1 2)	–	(1 1)	(30 6)
Consideration adjustment	(3 2)	–	–	–	–	(3 2)
Additions	–	–	–	–	6 3	6 3
Disposals/retirements	–	–	–	–	(2 6)	(2 6)
Acquisition of companies and businesses	1 3	0 8	–	–	–	2 1
Disposal of companies and businesses	(3 7)	(6 9)	(0 9)	–	(0 1)	(11 6)
At 31 December 2009	486 3	456 8	23 8	25 4	38 6	1,030 9
At 1 January 2010	486 3	456 8	23 8	25 4	38 6	1,030 9
Exchange differences	12 2	12 9	0 7	–	0 6	26 4
Additions	–	–	–	–	9 4	9 4
Disposals/retirements	–	–	–	–	(1 9)	(1 9)
Acquisition of companies and businesses	6 5	7 8	2 5	–	–	16 8
Disposal of companies and businesses	(1 2)	(4 1)	–	–	–	(5 3)
At 31 December 2010	503 8	473 4	27 0	25 4	46 7	1,076 3
Accumulated amortisation and impairment						
At 1 January 2009	(17 0)	(258 0)	(6 1)	(13 7)	(20 8)	(315 6)
Exchange differences	1 4	10 0	0 3	–	0 5	12 2
Disposals	–	–	–	–	1 9	1 9
Disposal of companies and businesses	3 6	1 4	0 3	–	0 1	5 4
Impairment charge	(4 3)	–	–	–	–	(4 3)
Amortisation charge	–	(48 1)	(2 5)	(6 4)	(5 3)	(62 3)
At 31 December 2009	(16 3)	(294 7)	(8 0)	(20 1)	(23 6)	(362 7)
At 1 January 2010	(16 3)	(294 7)	(8 0)	(20 1)	(23 6)	(362 7)
Exchange differences	(0 8)	(6 1)	(1 2)	–	(0 4)	(8 5)
Disposals	–	–	–	–	1 6	1 6
Disposal of companies and businesses	–	3 7	–	–	–	3 7
Impairment charge[1]	(97 8)	–	–	–	–	(97 8)
Amortisation charge	–	(46 5)	(3 1)	(5 3)	(5 6)	(60 5)
At 31 December 2010	(114 9)	(343 6)	(12 3)	(25 4)	(28 0)	(524 2)
Net Book Value						
At 1 January 2009	486 3	221 8	19 8	11 7	15 3	754 9
At 31 December 2009	470 0	162 1	15 8	5 3	15 0	668 2
At 31 December 2010	388 9	129 8	14 7	–	18 7	552 1

1 Includes an impairment charge for City Link of £95 0m

Amortisation of £60 5m (2009 £62 3m) has been charged to operating expenses

Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and reportable segment
A summary of the 2010 goodwill allocation by reportable segment is shown below

	UK £m	Europe £m	North America £m	Asia Pacific £m	Africa £m	2010 Total £m	2009 Total £m
Textiles & Hygiene	3 9	74 6	–	–	–	78 5	77 0
Pest Control	4 7	14 9	62 2	–	0 3	82 1	80 6
Asia Pacific	–	–	–	85 6	–	85 6	79 9
Ambius	–	2 8	13 5	–	–	16 3	15 8
City Link	108 1	–	–	–	–	108 1	203 1
Facilities Services	18 3	–	–	–	–	18 3	13 6
31 December 2010	135 0	92 3	75 7	85 6	0 3	388 9	
31 December 2009	225 3	91 5	73 1	79 9	0 2		470 0

The recoverable amount of a CGU is determined based on the higher of value-in-use calculations using cash flow projections based on financial budgets and long range plans approved by management covering a five-year period which are prepared as part of the group's normal planning process and fair value less costs to sell if appropriate Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates The key assumptions used by individual CGUs for value-in-use calculations were long term growth rates of between 2% and 3% and pre-tax discount rates of between 9% and 12% (2009 10% and 13%) 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

During the year an impairment charge of £97 8m in respect of prior years' acquisitions was taken to operating profit £95m related to City Link and £2 8m to Asia Pacific

The City Link impairment charge in 2010 was triggered by reduced actual and forecast future cash flows Severe weather, weak operational management and continued industry price cutting adversely impacted 2010 cash flows and, although recovery is forecast, they also dampened and pushed back the outlook for future cash flows

The remaining goodwill balance at 31 December 2010 amounts to £388 9m with £108 1m of this relating to the acquisition of the City Link franchises and Target Express in previous years The most significant assumption surrounding the recoverability of this City Link goodwill balance relates to the success of the initiatives implemented to return this business to profitability The impairment test assumes operating cash inflows in 2015 of some £23m (£1m in 2010) with future years growing at rates consistent with the longer-term growth rates of 2 25% (2009 2 25%) and a pre-tax discount rate of 11 1% (2009 11 4%)

The remaining goodwill balance of £280 8m is spread across a number of CGUs and no reasonable change in the key assumptions above would give rise to a significant impairment in these businesses

12. Property, plant and equipment

	Land and buildings £m	Equipment for rental £m	Other plant and equipment £m	Vehicles and office equipment £m	Total £m
Cost					
At 1 January 2009	221 3	673 2	329 1	259 7	1,483 3
Exchange differences	(12 2)	(37 2)	(19 1)	(10 1)	(78 6)
Additions	4 1	122 1	16 4	33 0	175 6
Disposals	(6 5)	(93 4)	(17 5)	(43.4)	(160 8)
Acquisition of companies and businesses[1]	-	-	-	0 2	0 2
Disposal of companies and businesses	-	(3 4)	(0 4)	(1 1)	(4 9)
Reclassifications	(0 2)	-	-	0 2	-
At 31 December 2009	206 5	661 3	308 5	238 5	1,414 8
At 1 January 2010	206 5	661 3	308 5	238 5	1,414 8
Exchange differences	(3 3)	(3 8)	(6 9)	6 0	(8 0)
Additions	9 5	127 2	20 9	32 7	190 3
Disposals	(19 3)	(85 5)	(29 2)	(33 1)	(167 1)
Acquisition of companies and businesses[1]	1 0	-	-	0 1	1 1
Disposal of companies and businesses	(2 8)	(15 3)	(10 8)	(1 2)	(30 1)
At 31 December 2010	191 6	683 9	282 5	243 0	1,401 0
Accumulated depreciation and impairment					
At 1 January 2009	(47 4)	(381 9)	(199 8)	(133 0)	(762 1)
Exchange differences	3 1	21 1	12 0	6 3	42 5
Disposals	2 8	91 6	14 9	38 0	147 3
Disposal of companies and businesses	-	3 2	0 4	0 8	4 4
Depreciation charge	(8 1)	(133 5)	(26 0)	(43 0)	(210 6)
At 31 December 2009	(49 6)	(399 5)	(198 5)	(130 9)	(778 5)
At 1 January 2010	(49 6)	(399 5)	(198 5)	(130 9)	(778 5)
Exchange differences	0 7	1 4	4 6	(3 0)	3 7
Disposals	11 4	84 0	27 3	29 5	152 2
Disposal of companies and businesses	0 5	11 1	6 0	1 0	18 6
Depreciation charge	(13 8)	(131 0)	(23 7)	(38 8)	(207 3)
At 31 December 2010	(50 8)	(434 0)	(184 3)	(142 2)	(811 3)
Net Book Value					
At 1 January 2009	173 9	291 3	129 3	126 7	721 2
At 31 December 2009	156 9	261 8	110 0	107 6	636 3
At 31 December 2010	140 8	249 9	98 2	100 8	589 7
The net carrying amounts of assets held under finance leases are as follows					
At 31 December 2009	3 9	0 4	0 4	14 1	18 8
At 31 December 2010	0 9	-	0 4	11 6	12 9

1 Included within acquisition of companies and businesses are fair value adjustments to prior periods of £nil (2009 £0 1m) Refer to note 30 for further details on fair value adjustments

The category of equipment for rental consists of equipment leased by the group to third parties under operating leases

13. Investments in associated undertakings

	2010 £m	2009 £m
At 1 January	13 4	13 7
Exchange differences	3 1	(1 8)
Share of profit[1]	4 1	3 3
Dividends	(1 9)	(1 8)
At 31 December	18 7	13 4

1 share of profit is after tax

Investments in associates at 31 December 2010 includes goodwill of £nil (2009 £nil)

The group's interest in its principal associate, which is unlisted, was as follows

Name	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Profit £m	Interest held
2010						
Nippon Calmic Ltd (49%)	Japan	30 1	(10 2)	35 3	4 1	49%
2009						
Nippon Calmic Ltd (49%)	Japan	23 4	(8 6)	31 6	3 3	49%

14. Other investments

	2010 £m	2009 £m
At 1 January	3 7	3 0
Additions	2 3	0 8
Disposals	(2 3)	(0 1)
At 31 December	3 7	3 7
Less non current portion	2 8	1 4
Current portion	0 9	2 3
Available-for-sale financial assets include the following		
• UK Government gilts and US Treasury bonds	3 5	3 5
• Unlisted equity securities – Continental Europe	0 2	0 2
	3 7	3 7

All other investments are classified as available-for sale financial assets and are valued based on public price quotations as appropriate (fair value hierarchy level 2) Changes in fair values of available-for-sale financial assets are recorded directly in equity Other investments were not impaired in 2010 or 2009

Available for sale financial assets are denominated in the following currencies		
• Pounds sterling	3 2	3 2
• US dollar	0 3	0 3
• Euro	0 2	0 2
	3 7	3 7

None of the financial assets are either past due or impaired

Investments
Fixed rate cash deposits include £3 5m (2009 £3 5m) invested in UK and US Government bonds which are held by the group s insurance operations in accordance with local insurance regulations and are used to meet insurance liabilities as they fall due The weighted average effective interest rate earned is 5 2% (2009 5 8%) and the weighted average rate is fixed for 1 5 years (2009 1 5 years)

15. Trade and other receivables

	2010 £m	2009 £m
Trade receivables	375 0	399 2
Less provision for impairment of receivables	(21 1)	(23 0)
Trade receivables – net	353 9	376 2
Other receivables	46 3	47 1
Prepayments	43 5	40 7
Total	443 7	464 0
Less non-current portion		
Other receivables	29 6	26 5
	29 6	26 5
Current portion	414 1	437 5

Book value approximates fair value because of the short-term nature of the receivable and the low interest environment in which they are held

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

Analysis of the group's provision for impairment of trade receivables

	2010 £m	2009 £m
At 1 January	23 0	31 3
Acquisition of companies and businesses	0 1	0 2
Disposal of companies and businesses	(0 2)	(0 2)
Additional provision	7 6	9 0
Receivables written off as uncollectable	(6 3)	(12 6)
Unused amounts reversed	(3 3)	(3 8)
Exchange differences	0 2	(0 9)
At 31 December	21 1	23 0

Analysis of total trade receivables which are not impaired

	2010 £m	2009 £m
Not yet due	122 0	121 6
Past due less than 1 month	126 3	148 8
Between 1 and 3 months	82 2	81 9
Between 3 and 6 months	16 9	17 4
Between 6 and 12 months	4 7	5 5
Over 12 months	1 8	1 0
	353 9	376 2

The maximum amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet Customer credit facilities for new customers are approved by designated managers at business level Credit limits are set with reference to trading history and reports from credit rating agencies Overdue accounts are regularly reviewed and impairment provisions are created where necessary with due regard to the historical risk profile of the customer There were no new customers in 2010 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

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

	2010 £m	2009 £m
Pounds sterling	111 2	133 8
Euro	188 6	199 5
US dollar	20 4	17 8
Other currencies	54 8	48 1
	375 0	399 2

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

The other receivables and prepayments do not contain impaired assets

Other receivables include £21 3m of interest bearing and £1 0m of non-interest bearing notes and deferred consideration received in respect of business disposals The notes/deferred consideration have final maturities between 2010 and 2014, although earlier repayments may be precipitated under the terms of the respective disposal notes/sale agreements The interest bearing notes relate to the part disposal of our business in South Africa and are classified as available-for-sale The deferred consideration/disposal notes are classified as loans and receivables

16. Derivative financial instruments

	Fair value assets 2010 £m	Fair value assets 2009 £m	Fair value liabilities 2010 £m	Fair value liabilities 2009 £m
Interest rate swaps				
• non-hedge	39 6	27 3	(23 1)	(0 4)
• cash flow hedge	–	–	(6 6)	(4 0)
Forward rate agreements				
• cash flow hedge	–	–	–	(0 8)
Foreign exchange swaps				
• non-hedge	0 4	13 1	(2 0)	(9 5)
• net investment hedge	0 6	–	(0 8)	(0 8)
Foreign exchange forwards				
• non-hedge	–	–	(0 2)	(2 2)
• net investment hedge	–	–	(0 1)	–
	40 6	40 4	(32 8)	(17 7)
Analysed as follows				
Current portion	0 9	13 1	(3 0)	(13 3)
Non-current portion	39 7	27 3	(29 8)	(4 4)
	40 6	40 4	(32 8)	(17 7)

Fair value, cash flow and net investment hedge accounting has been applied to derivatives (marked as fair value hedge", cash flow hedge and "net investment hedge") in accordance with IAS 39 Where no hedge accounting has been applied, related derivatives have been marked as "non-hedge" Any ineffectiveness on the fair value, cash flow and net investment hedges are taken directly to finance costs The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a gain of £nil (2009 gain of £3 1m) (note 5) There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship

The group has £75m and £50m floating (LIBOR plus spread) to fixed interest rate swaps for which cash flow hedge accounting is applied and whose critical terms match those of the bonds disclosed in note 21 A charge of £2 6m (2009 £3 6m) has been recognised in reserves during the year in respect of the interest rate swaps which are cash flow hedge accounted

The group has no outstanding forward rate agreements at 31 December 2010 (2009 nominal value £200m)

The effective nominal value of foreign exchange swaps is £215 1m (2009 £516 6m) and foreign exchange forwards is £46 9m (2009 £30 7m)

Fair value hierarchy of derivative financial instruments
For all financial instruments held by the group, those that are held at fair value are to be classified by reference to the source of inputs used to derive the fair value The following hierarchy is used

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities,

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly as prices or indirectly through modelling based on prices,

Level 3 – inputs for the asset or liability that are not based on observable market data

The group holds all derivatives at fair value using discounted cash flow models based on market rates which are observable Therefore all derivative financial instruments and available-for-sale assets held by the group fall into Level 2 No financial instruments have moved between levels in the year

17. Inventories

	2010 £m	2009 £m
Raw materials	9 7	7 4
Work in progress	0 5	0 8
Finished goods	34 5	39 1
	44 7	47 3

There were no material inventory impairment charges in 2010 and 2009

18. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	86 9	88 5
Short-term bank deposits	6 1	13 2
	93 0	101 7
Cash and bank overdrafts include the following for the purposes of the cash flow statement		
Cash and cash equivalents	93 0	101 7
Bank overdrafts (note 21)	(19 3)	(42 0)
	73 7	59 7

Included within cash at bank and in hand is £12 5m (2009 £11 1m) 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

Interest is receivable and payable at rates of interest varying between 0 1% and 4 0%

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

19. Trade and other payables

	2010 £m	2009 £m
Trade payables	121 2	124 5
Social security and other taxes	82 7	83 8
Other payables	69 1	68 3
Accruals and deferred income	264 8	268 5
Deferred and contingent consideration on acquisitions	8 3	12 2
Total	546 1	557 3
Less non-current portion		
Other payables	12 3	13 2
Deferred and contingent consideration on acquisitions	-	0 8
	12 3	14 0
Current portion	533 8	543 3

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20. Provisions for other liabilities and charges

	Vacant properties £m	Environmental £m	Self insurance £m	Other £m	Total £m
At 1 January 2009	30 5	25 1	45 3	21 6	122 5
Exchange differences	(0 1)	0 4	(1 9)	(0 3)	(1 9)
Additional provisions	3 0	2 3	3 0	24 8	33 1
Unused amounts reversed	(0 3)	(0 6)	(0 3)	(1 6)	(2 8)
Unwinding of discount on provisions	0 3	0 6	–	–	0 9
Used during the year	(4 6)	(4 2)	(11 6)	(5 6)	(26 0)
At 31 December 2009	28 8	23 6	34 5	38 9	125 8
At 1 January 2010	28 8	23 6	34 5	38 9	125 8
Exchange differences	–	(0 3)	0 7	(0 5)	(0 1)
Additional provisions	30 8	–	4 0	4 8	39 6
Unused amounts reversed	(0 3)	(1 1)	(2 4)	(0 7)	(4 5)
Unwinding of discount on provisions	0 3	0 5	–	–	0 8
Used during the year	(6 2)	(2 6)	(8 4)	(26 5)	(43 7)
At 31 December 2010	53 4	20 1	28 4	16 0	117 9

Provisions analysed as follows

	2010 £m	2009 £m
Non-current	86 8	69 0
Current	31 1	56 8
	117 9	125 8

Vacant properties
The group has a number of vacant and partly sub-let leasehold properties, with the majority of the head leases expiring before 2020 Provision has been made for the residual lease commitments together with other outgoings, after taking into account existing sub tenant arrangements and assumptions relating to later periods of vacancy An additional provision of £29 2m was made in the year in respect of a claim under a lease guarantee given by a subsidiary following the disposal of a business some 20 years ago This provision represents the maximum cash outflow in respect of the guarantee discounted over the lease term No income from any sub-lease has been assumed in setting this provision

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases at 31 December 2010 is £3 4m

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

Self-insurance
The group purchases external insurance from a portfolio of international insurers for its key insurable risks The group has historically self insured its risks but during the latter part of 2008, other than for third party motor liability and workers compensation in the USA and the global property damage/business interruption, this practice was stopped and these became fully covered in the insurance market Provision is still held for self-insured past cover 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, based on an actuarial assessment of claims incurred at the balance sheet date, is accumulated as claims provisions

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

The above provisions have been discounted where appropriate using discount rates of 1 7% to 3 5% (2009 1 9% to 4 0%) for the UK, 2 9% (2009 3 0%) for Europe and 2 9% (2009 3 8%) for the USA

21. Bank and other borrowings

	2010 £m	2009 £m
Non-current		
RCF and other bank borrowings	113 8	226 0
Bond debt	867 5	885 5
Finance lease liabilities	6 7	8 6
	988 0	1,120 1
Current		
Bank overdrafts (note 18)	19 3	42 0
Bank borrowings	2 6	9 7
Bond accruals	29 7	30 4
Finance lease liabilities	7 0	7 6
	58 6	89 7
Total bank and other borrowings	1,046 6	1,209 8

Medium term notes and bond debt comprises

	Bond interest coupon	Effective hedged rate
Non current		
£300m bond due March 2016	Fixed 5 75%	Fixed 4 76%
£75m bond due September 2013/2033	Floating 3 month LIBOR + 3 98%	Fixed 7 89%
£50m bond due October 2013	Floating 3 month LIBOR + 3.25%	Fixed 7 44%
€500m bond due March 2014	Fixed 4 625%	Fixed 4 89%
Average cost of bond debt at year end rates		5 26%

The group has a committed £500m revolving credit facility which expires in October 2012 and which accrues interest at LIBOR for the period drawn plus 0 4% The cost of borrowing under the RCF at the year end was 0 8995%

The group's RCF, bank borrowings and bonds are held at amortised cost

The £300m bond was revalued for changes in interest rates during the period March 2006 to April 2009, during which the group paid floating interest rates At the end of this period, the group reverted to paying fixed interest rates and revaluation of the bond ceased as the hedge relationship ended The bond is recorded in the financial statements at amortised cost and revaluation differences are amortised to the consolidated income statement over the life of the bond thus producing the effective rate indicated above

The carrying values and the fair values of the group's non-current borrowings are shown below Fair values are based on cash flows discounted at the current market rates

	Carrying amount 2010 £m	Carrying amount 2009 £m	Fair value 2010 £m	Fair value 2009 £m
Bank borrowings	113 8	226 7	113 9	226 7
£300m bond due March 2016	319 9	323 8	307 6	298 7
£75m bond due September 2013/2033	74 9	74 8	74 9	74 8
£50m bond due October 2013	49 8	49 8	51 3	51 9
€500m bond due March 2014	422.9	436 4	440 1	449 3
Finance lease liabilities	6 7	8 6	6 7	8 6
	988 0	1,120 1	994 5	1,110 0

The group considers the fair value of its current liabilities to be equal to the carrying value

Finance leases
Finance lease payments fall due as follows

	2010 £m	2009 £m
Not later than one year	7 4	8 0
Between		
• one and two years	3 7	4 7
• two and three years	2 5	2 8
• three and four years	0 8	1 7
• four and five years	0 2	0 2
• over five years	–	–
	14 6	17 4
Future finance charges on finance leases	(0 9)	(1 2)
Present value of finance lease liabilities	13 7	16 2

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

Undrawn committed borrowing facilities
The group's committed borrowing facilities comprise a £500m Revolving Credit Facility and a £60m Letter of Credit facility, both maturing October 2012 At 31 December, £110m (2009 £225m) was drawn under the Revolving Credit Facility and £39 8m (2009 £45 7m) of letters of credit were in issue

	2010 £m	2009 £m
Expiring within		
• one year, or on demand	–	22 6
• one and two years	410 2	–
• two and three years	–	275 0
• three and four years	–	–
• four and five years	–	–
• over five years	–	–
	410 2	297 6

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

22. Maturity profile of financial liabilities

The table below analyses the undiscounted contractual cash flows of the group's financial liabilities, including interest payments

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2010					
Borrowings	66 0	158 4	652 9	317 5	1,194 8
Derivative financial instruments	2 9	2 7	1 1	–	6 7
Trade and other payables	342 1	12 3	–	–	354 4
Finance leases	7 4	3 7	3 5	–	14 6
Other	18 0	7 8	17 2	26 6	69 6
	436 4	184 9	674 7	344 1	1,640 1
At 31 December 2009					
Borrowings	96 5	44 7	923 5	334 9	1,399 6
Derivative financial instruments	0 8	–	4 4	–	5 2
Trade and other payables	346 7	13 2	–	–	359 9
Finance leases	8 0	4 7	4 7	–	17 4
Other	18 7	6 1	8 1	10 7	43 6
	470 7	68 7	940 7	345 6	1,825 7

Other includes £61 3m (2009 £31 4m) in respect of provisions related to underlying onerous lease contracts and £8 3m (2009 £12 2m) in respect of deferred consideration

Reconciliation of total financial instruments

The table below reconciles the group's accounting categorisation of financial assets and liabilities (based on initial recognition) to the classes of assets and liabilities as shown on the face of the balance sheet

	Fair value through income statement £m	Loans and receivables £m	Available for sale £m	Financial liabilities held at amortised cost £m	Not categorised as a financial instrument £m	Total £m	Non-current £m	Current £m
At 31 December 2010								
Assets								
Other investments	–	–	3 7	–	–	3 7	2.8	0 9
Trade and other receivables	–	378 9	21 3	–	43 5	443 7	29 6	414 1
Derivative financial instruments	40 6	–	–	–	–	40 6	0 9	39 7
Cash and cash equivalents	–	93 0	–	–	–	93 0	–	93 0
Liabilities								
Derivative financial instruments	(32 8)	–	–	–	–	(32 8)	(29 8)	(3 0)
Trade and other payables	–	–	–	(362 7)	(183 4)	(546 1)	(12 3)	(533 8)
Borrowings	–	–	–	(1,046 6)	–	(1,046 6)	(988 0)	(58 6)
Finance leases	–	–	–	(14 6)	–	(14 6)	(7 2)	(7 4)
At 31 December 2009								
Assets								
Other investments	–	–	3 7	–	–	3 7	1 4	2 3
Trade and other receivables	–	405 4	17 9	–	40 7	464 0	26 5	437 5
Derivative financial instruments	40 4	–	–	–	–	40 4	27 3	13.1
Cash and cash equivalents	–	101 7	–	–	–	101 7	–	101 7
Liabilities								
Derivative financial instruments	(17 7)	–	–	–	–	(17 7)	(4 4)	(13 3)
Trade and other payables	–	–	–	(372 1)	(185 2)	(557 3)	(14 0)	(543.3)
Borrowings	–	–	–	(1,209 8)	–	(1,209 8)	(1,120 1)	(89 7)
Finance leases	–	–	–	(17 4)	–	(17 4)	(9 4)	(8 0)

The table below analyses the group's derivative financial instruments, which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows

	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 2010					
Foreign exchange swaps					
• Outflow	(235 5)	–	–	–	(235 5)
• Inflow	234 0	–	–	–	234 0
Foreign exchange forwards					
• Outflow	(46 9)	–	–	–	(46 9)
• Inflow	47 0	–	–	–	47 0
Net outflow	(1 4)	–	–	–	(1 4)
At 31 December 2009					
Foreign exchange swaps					
• Outflow	(1,101 1)	–	–	–	(1,101 1)
• Inflow	1,104 2	–	–	–	1,104 2
Foreign exchange forwards					
• Outflow	(33 4)	–	–	–	(33 4)
• Inflow	31 2	–	–	–	31 2
Net inflow	0 9	–	–	–	0 9

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

	Borrowings 2010 £m	Borrowings 2009 £m	Trade payables and other 2010 £m	Trade payables and other 2009 £m	Total 2010 £m	Total 2009 £m
Pounds sterling	573 2	703 9	204 9	189 7	778 1	893 6
Euro	457 0	489 0	132 9	132 3	589 9	621 3
US dollar	3 8	3 1	28 0	26 4	31 8	29 5
Other currencies	12 6	13 8	50 3	52 5	62 9	66 3
	1,046 6	1,209 8	416 1	400 9	1,462 7	1,610 7

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

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

Risk management
The group's activities expose it to capital risk, liquidity risk, market risk and credit risk

Capital risk
The group is committed to maintaining a debt/equity structure which allows continued access to a broad range of financing sources and sufficient flexibility to pursue commercial opportunities, in a timely manner as they present themselves, without onerous financing terms and conditions The group has in issue Medium Term Notes and a £500m Revolving Credit Facility (see note 21 for details) These contain a single covenant requiring that EBITDA interest should be at least 4 0 1 0 at each semi-annual reporting date The group was compliant throughout the year

The group targets an investment grade rating of BBB or above for debt insurance over the medium term Currently the group is rated BBB– with a stable outlook

The group s Medium Term Notes may be recalled by its investors in the event of a change of control of the group and within 120 days if

(a) the group s debt is down-graded below investment grade or the rating is withdrawn and

(b) the rating agency confirms in writing, either publicly or in writing to the issuer or the Trustee that the rating action occurred either wholly or in part due to the change of control

Liquidity risk
The group is committed to ensuring it has sufficient liquidity to meet its payables as they fall due To achieve this it aims to maintain minimum committed financing headroom of £200m, over the medium term, when measured against the latest forecast cash flows over a rolling 12 month horizon At 31st December 2010 the group had headroom of £390m

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

(i) Foreign exchange rate risk
The group is exposed to the following foreign exchange risks Pre-transaction risk, Transaction risk, Translation risk, Economic risk

The group's policy response is as follows

(1) Pre-transaction risk – The majority of sales and purchases are local, limiting pre-transaction risk The policy is therefore to accept the risk

(2) Transaction risk – The majority of sales and purchases are local, limiting transaction risk The policy is therefore to accept the risk, except where significant acquisitions or disposals (not internally funded) are to be undertaken, where the transaction may be hedged to give certainty of pricing

(3) Translation risk – The group is exposed to translation risk as a result of its worldwide operations The group aims to hold debt in currencies broadly matching its forecast cash flows, meaning that currency interest costs reduce the net profit retranslation exposure This reduces the volatility of earnings affecting the group's interest cover covenant Foreign currency debt is designated for hedge accounting as a hedge of its currency net assets, so reducing its net currency assets Retranslation gains and losses are recognised in reserves, rather than in the income statement

(4) Economic risk – Economic risk is a core risk to the business, which the business therefore accepts and monitors

The group calculates the impact on the income statement and equity of a 10% shift in foreign exchange rates The group's principal foreign currency exposure is to Euro, and a 10% shift in GBP/EUR would result in an £8 7m (2009 £8 7m) increase/decrease in operating profit, offset by a £1 9m (2009 £1 9m) increase/decrease in interest payable, being interest on the €500m bond which is not hedged to provide a partial natural offset to the operating profit exposure

For the purposes of IFRS 7, the group is required to disclose the gross impact on the income statement, including any intercompany loans issued from the UK to overseas subsidiaries A 10% shift in GBP/EUR would result in a £174 3m (2009 £162 4m) increase/decrease in interest payable, offset by a £172 3m (2009 £160 5m) decrease/increase in interest payable Equity reserves would decrease/increase by £5 9m (2009 £17 1m)

(ii) Interest rate risk
The group seeks to manage interest rate risk to ensure reasonable certainty of its interest charge whilst allowing an element of risk exposure consistent with the variability of the group s cash flows

The group is required to fix (or cap) a minimum of 50% of the group's estimated future interest rate exposures (excluding pensions) for a minimum of 12 months forward

At the end of December 2010 approximately 89% of the group's debt was at a fixed rate of interest Accordingly, the group is not materially exposed to rising interest rates The group calculates the impact on profit and loss and equity of a defined interest rate shift The same interest rate shift is used for all currencies The simulation is run only for liabilities or items in equity that present the major interest-bearing positions The impact on profit and loss of a 1% shift would be a maximum increase/decrease of £0 6m (2009 £4 1m) The equity impact of a 1% shift would be a maximum increase/decrease of £3 3m (2009 £4 5m)

Credit risk
The group has no significant concentration of credit risk Sales are typically low value, high volume, spreading the risk across a number of customers Policies are in place to ensure that sales are only made to customers with an appropriate credit history Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions and there is no significant concentration of exposure to any single counterparty The group monitors the creditworthiness of its derivative counterparties using a combination of credit ratings and other market indicators All of the group's banking and derivative counterparties were graded A- or above by Standard and Poor's or equivalent at 31 December 2010 The group operated in some territories where there is increased exposure to trade credit risks and in those cases the group puts in place appropriate additional measures to manage its credit exposure

Treasury risk
The company utilises financial instruments to manage known financial exposures in line with policies agreed by the board and outlined above The company does not enter into any speculative derivative contracts

23. Deferred income tax

The movement on the deferred income tax account is as follows

	2010 £m	2009 £m
At 1 January	(47 8)	(117 4)
Exchange differences	1 1	4 5
Acquisition of companies and businesses	(2 3)	(0 2)
Disposal of companies and businesses	(0 4)	1 5
Transfers to current taxation	–	(0 6)
(Charged)/credited to the income statement	(6 0)	15 4
(Charged)/credited to equity	(4 2)	49 0
At 31 December	(59 6)	(47 8)
Deferred taxation has been presented on the balance sheet as follows		
Deferred tax asset within non-current assets	10 3	26 0
Deferred tax liability within non current liabilities	(69 9)	(73 8)
	(59 6)	(47 8)

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

	Customer lists/ intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Tax losses £m	Share based payments £m	Other £m	Total £m
At 31 December 2009	39 1	55 0	(18 4)	4 4	(17 2)	–	(15 1)	47 8
At 31 December 2010	33 2	53 4	(11 0)	5 0	(2 3)	(3 7)	(15 0)	59 6

At the balance sheet date the group has tax losses of £322 9m (2009 £242 5m) on which no deferred tax asset is recognised Of the losses, £70 0m will expire at various dates between 2011 and 2030 In addition, there are capital losses carried forward of £287 7m (2009 £287 7m) on which no deferred tax asset is recognised Other deferred tax assets relating to gross temporary timing differences of £23 9m (2009 £42 3m) have not been recognised due to the uncertainty regarding their utilisation

The reduction in the UK corporation tax rate from 28% to 27% has had no material impact on the deferred tax position

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

24. Retirement benefit obligations

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

The principal scheme in the group is the Rentokil Initial Pension Scheme ("RIPS") in the United Kingdom, which has a number of defined benefit sections which are now closed to new entrants (other than the Initial No 2 Section, accounting for 0.5% of the total schemes liabilities, which remains open). Actuarial valuations of the UK scheme are usually carried out every three years. The most recent full valuation was at 31 March 2007. The 2010 valuation is in progress and the company has commenced discussions with the Pension Trustees in relation to any funding implications arising from this.

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

	2010	2009
Weighted average %		
Discount rate	5.4%	5.7%
Expected return on plan assets	5.7%	6.0%
Future salary increases	4.4%	4.5%
Future pension increases	3.5%	3.5%
RPI Inflation[1]	3.7%	3.8%
CPI Inflation[1]	3.0%	N/A

1 In 2010 CPI rather than RPI was used for calculating certain future pension increases, resulting in a credit of £35.0m in respect of a change in pension liabilities.

The expected return on plan assets in the above table is a long term rate of return. Assets with higher historic volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is a weighted average of the expected return for each asset class over the benchmark asset allocation for the scheme at 31 December 2010, less an appropriate allowance for the cost of maintaining the swap portfolio.

Mortality assumptions

At 31 December 2010, standard tables PNMA00 and PNFA00 projected, based on the year of the member's birth using the PA92 series Medium Cohort projection factors (incorporating underpins to annual improvements in mortality rates of 1.0% for males and 0.5% for females). The mortality rates are scaled by a factor of 130% for "non-executive" members and by 85% for "executive" members. This equates to a man aged 65 living for a further 20.1 years if he is a "non-executive" member and for a further 23.6 years if he is an "executive" member. The corresponding figures for a woman are 22.2 and 25.5 years respectively.

The same assumptions were adopted at 31 December 2009.

Sensitivity of assumptions

	Sensitivity	Impact on pension obligations (£m) Increase	Decrease
Discount rate	1.0%	(200.3)	156.9
Inflation	1.0%	(107.3)	99.5
Mortality	1 year	(37.2)	38.3

Pension benefits

The amounts recognised in the balance sheet are determined as follows

	2010 UK RIPS £m	2010 Other £m	2010 Total £m	2009 UK RIPS £m	2009 Other £m	2009 Total £m
Present value of funded obligations	(1,043 4)	(27 6)	(1,071 0)	(1,026 7)	(27 5)	(1,054 2)
Fair value of plan assets	1,048 4	21 8	1,070 2	978 8	22 3	1,001 1
	5 0	(5 8)	(0 8)	(47 9)	(5 2)	(53 1)
Present value of unfunded obligations	–	(11 1)	(11 1)	–	(11 2)	(11 2)
(Liability)/Asset in the balance sheet	5 0	(16 9)	(11 9)	(47 9)	(16 4)	(64 3)
Presented on the balance sheet as						
Retirement benefit assets	5 0	–	5 0	–	–	–
Retirement benefit obligations	–	(16 9)	(16 9)	(47 9)	(16 4)	(64 3)
	5 0	(16 9)	(11 9)	(47 9)	(16 4)	(64 3)

The amounts recognised in the income statement are as follows

	2010 UK RIPS £m	2010 Other £m	2010 Total £m	2009 UK RIPS £m	2009 Other £m	2009 Total £m
Current service cost[2]	0 4	1 1	1 5	0 2	1 1	1 3
Past service cost[3]	(35 0)	–	(35 0)	–	–	–
Interest cost[2]	57 3	1 2	58 5	54 5	0 8	55 3
Amount charged to pension liability	22 7	2 3	25 0	54 7	1 9	56 6
Expected return on plan assets[2]	(57 4)	(1 2)	(58 6)	(60 4)	(0 8)	(61 2)
Total pension (income)/cost	(34 7)	1 1	(33 6)	(5 7)	1 1	(4 6)

1 other retirement benefit plans are predominantly made up of defined benefit plans situated in Ireland, Germany, Australia, Belgium, Norway and France
2 service costs are charged to operating expenses and interest cost and return on plan assets to interest payable and receivable respectively
3 a credit in respect of a change in pension liabilities as a result of using CPI rather than RPI for calculating certain future pension increases

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

	2010 UK RIPS £m	2010 Other £m	2010 Total £m	2009 UK RIPS £m	2009 Other £m	2009 Total £m
At 1 January	978 8	22 3	1,001 1	1,028 8	20 5	1,049 3
Exchange differences	–	(0 1)	(0 1)	–	(0 7)	(0 7)
Expected return on plan assets	57 4	1 2	58 6	60 4	0 8	61 2
Actuarial gain/(loss) during the year	57 4	(0 5)	56 9	(66 5)	1 5	(65 0)
Contributions received from employees	0 1	0 1	0 2	0 1	0 1	0 2
Contributions received from employer	0 3	1 0	1 3	0 3	1 2	1 5
Benefits paid	(45 6)	(2 2)	(47 8)	(44 3)	(1 1)	(45 4)
At 31 December	1,048 4	21 8	1,070 2	978 8	22 3	1,001 1

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

	2010 UK RIPS £m	2010 Other £m	2010 Total £m	2009 UK RIPS £m	2009 Other £m	2009 Total £m
Equity instruments	188 9	8 4	197 3	165 8	7 7	173 5
Debt instruments	435 7	10 8	446 5	475 3	13 5	488 8
Property	–	0 7	0 7	–	0 6	0 6
Other	65 0	1 9	66 9	115 5	0 5	116 0
Interest and inflation rate hedging instruments	358 8	–	358 8	222 2	–	222 2
Total plan assets	1,048 4	21 8	1,070 2	978 8	22 3	1,001 1

Where available, the bid value of assets has been used In other cases, the market value as provided by the investment managers has been used

Pension plan assets include the company's ordinary shares with a fair value of £nil (2009 £0 2m)

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

	2010 UK RIPS £m	2010 Other £m	2010 Total £m	2009 UK RIPS £m	2009 Other £m	2009 Total £m
At 1 January	1,026 7	38 7	1,065 4	874 4	40 0	914 4
Exchange differences	–	(0 3)	(0 3)	–	(1 4)	(1 4)
Total expense charged in the income statement	22 7	2 3	25 0	54 7	1 9	56 6
Actuarial (gain)/loss during the year	42 0	(0 5)	41 5	143 8	2 6	146 4
Contributions received from employees	0 1	0 1	0 2	0 1	0 1	0 2
Expenses paid by employer	(2 5)	–	(2 5)	(2 0)	–	(2 0)
Benefits paid	(45 6)	(1 6)	(47 2)	(44 3)	(4 5)	(48 8)
At 31 December	1,043 4	38 7	1,082 1	1,026 7	38 7	1,065 4

The history for the current and prior periods is as follows

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of defined benefit plan liabilities	(1,082 1)	(1,065 4)	(914 4)	(942 9)	(1,039 9)
Fair value of plan assets	1,070 2	1,001 1	1,049 3	992 9	921 1
Net surplus/(deficit)	(11 9)	(64 3)	134 9	50 0	(118 8)
Experience adjustments on plan liabilities	2 8	29 5	(9 6)	14 0	(16 2)
Experience adjustments on plan assets	56 9	(65 0)	3 0	(13 3)	20 1

The group made a contribution of £0 3m to the UK defined benefit scheme in 2010 (2009 £0 3m) Discussions have commenced with the Pension Trustees in relation to any funding implications arising from the 2010 triennial valuation

The expected return on plan assets is based on market expectations at the beginning of the year The actual return on plan assets was £115 5m (2009 negative £3 8m)

The cumulative actuarial loss recognised in the consolidated statement of comprehensive income was £180 1m (2009 £195 5m) An actuarial gain of £15 4m (2009 £211 4m loss) was recognised during the year

25. Share Capital

	2010 £m	2009 £m
Share capital		
Authorised		
4,100,000,000 ordinary shares of 1p each	41 0	41 0
Issued and fully paid		
At 1 January and 31 December – 1,814,831,011 shares (2009 1,814,831,011)	18 1	18 1

26. Share-based payments

The company has share option schemes for approximately 500 senior executives worldwide The exercise price for share options is the mid market closing price immediately preceding the date of grant Share options are equity settled The total net charge for the year relating to equity-settled share-based payment plans was £6 0m (2009 £5 1m)

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

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

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

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

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

	Weighted average exercise price p per share	Number of share options 000
Outstanding at 1 January 2009	190 078	12,807
Expired	189 407	5,565
Outstanding at 31 December 2009	190 593	7,242
Expired	167 263	1,949
Outstanding at 31 December 2010	199 184	5,293

No options were exercised during the period

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

	Granted	Exercise period	Exercise price (p)	Number of shares
Executive schemes	2001	2004–2011	205 250	1,196,726
	2002	2005–2012	266 750	1,099,112
	2003	2006–2013	204 500	1,141,021
	2004	2007–2014	152 000	1,856,253
				5,293,112

Performance Share Plan

The company introduced a new share based Performance Plan in 2006 and granted 9,521,516 shares in May 2006, 10,173,589 at various dates throughout 2007, 10,245,358 at various dates throughout 2008, and 11,703,753 at various dates throughout 2009 and 10,151,534 at various dates throughout 2010 The 2007 grants lapsed at the end of 2010 with the performance criteria not being met

Year of Grant	Vesting Year	Number 31 December 2009	Granted	Lapsed	Number 31 December 2010
2007	2010	6,176,424	–	6,176,424	–
2008	2011	7,527,489	–	791,623	6,735,866
2009	2012	11,703,753	–	1,584,476	10,119,277
2010	2013	–	10,151,534	–	10,151,534

The performance conditions for the 2008 awards are share price and the financial performance (bonus multiplier") of the group, division or business whichever is applicable to the award holder The share price condition is based on the highest average share price of Rentokil Initial plc over any 60 consecutive dealing days during the initial three-year period The performance period for the share price element of the award began on 1 April 2008 and ends 61 dealing days following the announcement of the company's results for the financial year ending 31 December 2010 The annual bonus multiplier measures the extent to which the annual bonus targets have been achieved in respect of each financial year during the performance period The 2008 awards in the above table assume an on target share price of 180p per share is reached at the end of the vesting period and that participants achieve their target bonus in each of the three years over the vesting period No shares will vest if the share price does not reach 120p per share at the end of the vesting period and 200% will vest if the share price reaches 180p per share and all participants attain maximum of their bonus targets Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period

The performance conditions for the 2009 and 2010 awards are total shareholder return ("TSR") and the financial performance ("bonus multiplier") of the group, division or business whichever is applicable to the award holder The TSR condition is measured relative to the TSR achieved by constituents of a comparator group, made up of the FTSE 350 companies at the date of grant but excluding financial services and basic resources companies The performance period for the share price element of the 2010 award began on 1 April 2010, running to 31 March 2013 The TSR performance is measured using a three month average with the start period average being 1 January 2010 to 31 March 2010 and the end period average being 1 January 2013 to 31 March 2013 The annual bonus multiplier measures the extent to which the annual bonus targets have been achieved in respect of each financial year during the performance period The 2009 and 2010 awards in the above table assume a TSR performance in the upper quartile or above is reached at the end of the vesting period and that participants achieve their target bonus in each of the three years over the vesting period No shares will vest if the share price does not reach median TSR performance at the end of the vesting period and 200% will vest if the TSR performance is above the upper quartile and all participants attain maximum bonus targets Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period

The fair value of the 2010 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 The significant inputs into the model were a share price of 127 7p (2009 88 5p), an expected share price volatility of 41 7%, a share price correlation of the companies in the comparator group of 28% and an expected life commensurate with the performance/vesting period The share price volatility assumption is based on analysis of historical daily share prices Given the significant volatility of share prices observed over an historic period, an average three-year volatility figure over the three years to the date of grant has been used to determine the historic long-term trend, and this has been taken as a benchmark for the expected share price volatility over the term of the awards As the awards are nil-cost (i e there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards Similarly, as dividend equivalents are paid on the vesting portion of awards, the fair value of these awards is not reduced to reflect dividends paid during the vesting period

The fair value of shares granted during 2010 was £8 9m (2009 £7 0m)

Executive Share Plan

In 2008 the company also introduced a long-term incentive plan for the chairman, chief executive and one other executive director and granted 22,500,000 shares during the year

Year of Grant	Exercise period	Number 31 December 2009	Granted	Lapsed	Number 31 December 2010
2008	2011–2013	22,500,000	–	–	22,500,000

The performance condition for the award is share price and will only be satisfied if the share price target is achieved over a sustained period, demonstrating realisable value creation for shareholders This will be measured on the basis of an average share price over any 60 consecutive trading days during the performance measurement period Until a minimum share price of 120p per share has been met over a sustained period, no shares will be earned At 120p per share, 20% of the award would be earned, rising on a straight-line basis to full vesting at a share price of 180p per share For achieving growth in market value between a share price of 180p per share and 280p per share further shares may be earned up to a maximum of a further 50% of the original award The 2008 awards in the same table assume an on target share price of 180p per share is reached at the end of the vesting period Up to 1/3 of the award may vest following the end of the third year, another 1/3 following the end of the fourth year and a further 1/3 following the end of the fifth year, based on the extent to which performance targets are achieved Any unvested portion of the award following the end of the fifth year will lapse Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period See the remuneration report on pages 40 to 47 for further details

The fair value of the 2008 awards made under the Rentokil Initial 2008 Executive Share Plan is charged to the income statement over the vesting period based on values derived from a bespoke Monte Carlo simulation model The significant inputs into the model were a share price of 102p, an expected share price volatility of 21%, an expected dividend yield of 5% per annum and an expected life commensurate with the performance/ vesting period The share price volatility assumption is based on analysis of historical daily share prices measured until October 2007 (therefore excluding the significant volatility during the last months of 2007, which the company would not expect going forward) As the awards are nil-cost (i e there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards

During the first half of 2010 the company's share price achieved a 60 day highest average price of 130 82 pence and therefore under the terms of the plan it is expected that 34 43% of the award will vest with participants being entitled to receive a third of the award from May 2011, a second third a year later and the balance in May 2013 Additional amounts can be earned based on share price appreciation beyond the 130 82 pence level during the remaining life of the scheme

27. Cash generated from operating activities

	2010 £m	2009 £m
Profit for the year	(20 3)	48 9
Adjustments for		
• Tax	34 8	16 1
• Share of profit from associates	(4 1)	(3 3)
• Interest income	(63 3)	(67 4)
• Interest expense	114 4	125 0
• Depreciation and impairment of tangible assets	207 3	210 6
• Amortisation and impairment of intangible assets[1]	152 7	61 3
• Amortisation of computer software	5 6	5 3
• LTIP charges	6 0	5 1
• Loss on sale of property, plant and equipment	1 9	3 5
• Loss on disposal/retirement of intangible assets	0 3	0 7
• Loss on disposal of companies and businesses	5 3	1 1
• Cumulative translation exchange gain recycled on continuing operations	(2 3)	(2 0)
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation)		
• Inventories	4 1	3 2
• Trade and other receivables	22 6	64 4
• Trade and other payables and provisions	(59 5)	24 1
Cash generated from operating activities	405 5	496 6

1 excluding computer software

In the cash flow statement, proceeds from sale of property, plant and equipment comprise

Net book amount	14 9	13 5
Loss on sale of property, plant and equipment	(1 9)	(3 5)
Proceeds from sale of property, plant and equipment	13 0	10 0

28. Reconciliation of net increase in cash and bank overdrafts to net debt

	2010 £m	2009 £m
Net increase in cash and bank overdrafts	8 1	11 5
Movement on finance leases	2 3	2 6
Movement on loans	122 9	216 0
Decrease in debt resulting from cash flows	133 3	230 1
Foreign exchange translation and other items	21 2	24 0
Movement on net debt in the year	154 5	254 1
Opening net debt	(1,108 1)	(1,362 2)
Closing net debt	(953 6)	(1,108 1)
Closing net debt comprises		
Cash and cash equivalents	93 0	101 7
Bank and other short-term borrowings	(58 6)	(89 7)
Bank and other long-term borrowings	(988 0)	(1,120 1)
Total net debt	(953 6)	(1,108 1)

29. Operating and free cash flow

	2010 £m	2009 £m
Cash generated from operating activities	405 5	496 6
Purchase of property, plant and equipment (PPE)	(183 2)	(176 2)
Purchase of intangible fixed assets	(9 4)	(6 3)
Leased property, plant and equipment	(5 1)	(6 7)
Proceeds from sale of PPE	13 0	10 0
Dividends received from associates	1 9	1 8
Dividends paid to non controlling interests	(2 6)	(2 5)
Operating cash flow	220 1	316 7
Interest received	5 3	5 5
Interest paid	(48 3)	(65 9)
Interest element of finance lease payments	(0 9)	(1 1)
Income tax paid	(35 0)	(17 5)
Purchase of available-for-sale investments	-	(0 8)
Free cash flow	141 2	236 9

30. Business combinations

On 17 June 2010, the group acquired 100% of the voting equity instruments of two businesses, Knightsbridge Guarding Holdings Ltd, a man guarding security service and Knightsbridge Guarding Business Ltd ("Perception"), a business services provider The total consideration for the acquisition was £10 0m On 2 August 2010, the group acquired 100% of the voting equity instruments of SR Dental AB, a dental reclamation business based in Sweden, for a total consideration of £6 7m A further £0 6m related to other acquisitions, bringing the total consideration for current and prior period acquisitions to £17 3m

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

	Knightsbridge Guarding £m	SR Dental AB £m	Other £m	2010 £m
Purchase consideration				
• Cash paid	7 5	6 7	2 7	16 9
• Contingent consideration	2 5	-	0 2	2 7
Total purchase consideration	10 0	6 7	2 9	19 6
Fair value of net assets acquired	(5 3)	(3 0)	(2 5)	(10 8)
Goodwill from current year acquisitions	4 7	3 7	0 4	8 8
Deferred consideration adjustment in respect of prior year acquisitions	-	-	(2 3)	(2 3)
Goodwill arising in the year	4 7	3 7	(1 9)	6 5

Goodwill represents the synergies, workforce and other benefits expected as a result of combining the respective businesses None of the goodwill recognised is expected to be deductible for tax purposes

Contingent consideration up to a maximum of £2 7m is payable over the next year based on earn out conditions on revenue and profit The group has included the contingent consideration based on the fair value of consideration at the acquisition date

The group incurred acquisition related costs of £0 5m in respect of the above acquisitions

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

	Knightsbridge Guarding £m	SR Dental AB £m	Other £m	2010 £m
Non-current assets				
• Property, plant and equipment	0 2	0 9	-	1 1
Current assets	7 8	1 2	-	9 0
Current liabilities	(6 0)	(0 9)	-	(6 9)
Non-current liabilities	(0 4)	(0 4)	-	(0 8)
Non controlling interest	-	-	0 4	0 4
Net assets acquired	1 6	0 8	0 4	2 8

The provisional fair value adjustments to the book value of assets and liabilities arising from acquisitions during the year and adjustments made to prior period acquisitions are as follows

	Knightsbridge Guarding £m	SR Dental AB £m	Other £m	2010 £m
Non-current assets				
• Intangible assets	5 2	3 0	2 1	10 3
Non current liabilities (deferred tax)	(1 5)	(0 8)	-	(2 3)
Net assets acquired	3 7	2.2	2 1	8 0

The fair value adjustments above include a reduction of £nil in respect of prior year acquisitions following the finalisation of the acquisition accounting

The £10 3m of intangible assets acquired relate to customer lists and relationships £7 8m and brands £2 5m

The provisional fair value[1] of assets and liabilities arising from acquisitions in the year and adjustments in respect of prior period acquisitions are as follows

	Knightsbridge Guarding £m	SR Dental AB £m	Other £m	2010 £m
Non-current assets				
• Intangible assets	5 2	3 0	2 1	10 3
• Property, plant and equipment	0 2	0 9	-	1 1
Current assets[2]	7 8	1 2	-	9 0
Current liabilities	(6 0)	(0 9)	-	(6 9)
Non-current liabilities	(1 9)	(1 2)	-	(3 1)
Non controlling interest	-	-	0 4	0 4
Net assets acquired	5 3	3 0	2 5	10 8

1 the provisional fair values will be finalised in the 2011 financial statements The fair values are provisional since the acquisition accounting has not yet been finalised and as a result of the proximity of many acquisitions to the year end

2 includes trade receivables of £9 0m which represents the gross and fair value of the assets acquired

	Knightsbridge Guarding £m	SR Dental AB £m	Other £m	2010 £m
Total purchase consideration	10 0	6 7	0 6	17 3
Consideration payable in future periods	(2 5)	–	(0 2)	(2 7)
Prior period deferred consideration adjustment	–	–	2 3	2 3
Purchase consideration (paid in cash)	7 5	6 7	2 7	16 9
Cash and cash equivalents in acquired companies and businesses	(2 6)	–	–	(2 6)
Cash outflow on current period acquisitions	4 9	6 7	2 7	14 3
Deferred consideration from prior periods paid	–	–	3 6	3 6
Cash outflow on current and past acquisitions	4 9	6 7	6 3	17 9

From the dates of acquisition to 31 December 2010 these acquisitions contributed £22 3m to revenue and £0 8m to operating profit

If the acquisitions had occurred on 1 January 2010, the revenue and operating profit of the combined entity would have amounted to £2,517 1m and £62 9m respectively

31. Contingent liabilities

The group has contingent liabilities relating to guarantees in respect of third parties, environmental issues and tax and litigation, none of which are expected to give rise to any significant loss

32. Capital commitments

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

	2010 £m	2009 £m
Property, plant and equipment	17 0	20 7
Intangible assets	1 9	2 2
	18 9	22 9

33. Operating leases

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

The future aggregate minimum lease payments under non cancellable operating leases are as follows

	2010 £m	2009 £m
Not later than one year	55 4	58 8
Later than one year and not later than five years	136 9	152 4
Later than five years	54 3	83 2
	246 6	294 4

The above table includes commitments in respect of a provision of £29 2m made in the year in respect of a claim under a lease guarantee given by a subsidiary following the disposal of a business some 20 years ago, as included in note 20

34. Related party transactions

The group's strategy and policy are managed by the executive board (executive directors and senior management as shown on pages 22 and 23) Their compensation and the compensation payable to the non executive directors is shown below

	2010 £m	2009 £m
Salaries and other short-term employee benefits	4 5	6 3
Post employment benefits	0 5	0 7
Termination benefits	0 3	1 1
Share-based payments	4 2	3 7
	9 5	11 8

Initial Catering Services Ltd (75%), Rentokil Initial (Pty) Ltd (74 9%), Yu Yu Calmic Co Ltd (50%) and Rentokil Initial (B) Sdn Bhd (70%) are non-wholly owned subsidiaries of Rentokil Initial plc All transactions between these entities and the group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation

Nippon Calmic Ltd (49%) was an associate during 2010 and 2009 and its balances are disclosed in note 13 There are no significant transactions between Nippon Calmic Ltd and other group companies

The group recharges the Rentokil Initial Pension Scheme with costs of administration and independent pension advice borne by the group The total amount of recharges in the year ended 31 December 2010 was £2 5m (2009 £2 0m)

The group has made a loan to a consortium of private investors which enabled them to purchase a 25 1% stake in the South African business The group has a receivable from this consortium of £21 3m (2009 £17 9m) at the end of the year The loan is due for repayment in 2014 The repayment of the loan will be dependent upon the future dividends generated by the business

35. Post-balance sheet events

There were no significant post balance sheet events affecting the group since 31 December 2010

Financial statements

Principal operating subsidiary and associated undertakings

At 31 December

Subsidiary undertakings

United Kingdom
Dudley Industries Ltd
Initial Building Services Ltd
Initial Catering Services Ltd (75%)
City Link Ltd
Initial Facilities Management Ltd
Initial Hospital Services Ltd
Knightsbridge Guarding Ltd
Perception UK LLP
Rentokil Initial Holdings Ltd
Rentokil Initial Services Ltd
Rentokil Initial UK Ltd
Rentokil Initial Facilities Services (UK) Ltd
Rentokil Initial Fire Services Limited
Rentokil Insurance Ltd
Insitu Cleaning Ltd
Lancaster Office Cleaning Company Ltd
Initial Medical Services Ltd

Australia
Rentokil Initial Pty Ltd

Austria
Rentokil Initial GmbH
Initial Austria GmbH
Initial Hygiene Austria GmbH

Bahamas
Rentokil Initial (Bahamas) Ltd

Barbados
Rentokil Initial (Barbados) Ltd

Belgium
Initial Textiles NV
Rentokil NV
Ambius NV

Brunei
Rentokil Initial (B) Sdn Bhd (70%)

Canada
Rentokil Pest Control Canada Ltd
Ambius Inc

Czech Republic
Initial Ecotex sro

Denmark
Rentokil Initial A/S
Initial A/S

Estonia
Rentokil Ou

Fiji
Rentokil Initial Ltd

Finland
Oy Rentokil Ambius AB
Oy Initial AB

France
Initial BTB SA
Rentokil Initial SAS
Ambius SAS
Technivap SAS

Germany
Initial Textile Service GmbH and Co KG
Rentokil Initial GmbH
Medentex GmbH
Initial Waschraumservice GmbH

Greece
Rentokil Initial Hellas EPE

Guadeloupe
Rentokil Initial Guadeloupe Sarl

Guernsey, C I
Felcourt Insurance Company Ltd

Guyana
Rentokil Initial Guyana Ltd

Hong Kong
Rentokil Initial Hong Kong Ltd
Po Hong Services Ltd

Hungary
Initial Textil Szolgaltato Kft

India
Rentokil India Pte Ltd

Indonesia
PT Calmic Indonesia
PT Rentokil Indonesia

Italy
Rentokil Italia Srl
Initial Italia Srl

Jamaica
Rentokil Initial (Jamaica) Ltd

Kenya
Rentokil Initial Kenya Ltd

Libya
Rentokil Delta Libya for Environmental Protection JSCO – 50% Joint Venture

Lithuania
UAB Dezinfa

Luxembourg
Initial Textile Luxembourg Sarl
Rentokil Luxembourg Sarl
R-Control Desinfections SA

Malaysia
Rentokil Initial (M) Sdn Bhd

Martinique
Rentokil Initial Martinique Sarl

Netherlands
Initial Hokatex BV
Rentokil Initial BV
Ambius BV
Holland Herstel Groep Ureco BV

New Zealand
Rentokil Initial Ltd

Norway
Rentokil Initial Norge AS

People's Republic of China
Rentokil Initial (Shanghai) Ltd
Rentokil Tai Ming China Co Ltd

Philippines
Rentokil Initial (Philippines) Inc

Poland
Initial Matador Sp z o o

Portugal
Rentokil Portugal – Serviços de Proteção Ambiental Lda
Initial Portugal – Serviços de Proteção Ambiental Lda

Republic of Ireland
Rentokil Initial Ltd
Integrated Pest Management Ltd
Initial Medical Services (Ireland) Ltd

Singapore
One Stop Habitat Care Pte Ltd
Initial Hygiene Services Pte Ltd
Rentokil Initial Singapore Pte Ltd

Slovak Republic
Initial Textile Services Sro

South Africa
Rentokil Initial (Pty) Ltd (74 9%)

South Korea
Yu Yu Calmic Co Ltd (50%)
Rentokil Initial Korea Ltd
Rentokil Enguard Ltd (70%)

Spain
Initial Facility Services SAU
Rentokil Initial España SA
Initial Textiles e Higiene SLU

Sweden
Initial Sverige AB
Rentokil AB
Ambius AB
SR Dental AB

Switzerland
Rentokil Schweiz AG
Initial Schweiz AG

Taiwan
Initial Hygiene Co Ltd
Rentokil Ding Sharn Co Ltd

Thailand
Rentokil Initial (Thailand) Ltd

Trinidad
Rentokil Initial (Trinidad) Ltd

USA
Ambius Inc
J C Ehrlich & Co Inc

Vietnam
Initial Services Co Ltd
RI Services Co Ltd

Associated undertakings

Japan
Nippon Calmic Ltd (49%)

The activities of the major subsidiaries are referred to in the business review on pages 10 to 18

Notes
1 Rentokil Initial plc owns directly 100% of the shares of Rentokil Initial Holdings Ltd and indirectly 100% of the shares in all subsidiaries except where a lower percentage is shown
2 Undertakings operate and are incorporated in the country underneath which each is shown
3 The group s 50% interest in Yu Yu Calmic Co Ltd and Rentokil Delta Libya are consolidated as subsidiaries to reflect the group s control over these companies because of its shareholding and its involvement in the management and because the businesses are conducted under licence from the group
4 The group s 50% interest in Rentokil Delta Libya for Environmental Protection is consolidated as a subsidiary to reflect the group s control over this company because of its shareholding, its involvement in the management and because the business is conducted under licence from the group
5 A full list of subsidiaries will be attached to the company s annual return

Five-year summary

	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Revenue from continuing operations	2,124 7	2,203 4	2,409 9	2,530 8	2,496 5
Operating profit from continuing operations	249 1	211 9	82 1	119 3	61 5
Adjusted operating profit¹ from continuing operations	298 6	279 5	167 2	220 8	239 3
Profit before income tax from continuing operations	199 1	142 0	22 8	65 0	14 5
Profit/(loss) for the year from continuing operations	154 3	111 7	16 4	48 9	(20 3)
Profit for the year from discontinued operations	92 8	546 8	5 0	-	-
Profit/(loss) for the year (including discontinued)	247 1	658 5	21 4	48 9	(20 3)
Profit/(loss) attributable to equity holders of the company	245 1	656 3	18 8	47 6	(23 4)
Profit attributable to non controlling interests	2 0	2 2	2 6	1 3	3 1
	247 1	658 5	21 4	48 9	(20 3)
Basic earnings per share					
Continuing operations	8 43p	6 06p	0 76p	2 63p	(1 29p)
Continuing and discontinued operations	13 57p	36 32p	1 04p	2 63p	(1 29p)
Adjusted earnings per share² – continuing operations	9 95p	8 72p	4 31p	6 61p	7 81p
Dividends per 1p share	7 38p	7 38p	0 65p	-	-
Gross assets	1,792 0	1,960 3	2,396 9	2,001 0	1,801 5
Gross liabilities	(2,325 6)	(1,902 0)	(2,458 8)	(2,151 1)	(1,926 7)
Net (liabilities)/assets	(533 6)	58 3	(61 9)	(150 1)	(125 2)
Share capital	18 1	18 1	18 1	18 1	18 1
Reserves	(558 1)	32 8	(89 0)	(177 5)	(153 8)
Non controlling interest	6 4	7 4	9 0	9 3	10 5
Capital employed	(533 6)	58 3	(61 9)	(150 1)	(125 2)

1 before amortisation and impairment of intangibles (excluding computer software) and one off items
2 earnings per share before the after tax effects of one off items and amortisation and impairment of intangibles (excluding computer software)
3 prior years figures have not been restated for the effect of discontinued operations

Parent company balance sheet

At 31 December

	Notes	2010 £m	2009 £m
Fixed assets			
Investments	4	257 8	256 0
Derivative financial instruments (due after more than one year)	6	39 7	27 3
		297 5	283 3
Current assets			
Debtors – amounts falling due within one year	5	327 5	158 6
Debtors – amounts falling due after more than one year	5	2,457 9	2,457 9
Derivative financial instruments (due within one year)	6	0 9	12 7
Short-term deposits and cash		2 6	11 7
		2,788 9	2,640 9
Creditors – amounts falling due within one year			
Creditors	7	(1,035 9)	(752 3)
Bank and other borrowings	8	(233 4)	(340 4)
Derivative financial instruments	6	(2 5)	(13 3)
		(1,271 8)	(1,106 0)
Net current assets/(liabilities)		1,517 1	1,534 9
Creditors – amounts falling due after more than one year			
Bank and other borrowings	8	(977 5)	(1,109 8)
Derivative financial instruments	6	(29 8)	(4 4)
		(1,007 3)	(1,114 2)
Net assets		807 3	704 0
Equity capital and reserves			
Share capital	9	18 1	18 1
Share premium	10	6 8	6 8
Profit and loss account	11	782 4	679 1
Capital employed		807 3	704 0

The financial statements on pages 104 to 110 were approved by the board of directors on 14 March 2011 and were signed on its behalf by

Alan Brown
Chief Executive

Jeremy Townsend
Chief Financial Officer

Notes to the parent company accounts

1. Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivatives) and are in accordance with generally accepted accounting principles and standards in the United Kingdom and comply with the Companies Act 2006

2. Principal accounting policies

Investments

Investments held as fixed assets are stated at cost less provision for any impairment In the opinion of the directors the value of such investments are not less than shown at the balance sheet date

Borrowings

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

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

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

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the taxable profits and results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable profits which the future reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold Neither is deferred tax recognised on overseas profits where there is no commitment to remit those profits to the UK

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Pension commitments

Rentokil Initial plc is the sponsoring company of a multi-employer defined benefit pension scheme, Rentokil Initial Pension Scheme (RIPS)

An actuarial valuation of the defined benefit scheme is carried out every three years The most recent actuarial valuation was at 31 March 2007 It was carried out using the projected unit credit method and the principal assumptions made by the independent professional actuary are disclosed in the consolidated financial statements of Rentokil Initial plc

As the company is unable to identify its share of the underlying assets and liabilities in RIPS, it treats the scheme on a defined contribution basis, in accordance with FRS 17, "Retirement Benefits"

Financial instruments and risk management

The company and group's policy in respect of financial instruments and risk management are disclosed in the Accounting Policies section of the consolidated financial statements Disclosures have been made on financial instruments as required by the Companies Act 2006

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

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

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

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

Dividend distribution
Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the company's shareholders Interim dividends are recognised when paid See note 10 of the consolidated financial statements for details of dividends paid in the year

3. Company profit and loss account

Under section 408 of the Companies Act 2006, a profit and loss account for the company alone is not presented The profit attributable to shareholders in the year was £98 6m (2009 £45 2m) which includes a credit of £2 1m (2009 £69 5m) in respect of exchange adjustments and £0 4m (2009 £0 4m) in respect of audit fees

4. Investments

	2010 £m	2009 £m
At 1 January	256 0	2,460 7
Additions	–	250 7
Disposals	–	(2,457 9)
Share-based payments to employees of subsidiaries	1 8	2 5
At 31 December	257 8	256 0

The company's sole subsidiary undertaking is Rentokil Initial Holdings Ltd It has no other direct subsidiary undertakings

5. Debtors

	2010 £m	2009 £m
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	326 8	158 0
Other debtors	0 7	0 6
	327 5	158 6
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	2,457 9	2,457 9

Amounts owed by subsidiary undertakings due within one year are made up of non-interest bearing loans and amounts owed by subsidiary undertakings due after more than one year are made up of an interest bearing loan with an effective interest rate of 6 45%

6. Derivative financial instruments

	Fair value assets 2010 £m	Fair value assets 2009 £m	Fair value liabilities 2010 £m	Fair value liabilities 2009 £m
Interest rate swaps				
• non-hedge	39 6	27 3	(23 1)	(0 4)
• cash flow hedge	-	-	(6 6)	(4 0)
Forward rate agreements				
• cash flow hedge	-	-	-	(0 8)
Foreign exchange swaps				
• non-hedge	1 0	12 7	(2 3)	(10 3)
Foreign exchange forwards				
• non-hedge	-	-	(0 3)	(2 2)
	40 6	40 0	(32 3)	(17 7)
Analysed as follows				
Due within one year	0 9	12 7	(2 5)	(13 3)
Due after more than one year	39 7	27 3	(29 8)	(4 4)
	40 6	40 0	(32 3)	(17 7)

Fair value and cash flow hedge accounting has been applied to related derivatives (marked as "fair value hedge" and "cash flow hedge") in accordance with FRS 26, "Financial Instruments Measurement' Where no hedge accounting has been applied, related derivatives have been marked as "non hedge" Any ineffectiveness on the fair value and cash flow hedges are taken directly to finance costs The ineffective portion recognised in the profit and loss that arises from fair value hedges amounts to a gain of £nil (2009 gain of £3 1m) There was no ineffectiveness to be recorded from those derivatives in a cash flow hedge relationship

The company has £75m and £50m floating (LIBOR plus spread) to fixed interest rate swaps for which cash flow hedge accounting is applied and whose critical terms match those of the bonds disclosed in note 8 A charge of £2 6m (2009 £3 6m) has been recognised in reserves during the year in respect of the interest rate swaps which are cash flow hedge accounted

The company has no outstanding forward rate agreements at 31 December 2010 (2009 nominal value £200m)

The effective nominal value of foreign exchange swaps is £215 1m (2009 £516 6m) and foreign exchange forwards is £46 9m (2009 £30 7m)

7. Creditors – amounts falling due within one year

	2010 £m	2009 £m
Amounts due to subsidiary undertakings	1,035 7	752 3
Other creditors	0 2	–
	1,035 9	752 3

8. Bank and other borrowings

	2010 £m	2009 £m
Amounts falling due within one year	233 4	340 4
Amounts falling due after one year	977 5	1,109 8

Current and non-current loans include £29 7m (2009 £30 0m) and £867 5m (2009 £810 0m) 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 rate
Non current		
£300m bond due March 2016	Fixed 5 75%	Fixed 4 76%
£75m bond due September 2013/2033	Floating 3 month LIBOR + 3 98%	Fixed 7 89%
£50m bond due October 2013	Floating 3 month LIBOR + 3 25%	Fixed 7 44%
€500m bond due March 2014	Fixed 4 625%	Fixed 4 89%
Average cost of bond debt at year end rates		5 26%

The company has a committed £500m revolving credit facility which expires in October 2012 and which accrues interest at LIBOR for the period drawn plus 0 4% The cost of borrowing under the RCF at the year end was 0 8995%

The company s RCF, bank borrowings and bonds are held at amortised cost

The £300m bond was revalued for changes in interest rates during the period March 2006 to April 2009, during which the company paid floating interest rates At the end of this period, the company reverted to paying fixed interest rates and revaluation of the bond ceased as the hedge relationship ended The bond is recorded in the financial statements at amortised cost and revaluation differences are amortised to the consolidated income statement over the life of the bond thus producing the effective rate indicated above

9. Share capital

	2010 £m	2009 £m
Authorised		
4,100,000,000 ordinary shares of 1p each	41 0	41 0
Issued and fully paid		
At 1 January and 31 December – 1,814,831,011 shares of 1p each (2009 1,814,831,011)	18 1	18 1

At 31 December 2010, the following options had been granted and remain outstanding in respect of the company s ordinary shares of 1p each under the company's share option schemes

	Granted	Exercise period	Exercise price (p)	Number of shares
Executive schemes	2001	2004–2011	205 250	1,196,726
	2002	2005–2012	266 750	1,099,112
	2003	2006–2013	204 500	1,141,021
	2004	2007–2014	152 000	1,856,253
				5,293,112

Performance Share Plan

The company introduced a new share based Performance Plan in 2006 and granted 9,521,516 shares in May 2006, 10,173,589 at various dates throughout 2007, 10,245,358 at various dates throughout 2008, 11,703,753 at various dates throughout 2009 and 10,151,534 at various dates throughout 2010 The 2007 grants lapsed at the end of 2010 with the performance criteria not being met

Year of Grant	Vesting Year	Number 31 December 2009	Granted	Lapsed	Number 31 December 2010
2007	2010	6,176,424	–	6,176,424	–
2008	2011	7,527,489	–	791,622	6,735,866
2009	2012	11,703,753	–	1,584,476	10,119,277
2010	2013	–	10,151,534	–	10,151,534

Executive Share Plan

In 2008, the company also introduced a long-term incentive plan for the chairman, chief executive and one other executive director and granted 22,500,000 shares during the year

Year of Grant	Vesting Year	Number 31 December 2009	Granted	Lapsed	Number 31 December 2010
2008	2011–2013	22,500,000	–	–	22,500,000

For more information regarding the company's share option schemes, Performance Share Plan and Executive Share Plan see note 26 of the consolidated financial statements

Financial statements

10. Share premium

	2010 £m	2009 £m
At 1 January and 31 December	6 8	6 8

11. Profit and loss account

	2010 £m	2009 £m
At 1 January	679 1	629 6
Profit for the financial period (note 3)	98 6	45 2
Share-based payments charged to profit and loss	4 2	2 6
Share-based payments debited to investments	1 8	2 5
Movement on cash flow hedge	(1 3)	(0 8)
At 31 December	782 4	679 1

Treasury shares of £11 1m (2009 £11 1m) have been netted against retained earnings Treasury shares represent 7 4 million (2009 7 4 million) shares held by the Rentokil Initial Employee Share Trust The market value of these shares at 31 December 2010 was £7 2m (2009 £8 6m) Dividend income from, and voting rights on, the shares held by the Trust have been waived

12. Contingent liabilities

The company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings In addition, there are contingent liabilities in respect of litigation, none of which are expected to give rise to any material loss

13. Employees

The company has eight employees (2009 seven employees) For information on employee costs, see note 34 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

14. Pension commitments

At 31 December 2010, the RIPS pension asset under IAS 19, "Employee Benefits" amounted to £5 0m (2009 £47 9m liability)
The directors are of the opinion that there is no material difference between an FRS 17, "Retirement Benefits" and an IAS 19 valuation
For more information on pension commitments, see note 24 of the consolidated financial statements

15. Share-based payments

Share-based payments for the financial period were £6 0m (2009 £5 1m) of which £4 2m (2009 £2 6m) was charged to the profit and loss account and £1 8m (2009 £2 5m) 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 26 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 8 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 affecting the company since 31 December 2010

Independent auditors' report to the members of Rentokil Initial plc

We have audited the financial statements of Rentokil Initial plc for the year ended 31 December 2010 set out on pages 53 to 102 and 104 to 110 The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with chapter 3 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 auditors' 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

Respective responsibilities of directors and auditors

As explained more fully in the of Directors' responsibilities statement set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www frc org uk/apb/scope/private/cfm

Opinion on financial statements

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 2010 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- 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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

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

Under the Listing Rules we are required to review

- the directors' statement, set out on page 26, in relation to going concern, and
- the part of the Corporate Governance Statement on pages 33 to 34 relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the board on directors' remuneration

Simon Figgis (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
14 March 2011

General shareholder information

Registrars and transfer office
All enquiries relating to the administration of shareholdings should be directed to Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU

Telephone (From the UK	0871 664 0300
Telephone (From overseas)	+44 (0)20 8639 3399
Fax	+44 (0) 1484 600 911
E-mail	ssd@capitaregistrars com

(Calls cost 10p per minute plus network extras, lines are open 8 30 a m to 5 30 p m Monday to Friday)

Secure share portal
www capitashareportal com

The Share Portal is an on line facility provided by our registrars, Capita Registrars, for shareholders to manage their holding securely on-line, reducing the need for paperwork By registering for a free portal account, shareholders are able to access a full range of on-line facilities 24 hours a day including those described below

Electronic communications
Allows shareholders to elect to receive shareholder communications such as annual and interim reports via the internet rather than through the post

View account holding details
Allows shareholders to access their personal account, shareholding balance, share transaction history, indicative share valuation and dividend payment history It also enables shareholders to buy and sell shares

Change of address, bank mandates, downloadable forms
Allows shareholders to update their postal address and complete, change or delete bank mandate instructions for dividends A wide range of shareholder information including downloadable forms such as stock transfer forms is also available

On-line proxy voting
Provides shareholders with an on-line proxy voting mechanism to cast proxy votes, reducing administrative costs and paperwork

Dedicated helpline
Capita Registrars also have a dedicated helpline team of trained staff who have vast experience in helping users with all aspects of the service

Telephone (from the UK)	0871 664 0391 (Calls cost 10p per minute plus network extras, lines are open 8 30 a m to 5 30 p m Monday to Friday)
Telephone (Outside the UK)	+44 (0) 20 8639 3367
E-mail	shareportal@capita co uk

Share dealing services
Capita Registrars provides a low cost on-line and telephone share dealing facility for buying or selling shares There is no need for shareholders to pre-register and there are no complicated forms to complete These services allow you to trade "real time" at a known price, given to you at the time of your instruction You will need your full name, investor code, full postcode and date of birth Your investor code can be found on your latest share certificate or tax voucher Please have the appropriate documents to hand when you log on or call, so that Capita can verify your identity

For full terms and conditions of this service and the risks that apply, or to buy and sell Rentokil Initial shares, please log on to www capitadeal com (on-line dealing) or call 0871 664 0454 (Calls cost 10p per minute plus network extras, lines are open 8 00 a m to 4 30 p m Monday to Friday)

ShareGift
You may donate your shares to charity free of charge through ShareGift, a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares when the market value makes it uneconomical to sell on a commission basis Further details are available at www sharegift org or by calling +44 (0) 20 7930 3737

Announcement dates
2011 First quarter trading update – 6 May 2011
2011 Half year – 29 July 2011
2011 Third quarter trading update – 7 November 2011

Annual general meeting
To be held at No 4 Hamilton Place, London W1J 7BQ on Wednesday 11 May 2011 at 11 00 am Website www 4hp org uk

The notice of the annual general meeting is contained in a separate letter to shareholders accompanying these accounts and on the company's website www rentokil-initial com

Dividend and Dividend History
2009 Final No dividend
2010 Interim No dividend
2010 Final No dividend

Dividend Reinvestment Plan
This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the company If you would prefer to receive shares for your next dividend instead of cash please complete an application on line at www capitashareportal com Or call the Capita IRG Trustees on 0871 664 0381 from the UK or +44(0)20 8639 3402 from overseas (Calls cost 10p per minute plus network extras, lines are open 8 30 a m to 5 30 p m Monday to Friday)

Capital history
Mid market price 31 March 1982 – 7 5375p*
Mid market price 31 December 2010 – 96 90p
2010 high/low – 138 50p / 87 70p
* adjusted for the 1983 bonus issue and the 1990, 1992, and 1997 share splits

Share price information
The current price of the company s shares is available on the company's website at www rentokil-initial com

Registered office and headquarters
Rentokil Initial plc
2 City Place
Beehive Ring Road
Gatwick Airport
West Sussex
RH6 0HA

Telephone
+44 (0) 1293 858 000
Fax
+44 (0) 1293 858 300
Website
www rentokil-initial com
Contact
investor@rentokil-initial com
Registered in England and Wales
Registered number 5393279

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 the company's registrar, Capita Registrars, or to the company directly

Warning about unsolicited investment contacts (boiler room scams)
Many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters These are typically from overseas based "brokers" who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments These operations are commonly known as "boiler rooms These brokers" can be very persistent and extremely persuasive If these calls persist, hang up A 2006 survey by the Financial Services Authority (FSA) reported that the average amount lost by investors is around £20,000 The FSA receives and deals with an average of 6,500 consumer enquiries a year on such scams More detailed information on this or similar activity can be found at www moneymadeclear org uk or call 0300 500 5000

Unsolicited mail
The company is legally obliged to make its Register of Members available, subject to a proper purpose test, to the public As a consequence of this, some shareholders may receive unsolicited mail Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service (MPS) at

MPS FREEPOST LON20771
London W1E 0ZT
or call on 0845 703 4599
or on-line at www mpsonline org uk

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Back – Munken Polar

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