

# Regulatory Story

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**Rentokil Initial PLC** - RTO Final Results  
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**Rentokil  
Initial**

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Rentokil Initial PLC  
23 February 2017

## PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

*Accelerated Organic Revenue growth and strong execution of M&A*

23 February 2017

Results £m	H2 2016		Growth		FY 2016		Growth	
	AER	AER	CER	AER	AER	CER		
<b>Ongoing Revenue</b>	<b>1,178.2</b>	<b>31.7%</b>	<b>13.6%</b>	<b>2,157.7</b>	<b>24.2%</b>	<b>12.6%</b>		
Revenue	1,181.0	30.7%	12.7%	<b>2,168.1</b>	23.2%	11.7%		
<b>Ongoing Operating Profit</b>	<b>170.6</b>	<b>33.2%</b>	<b>11.8%</b>	<b>284.9</b>	<b>25.8%</b>	<b>11.5%</b>		
Operating Profit	170.4	33.5%	12.1%	<b>284.4</b>	26.3%	11.9%		
<b>Adjusted profit before tax</b>	<b>153.8</b>	<b>39.9%</b>	<b>16.6%</b>	<b>252.1</b>	<b>32.5%</b>	<b>16.7%</b>		
Profit before tax	128.1	44.2%	19.5%	<b>208.5</b>	31.0%	15.0%		
Free cash flow				<b>156.4</b>				
Adjusted EPS				<b>10.73p</b>	<b>34.5%</b>	<b>16.5%</b>		
EPS				<b>9.19p</b>	<b>34.6%</b>	<b>16.0%</b>		
Dividend per share				<b>3.37p</b>	<b>15.0%</b>			

This statement includes certain financial performance measures which are not GAAP measures as defined under International Financial Reporting Standards (IFRS). An explanation of the measures used along with a reconciliation to the nearest IFRS measures is provided in Note 22 on page 28.

### 2016 Highlights

- **Very good overall performance** - Ongoing Revenue growth of 12.6% (2015: +7.0%), Ongoing Operating Profit growth of 11.5% (2015: +9.1%) and Free Cash Flow of £156.4m (2015: £147.7m), all in excess of our stated financial targets

- **Acceleration in Organic Revenue growth** - total Organic Revenue growth of 3.0% (2015: +1.8%). Pest Control 5.7% (2015: +4.6%), Hygiene 3.1% (2015: +2.3%); reduced level of Organic Revenue decline in Workwear of -1.3% (FY 2015: -3.2%)
- **Strong execution of M&A** - 41 acquisitions made in 2016 for £107m (35 in Pest Control, five in Hygiene and one in Other) with combined annualised revenues of £124m
- **December 2016 agreement of joint venture ("JV") with Haniel** to create a leading provider of workwear and hygiene services in Europe. Completion expected mid-2017, subject to competition clearance
- **Proposed 15.5% increase in final dividend of 2.38p** to bring total dividend for 2016 to 3.37p, +15.0%

**Commenting on the results for 2016 Andy Ransom, CEO of Rentokil Initial plc, said:**

*"In 2016 we have continued to execute our strategy at pace. Our Organic Revenue growth of 3.0% is at its highest level for 10 years with accelerated growth in Pest Control and Hygiene showing continued performance momentum. In addition, we have exceeded our financial targets, growing Ongoing Revenues by 12.6%, Ongoing Operating Profit by 11.5% and delivering £156m in Free Cash Flow.*

*"2016 has also seen strong execution of M&A. We continue to migrate our revenues into Emerging and Growth markets and have acquired 41 companies in the year with combined annualised revenues of some £124m. In addition, we were delighted to enter into an agreement with Haniel at the end of the year to create a leading provider of Workwear & Hygiene services across Europe. The transaction fits well with our capital allocation model. Cash proceeds will be reinvested in Pest Control and Hygiene and we intend to increase our spend on M&A in 2017 to at least £150m as we continue to identify a particularly strong pipeline of value-enhancing opportunities. At the same time we are creating value in our Protect & Enhance markets through retaining an 18% stake in the combined business.*

*"Prospects in the majority of our markets are good and, while conditions in France remain difficult, we are confident of making further progress in the coming year."*

**Revenue**

Ongoing Revenue increased by 12.6% in 2016, comprising Organic Revenue growth of 3.0% and growth from acquired businesses of 9.6%. Ongoing Revenue in Pest Control grew strongly at 25.9% during the year, of which 5.7% was Organic Revenue growth. Ongoing Revenue Growth in the Emerging (+18.7%) and Growth (+19.7%) markets was particularly strong, fuelled by acquisitions in Growth markets as well as good Organic Revenue growth in Asia, the UK, Germany and North America. We were encouraged by our performance in our Manage for Value (MFV) markets this year, which grew by 1.3%, reflecting ongoing focus on customer retention. Ongoing Revenue in our Protect & Enhance markets declined slightly by 0.7%, a reflection of ongoing economic and competitive pressures in our European Workwear business, most notably France. Revenue at actual exchange rates increased by 23.2% reflecting the favourable impact of foreign exchange.

**Profit**

Ongoing Operating Profit increased by 11.5% in 2016, reflecting growth in North America, the UK, Asia, Pacific and Latin America, but offset by lower profits in France and an increase in Central and Regional overheads reflecting increased charges for Long Term Incentive Plans as a result of the share price growth in 2016. Adjusted profit before tax at actual exchange rates of £252.1m was favourably impacted by foreign exchange of £30.2m, due mainly to the weakening of Sterling against the Euro and the US Dollar in the year. In line with our guidance at the beginning of the year restructuring costs amounted to £7.1m at CER.

One-off items of £7.9m at CER (2015: £5.4m) primarily relate to the integration costs of the Steritech acquisition (£5.6m) and the costs incurred for the Company's transaction with Haniel in 2016 of £1.5m. Profit before tax at actual rates grew by 31.0% to £208.5m.

**Cash**

Free Cash Flow from continuing operations at actual exchange rates amounted to £156.4m in 2016, driven by continued strong operating cash flow and favourable foreign exchange movements. Spend on current and prior-year acquisitions of £109.2m and dividends of £55.5m were largely funded from Free Cash Flow. Net debt increased by £212.1m to £1,238.7m (31 December 2015:

£1,026.6m), primarily driven by adverse exchange and other movements of £203.7m from the weakness of Sterling in the year.

## M&A

In line with our strategy we have continued our M&A programme to pursue targets in higher growth markets and in areas which add local density to our existing operations. This year we have acquired 41 businesses for £107m with combined annualised revenues of £124m. In North America we have continued to reinforce our presence as the number three player in the world's largest Pest Control market through the acquisition of 17 businesses, including the July acquisition of Residex. The integration of all acquisitions is progressing well and Steritech - our largest Pest Control acquisition to date - delivered c. \$30m profits in the year, at the top end of our expectations.

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A presentation for investors and analysts will be held on Thursday 23 February 2017 at 9.15am in the Sidney Suite Conference Room, 1st Floor, **The Grange Tower Bridge Hotel**, 45 Prescot Street, London E1 8GP. This will be available via a live audio web cast at [www.rentokil-initial.com](http://www.rentokil-initial.com).

*This announcement contains statements that are, or may be, forward-looking regarding the Group's financial position and results, business strategy, plans and objectives. Such statements involve risk and uncertainty because they relate to future events and circumstances and there are accordingly a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements. Forward-looking statements speak only as of the date they are made and no representation or warranty, whether expressed or implied, is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Other than in accordance with the Company's legal or regulatory obligations (including under the Listing Rules and the Disclosure and Transparency Rules), the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Information contained in this announcement relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing in this announcement should be construed as a profit forecast.*

## REGIONAL PERFORMANCE OVERVIEW

Due to the international nature of the Group, foreign exchange movements can have a significant impact on regional performance. In order to help understand the underlying trading performance, unless otherwise stated, percentage movements in Ongoing Revenue and Ongoing Operating Profit are presented at constant exchange rates.

In **North America** Ongoing Revenue grew 38.5% in 2016, of which 34.1% was growth through acquisition and 4.4% was organic. Pest Control grew by 45.3%, of which 5.1% was organic. Strong Ongoing Operating Profit growth of 44.5% reflects the leverage impact from higher revenues and acquisitions, including synergy delivery in Steritech. This has improved net Operating Margins by 60 basis points to 13.5%. The integration of the Steritech business continues to proceed successfully and the business generated profits of c. \$30m in 2016, at the top end of expectations. 17 businesses were acquired in the region in 2016 with combined annualised revenues of £101m in the year prior to purchase.

Total Ongoing Revenue for **Europe** rose by 1.4% (of which 0.9% was organic), with good growth in Germany (+4.1%) and Southern Europe (+2.4%) partially offset by a decline in France (-0.9%). Latin America, which is run out of the Europe region, performed particularly well rising by 26.1%. Our European Hygiene operations grew by 1.8%, driven by growth in France in particular, while Ongoing Revenues from our Pest Control businesses grew by 7.0%.

In our European Workwear business Ongoing Revenue declined by -1.3% during the year with net margins lower by 1.8 percentage points. This reflects continuing market challenges across the region, particularly in France Workwear where a difficult economy and significant pricing pressure continue to adversely impact revenue and margins. As noted above, in December 2016 we signed a joint venture agreement with Haniel to create a leading provider of Workwear and Hygiene services in Europe, to be created by transferring our Workwear and Hygiene businesses in Benelux and Central and Eastern Europe into CWS-boco (owned by Haniel). Post completion of the deal, we will retain Workwear operations in France only. Overall Ongoing Operating Profit for the Europe region declined by -2.4% primarily due to the revenue reduction and pricing pressure in our French Workwear business, resulting in a net margin decline of -0.7 percentage points year on year to 18.0%.

Our **UK & Rest of World** region performed strongly in 2016, delivering an overall increase in Ongoing Revenue of 4.5%, comprising Organic Revenue growth of 4.1% and growth through

acquisition of 0.4%. In the UK both our Pest Control and Hygiene operations grew well, aided by further growth in jobbing work in both Pest Control and property services, along with portfolio growth in Hygiene. The Rest of World operations delivered good Ongoing Revenue growth of 4.4% across all of its regional clusters in the Nordics, Caribbean, Africa and MENAT. Overall Ongoing Operating Profit for the region grew by 4.6%, reflecting higher Ongoing Revenue growth and cost control. Net margins were maintained at 20.4% with growth in Pest Control margins offset by some contraction in Hygiene margins associated with costs incurred through new product roll-out across the business.

The **Asia** region has had another excellent performance with Ongoing Revenue increasing by 12.0% (+8.1% Organic Revenue growth) with both the Pest Control and Hygiene businesses performing well. Our operations in the less established markets of India, China and Vietnam continue to deliver strong growth (+23.0%). Double-digit Ongoing Revenue increases were also delivered in the more developed markets of Indonesia (+13.0%) and Malaysia (+15.2%). Ongoing Operating Profit in the region grew by 31.1% in 2016, reflecting the leverage from higher revenues, density and service productivity, contributing to an increase in net Operating Margins of 1.5% points. We acquired two new Pest Control businesses in Hong Kong and China during the year and a Hygiene operation in Malaysia with combined annualised revenues of £5m.

In the **Pacific** region Ongoing Revenue grew strongly by 10.7% in 2016 (+4.0% Organic Revenue growth), driven by additional contract revenue from acquisitions, higher levels of jobbing work in Pest Control and improved retention in Hygiene. Ongoing Operating Profit in the region grew 11.9% with productivity gains supplementing the strong revenue growth. Operating Margins increased slightly by 0.2% points as a reflection of higher revenues and productivity gains. Eight new companies were acquired during the year, six in Pest Control and two in Hygiene, with combined annualised revenues of £10m.

## BUSINESS PERFORMANCE OVERVIEW

During the year we continued to implement an effective and consistent strategy - called our **RIGHT WAY** plan - at pace and it is this strategy which is delivering consistent progress against our financial targets. The plan is based upon a clear, fixed business model with five geographic regions and three core business lines, all operating on a low-cost, single-country operating structure. Our three core competencies are: our colleagues as experts; our business leadership; and our lean multi-business operations. We use a quadrant analysis tool for capital allocation and operational management and group our businesses into a four-box growth potential grid which has again worked well for us in 2016.

Our **financial targets** are to deliver mid-single-digit revenue growth, high-single-digit profit growth and strong and sustainable Free Cash Flow of £110m+, and we have exceeded all three of these targets in 2016 growing Ongoing Revenue by 12.6%, Ongoing Operating Profit by 11.5% and generating Free Cash Flow of £156.4m.

In July 2015 we set out our priorities (listed below) for what we term the Next Phase of execution of the **RIGHT WAY** plan:

1. Increasing our exposure to Growth and Emerging markets particularly in North America and Asia;
2. Accelerating and prioritising Pest Control with upside to go for in Hygiene through "Execute Now" and Workwear's quality-focused improvement plan;
3. Greater exploitation of our digital expertise - to drive sales and customer engagement;
4. Further differentiation through innovation - delivery of pipeline of innovations to market;
5. Delivering enhanced margins where possible through city density and local share (for example North America and Asia);
6. Boosting sales and service productivity;
7. Greater sharing of best practice - further roll-out of the 'Project Speed' programme for greater sharing of operational best practices; and
8. Value-creating M&A programme - continuing to use our differentiated approach with clear strategies for growth and capital allocation.

We have continued to make good progress towards these priorities during 2016 and provide further details in the commentary below.

### Pest Control

In Pest Control we have strengthened our position as global leaders through increased organic growth and through acquisitions by establishing stronger market positions particularly in Emerging and Growth markets, and through innovation, digital expertise and acquisitions. In 2016 Ongoing Revenue and Ongoing Operating Profit grew by 25.9% and 25.1% respectively. Organic Revenue rose by 5.7% with growth through acquisition of 20.2%. Pest Control accounts for over 50% of

Group Ongoing Revenue and Ongoing Operating Profit and this will rise to around 60% post completion of the JV with Haniel expected in mid-2017.

A key driver of organic growth in 2016 was progress in targeting [international and national accounts](#). Our acquisition of Steritech has strengthened our capability in both these segments and in H1 we signed our first major contract with an international food production and agricultural products organisation with a global geographic footprint closely matching our own. Our pipeline of new international business in the food production, pharmaceutical, hotels, hospitality, transportation and logistics sectors is currently worth over £50m. Steritech has also enhanced our capability in US national accounts - with greater national scale and density, we can be more competitive and national accounts sales rose by around 55% in 2016.

Rentokil is the world's most international pest control company with operations in over 65 countries and one of the advantages of scale is the ability to share [technical expertise across markets](#). Across the world we combat the dangers to public health from mosquitoes and believe our depth of expertise and experience in global mosquito control is unrivalled. In July we were awarded a contract by the U.S. Centers for Disease Control and Prevention to help control the species of mosquito that could potentially carry the Zika virus across the USA and its protectorates. In addition, we were proud to be appointed by the Rio 2016 Organising Committee to undertake pest control and mosquito control services ahead of and during the Olympic and Paralympic Games.

Rentokil is Brazil's leading provider of pest control services and has been supporting businesses, public authorities and residential customers since 2012. Our Rentokil team was able to monitor and apply new applications where required, undertaking preventive and corrective services. It has been confirmed by the WHO Zika committee that to date there have been no reports of confirmed cases of Zika virus among those who attended the Games.

We see significant opportunities to drive revenues, reduce costs and help us better serve and retain our customers through deployment of [digital technologies](#) at every stage of the customer journey from web searching through to e-billing. We are leading the pest control industry in the commercialisation of the 'Internet of Things' through connected devices. During 2016 we continued to roll-out PestConnect (our remote monitoring system for rodents) and AutoGate (a rodent control unit which uses sensors to contain poisoned bait behind a gate, safe from non-target species until activated) across the business. We now have over 25,000 PestConnect devices in 1,200 customer locations in 12 countries. In addition, during the year our web platform handled over 10 million visits with double-digit visitor growth in key markets. Further, we are improving overall customer experience through the roll-out of the 'myRentokil' online customer portal which is now in 25 countries with over 70,000 customer registrations. Finally, during the year we launched a collaboration with Google which will lead to the global deployment of innovative digital pest control products and, in the future, to the development of 'next generation' services to offer customers new levels of proactive risk management against the threat of pest infestation.

Since acquiring a [Brand Standards](#) service offering alongside Steritech's Pest Control business in 2015 we have been reviewing the opportunities that expanding the brand standards offer beyond our North American footprint could bring. We believe this business has the potential to complement our core categories of Hygiene and Pest Control in supporting international businesses, specifically in the areas of food safety, and believe there is an increasing market demand for this service. In 2017 we will take the first steps towards introducing brand standards services outside of North America and will also target bolt-on acquisitions where appropriate.

## Hygiene

Initial Hygiene is the world's leading hygiene services business, operating in an attractive industry offering good growth opportunities as expectations around standards of hygiene continue to increase. In 2016 we have delivered accelerated Ongoing Revenue growth, established a strong product range, launched the myInitial customer portal for enhanced customer insight and engagement, and have begun to acquire target bolt-on acquisitions to build scale and density, replicating our successful pest control strategy. In 2016 Ongoing Revenue and Ongoing Operating Profit grew by 4.8% and 3.9% respectively and Organic Revenue rose by 3.1%. Post completion of the JV with Haniel in mid-2017 Hygiene will comprise around 20% of Group Ongoing Revenue and Ongoing Operating Profit.

While Organic Revenue growth in our hygiene business improved by 3.1% in 2016 gross margins declined by 60 basis points in 2016, due principally to the costs associated with introducing our new product ranges across customer premises. While this will work its way through over time, there are additional steps we can take to grow margins further and these will be a priority for the business in 2017.

Margins in Hygiene are driven by [customer density](#) (servicing as many customers as possible in a tight geographic zone) and [product density](#) (selling multiple service lines to customers). Our investment in our award-winning product range gives us greater confidence to up-sell additional products and services. In addition, we are also increasingly changing the way we incentivise and reward our sales colleagues, moving away from revenue-based schemes towards margin-based schemes to improve revenue quality and reduce downside risks of underperformance and price pressure. Further, we are offering our sales teams specialist training to help them sell multiple services to customers, supported by promotional campaigns to highlight our range proposition.

We have continued to [strengthen our washroom range](#) to maximise our selling capabilities through additional product launches and the continued roll-out of the range across our operations. Our [digital](#) sales and service tools are also being utilised to build customer awareness of Initial's multiple product offerings, for instance, the new customer portal, myInitial, is being developed to highlight the full spectrum of hygiene solutions on its home page.

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

In [M&A](#) we are adopting the same route density, [city-focused strategy](#) for our Hygiene business as we have for our Pest Control business, seeking small, highly-targeted acquisitions in Growth and Emerging markets to build density and grow margins. This year we bought five small businesses in Australia, New Zealand, Malaysia, the Republic of Ireland and Chile generating combined annualised revenues of £12m - all of which are performing well. The increased number of acquisitions in Hygiene in 2016 is a reflection of our growing confidence in the performance of the business and the beneficial impact of greater density on driving margins. We will continue to seek attractive Hygiene targets in 2017.

### **Workwear**

In Workwear we have continued to implement our [Quality agenda](#) designed to differentiate Initial Workwear as the quality player in the continental European market. Implementation of the programme is generating operational improvements in customer service, satisfaction and retention across the business and, as a result of earlier implementation of the plan, financial improvements in Belgium and the Netherlands. In France, where the programme is less advanced, financial performance has yet to improve significantly. In 2016 Ongoing Revenue and Ongoing Operating Profit declined by 1.3% and 14.5% respectively. Post completion of the JV with Haniel in mid-2017 Workwear will comprise around 12% of Group Ongoing Revenue and 9% of Group Ongoing Operating Profit.

Our proposed [JV with Haniel](#) will create a leading provider of Workwear and Hygiene services in Europe with combined revenues of c. €1.1bn and APBITA of c. €130m (12 months to 30 June 2016). Our Initial Workwear operations and the CWS-boco businesses have complementary operations, products and capabilities providing the potential for future growth, as well as synergies and efficiencies.

Post completion of the above transaction, our Workwear operations will be based exclusively in France and our focus for the coming year will be on working towards returning the business to profitable growth through further implementation of the Quality agenda with a particular emphasis on service productivity and cost control. In the coming year our new Managing Director for France (appointed in 2016) will work with the business to implement a new five-point plan to improve customer service, laundry 'on time in full' production, wash quality, customer care and service driver engagement.

### **Innovation**

The innovation and development of differentiated products is at the heart of what we do. We have a strong innovation pipeline in place designed to build sales and enhance customer retention. In 2016 we developed a number of new sustainable products for launch in the coming year. [RapidPro](#) is a new rodenticide that is the fastest acting bait targeting mice. Not only does this lead to faster control of mice populations, but as an alternative to traditional Anti-Vitamin K (AVK) rodenticides, the product does not lead to secondary poisoning of non-target species. Authorisations have already been received for six countries in Europe including Germany, Belgium and the UK and a further seven European country authorisations are expected in early 2017.

[Lumnia](#) is a range of fly killers that use LED lighting rather than traditional blue-light fluorescent tubes allowing for power reductions of 50% to 60% vs. comparable units. This is the world's first commercial range using LEDs and comes as a result of working in partnership with a leading manufacturer of LED lighting to develop a lamp specifically designed to target a broad range of flying insects. In addition to the benefits of using LEDs, the unit has different lighting settings to suit the specific requirements of customer locations and it also has an active lighting mode that adapts its output according to the ambient lighting levels on customer premises.

We continue to extend our [PestConnect](#) range that continuously monitors for pest activity and automatically alerts the technician when a pest has been detected or contained. This ensures a faster response to emerging issues thereby reducing the need for more significant intervention and also helps technician productivity, minimising the requirement to drive to customers' premises as often. PestConnect was the winner of the 2016 "Best Internet of Things" Project at the UK IT Awards, sponsored by the Chartered Institute for IT.

Finally, in Hygiene, Initial's new **No Touch** linen towel dispenser delivers a measured length of linen towel for drying of hands. Not only does this give a better customer experience, but compared to manual dispensers where some washroom users pull the roll two or three times, this dispenser delivers the most appropriate length ensuring the towel lasts longer and needs to be laundered less often.

### Capital allocation

Our capital allocation model continues to work well. Since the articulation of our **RIGHT WAY** plan in 2014 we have worked steadily to improve the quality of our revenues - just under 70% of which are now in Growth and Emerging markets. In 2016 we made good progress in expanding our presence in higher GDP growth markets with revenues in Growth rising by 19.7% and Emerging by 18.7%. This has been fuelled by acquisitions and good levels of organic growth in Asia (+8.6%), Latin America (+13.7%), the UK (+3.8%), and North America (+4.4%). We are also encouraged by our performance in our Manage for Value markets this year, which although only a very small part of the Group, grew by 1.3%, reflecting ongoing focus on cost management, productivity and customer retention. Ongoing Revenue in our Protect & Enhance markets declined slightly (-0.7% year on year), and this is a reflection of the continued economic and competitive pressures in European Workwear.

Our proposed transaction with Haniel is a strong fit with our capital allocation model. It will reduce our exposure to the more challenged Protect & Enhance markets and enable greater focus on our higher-growth categories of Pest Control and Hygiene in Growth and Emerging markets. At the same time we are creating value in our Protect & Enhance markets through an investment in a leading European Workwear & Hygiene operation.

### M&A

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

We have further accelerated our **execution of M&A** during the year, particularly within Emerging and Growth markets. This year we have acquired 41 businesses for £107m (35 in Pest Control, five in Hygiene and one in Other) with combined annualised revenues of £124m. In North America we have continued to reinforce our presence as the number three player in the World's largest pest control market through the acquisition of 16 pest control businesses, including the July acquisition of Residex. Our North America business now has annualised revenues of over \$1bn - some two years ahead of plan. In addition, we have acquired businesses in Australia, Austria, Brazil, Canada, Chile, China, Denmark, French Guiana, Germany, Guatemala, Honduras, Hong Kong, Malaysia, New Zealand, Republic of Ireland, Spain, Switzerland, the UK and the US.

We monitor the integration and performance of acquired businesses closely to ensure they meet our financial hurdles and resourcing capabilities. Of the 101 acquisitions completed between 1st July 2013 and 31st December 2016, there is only one small acquisition (representing 0.7% of total spend) delivering expected returns slightly lower than its target hurdle rate. All other acquisitions are delivering expected returns at or above their respective target hurdle level.

In 2017 year to date we have completed two acquisitions in the UK (a pest control business in the UK and Ireland and a property care business in Scotland) with combined annualised revenues of £12m. We have also acquired three small Pest Control businesses in Australia, Latin America and Singapore. In addition, on 7 February we announced our acquisition of Allgood Services of Georgia, Inc (which trades as "Allgood Pest Solutions"), headquartered in Atlanta, Georgia, and which also operates in Tennessee. The business generated annualised revenues for the 12 months prior to acquisition of \$26m and is ranked as the 29<sup>th</sup> largest pest control company in the US according to PCT magazine. We will continue to seek further acquisition opportunities in 2017 in both Pest Control and Hygiene and the pipeline of prospects is particularly strong. Our targeted annual spend on M&A in the coming year is expected to be at least £150m.

As noted previously we have entered into a JV with Haniel which will combine our Workwear and Hygiene businesses in Benelux and Central and Eastern Europe post completion. We anticipate retaining our 18% in the combined business for three to five years, after which time we have various exit options under the agreement.

## FINANCIAL REVIEW

### Central and regional overheads

The £5.6m increase in central and regional overheads to £68.1m at CER (2015: £62.5m) largely reflects increased charges for Long-Term Incentive Plans as a result of the recent share price performance of the Company.

### Restructuring costs

In February 2016 we announced that, with the exception of integration costs for significant acquisitions, we will report restructuring costs within operating profit. Integration costs associated with significant acquisitions will be reported as one-off items and excluded from operating profit.

Restructuring costs of £7.1m at CER (2015: £7.9m) consisted mainly of costs in respect of initiatives to deliver operational efficiencies and service quality improvements in Europe and North America.

### One-off items - operating

One-off items of £7.9m at CER (2015: £5.4m) primarily relate to the integration costs of the Steritech acquisition (£5.6m). Costs incurred for the Company's transaction with Haniel in 2016 amounted to £1.5m. Details of one-off items are set out in Note 2.

### Interest

Net interest payable (excluding the net interest credit from pensions) at actual exchange rates was £38.5m compared to £39.6m in the prior year, a net decrease of £1.1m. The interest reduction was due to the refinancing of the 5.75% £300m bond offset by additional interest on the term loan to fund the Steritech acquisition and the impact of exchange due to the weakening of Sterling against the Euro and US Dollar. The average cost of gross debt for the Group was c. 3.5% for 2016.

### Tax

The income tax expense for the year at actual exchange rates was £40.7m on the reported profit before tax of £208.5m. After adjusting profit for the amortisation of intangible assets (excluding computer software), one-off items and the net interest credit from pensions, the Adjusted Effective Tax Rate for the year was 22.3% (2015: 23.6% as restated). This compares with a blended rate of tax for the countries in which the Group operates of 25% (2015: 26%). The lower adjusted tax rate compared to the blended tax rate is principally due to the benefit of previously unrecognised brought forward tax losses being set off against UK profits.

### Net debt and cash flow

£m at actual exchange rates	Year to Date		
	2016 FY £m	2015 FY £m	Change £m
Adjusted Operating Profit	284.4	225.0	59.4
One-off items	(8.6)	(5.4)	(3.2)
Depreciation	200.7	172.7	28.0
Other	12.6	10.8	1.8
EBITDA	489.1	403.1	86.0
Working capital	(11.3)	(0.7)	(10.6)
Movement on provisions	(14.5)	(7.0)	(7.5)
Capex - additions	(221.8)	(181.4)	(40.4)
Capex - disposals	6.3	6.7	(0.4)
Operating cash flow - continuing operations	247.8	220.7	27.1
Interest	(54.6)	(44.2)	(10.4)
Tax	(35.8)	(27.9)	(7.9)
Special pension contributions	(1.0)	(0.9)	(0.1)
Free Cash Flow - continuing operations	156.4	147.7	8.7
Free Cash Flow - discontinued operations	(0.4)	(0.9)	0.5
Free Cash Flow	156.0	146.8	9.2
Acquisitions	(109.2)	(369.2)	260.0
Disposal of companies and businesses	0.3	0.8	(0.5)
Dividends	(55.5)	(48.9)	(6.6)
Foreign exchange translation and other items	(203.7)	18.9	(222.6)
(Increase) / decrease in net debt	(212.1)	(251.6)	39.5
Opening net debt	(1,026.6)	(775.0)	(251.6)
Closing net debt	(1,238.7)	(1,026.6)	(212.1)

Operating cash inflow (£247.8m at AER for continuing operations) was £27.1m higher than 2015 largely due to the increase in Ongoing Operating Profit and receipt of a £7.3m special dividend from our Japanese associate.

Capital expenditure from continuing operations of £221.8m was £40.4m higher than 2015 due to the impact of exchange rate movements and the phasing of certain projects from 2015 into 2016.

Interest payments (including finance lease interest) were £10.4m higher than last year due to the maturity of the £300m bond in Q1 2016, with interest paid annually in arrears together with the additional interest on the term loan to fund the Steritech acquisition and the impact of exchange due to the weakening of Sterling against the Euro and US Dollar. Combined with a £7.9m increase in tax paid, this resulted in Free Cash Flow from continuing operations of £156.4m, an increase of £8.7m on the prior year.

Cash spent on acquisitions totalled £109.2m and the Company made dividend payments of £55.5m in 2016 (a 13.5% increase on the prior year). Foreign exchange translation and other items increased net debt by £203.7m (primarily due to the weakening of Sterling against the Euro and US Dollar), leaving an overall increase in net debt of £212.1m and closing net debt of £1,238.7m.

Net debt is expected to reduce in 2017 as a result of the transaction with Haniel. Proceeds from the transaction are estimated at €520m, subject to cash, debt, working capital and other closing adjustments. 90% of the anticipated proceeds have been hedged at those rates prevailing at the time of agreement to reduce exchange rate risk in relation to the Sterling value of the proceeds.

### **Pensions**

At 31 December 2016 the Company's UK defined benefit pension scheme, which is closed to new members, was valued at an accounting surplus of £272m on the Company's balance sheet. The Trustees value the scheme on a different basis and the most recent triennial actuarial valuation as at 31 December 2015 is now complete. The Trustee and the Company have agreed that the Scheme is now fully funded on a technical provisions basis. The Trustees have therefore agreed that the annual payments of £3.2m that the Company has been paying into an escrow arrangement each January will not be required going forward. In accordance with the terms of the escrow arrangement, because the Scheme is fully funded on a technical provisions basis, the £9.6m previously held in escrow can be released to the Company with £9m released in February 2017. The funding position will be reviewed at the next actuarial valuation, which is scheduled for 31 December 2018.

### **Funding**

At 31 December 2016 the Group had net debt of £1,238.7m. The Group has over £72m of centrally held funds and £204m of available undrawn committed facilities. The ratio of net debt to EBITDA at the year end was 2.5x. The Company's credit rating was reaffirmed at BBB with a Stable outlook. We are committed to maintaining a BBB rating and, based on our expectations for the coming year and our strong cash flow projections for 2017, we are confident in doing so.

The Directors continue to adopt the going concern basis in preparing the accounts on the basis that the Group's strong liquidity position and ability to reduce capital expenditure or expenditure on bolt-on acquisitions are sufficient to meet the Group's forecast funding needs, including those modelled in a downside case.

### **Dividend**

Following an encouraging performance in 2016, and in anticipation of further progress in 2017, the Board is recommending a final dividend in respect of 2016 of 2.38p per share, payable to shareholders on the register at the close of business on 7 April 2017, to be paid on 17 May 2017. This equates to a full year dividend of 3.37p per share, an increase of 15.0% compared to 2015.

### **Board changes**

Alan Giles, a Non-executive Director of the Company since 2006, is due to retire by rotation at the annual general meeting on 10 May 2017 and has decided not to seek re-appointment. He will resign as Chairman of the Remuneration Committee, as Senior Independent Director and as a member of the Audit and Nomination Committees at that time. Chris Geoghegan is due to succeed Alan Giles as the Chairman of the Remuneration Committee. Announcement of Alan Giles' successor as Senior Independent Director and as a member of the Audit and Nomination Committees will be made separately.

### **GUIDANCE FOR 2017 (at CER unless otherwise stated)**

Central and regional overheads are expected to be c. £2m higher than the prior year principally due to investments in digital capability. We estimate that restructuring costs (reported within Ongoing Operating Profit) in 2017 will be in line with 2016 at £7m. One-off costs (excluded from Ongoing Operating Profit) are estimated at £15m, of which £10m are cash costs, and relate to the proposed transaction with Haniel. Interest costs are estimated to be £42m, with cash interest in line with P&L impact.

On a full year pro forma basis, the net impact of the JV with Haniel is expected to be slightly dilutive on Adjusted EPS of c. 0.4p. On the same basis, the transaction is also expected to improve Rentokil Initial's underlying Organic Revenue growth, Ongoing Operating Profit growth and Adjusted PBT margins.

Following the Brexit vote in June 2016 Sterling has weakened significantly against both the Euro and the US Dollar and, if recent exchange rates were to continue for the rest of 2017, the full year estimated favourable impact of currency movements on our profit would be around £15m to £20m.

Our current estimate for the Adjusted Effective Tax Rate is around 22.5% (2016: 22.3%) with cash tax payable in the region of £40m to £45m. Working capital outflow is anticipated to be in line with 2016 at around £10m and net capex in the region of £235m- £245m (subject to foreign exchange movements).

Our Free Cash Flow target for 2016 was a minimum of £110m and we have previously guided to Free Cash Flow in 2017 of at least £120m. Since setting these targets there has been a significant weakening of Sterling which has had a net favourable effect on our Free Cash Flow performance. The joint venture with Haniel is expected to reduce Free Cash Flow in the first year after completion by around £10m (excluding one-off cash costs associated with the deal which are estimated at a further £10m). Should the deal complete on 30 June 2017, based upon current exchange rates, we would anticipate a minimum free cash flow of £130m in 2017.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

### For the year ended 31 December

	Notes	2016 £m	2015 £m
<b>Revenue</b>	2	<b>2,168.1</b>	1,759.0
<b>Operating profit</b>		<b>232.4</b>	187.8
Finance income	4	<b>19.3</b>	16.3
Finance cost	3	<b>(49.4)</b>	(49.8)
Share of profit from associates, net of tax of £3.4m (2015: £2.7m)		<b>6.2</b>	4.7
<b>Profit before income tax</b>		<b>208.5</b>	159.0
Income tax expense <sup>1</sup>	5	<b>(40.7)</b>	(34.7)
<b>Profit for the year attributable to the Company's equity holders (including non-controlling interests of £0.3m (2015: £nil))</b>		<b>167.8</b>	124.3
<b>Other comprehensive income:</b>			
Items that are not reclassified subsequently to the income statement:			
Re-measurement of net defined benefit asset		<b>21.3</b>	37.2
Tax related to items taken to other comprehensive income		<b>4.1</b>	(5.9)
Items that may be reclassified subsequently to the income statement:			
Net exchange adjustments offset in reserves		<b>11.4</b>	3.0
Other items		<b>(6.1)</b>	0.2
<b>Total comprehensive income for the year (including non-controlling interests of £0.3m (2015: £nil))</b>		<b>198.5</b>	158.8
Earnings per share attributable to the Company's equity holders:			
Basic	6	<b>9.19p</b>	6.83p
Diluted	6	<b>9.11p</b>	6.81p

All profit is from continuing operations.

Non-GAAP measures			
<b>Operating profit</b>		<b>232.4</b>	187.8
Adjusted for:			
Amortisation and impairment of intangible assets (excluding computer software)	2	<b>43.4</b>	31.8
One-off items - operating	2	<b>8.6</b>	5.4
<b>Adjusted operating profit</b>		<b>284.4</b>	225.0
Finance income	4	<b>19.3</b>	16.3
Add back: Net interest credit from pensions	4	<b>(8.4)</b>	(6.1)
Finance cost	3	<b>(49.4)</b>	(49.8)
Share of profit from associates, net of tax of £3.4m (2015: £2.7m)		<b>6.2</b>	4.7
<b>Adjusted profit before income tax<sup>2</sup></b>		<b>252.1</b>	190.1
Basic adjusted earnings per share attributable to the Company's equity holders	6	<b>10.73p</b>	7.98p

<sup>1</sup> taxation includes £32.8m (2015: £30.4m) in respect of overseas taxation

<sup>2</sup> prior to 2016, restructuring costs were an adjustment in arriving at adjusted profit measures. In 2016 they are no longer adjusted for which is reflected in a restated 2015 accordingly

## Consolidated Balance Sheet

### At 31 December

	Notes	2016 £m	2015 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	999.6	818.3
Property, plant and equipment	9	416.3	477.1
Investments in associated undertakings		17.8	17.7
Other investments		0.2	0.1
Deferred tax assets		2.0	2.0
Retirement benefit assets	14	272.7	237.0
Other receivables		10.8	8.5
Derivative financial instruments		-	1.4
		<b>1,719.4</b>	<b>1,562.1</b>
<b>Current assets</b>			
Other investments		9.6	99.3
Inventories		80.0	55.7
Trade and other receivables		383.3	329.8
Current tax assets		11.0	10.5
Disposal group held-for-sale	10	177.7	-
Derivative financial instruments		1.6	0.8
Cash and cash equivalents	12	160.2	102.6
		<b>823.4</b>	<b>598.7</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(458.5)	(404.4)
Current tax liabilities		(71.6)	(73.3)
Provisions for other liabilities and charges	15	(15.3)	(20.6)
Bank and other short-term borrowings		(77.4)	(332.6)
Derivative financial instruments		(56.8)	(21.7)
		<b>(679.6)</b>	<b>(852.6)</b>
Net current (liabilities)/assets		<b>143.8</b>	<b>(253.9)</b>
<b>Non-current liabilities</b>			
Other payables		(21.4)	(15.4)
Bank and other long-term borrowings		(1,260.4)	(865.4)
Deferred tax liabilities		(112.8)	(112.8)
Retirement benefit obligations	14	(30.9)	(24.1)
Provisions for other liabilities and charges	15	(55.2)	(60.8)
Derivative financial instruments		(21.8)	(17.6)
		<b>(1,502.5)</b>	<b>(1,096.1)</b>
<b>Net assets</b>		<b>360.7</b>	<b>212.1</b>
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	16	18.3	18.2
Share premium account		6.8	6.8
Other reserves		(1,763.5)	(1,768.8)
Retained profits		2,099.0	1,956.1
		<b>360.6</b>	<b>212.3</b>
Non-controlling interests		0.1	(0.2)
<b>Total equity</b>		<b>360.7</b>	<b>212.1</b>

## Consolidated Statement of Changes in Equity For the year ended 31 December

	Attributable to equity holders of the Company				Non-controlling interests £m	Total equity £m
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m		
At 1 January 2015	18.2	6.8	(1,772.0)	1,847.2	(0.2)	100.0
Profit for the year	-	-	-	124.3	-	124.3
Other comprehensive income:						
Net exchange adjustments offset in reserves	-	-	3.0	-	-	3.0
Re-measurement of net defined benefit asset/liability	-	-	-	37.2	-	37.2
Effective portion of changes in fair value of cash flow hedge	-	-	0.2	-	-	0.2
Tax related to items taken directly to other comprehensive income	-	-	-	(5.9)	-	(5.9)
Total comprehensive income for the year	-	-	3.2	155.6	-	158.8
Transactions with owners:						
Dividends paid to equity shareholders	-	-	-	(48.9)	-	(48.9)
Cost of share options and long-term incentive plan	-	-	-	2.2	-	2.2
At 31 December 2015	18.2	6.8	(1,768.8)	1,956.1	(0.2)	212.1
Profit for the year	-	-	-	167.5	0.3	167.8
Other comprehensive income:						
Net exchange adjustments offset in reserves	-	-	11.4	-	-	11.4
Re-measurement of net defined benefit asset/liability	-	-	-	21.3	-	21.3
Effective portion of changes in fair value of cash flow hedge	-	-	(6.1)	-	-	(6.1)
Tax related to items taken directly to other comprehensive income	-	-	-	4.1	-	4.1
Total comprehensive income for the year	-	-	5.3	192.9	0.3	198.5
Transactions with owners:						
Dividends paid to equity shareholders	-	-	-	(55.5)	-	(55.5)
Shares issued	0.1	-	-	-	-	0.1
Cost of share options and long-term incentive plan	-	-	-	5.5	-	5.5
At 31 December 2016	18.3	6.8	(1,763.5)	2,099.0	0.1	360.7

Treasury shares of £0.1m (2015: £6.4m) have been netted against retained earnings. Treasury shares represent 4.8m (2015: 3.5m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2016 was £10.7m (2015: £5.6m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

## Consolidated Statement of Changes in Equity (continued) For the year ended 31 December

### Analysis of other reserves

	Capital reduction reserve £m	Legal reserve £m	Cash flow hedge reserve £m	Translation reserve £m	Total £m
At 1 January 2015	(1,722.7)	10.4	-	(59.7)	(1,772.0)

Net exchange adjustments offset in reserves	-	-	-	3.0	3.0
Effective portion of changes in fair value of cash flow hedge	-	-	0.2	-	0.2
Total comprehensive (expense)/income for the year	-	-	0.2	3.0	3.2
At 31 December 2015	(1,722.7)	10.4	0.2	(56.7)	(1,768.8)
Net exchange adjustments offset in reserves	-	-	-	11.4	11.4
Effective portion of changes in fair value of cash flow hedge	-	-	(6.1)	-	(6.1)
Total comprehensive income for the year	-	-	(6.1)	11.4	5.3
At 31 December 2016	(1,722.7)	10.4	(5.9)	(45.3)	(1,763.5)

The capital reduction reserve arose in 2005 as a result of the scheme of arrangement of Rentokil Initial 1927 plc, under section 425 of the Companies Act 1985, to introduce a new holding company, Rentokil Initial plc, and the subsequent reduction in capital approved by the High Court whereby the nominal value of each ordinary share was reduced from 100p to 1p.

The legal reserve represents amounts set aside in compliance with local laws in certain countries in which the Group operates.

## Consolidated Cash Flow Statement For the year ended 31 December

	Notes	2016 £m	2015 £m
<b>Cash flows from operating activities</b>			
Cash generated from operating activities		451.6	391.4
Interest received		12.7	10.2
Interest paid		(66.0)	(53.7)
Income tax paid		(35.8)	(27.9)
Net cash flows from operating activities		362.5	320.0
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(186.2)	(159.2)
Purchase of intangible fixed assets		(21.0)	(13.1)
Proceeds from sale of property, plant and equipment		6.3	6.7
Acquisition of companies and businesses, net of cash acquired	19	(109.2)	(369.2)
Disposal of companies and businesses		0.3	0.8
Dividends received from associates		10.3	2.1
Net cash flows from investing activities		(299.5)	(531.9)
<b>Cash flows from financing activities</b>			
Dividends paid to equity shareholders	7	(55.5)	(48.9)
Interest element of finance lease payments		(1.3)	(0.7)
Capital element of finance lease payments		(13.7)	(9.1)
Cash outflow on settlement of debt related foreign exchange forward contracts		(30.8)	(2.4)
Net investment in term deposits		89.7	(47.8)
Proceeds from new debt		242.4	232.8
Non-controlling interest in acquisition		-	0.3
Bond repayments		(299.0)	(0.3)
Net cash flows from financing activities		(68.2)	123.9
Net decrease in cash and cash equivalents		(5.2)	(88.0)
Cash and cash equivalents at beginning of year		100.5	194.1
Exchange losses on cash and cash equivalents		10.6	(5.6)
Cash and cash equivalents at end of the financial year		105.9	100.5

## Notes to the financial statements

### 1. Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with effect from 1 January 2016:

- Annual Improvements to IFRSs 2012-2014 cycle - amendments to IFRS 5, 7 and IAS 19, 34
- Investment entities - amendments to IFRS 10
- Joint arrangements - amendments to IFRS 11
- Presentation of Financial Statements - amendments to IAS 1
- Property, Plant and Equipment - amendments to IAS 16
- Investments in Associates and Joint Ventures - amendments to IAS 28
- Intangible Assets - amendments to IAS 38

The application of these amendments has had no material impact on the disclosures of the amounts recognised in the Group's consolidated financial statements. Consequently, no adjustment has been made to the comparative financial information at 31 December 2015.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

The Group has considered the impact on the financial statements of relevant forthcoming standards, including IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases (effective 1 January 2018 and 1 January 2019 respectively).

It is expected that substantially all of the Group's revenue will be treated as revenue from contracts with customers under IFRS 15, but the new standard will not require material changes to the timing of revenue recognition. We also expect that certain sales commissions that meet the requirements stated within the standard may need to be recognised as an asset and amortised over the life of the contracts to which they relate. This treatment is not anticipated to materially affect the profit of the Group.

As a result of the changes within the forthcoming standard IFRS 16 Leases, the majority of our existing operating leases will be accounted for as right of use assets, which will be largely offset by corresponding lease liabilities. The assets will be recognised as property, plant and equipment, and the lease liability will increase net debt. It is anticipated that operating expenses will decrease and financing costs will increase as the operating lease expense is replaced by depreciation and interest. Depreciation will be straight-line over the life of the lease but the financing charge will decrease over the lease term. The overall impact on net profit is not expected to be material.

The Group will consider the impact on the financial statements of the forthcoming standard; IFRS 9 Financial Instruments (effective 1 January 2018). It is not expected that there will be a material impact on the financial statements as a result of adopting this standard.

### 2. Segmental information

Segmental information has been presented in accordance with IFRS 8 Operating Segments. Reporting segments reflect the internal management organisation and reporting structures. Each segment is headed by a Regional Managing Director who reports directly to the Chief Executive and is a member of the Company Executive Leadership Team responsible for the review of Group performance. The operating businesses within each segment report to the Regional Managing Directors.

Given the international nature of the Group, foreign exchange movements can have a significant impact on regional performance and as a result the segmental analysis is presented at constant currency rates. Restructuring costs and Central and Regional overheads are also presented centrally as they are not directly attributable to any reportable segment. The basis of presentation is consistent with the information reviewed by internal management. Revenue and profit are from Ongoing operations which is defined and reconciled to the nearest equivalent GAAP measure in Note 22.

### 2. Segmental information (continued)

	Revenue 2016 £m	Revenue 2015 £m	Operating profit 2016 £m	Operating profit 2015 £m
France	298.9	301.8	40.1	46.7
Benelux	190.5	190.7	35.6	34.9
Germany	175.5	168.6	44.9	43.8
Southern Europe	62.5	61.0	10.7	10.1
Latin America	24.1	19.1	3.6	2.8
<b>Europe</b>	<b>751.5</b>	<b>741.2</b>	<b>134.9</b>	<b>138.3</b>
UK & Ireland	233.7	223.6	44.6	42.5
Rest of World	111.6	106.9	25.7	24.7
<b>UK &amp; Rest of World</b>	<b>345.3</b>	<b>330.5</b>	<b>70.3</b>	<b>67.2</b>
<b>Asia</b>	<b>118.9</b>	<b>106.1</b>	<b>12.4</b>	<b>9.4</b>
<b>North America</b>	<b>604.6</b>	<b>436.5</b>	<b>81.5</b>	<b>56.4</b>
<b>Pacific</b>	<b>135.7</b>	<b>122.5</b>	<b>28.4</b>	<b>25.4</b>
<b>Central and regional costs</b>	-	-	<b>(68.1)</b>	<b>(62.5)</b>
<b>Restructuring costs</b>	-	-	<b>(7.1)</b>	<b>(7.9)</b>
<b>Ongoing operations at constant exchange rates</b>	<b>1,956.0</b>	<b>1,736.8</b>	<b>252.3</b>	<b>226.3</b>
Disposed businesses	9.3	22.2	(0.5)	(1.3)
<b>Continuing operations at constant exchange rates</b>	<b>1,965.3</b>	<b>1,759.0</b>	<b>251.8</b>	<b>225.0</b>
Foreign exchange	202.8	-	32.6	-
<b>Continuing operations at actual exchange rates</b>	<b>2,168.1</b>	<b>1,759.0</b>	<b>284.4</b>	<b>225.0</b>
One-off items - operating			(8.6)	(5.4)
Amortisation of intangible assets <sup>1</sup>			(43.4)	(29.6)
Impairment of goodwill			-	(2.2)
Operating profit			<b>232.4</b>	<b>187.8</b>

<sup>1</sup> excluding computer software

	Amortisation and impairment of intangibles <sup>1</sup> 2016 £m	Amortisation and impairment of intangibles <sup>1</sup> 2015 £m	One-off items 2016 £m	One-off items 2015 £m
Europe	5.5	6.9	0.8	12.1
UK & Rest of World	5.3	6.3	0.5	2.6
Asia	2.4	1.5	0.4	-
North America	21.7	14.8	5.6	1.4
Pacific	1.6	0.4	0.1	0.3
Central and regional	3.1	1.9	0.5	(11.0)
Total at constant exchange rates	39.6	31.8	7.9	5.4
Foreign exchange	3.8	-	0.7	-
Total at actual exchange rates	43.4	31.8	8.6	5.4
Tax effect	(14.2)	(9.1)	(3.0)	(2.3)
Total after tax effect	29.2	22.7	5.6	3.1

<sup>1</sup> excluding computer software

One-off items at constant exchange rates include: £7.5m of acquisition and integration costs, mainly in North America and Europe; £1.4m of costs related to the planned joint venture with Haniel (Note 10), and; £2.3m of costs in Europe to settle a legal dispute. These costs are offset by £2.3m release of contingent consideration on acquisitions in Spain where performance criteria were not met and £1.3m gain on freehold property disposal and property provision releases, mainly in Central.

At actual exchange rates, one-off items for 2015 includes £8.1m for the costs associated with the closure of the Austrian flat linen business, £5.5m for costs associated with the withdrawal from certain other non-core businesses, and £3.1m for acquisition costs (the majority of which were in North America); offset by £10.8m related to the net income from the settlement of a legal claim (Central and regional).

### 3. Interest payable and similar charges

	2016 £m	2015 £m
Hedged interest payable on medium term notes issued <sup>1</sup>	28.4	33.9
Interest payable on bank loans and overdrafts <sup>1</sup>	0.9	0.9
Interest payable on revolving credit facility <sup>1</sup>	7.9	2.8
Interest payable on foreign exchange swaps	10.0	10.2
Interest payable on finance leases	1.3	0.7
Amortisation of discount on provisions	0.3	0.5
Fair value loss on other derivatives <sup>2,3</sup>	0.6	0.8
<b>Total interest payable and similar charges</b>	<b>49.4</b>	<b>49.8</b>

<sup>1</sup> interest expense on financial liabilities held at amortised cost

<sup>2</sup> loss on financial assets/liabilities at fair value through the income statement

<sup>3</sup> the fair value loss on other derivatives includes fair value losses relating to interest rate swaps.

#### 4. Interest receivable

	2016 £m	2015 £m
Bank interest	1.1	1.7
Interest receivable on foreign exchange swaps	8.5	8.0
Fair value gain on other derivatives <sup>1,2</sup>	0.5	0.4
Foreign exchange gain on translation of foreign denominated assets and liabilities <sup>3</sup>	0.8	0.1
Interest on net defined benefit asset	8.4	6.1
<b>Total interest receivable</b>	<b>19.3</b>	<b>16.3</b>

<sup>1</sup> gain on financial assets/liabilities at fair value through the income statement

<sup>2</sup> the fair value gain on other derivatives includes fair value gains relating to interest rate swaps

<sup>3</sup> comprises translation gain on financing instruments of £761.0m, offset by losses of £760.2m (2015: losses of £250.3m offset by gains of £250.2m)

#### 5. Income tax expense

	2016 £m	2015 £m
Analysis of charge in the year:		
UK corporation tax at 20.0% (2015: 20.25%)	2.9	2.2
Overseas taxation	30.2	24.4
Adjustment in respect of previous periods	7.8	5.7
<b>Total current tax</b>	<b>40.9</b>	<b>32.3</b>
Deferred tax debit/(credit)	1.3	4.6
Deferred tax adjustment in respect of previous periods	(1.5)	(2.2)
<b>Total deferred tax</b>	<b>(0.2)</b>	<b>2.4</b>
<b>Total income tax expense</b>	<b>40.7</b>	<b>34.7</b>

Current tax expense represents the amount payable on this year's taxable profits and any adjustment relating to prior years. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences between accounting and tax bases. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income. In this case the tax is also recognised in other comprehensive income.

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in transactions other than a business combination that at the time of the transactions affect neither the accounting nor taxable profit or loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred income tax is determined using tax rates (and laws) that have been enacted (or substantively enacted) at the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. In recognising the deferred tax asset in respect of UK losses, management has estimated the quantum of future UK taxable profits.

## 5. Income tax expense (continued)

A deferred tax asset of £22.2m (2015: £26.1m) has been recognised in respect of UK losses carried forward at 31 December 2016. This amount has been calculated by estimating the future UK taxable profits, against which the UK tax losses are expected to be utilised, and applying the tax rates (substantively enacted as at the balance sheet date) applicable for each year. Remaining UK tax losses of £135.3m have not been recognised as at 31 December 2016.

## 6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year, excluding those held in the Rentokil Initial Employee Share Trust for UK employees (see note at the bottom of the Consolidated Statement of Changes in Equity) which are treated as cancelled, and including share options for which all conditions have been met.

Adjusted earnings per share is the basic earnings per share adjusted for the after-tax effects of one-off items, amortisation and impairment of intangibles<sup>1</sup> and net interest credit from pensions.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group's potentially dilutive ordinary shares relate to the contingent issuable shares under the Group's long term incentive share plants (LTIPs) to the extent the performance conditions have been met at the end of the period. These share options are issued for nil consideration to employees if performance conditions are met.

Details of the adjusted earnings per share are set out below:

	2016 £m	Restated <sup>2</sup> 2015 £m
<b>Profit from continuing operations attributable to equity holders of the Company</b>	<b>167.8</b>	124.3
One-off items, amortisation and impairment of intangibles <sup>1</sup> , and net interest credit from pensions, before tax	<b>43.7</b>	31.1
Tax on one-off items of £3.1m (2015: £2.3m), amortisation and impairment of intangibles of £14.1m (2015: £9.1m), and net interest credit from pensions of £(1.6)m (2015: £(1.1)m)	<b>(15.6)</b>	(10.3)
<b>Adjusted profit from continuing operations attributable to equity holders of the Company</b>	<b>195.9</b>	145.1
<b>Weighted average number of ordinary shares in issue</b>	<b>1,826.0</b>	1,819.2
Adjustment for share options and LTIPs	<b>16.9</b>	7.5
<b>Weighted average number of ordinary shares for diluted earnings per share</b>	<b>1,842.9</b>	1,826.7
Basic earnings per share	<b>9.19p</b>	6.83p
Diluted earnings per share	<b>9.11p</b>	6.81p
Basic adjusted earnings per share	<b>10.73p</b>	7.98p
Diluted adjusted earnings per share	<b>10.63p</b>	7.94p

<sup>1</sup> excluding computer software

<sup>2</sup> restated to reflect restructuring costs are now being reported in operating profit

## 7. Dividends

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

	2016 £m	2015 £m
2014 final dividend paid - 1.82p per share	-	33.1
2015 interim dividend paid - 0.87p per share	-	15.8
2015 final dividend paid - 2.06p per share	<b>37.5</b>	-

2016 interim dividend paid 0.99p per share	<b>18.0</b>	-
	<b>55.5</b>	48.9

An interim dividend of 0.99p per share was paid on 14 September 2016 amounting to £18.0m. A dividend in respect of 2016 of 2.38p (2015: 2.06p) per 1p share amounting to £43.5m (2015: £37.5m) is to be proposed at the annual general meeting on 10 May 2017. These financial statements do not reflect this recommended dividend.

## 8. Intangible assets

	Goodwill £m	Customer lists and relationships £m	Brands £m	Product development £m	Computer software £m	2016 Total £m	2015 Total £m
<b>Cost</b>							
At 1 January	623.4	539.4	45.1	12.2	86.7	1,306.8	902.2
Exchange differences	124.7	98.6	8.3	-	8.2	239.8	(10.5)
Additions	-	-	-	6.0	15.0	21.0	13.1
Disposals/retirements	-	-	-	-	(7.8)	(7.8)	(8.4)
Acquisition of companies and businesses	51.2	38.5	7.8	-	0.1	97.6	413.9
Disposal of companies and businesses	-	-	-	-	-	-	(3.5)
Transferred to disposal group held-for-sale	(33.0)	(85.3)	(1.1)	-	(11.2)	(130.6)	-
At 31 December	766.3	591.2	60.1	18.2	91.0	1,526.8	1,306.8
<b>Accumulated amortisation and impairment</b>							
At 1 January	(26.1)	(381.4)	(23.9)	(3.2)	(53.9)	(488.5)	(470.9)
Exchange differences	(4.2)	(69.3)	(4.2)	-	(5.5)	(83.2)	13.5
Disposals/retirements	-	-	-	-	6.4	6.4	7.6
Disposal of companies and businesses	-	-	0.1	-	-	0.1	3.5
Impairment charge	-	-	-	-	-	-	(2.2)
Amortisation charge	-	(36.9)	(3.8)	(2.8)	(12.4)	(55.9)	(40.0)
Transferred to disposal group held-for-sale	-	84.2	0.6	-	9.1	93.9	-
At 31 December	(30.3)	(403.4)	(31.2)	(6.0)	(56.3)	(527.2)	(488.5)
<b>Net book value</b>							
At 1 January	597.3	158.0	21.2	9.0	32.8	818.3	431.3
At 31 December	736.0	187.8	28.9	12.2	34.7	999.6	818.3

## 9. Property, plant and equipment

	Land and buildings £m	Service contract equipment £m	Other plant and equipment £m	Vehicles and office equipment £m	2016 Total £m	2015 Total £m
<b>Cost</b>						
At 1 January	136.2	634.9	231.1	201.6	1,203.8	1,220.8
Exchange differences	24.4	115.4	39.4	43.2	222.4	(67.3)
Additions	3.5	153.1	14.5	30.7	201.8	167.8
Disposals	(2.0)	(133.3)	(8.1)	(27.6)	(171.0)	(123.1)
Acquisition of companies and businesses	-	0.3	0.7	11.6	12.6	5.7
Disposal of companies and businesses	-	-	-	-	-	(0.1)
Transferred to disposal group held- for-sale	(65.7)	(346.5)	(84.4)	(33.8)	(530.4)	-
At 31 December	96.4	423.9	193.2	225.7	939.2	1,203.8
<b>Accumulated depreciation and</b>						

<b>impairment</b>						
At 1 January	(44.1)	(393.6)	(163.4)	(125.6)	(726.7)	(715.3)
Exchange differences	(9.1)	(75.0)	(28.6)	(28.0)	(140.7)	41.5
Disposals	0.9	131.2	7.8	25.5	165.4	116.7
Disposal of companies and businesses	-	-	-	-	-	0.1
Impairment	-	-	-	-	-	(7.4)
Depreciation charge	(4.5)	(134.6)	(15.2)	(34.0)	(188.3)	(162.3)
Transferred to disposal group held-for-sale	30.0	252.6	57.5	27.3	367.4	-
At 31 December	(26.8)	(219.4)	(141.9)	(134.8)	(522.9)	(726.7)
<b>Net book value</b>						
At 1 January	92.1	241.3	67.7	76.0	477.1	505.5
At 31 December	69.6	204.5	51.3	90.9	416.3	477.1

## 10. Disposal group held for sale

A non-current asset or a disposal group is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

On the 16 December the Group announced an agreement to form a joint venture with the CWS-Boco businesses of Haniel & Cie. Holding Company. Under the terms of the arrangement, the Group will contribute its Workwear and Hygiene operations in 10 countries principally in the Benelux and Central and Eastern Europe (the disposal group). As consideration, the Group will receive c. €520m in cash and a c.18% share in the joint venture, both subject to completion adjustments. Completion of the transaction is subject to clearance of competition authorities. The Group's interest in the joint arrangement will be recognised as an investment in associate. The assets and liabilities of the disposal group have been classified as held for sale and are set out the table below.

### Net assets of disposal group held for sale

	2016 £m	2015 £m
<b>Assets held-for-sale</b>		
Property, plant and equipment <sup>1</sup>	163.1	-
Intangible assets	36.7	-
Inventories	2.0	-
Trade and other receivables	46.7	-
<b>Liabilities held-for-sale</b>		
Trade and other payables	(43.5)	-
Provisions	(3.4)	-
Retirement benefit obligations	(1.4)	-
Deferred and current tax	(22.5)	-
<b>Net assets held-for-sale</b>	<b>177.7</b>	<b>-</b>

<sup>1</sup> within the total property, plant and equipment is £4.8m in relation to two properties not included in the disposal to Haniel, but are held for sale to different third parties

## 11. Financing

### Fair value estimation

All financial instruments held at fair value are classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

**Level 1** - unadjusted quoted prices in active markets for identical assets or liabilities;

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

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

The Group uses the following methods to estimate fair value of its financial instruments:

Financial instrument	Hierarchy level	Valuation method
Financial assets traded in active markets	1	Current bid price
Financial liabilities traded in active markets	1	Current ask price
Borrowings not traded in active markets	2	Cash flows discounted at current market rates
Long-term debt	1	Quoted market prices or dealer quotes for similar instruments
Interest rate/currency swaps	1	Market swap rates at the balance sheet date
Forward foreign exchange contracts	1	Forward exchange market rates at the balance sheet date
Financial instruments not traded in active markets	2 or 3	Valuation assumptions based on market conditions at the balance sheet date
Trade payables and receivables	3	Nominal value less estimated credit adjustments
Deferred and contingent consideration	3	Fair value based on the future forecasts of the acquired businesses
Other financial instruments	3	Variety of techniques including discounted cash flows

## 12. 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.

Included within cash at bank and in hand is £25.2m (2015: £12.3m) 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.

The Group operates pooling arrangements whereby cash balances and overdrafts held within the same bank are offset to give a net balance which is included within cash and cash equivalents on the balance sheet. These cash and bank overdraft figures before netting are shown in the table below:

### Offsetting financial assets and liabilities

	Gross amounts before offsetting £m	Gross amounts set off £m	Net amounts presented £m
At 31 December 2016			
Cash at bank and in hand	767.9	(609.7)	158.2
Short-term bank deposits	2.0	-	2.0
Cash and cash equivalents	769.9	(609.7)	160.2
Bank overdraft	(664.0)	609.7	(54.3)
	105.9	-	105.9
At 31 December 2015			
Cash at bank and in hand	560.9	(464.2)	96.7
Short-term bank deposits	5.9	-	5.9
Cash and cash equivalents	566.8	(464.2)	102.6
Bank overdraft	(466.3)	464.2	(2.1)
	100.5	-	100.5

## 13. Analysis of bank and bond debt

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the Group has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date.

The Group's bank debt comprises:

	Facility amount £m	Drawn at year end £m	Headroom £m	Interest rate at year end %
<b>Current</b>				
£60m RCF due December 2017	60.0	-	60.0	-
<b>Non-current</b>				
\$25m RCF due December 2019	20.3	-	20.3	-
£315m RCF due January 2022 (£45m reserved for guarantees)	270.0	145.9	124.1	1.24
\$157m term loan due December 2018	127.3	127.3	-	1.70
£200m term loan due December 2018	200.0	200.0	-	1.07
Average cost of bank debt at year end rates	677.6	473.2	204.4	1.29

At 31 December 2016 the Group has a £315m Revolving Credit Facility (RCF) which is available for cash drawings up to £270m and for guarantees and letters of credit up to £45m. The maturity date is January 2022. At the year end, £145.9m was drawn under the part of the facility available for cash drawings, and £30.2m under the part available for guarantees.

In December 2016 the Group entered into additional short-term revolving credit facilities with two banks for £30m each. The terms were aligned with the main RCF. On 27 January 2017, these two facilities were cancelled and the commitments were transferred into the main RCF. At the same time an additional bank was brought into the RCF increasing the amount available for cash drawings to £360m, and for guarantees and letters of credit to £60m.

### 13. Analysis of bank and bond debt (continued)

The Group also entered into a \$25m revolving credit facility in December 2016, maturing in December 2019, on terms in line with the main RCF.

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
<b>Non-current</b>		
€50m bond due March 2018	Euribor +0.48%	Fixed 0.66%
€500m bond due September 2019	Fixed 3.375%	Fixed 3.50%
€350m bond due October 2021	Fixed 3.25%	Fixed 3.41%
£1.3m perpetual debentures	Fixed 5.00%	Fixed 5.00%
£0.3m perpetual debentures	Fixed 4.50%	Fixed 4.50%
Average cost of bond debt at year end rates		3.30%

On 31 March 2016 the Group repaid a £300m 5.75% bond using a combination of cash in hand, drawings under the RCF and drawings under the Term Loan.

The Group considers the fair value of other current liabilities to be equal to the carrying value.

### 14. 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 principal pension scheme in the Group is the Rentokil Initial 2015 Pension Scheme (RIPS) in the UK (formerly the Rentokil Initial Pension Scheme), which has a number of defined benefit sections, which are now closed to new entrants, and a defined contribution section. The defined benefit scheme is funded through payments to a trustee-administered fund, determined by periodic actuarial calculations.

Actuarial valuations of the UK scheme are usually carried out every three years. At 31 December 2016 RIPS was valued at an accounting surplus of £272.0m (2015: £237.0m) on the Group's balance sheet. The trustees of the scheme value the scheme on a different basis and in the valuation at 31 December 2015 it was agreed that the scheme is now fully funded. The trustees have therefore agreed that the annual payments of £3.2m the company has been paying into an

escrow arrangement each January will not be required going forward. In accordance with the terms of the escrow arrangement, the balance held in escrow was released back to the company on 16 February 2017. The funding position will be reviewed at the next actuarial valuation, which is expected to be carried out at 31 December 2018.

The Group will recognise a pension surplus as an asset where there is an unconditional right to a refund or where the Group has a right to reduce future pension contributions, taking into account the adverse effect of any minimum funding requirements.

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

	2016	2015
<b>Weighted average %</b>		
Discount rate	<b>2.6 %</b>	3.8%
Future salary increases	<b>N/A</b>	N/A
Future pension increases	<b>3.4%</b>	3.3%
RPI inflation	<b>3.5%</b>	3.4%
CPI inflation	<b>2.4%</b>	2.3%

#### 14. Retirement benefit obligations (continued)

The movement in the net defined benefit obligation for all pension schemes over the accounting period is as follows:

	Present value of obligation 2016 £m	Fair value of plan assets 2016 £m	Total 2016 £m	Present value of obligation 2015 £m	Fair value of plan assets 2015 £m	Total 2015 £m
At 1 January	(1,232.0)	1,444.9	212.9	(1,366.2)	1,532.6	166.4
Current service costs <sup>1</sup>	(0.5)	-	(0.5)	(0.6)	-	(0.6)
Past service costs <sup>1</sup>	(0.1)	-	(0.1)	-	-	-
Administration expenses <sup>1</sup>	(1.3)	-	(1.3)	(2.7)	-	(2.7)
Settlement credit <sup>1</sup>	-	-	-	31.3	(30.5)	0.8
Interest on net defined benefit asset <sup>1</sup>	(45.1)	53.5	8.4	(46.4)	50.7	4.3
Exchange difference	(8.2)	4.1	(4.1)	4.5	(1.4)	3.1
Total pension income	(55.2)	57.6	2.4	(13.9)	18.8	4.9
Remeasurements:						
- Remeasurement of gain/(loss) on scheme assets	-	285.9	285.9	-	(45.2)	(45.2)
- Actuarial gain/(loss) on obligation <sup>2</sup>	(264.6)	-	(264.6)	82.4	-	82.4
- Transfers to disposal group held-for-sale	4.6	(3.2)	1.4	(0.3)	-	(0.3)
Contributions:						
- Employers	(0.5)	1.5	1.0	(0.7)	1.6	0.9
- Participants	-	0.1	0.1	-	0.1	0.1
- Benefit payments	60.2	(58.8)	1.4	64.0	(63.0)	1.0
- Administration costs	1.3	-	1.3	2.7	-	2.7
At 31 December	(1,486.2)	1,728.0	241.8	(1,232.0)	1,444.9	212.9
Retirement benefit obligation schemes <sup>3</sup>	(52.9)	22.0	(30.9)	(45.8)	21.7	(24.1)
Retirement benefit asset schemes <sup>4</sup>	(1,433.3)	1,706.0	272.7	(1,186.2)	1,423.2	237.0

<sup>1</sup> service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to net interest credit from pensions

<sup>2</sup> the actuarial movement on the UK RIPS scheme comprises actuarial loss arising from changes in demographic assumptions of £18.5m (2015: £nil), actuarial loss arising from changes in financial assumptions of £238.1m (2015: actuarial gain £64.6m) and actuarial losses arising from experience of £2.2m (2015: £18.1m gain)

<sup>3</sup> benefit plans in an obligation position include plans situated in Ireland, UK, Martinique, Trinidad, Norway, South Africa, Germany, Austria, France, Italy, Korea, Philippines, and Hong Kong

<sup>4</sup> benefit plans in an asset position include plans situated in UK, Australia and Barbados

Included in the table above is a defined benefit obligation of £1,431.0m (2015:£1,186.2m) and plan assets of £1,703.0m (2015: £1,423.2m) in relation to the UK RIPS scheme.

Of the £1,486.2 (2015: £1,232.0m) of obligations, £18.6m (2015: £13.1m) is unfunded.

Total contributions payable to defined benefit pension schemes in 2017 are expected to be between £1-2m.

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

	2016 £m	2015 £m
Equity instruments	234.7	290.1
Debt instruments - quoted	1,466.4	982.9
Debt instruments - unquoted	11.4	10.4
Interest and inflation rate hedging instruments	-	22.8
Property	0.3	0.4
Other	15.2	138.3
<b>Total plan assets</b>	<b>1,728.0</b>	<b>1,444.9</b>

### 15. Provisions for other liabilities and charges

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, it is probable that an outflow of resources will be required to settle the obligation, and the amount is capable of being reliably estimated. If such an obligation is not capable of being reliably estimated it is classified as a contingent liability.

When the effect of the time value of money is material, provision amounts are calculated on the present value of the expenditure expected to be required to settle the obligation. The present value is calculated using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The rates used are between 0.3% and 0.5% (2015: between 0.9% and 1.4%) for the UK, 0.5% (2015: 0.5%) for Europe and 2.3% (2015: 2.2%) for the US.

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

	Vacant properties £m	Environmental £m	Self- insurance £m	Other £m	2016 Total £m	2015 Total £m
<b>At 1 January</b>	<b>27.6</b>	<b>14.8</b>	<b>22.5</b>	<b>16.5</b>	<b>81.4</b>	84.3
Exchange differences	-	2.6	3.5	1.7	7.8	-
Additional provisions	0.8	0.5	16.5	12.0	29.8	24.8
Used during the year	(5.1)	(2.1)	(15.0)	(15.1)	(37.3)	(27.8)
Unused amounts reversed	(3.1)	(0.5)	(2.6)	(1.9)	(8.1)	(5.6)
Acquisition of companies and businesses	-	-	-	-	-	5.2
Unwinding of discount on provisions	0.2	0.1	-	-	0.3	0.5
Transferred to disposal group held-for-sale	-	-	-	(3.4)	(3.4)	-
<b>At 31 December</b>	<b>20.4</b>	<b>15.4</b>	<b>24.9</b>	<b>9.8</b>	<b>70.5</b>	81.4
Analysed as follows:						
<b>Non-current</b>					<b>55.2</b>	60.8
<b>Current</b>					<b>15.3</b>	20.6

### Vacant properties

The Group has a number of vacant and 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.

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases at 31 December 2016 is £1.1m (2015: £1.5m).

### Environmental

The Group owns a number of properties in Europe and the US where there is land contamination and provisions are held for the remediation of such contamination. These provisions are expected to be substantially utilised within the next eight years.

### Self-insurance

Since 2008 the Group purchases external insurance from a portfolio of international insurers for its key insurable risks, but prior to this the Group self-insured its risks. Provision is still held for self-insured past cover, primarily in relation to third party motor vehicle and employee liability. For the continuing self-insured programmes, individual claims are met in full by the Group up to agreed self-insured limits in order to limit volatility in claims. The calculated cost of self-insurance claims is based on an actuarial assessment of claims incurred at the balance sheet date and is accumulated as claims provisions.

### Other

Other provisions principally comprise amounts required to cover obligations arising, costs relating to disposed businesses and restructuring costs. Existing provisions are expected to be substantially utilised within the next five years.

## 16. Share capital

	2016 £m	2015 £m
Authorised 4,100,000,000 ordinary shares of 1p each	41.0	41.0
Issued and fully paid At 31 December - 1,829,332,965 shares (2015: 1,822,832,965)	18.3	18.2

## 17. Reconciliation of net change in cash and cash equivalents to net debt

	2016 £m	2015 £m
Net decrease in cash and cash equivalents	(5.2)	(88.0)
Movement on finance leases	(0.9)	0.1
Movement on other investments	(89.7)	47.8
Movement on loans	100.9	(232.5)
Decrease/(increase) in debt resulting from cash flows	5.1	(272.6)
Foreign exchange translation and other items	(217.2)	21.0
Movement on net debt in the year	(212.1)	(251.6)
Opening net debt	(1,026.6)	(775.0)
Closing net debt	(1,238.7)	(1,026.6)

## 18. Operating cash and Free Cash Flow

	2016 £m	2015 £m
Operating profit	232.4	187.8
Adjustments for:		
- Depreciation and impairment of property, plant and equipment	188.3	162.3
- Amortisation and impairment of intangible assets (excluding computer software)	43.4	31.8
- Amortisation and impairment of computer software	12.4	10.4
- Other non-cash items	2.3	8.6
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		

- Inventories	(3.6)	2.0
- Trade and other receivables	(34.6)	(4.8)
- Trade and other payables and provisions	12.0	(5.8)
Cash generated from operating activities before special pension contributions	452.6	392.3
Special pension contributions	(1.0)	(0.9)
Cash generated from operating activities	451.6	391.4
Add back: special pension contributions	1.0	0.9
	452.6	392.3
Purchase of property, plant and equipment	(186.2)	(159.2)
Purchase of intangible fixed assets	(21.0)	(13.1)
Leased property, plant and equipment	(14.6)	(9.0)
Proceeds from sale of property, plant and equipment	6.3	6.7
Dividends received from associates	10.3	2.1
Operating cash flow <sup>1</sup>	247.4	219.8
Interest received	12.7	10.2
Interest paid	(66.0)	(53.7)
Interest element of finance lease payments	(1.3)	(0.7)
Income tax paid	(35.8)	(27.9)
Special pension contributions	(1.0)	(0.9)
Free Cash Flow	156.0	146.8
Add back: Free Cash Flow - discontinued operations	0.4	0.9
Free Cash Flow from continuing operations	156.4	147.7

<sup>1</sup>Operating cash flow includes non-ongoing operations of £(0.4)m (2015: £(0.9)m)

## 19. Business combinations

During the year the Group purchased 100% of the share capital or trade and assets of 41 companies and businesses. The total consideration in respect of these acquisitions was £107.1m and the cash outflow from current and past period acquisitions, net of cash acquired, was £109.2m.

From the dates of acquisition to 31 December 2016, these acquisitions contributed £70.2m to revenue and £8.0m to operating profit.

If the acquisitions had occurred on 1 January 2016 the estimated revenue and operating profit of the Group would have amounted to £2,237.2m and £233.8m respectively (as reported: £2,168.1m and £232.4m).

## 19. Business combinations (continued)

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

	2016 £m	2015 £m
Purchase consideration:		
- Cash paid	82.9	360.0
- Deferred and contingent consideration	24.2	26.0
Total purchase consideration	107.1	386.0
Fair value of net assets acquired	(60.0)	(80.3)
Goodwill from current year acquisitions	47.1	305.7

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

Deferred consideration of £9.5m and contingent consideration of £14.7m is payable in respect of the above acquisitions. Contingent consideration is based on a variety of conditions including revenue and profit targets being met. Both deferred and contingent consideration are payable over the next 4 years. The Group incurred acquisition-related costs of £1.9m. The Group has included the contingent and deferred consideration based on the fair value of the consideration at the acquisition date.

The provisional fair value<sup>1</sup> of assets and liabilities arising from acquisitions in the year are as follows:

2016 2015

	£m	£m
Non-current assets		
- Intangible assets <sup>2</sup>	46.2	107.8
- Property, plant and equipment	4.0	5.9
Current assets <sup>3</sup>	39.7	19.7
Current liabilities	(23.3)	(18.9)
Non-current liabilities <sup>4</sup>	(6.6)	(34.2)
Net assets acquired	60.0	80.3

<sup>1</sup> the provisional fair values will be finalised in the 2017 financial statements. The fair values are provisional since the acquisition accounting has not yet been finalised as a result of the proximity of many acquisitions to the year end

<sup>2</sup> includes £38.1m (2015: £96.2m) of customer lists and relationships and £7.9m (2015: £11.6m) of other intangibles

<sup>3</sup> includes trade and other receivables of £24.1m (2015: £18.6m) which represents the gross and fair value of the assets acquired

<sup>4</sup> includes (£6.4m) of deferred tax relating to acquired intangibles (2015: £31.0m)

The cash outflow from current and past acquisitions are as follows:

	2016 £m	2015 £m
Total purchase consideration	107.1	386.0
Consideration payable in future periods	(24.2)	(26.0)
Purchase consideration paid in cash	82.9	360.0
Cash and cash equivalents in acquired companies and businesses	(2.2)	(0.1)
Cash outflow on current period acquisitions	80.7	359.9
Deferred consideration paid	28.5	9.3
Cash outflow on current and past acquisitions	109.2	369.2

## 20. Related party transactions

Nippon Calmic Ltd (49%) was an associate during 2016 and 2015. There are no significant transactions between Nippon Calmic Ltd and other Group companies.

The Group bears the costs of administration and independent pension advice of the Rentokil Initial 2016 Pension Scheme. The total amount of costs in the year ended 31 December 2016 was £1.9m (2015: £2.5m) of which £0.2m (2015: £0.2m) was recharged to the scheme.

## 21. Events occurring after the balance sheet date

There were no significant post balance sheet events affecting the Group since 31 December 2016.

## 22. Alternative performance measures

### Definitions and reconciliation of non-GAAP measures to GAAP measures

The Group uses a number of measures to present the financial performance of the business which are not GAAP measures as defined under IFRS. Management believes these measures provide valuable additional information for users of the financial statements in order to understand the underlying trading performance. The Group's internal strategic planning process is also based on these measures and they are used for incentive purposes. They should be viewed as complements to, and not replacements for, the comparable GAAP measures.

### Constant exchange rates (CER)

Given the international nature of the Group's operations, foreign exchange movements can have a significant impact on the reported results of the Group when they are translated into sterling (the functional reporting currency of the Group). In order to help understand the underlying trading performance of the business, unless otherwise stated, percentage movements for revenue and profit measures are presented at constant exchange rates (CER). Constant exchange rates are calculated by retranslating current year reported numbers at the full year average exchange rates for the prior year, in order to give management and other users of the accounts better visibility of underlying performance against the prior period. The major exchange rates used are £/\$ FY 2016 1.3556 (FY 2015 1.5288) and £/€ FY 2016 1.2299 (FY 2015 1.3770). Comparisons are to the year ended 31 December 2015 (2015) unless otherwise stated.

### Ongoing Revenue and Ongoing Operating Profit

Ongoing Revenue and Ongoing Operating Profit represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Operating Profit is an adjusted measure and is presented before amortisation and impairment of intangible assets (excluding computer software) and one-off items (see below).

Ongoing measures enable the users of the accounts to focus on the performance of the businesses retained by the Group and that will therefore contribute to the future performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. A reconciliation of Ongoing Revenue and Ongoing Operating Profit measures to the equivalent GAAP measure is provided in the table below and in the segmental analysis in Note 2.

### Adjusted profit and earnings per share measures

Adjusted profit measures are used to give management and other users of the accounts a clear understanding of the underlying profitability of the business over time by removing distortions caused by non-recurring expenses and income, and the amortisation and impairment of intangible assets arising on the acquisition of businesses. Adjusted profit measures are calculated by adding the following items back to the equivalent GAAP profit measure:

- Amortisation and impairment of intangible assets (excluding software)
- One-off items
- Net interest credit from pensions

Intangible assets (excluding computer software) are recognised on the acquisition of businesses which by their nature can vary by size and amount each year. As a result, amortisation of intangibles is added back to assist with the understanding of the underlying trading performance of the business and to allow comparability across regions and categories.

One-off items are significant non-recurring expenses or income which will have a non-recurring impact on the profitability of the Group. Typical examples are costs related to the acquisition of businesses (including aborted acquisitions), gain or loss on disposal or closure of a business, material gains or losses on disposal of fixed assets, adjustments to legacy property-related provisions (vacant property and environmental liabilities), and payments or receipts as a result of legal disputes. One-off items are analysed in Note 2.

The net interest credit from pensions has the potential to vary significantly dependent on actuarial revaluations of the pension schemes. In order to ensure year on year comparability this is added back to arrive at adjusted measures.

Prior to 2016 restructuring costs were an adjustment in arriving at adjusted profit measures. In 2016 they are no longer adjusted for, but are presented in the segmental analysis in order to provide comparability with 2015. Central and regional costs are overhead costs which cannot be allocated to any specific segment.

Adjusted earnings per share is earnings per share before the after tax effects of amortisation and impairment of intangibles (excluding computer software), one-off items and net interest credit from pensions.

## 22. Alternative performance measures (continued)

A reconciliation of non-GAAP measures to the comparable GAAP equivalents is provided below at both AER and CER:

	2016	2016	2015	% change	
	AER	CER		AER	CER
	£m	£m	£m		
Ongoing Revenue	2,157.7	1,956.0	1,736.8	24.2%	12.6%
Revenue - disposed and closed businesses	10.4	9.3	22.2	(53.2%)	(58.1%)
<b>Revenue</b>	<b>2,168.1</b>	<b>1,965.3</b>	1,759.0	23.2%	11.7%
Ongoing Operating Profit	284.9	252.3	226.3	25.8%	11.5%
Operating Profit - disposed and closed businesses	(0.5)	(0.5)	(1.3)	59.8%	64.1%
Adjusted Operating Profit	284.4	251.8	225.0	26.3%	11.9%
One-off items	(8.6)	(7.9)	(5.4)	(57.5%)	(44.6%)
Amortisation and impairment of intangible assets	(43.4)	(39.6)	(31.8)	(36.8%)	(24.6%)
<b>Operating profit</b>	<b>232.4</b>	<b>204.3</b>	187.8	23.7%	8.8%
Share of profit from associates (net of	6.2	5.0	4.7	32.3%	7.0%

tax)					
Net interest payable (excluding pensions)	(38.5)	(34.9)	(39.6)	2.7%	11.7%
Net interest credit from pensions	8.4	8.4	6.1	37.6%	38.2%
<b>Profit before tax</b>	<b>208.5</b>	<b>182.8</b>	159.0	31.0%	15.0%
Net interest credit from pensions	(8.4)	(8.4)	(6.1)	37.6%	38.2%
One-off items	8.6	7.9	5.4	(57.5%)	(44.6%)
Amortisation and impairment of intangible assets	43.4	39.6	31.8	(36.8%)	(24.6%)
Adjusted profit before tax	252.1	221.9	190.1	32.5%	16.7%
Basic earnings per share	9.19p	7.92p	6.83p	34.6%	16.0%
Basic adjusted earnings per share	10.73p	9.30p	7.98p	34.5%	16.5%

### Organic Revenue Measures

Acquisitions are a core part of the Group's growth strategy. Organic Revenue growth measures are used to help understand the underlying performance of the Group. Organic Revenue growth represents the growth in Ongoing Revenue excluding the effect of businesses acquired during the year. Acquired businesses are included in organic measures in the year following acquisition, and the comparative period is adjusted to include an estimated full year performance for growth calculations. The table below reconciles organic measures by region and category to the comparable GAAP measures.

	Europe		UK and ROW		Asia		North America		Pacific		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
2015 Ongoing Revenue (as reported)	741.2	-	330.5	-	106.1	-	436.5	-	122.5	-	1,736.8	-
Proforma revenue from 2015 and 2016 acquisitions	3.6	0.5	1.4	0.4	4.1	3.9	149.1	34.1	8.2	6.7	166.4	9.6
Organic Revenue growth	6.7	0.9	13.4	4.1	8.7	8.1	19.0	4.4	5.0	4.0	52.8	3.0
<b>2016 Ongoing Revenue (as reported)</b>	<b>751.5</b>	<b>1.4</b>	<b>345.3</b>	<b>4.5</b>	<b>118.9</b>	<b>12.0</b>	<b>604.6</b>	<b>38.5</b>	<b>135.7</b>	<b>10.7</b>	<b>1,956.0</b>	<b>12.6</b>

	Pest Control		Hygiene		Workwear		Other		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
2015 Ongoing Revenue (as reported)	786.0	-	425.5	-	347.1	-	178.2	-	1,736.8	-
Proforma revenue from 2015 and 2016 acquisitions	158.1	20.2	7.4	1.7	0.0	0.0	0.9	0.5	166.4	9.6
Organic growth	45.1	5.7	13.1	3.1	(4.4)	(1.3)	(1.0)	(0.7)	52.8	3.0
<b>2016 Ongoing Revenue (as reported)</b>	<b>989.2</b>	<b>25.9</b>	<b>446.0</b>	<b>4.8</b>	<b>342.7</b>	<b>(1.3)</b>	<b>178.1</b>	<b>(0.2)</b>	<b>1,956.0</b>	<b>12.6</b>

## 22. Alternative performance measures (continued)

### Segmental analysis

Segmental information has been presented in accordance with IFRS 8 "Operating Segments" (Note 2). The "Regional" reporting segments reflect the internal management organisation and reporting structure of the Group. The "Category" reporting segment reflects the different operational categories of Pest Control, Hygiene, Workwear and Other. Other represents a number of smaller businesses outside of the main categories, the largest being the Plants business.

In addition, the business uses a "Quadrant" analysis tool for capital allocation and operational management. Businesses are grouped by Geography and Category into a growth-potential and profit-contribution matrix. Using this approach enables the business to introduce different growth levers to maximise impact, and apply differential investment hurdle rates.

Segmental analysis is presented at CER unless otherwise stated.

### Regional Analysis

	Ongoing Revenue				Ongoing Operating Profit			
	2016		Change from FY 2015		2016		Change from FY 2015	
	CER £m	AER £m	CER %	AER %	CER £m	AER £m	CER %	AER %
France	298.9	334.7	(0.9)	10.9	40.1	44.9	(14.1)	(3.8)
Benelux	190.5	213.3	(0.1)	11.8	35.6	39.9	2.1	14.3
Germany	175.5	196.2	4.1	16.4	44.9	50.2	2.5	14.5
Southern Europe	62.5	69.9	2.4	14.6	10.7	12.0	6.3	19.0
Latin America	24.1	26.0	26.1	35.8	3.6	3.9	29.8	41.0
<b>Total Europe</b>	<b>751.5</b>	<b>840.1</b>	<b>1.4</b>	<b>13.3</b>	<b>134.9</b>	<b>150.9</b>	<b>(2.4)</b>	<b>9.1</b>
UK & Ireland	233.7	235.8	4.6	5.5	44.6	45.7	4.8	7.5
Rest of World	111.6	119.7	4.4	12.0	25.7	27.5	4.1	11.1
<b>UK &amp; Rest of World</b>	<b>345.3</b>	<b>355.5</b>	<b>4.5</b>	<b>7.6</b>	<b>70.3</b>	<b>73.2</b>	<b>4.6</b>	<b>8.8</b>
Asia	118.9	130.4	12.0	22.8	12.4	13.4	31.1	42.5
North America	604.6	680.4	38.5	55.9	81.5	91.8	44.5	62.8
Pacific	135.7	151.3	10.7	23.5	28.4	31.7	11.9	24.8
Central and regional overheads	-	-	-	-	(68.1)	(68.2)	(9.0)	(9.2)
Restructuring costs	-	-	-	-	(7.1)	(7.9)	10.3	(0.1)
<b>Ongoing operations</b>	<b>1,956.0</b>	<b>2,157.7</b>	<b>12.6</b>	<b>24.2</b>	<b>252.3</b>	<b>284.9</b>	<b>11.5</b>	<b>25.8</b>
Disposed businesses	9.3	10.4	(58.1)	(53.2)	(0.5)	(0.5)	64.1	59.8
<b>Continuing operations</b>	<b>1,965.3</b>	<b>2,168.1</b>	<b>11.7</b>	<b>23.2</b>	<b>251.8</b>	<b>284.4</b>	<b>11.9</b>	<b>26.3</b>

### Category Analysis

	Ongoing Revenue				Ongoing Operating Profit			
	2016		Change from FY 2015		2016		Change from FY 2015	
	CER £m	AER £m	CER %	AER %	CER £m	AER £m	CER %	AER %
Pest Control	989.2	1,094.5	25.9	39.3	184.4	203.1	25.1	37.7
Hygiene	446.0	486.0	4.8	14.2	86.1	94.4	3.9	14.0
Workwear	342.7	383.7	(1.3)	10.5	39.8	44.5	(14.5)	(4.2)
Other	178.1	193.5	(0.2)	8.4	17.2	19.0	(13.7)	(5.0)
Central and regional overheads	-	-	-	-	(68.1)	(68.2)	(9.0)	(9.2)
Restructuring costs	-	-	-	-	(7.1)	(7.9)	10.3	(0.1)
<b>Ongoing operations</b>	<b>1,956.0</b>	<b>2,157.7</b>	<b>12.6</b>	<b>24.2</b>	<b>252.3</b>	<b>284.9</b>	<b>11.5</b>	<b>25.8</b>
Disposed businesses	9.3	10.4	(58.1)	(53.2)	(0.5)	(0.5)	64.1	59.8
<b>Continuing operations</b>	<b>1,965.3</b>	<b>2,168.1</b>	<b>11.7</b>	<b>23.2</b>	<b>251.8</b>	<b>284.4</b>	<b>11.9</b>	<b>26.3</b>

### 22. Alternative performance measures (continued)

#### Quadrant Analysis

	Ongoing Revenue				Ongoing Operating Profit			
	2016		Change from FY 2015		2016		Change from FY 2015	
	CER £m	AER £m	CER %	AER %	CER £m	AER £m	CER %	AER %

<b>Emerging Growth</b>	<b>164.2</b>	<b>179.2</b>	<b>18.7</b>	<b>29.5</b>	<b>21.0</b>	<b>22.9</b>	<b>31.4</b>	<b>43.1</b>
	<b>1,192.9</b>	<b>1,311.2</b>	<b>19.7</b>	<b>31.6</b>	<b>211.1</b>	<b>232.1</b>	<b>17.7</b>	<b>29.4</b>
<b>Protect &amp; Enhance</b>	<b>540.6</b>	<b>602.0</b>	<b>(0.7)</b>	<b>10.5</b>	<b>85.8</b>	<b>95.3</b>	<b>(7.0)</b>	<b>3.3</b>
<b>Manage for Value</b>	<b>58.3</b>	<b>65.3</b>	<b>1.3</b>	<b>13.4</b>	<b>9.6</b>	<b>10.7</b>	<b>4.4</b>	<b>16.9</b>
<b>Central and regional overheads</b>	-	-	-	-	<b>(68.1)</b>	<b>(68.2)</b>	<b>(9.0)</b>	<b>(9.2)</b>
<b>Restructuring costs</b>	-	-	-	-	<b>(7.1)</b>	<b>(7.9)</b>	<b>10.3</b>	<b>(0.1)</b>
<b>Ongoing operations</b>	<b>1,956.0</b>	<b>2,157.7</b>	<b>12.6</b>	<b>24.2</b>	<b>252.3</b>	<b>284.9</b>	<b>11.5</b>	<b>25.8</b>
Disposed businesses	9.3	10.4	(58.1)	(53.2)	(0.5)	(0.5)	64.1	59.8
<b>Continuing operations</b>	<b>1,965.3</b>	<b>2,168.1</b>	<b>11.7</b>	<b>23.2</b>	<b>251.8</b>	<b>284.4</b>	<b>11.9</b>	<b>26.3</b>

### Operating Margin

Operating Margin is calculated by dividing Ongoing Operating Profit by Ongoing Revenue, expressed as a percentage. Net operating margin by region and category is shown in the tables below:

	<b>2016</b>	<b>2015</b>	<b>Variance</b>
	<b>%</b>	<b>%</b>	<b>%</b>
France	<b>13.4</b>	15.5	(2.1)
Benelux	<b>18.7</b>	18.3	0.4
Germany	<b>25.6</b>	26.0	(0.4)
Southern Europe	<b>17.1</b>	16.5	0.6
Latin America	<b>15.0</b>	14.5	0.5
<b>Total Europe</b>	<b>18.0</b>	18.7	(0.7)
UK & Ireland	<b>19.1</b>	19.0	0.1
Rest of World	<b>23.1</b>	23.1	-
<b>UK &amp; Rest of World</b>	<b>20.4</b>	20.4	-
<b>Asia</b>	<b>10.4</b>	8.9	1.5
<b>North America</b>	<b>13.5</b>	12.9	0.6
<b>Pacific</b>	<b>20.9</b>	20.7	0.2
<b>Ongoing operations<sup>1</sup></b>	<b>12.9</b>	13.0	(0.1)
Disposed businesses	<b>(5.3)</b>	(6.1)	0.8
<b>Continuing operations<sup>1</sup></b>	<b>12.8</b>	12.8	-

	<b>2016</b>	<b>2015</b>	<b>Variance</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Pest Control	<b>18.6</b>	18.8	(0.2)
Hygiene	<b>19.3</b>	19.5	(0.2)
Workwear	<b>11.6</b>	13.4	(1.8)
Other	<b>9.6</b>	11.1	(1.5)
<b>Ongoing operations<sup>1</sup></b>	<b>12.9</b>	13.0	(0.1)
Disposed businesses	<b>(5.3)</b>	(6.1)	0.8
<b>Continuing operations<sup>1</sup></b>	<b>12.8</b>	12.8	-

<sup>1</sup> Operating Margin for ongoing operations and continuing operations is calculated after central and regional overheads and restructuring costs

### Free Cash Flow

The Group aims to generate sustainable cash flow (Free Cash Flow) in order to support its acquisition programme and to fund dividend payments to shareholders. Free Cash Flow is measured as net cash from operating activities, adjusted for cash flows related to the purchase and sale of property, plant, equipment and intangible fixed assets, and dividends received from associates. These items are considered by management to be non-discretionary, as continued investment in these assets is required to support the day-to-day operations of the business. A reconciliation of Free Cash Flow from Net Cash from Operating Activities is provided in the table below:

### 22. Alternative performance measures (continued)

	<b>2016</b>	<b>2015</b>
	<b>AER</b>	<b>AER</b>
	<b>£m</b>	<b>£m</b>
Net cash from operating activities	<b>362.5</b>	320.0

Purchase of property, plant, equipment and intangible fixed assets	(207.2)	(172.3)
Leased property, plant and equipment	(14.6)	(9.0)
Proceeds from sale of property, plant, equipment and software	6.3	6.7
Interest element of finance lease payments	(1.3)	(0.7)
Dividends received from associates	10.3	2.1
<b>Free Cash Flow</b>	<b>156.0</b>	<b>146.8</b>
Free Cash Flow - continuing operations	156.4	147.7
Free Cash Flow - discontinued operations	(0.4)	(0.9)

### Adjusted Effective Tax Rate

Adjusted Effective Tax Rate is calculated by dividing adjusted income tax expense by adjusted profit before income tax, expressed as a percentage. The measure is used by management to assess the rate of tax applied to the Group's adjusted profit before tax from continuing operations.

	2016	2015
	£m	£m
Unadjusted income tax expense	40.7	34.7
Tax adjustments on:		
Amortisation and impairment of intangible assets (excluding computer software)	14.1	9.1
One-off items - operating	3.1	2.3
Net interest credit from pensions	(1.6)	(1.2)
<b>Adjusted income tax expense (a)</b>	<b>56.3</b>	<b>44.9</b>
Adjusted profit before income tax (b)	252.1	190.1
<b>Adjusted Effective Tax Rate (a/b)</b>	<b>22.3%</b>	<b>23.6%</b>

### 23. Legal statements

The financial information for the year ended 31 December 2016 contained in this preliminary announcement was approved by the Board on 22 February 2017.

The financial information in this statement does not constitute the company's statutory accounts for the years ended 31 December 2016 or 2015. The financial information for 2015 and 2016 is derived from the statutory accounts for 2015 (which have been delivered to the registrar of companies) and 2016 (which will be delivered to the registrar of companies following the AGM in May 2017). The auditors have reported on the 2015 and 2016 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The statutory accounts for 2016 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. The accounting policies (that comply with IFRS) used by Rentokil Initial plc ("the Group") are consistent with those set out in the 2015 Annual Report. A full list of policies will be presented in the 2016 Annual Report. For details of new policies applicable to the Group in 2016 and their impact please refer to Note 1.

### 24. 2016 Annual Report

Copies of the 2016 Annual Report will be sent to shareholders who have elected to receive hard copies on 5 April 2017 and will also be available from the company's registered office at Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB and at [www.rentokil-initial.com](http://www.rentokil-initial.com) in PDF format.

### 25. Financial calendar

The Annual General Meeting will be held at the Hilton Hotel (Ascot Suite), Gatwick Airport, South Terminal, Crawley, West Sussex, RH6 0LL on Wednesday 10 May 2017 at 12 noon.

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