Rentokil Initial

Crisis

Recovery

Strategic opportunity

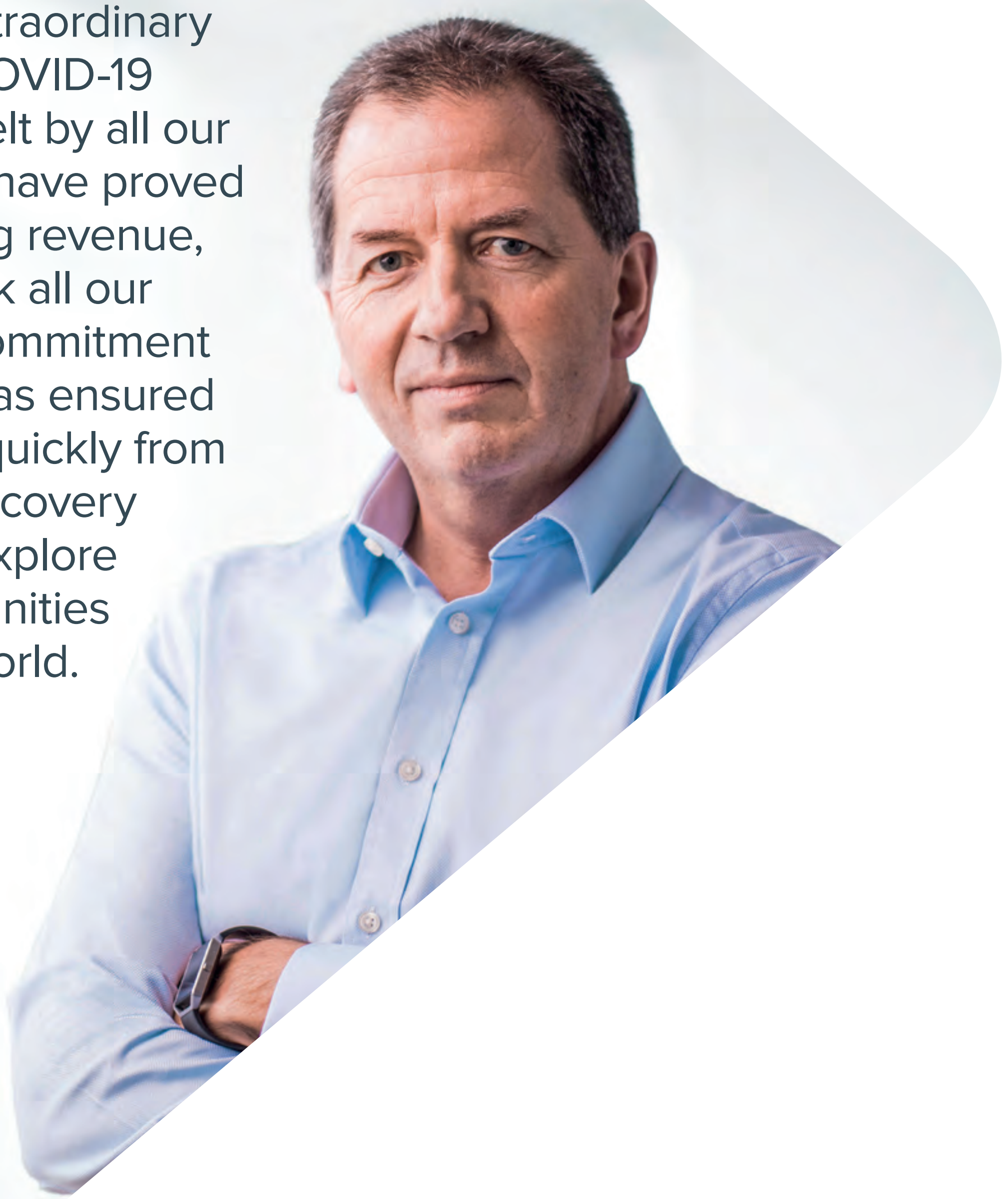

# Protecting People. Enhancing Lives.

## Delivering our purpose during the crisis

**Rentokil Initial plc**
Annual Report 2020

2020 has been an extraordinary year. The toll of the COVID-19 pandemic has been felt by all our stakeholders, but we have proved our resilience, growing revenue, profit and cash. I thank all our colleagues for their commitment and sacrifice, which has ensured that we have moved quickly from our Crisis phase to Recovery phase. We can now explore new strategic opportunities in a post-pandemic world.

**Andy Ransom**
Chief Executive



## Playing our part


**Protecting the stability of our business** thanks to a massive collaborative effort from all our colleagues across the world.


**Helping our customers protect their customers** through the roll-out of disinfection services across 60 countries.


**Enabling a safe return to sport** through our strategic hygiene partnership with the Saracens rugby club.


**Meeting rising demand for digital pest products** The COVID-19 crisis has generated greater customer focus on digital services and reporting.


**Combating COVID-19** Our VIRUSKILLER™ air purifier can kill 99.9999% of viruses, including COVID-19, with a single air pass.


**Supporting our communities** and thanking key workers through our #sharethelove worldwide programme.

## Strategic Report



The Financial Review on pages **146** to **148** forms part of the Strategic Report

I have been impressed by what I have seen in my first full year on the Board. I was particularly struck by the openness, enthusiasm and delivery focus of colleagues at all levels of the Company and the clarity of execution against strategy.

**Richard Solomons**
Chairman

Our performance in 2020 reflects strong delivery of new disinfection services, launched rapidly across the Group in Q2, a return to growth in Pest Control from Q3 and steady performance improvements from our core Hygiene business in the second half.

**Stuart Ingall-Tombs**
Chief Financial Officer

## Corporate Governance



## Financial Statements



## Other Information



## Performance

KPIs, see more on pages **16** to **19**

**Alternative Performance Measures**
This Annual Report includes certain financial performance measures which are not GAAP measures as defined under International Financial Reporting Standards (IFRS). These include Ongoing Revenue, Ongoing Operating Profit, Adjusted Profit Before Tax and Free Cash Flow. Management believes these measures provide valuable additional information for users of the Financial Statements in order to understand the underlying trading performance. Ongoing Revenue and Ongoing Operating Profit measures represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Profit and Adjusted Profit Before Tax exclude certain items that could distort the underlying trading performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. An explanation of the measures used along with reconciliation to the nearest IFRS measures is provided in Section E – Alternative Performance Measures on pages 184 to 187.

**Ongoing Revenue (at CER)**
£2,845.6m
+6.3%

**Revenue (at AER)**
£2,823.5m
+4.0%

**Ongoing Operating Profit (at CER)**
£388.1m
+5.4%

**Profit before tax (at AER)**
£229.8m
-32.1%

**Free Cash Flow**
£336.8m
123% cash flow conversion

**2020 dividend payment**
5.41p

**The content of this Annual Report reflects the views, opinions and status of the Company as at 3 March 2021.**

## Our Business at a Glance

# Global reach. Local focus.

Rentokil Initial is a global leader in the provision of route-based services which protect people and enhance lives, everywhere. We operate in 92 of the world's 100 leading cities – from Los Angeles to Amsterdam, and Singapore to Auckland. Our core services are Pest Control and Hygiene and we offer a range of smaller specialist services including Plants, Property Care and Workwear. We are a multi-local business operating in 83 countries around the world, employing around 44,500 people in 2020.

## Pest Control

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

Ongoing Revenue at CER

**£1,751.7m**

+1.0%


of Group Ongoing Revenue

Countries operating in:

**82**

Ongoing Revenue at AER £1,724.1m (-0.6%)

Find out more on page **28**

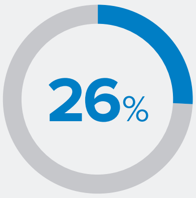
## Hygiene

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

Ongoing Revenue at CER

**£743.8m**

+36.8%




of Group Ongoing Revenue

Countries operating in:

**65**

Ongoing Revenue at AER £735.0m (+35.2%)

Find out more on page **38**

## Protect & Enhance

Rentokil offers a range of other route-based services to meet customer needs in plants, workwear, property care, medical and specialist hygiene services.

Ongoing Revenue at CER

**£350.1m**

-12.0%


of Group Ongoing Revenue

Operates in a small number of countries across all regions

Ongoing Revenue at AER £350.5m (-11.9%)

Find out more on page **45**

Revenue figures above are at constant exchange rates (CER) and represent Ongoing Revenue from continuing operations and exclude revenue from businesses disposed and closed but include revenue from acquisitions.

## Our purpose

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

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

As a business, we also create value for our shareholders through our economic success.

## Our culture

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

Read more about our culture on page **49**

## Our values

Three core values underpin everything we do.

**Service**
We are passionate about delivering excellent customer service to every customer, on time and as promised.

**Relationships**
We value long-lasting relationships with our colleagues and customers and keep them informed about changes that affect them. We listen and act upon people's needs and concerns and are honest and straightforward in our conversations with them.

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

**20**
new hygiene markets entered in 2020

Find out more on page **39**

**23**
businesses acquired in 2020 with combined annualised revenues of c.£158m

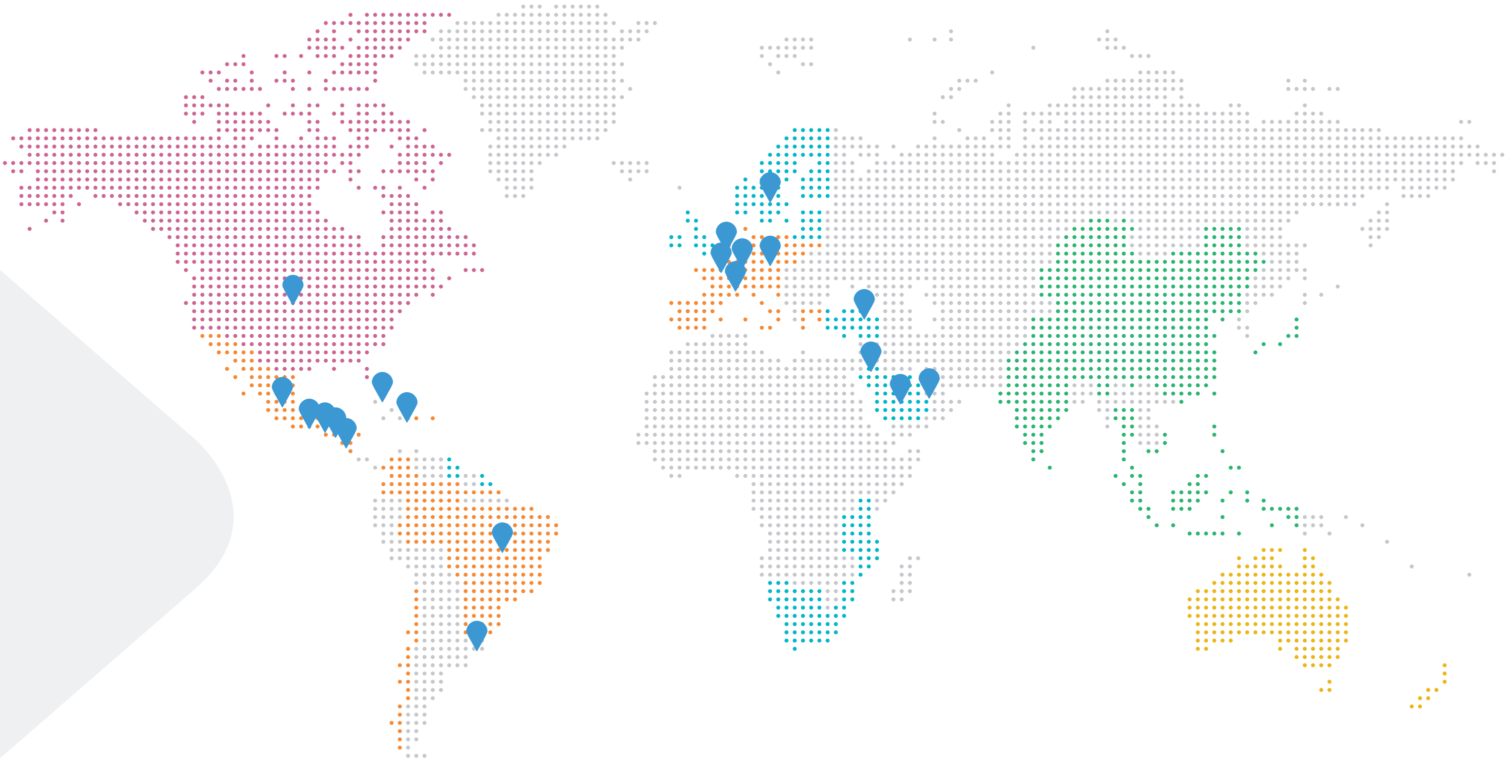
**£225.1m**
revenue generated from sales of disinfection services during the COVID-19 crisis

**£121.8m**
of cost savings generated in 2020

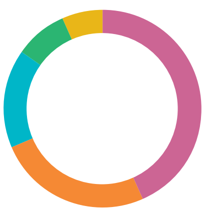
**8,500**
colleagues worked from home during the height of the pandemic in Q2 and Q3

**5,080**
colleagues waived an element of their pay for three months or more in Q2

**90%**
of our colleagues believed we are doing the right things to succeed in the COVID-19 crisis



## Revenue by region at CER



North America
**£1,239.8m**
+14.5%

Europe (inc. Latin America)
**£723.4m**
+2.5%

UK & Rest of World
**£452.2m**
-2.2%

Asia
**£249.2m**
+3.7%

Pacific
**£181.0m**
-2.6%

| £m | North America | Europe (inc. Latin America) | UK & Rest of World | Asia | Pacific | Total |
|---|---|---|---|---|---|---|
| Pest | 1,018.4 | 282.7 | 205.8 | 163.6 | 81.2 | **1,751.7** |
| Hygiene | 144.4 | 232.9 | 196.8 | 82.7 | 87.0 | **743.8** |
| Protect & Enhance | 77.0 | 207.8 | 49.6 | 2.9 | 12.8 | **350.1** |
| Total | **1,239.8** | **723.4** | **452.2** | **249.2** | **181.0** | **2,845.6** |


## Our RIGHT WAY plan

Our **RIGHT WAY** plan divides our business into five geographic regions and three core categories, all operating on a low-cost, single-country operating structure. Since 2014, we have consistently implemented an effective strategy at pace and this has delivered consistent progress against our financial targets.

We are a strong and focused business, operating in higher growth markets, with improving levels of organic growth, reduced capital intensity, high levels of cash generation, and a proven and successful M&A capability.

Playing our part

# by protecting the stability of our business

**Despite disruption from the COVID-19 crisis, we grew revenue, profit and cash this year. This has only been achieved because of a massive collaborative effort from all our colleagues across the Group to protect the business during the pandemic.**

One of our first actions was to ensure that our key services qualified as 'essential'. Government and state-level liaison across the world allowed our frontline technicians to continue to serve customers throughout the pandemic.

We took decisive actions to protect our colleagues and customers and support our financial stability. We moved 8,500 back office colleagues to home working and implemented strict protocols and additional personal protective equipment (PPE) for frontline technicians.

We took swift action to reduce costs, conserve cash and boost liquidity, identifying c.£100m+ of cost savings and c.£400m of cash preservation measures, suspending our M&A and dividend programmes, and applying for the Bank of England's COVID Corporate Financing Facility (CCFF), which was subsequently repaid early, as detailed on page 89.

To protect our colleagues who didn't have access to government or state support, mainly in Africa and India, we set up a Colleague Support Fund to support them. This included personal contributions from senior management colleagues and Non-Executive Board Directors.

We are very proud of the way our people worked together to ensure that we could continue to operate in the pandemic. This included how best to navigate the crisis from country operations that experienced the virus outbreak early in the year (such as our Chinese business), and how to create templates (for technical criteria, equipment and contractual documentation) for establishing and rolling out disinfection services across 60 countries.

The health and safety of our colleagues remained paramount throughout the crisis – and we achieved a record low Lost Time Accident rate this year – an improvement of 26% on 2019. We also conducted a survey in Q2 to assess whether colleagues felt safe, productive and sufficiently supported by their managers and systems to enable them to effectively fulfil their roles during the crisis, with c.90% of UK colleagues answering that they believed the Company was doing all the right things to succeed.

We supported a number of our smaller suppliers by paying in advance for products where the supplier had severe cashflow problems and the demand for the products had changed. We also supported our suppliers in other ways where possible, for instance we reprioritised our IT consultancy work in order to extend the work contracts of one supplier's Indian staff who were temporarily based in the UK but unable to return home due to the travel restrictions.

# c.40%

of our colleagues were affected by pay waivers, suspension of bonus payments and the Company's LTIP scheme, international employee support schemes and temporary lay-offs

# 100%

of CEO's salary waived (35%) and donated (65%) to the Colleague Support Fund in Q2

Over a four-week period from mid-March to mid-April, we trained approximately

# 7,000

colleagues to carry out disinfection services across 60 countries and this is one of our proudest achievements in the year (see page 44 for more details)

# 90%

of UK colleagues believed we did the right things to succeed during the crisis

2020 was a year when everything changed. 8,500 colleagues moved to home working; Hygiene became one of the world's most important categories; and disinfection was launched across 60 countries in just four weeks.

As the crisis deepened, our key services were designated as 'essential' allowing our Pest Control, Hygiene, medical and disinfection technicians to continue to serve customers, including supermarkets, hospitals, food producers and pharmaceuticals.

**Andy Ransom,**
Chief Executive, Rentokil Initial

## Q&A with Andy Ransom, Chief Executive

# More than resilient – we will come out of this stronger

**Our rapid implementation and execution of our three-phased approach – Crisis, Recovery and Strategic opportunity – will ensure that we can continue to provide services that the post-COVID world will want.**

**Andy Ransom**
Chief Executive

**Q:**
**What are the biggest challenges/ opportunities Rentokil Initial faces in a post-COVID world?**

**A:**
In terms of the challenges that Rentokil Initial faces, they are really very much the same as everyone else is facing. That is the safe return to a more normal world, and how quickly we will get to something that approximates normality. It's about getting all of our customers open and back to work.

But if we think about a post-COVID world and what that might mean in terms of new opportunities, well, it's very much the other side of the same coin. We believe there are significant opportunities to grow our outstanding Pest Control business strongly and organically, as we have been doing, and also to expand our Hygiene category beyond simply the washroom and into broader categories of surface hygiene and air hygiene. These are very interesting opportunities.

So, I think we're looking at two main opportunities – the first, getting our core business back to full strength post the pandemic, and the second, developing new services and products in our expanded and broadened Hygiene category.

Find out more about our 'Big Six' Challenges and our priorities for 2021 on pages **10** and **11**

**Q:**
**2020 was an unprecedented year – what were your biggest learnings?**

**A:**
One was just how important it is to embrace and confront a crisis – not just to batten down the hatches, or simply adjust to the new status quo, but to positively and proactively get on the front foot and to pivot very, very fast.

I think the best example of that is how we responded to identifying the opportunity in disinfection and surface hygiene. In less than a month, we were able to train 7,000 people remotely, via video, to carry out disinfection services in their countries of operation. We were able to create safe working protocols to allow our people to do the work, procuring PPE at a time of international shortage and we were able to source the right disinfection chemicals and hardware, such as foggers and sprayers, to fully carry out the service. And by doing all of this, we were able to win critically important customers around the world, for whom this was an important offering in the fight against COVID-19.

So, this was the biggest learning this year. By confronting the crisis, and by working incredibly hard together as a team, we were able to take advantage of a really useful opportunity that didn't just help provide a critical need for customers, but one that helped to offset some of the service and revenue shortfalls we saw in parts of our Pest Control and Hygiene businesses.

Find out more about our disinfection services on pages **14** and **15**

**Q:**
**What are you most proud of as a company in 2020?**

**A:**
Undoubtedly – and I'd give you the same answer every year – it was our people.

The response we had from our 44,500 colleagues around the world has been nothing short of amazing. People have had to make individual sacrifices and they've had to work under conditions of extreme pressure. They have had the worries of the pandemic, worries for their own safety and that of their families too, and they've had to continue to operate in a very worrying and uncertain world. And they've done this spectacularly well.

They've really come together, as Rentokil Initial people always do, as a very strong team, supporting each other and showing great commitment to the organisation. I can only thank them for everything they have done for the Company and for our stakeholders. They've been absolutely outstanding.

Find out more about our people on page **49**

**Q:**

## Innovation is core to your strategy – how have the advantages you enjoy around digital and innovation changed this year and how are they likely to evolve?

**A:**

I think the situation we have all been living through in 2020 has reinforced the importance of having an innovative culture.

In our Company, innovation is a state of mind – not a process or a series of products – but the ability to think quickly, respond quickly and act quickly. This is a core part of our DNA as an organisation. Having an innovative culture in times of adversity is a great strength I believe, because, as the saying goes, necessity is the mother of invention. This has proven to be the case for us in 2020, as we have had to look at a lot of situations very differently and use innovation to address them.

Similarly, the fact that we have been a digital organisation for a number of years has stood us in great stead, and this has allowed us to move very quickly throughout the organisation and switch entire teams around the world to working from home. These include customer care teams, finance teams and functional teams, and they have all moved and adapted very quickly to this new way of working. I think it also helps that we have been using video technology, like Google Meet and other systems, for several years.

In addition, the use of digital technology in the field, such as our connected devices, has meant that we have been able to offer customers digital solutions for pest control where we could give them a level of surveillance and monitoring and security without necessarily having to have our pest controllers physically on site. Probably the best example of this is the work we did with the Nightingale Hospital in London where we very quickly installed PestConnect throughout the hospital soon after it opened. Using our remote monitoring units for pest control was a much better alternative to providing effective pest control for a healthcare facility than having our Pest Control technicians physically visit the hospitals themselves.

Find out more about innovation in Pest Control and Hygiene in our business reviews on pages **28** to **44**


**Q:**

## What products are you trialling to provide a more environmentally friendly service?

**A:**

We have a large team of scientists and technical colleagues who work on a wide range of innovative solutions for the Group.

Over 80% of all current innovation projects we are working on are ones that would give us sustainable environmental improvements. So the ability to create new products and services that are better for the planet has become a real source of differentiation for us.

Several examples of things we are currently working on include a brand-new, radical approach to chemical-free rodent control. We are also working with a number of options to provide lower-impact fumigant gasses. We have recently launched VIRUSKILLER™, a combination of ultraviolet and clinical grade filters that can trap and kill airborne pathogens, including the COVID-19 virus, and we are also working with a number of companies which have created novel disinfectants that have a residual impact, enabling the control of viruses to be maintained for several days as opposed to a single application of disinfectant solution.

Find out more on page **36**

**Q:**

## How has the M&A market evolved in 2020?

**A:**

Well, after a very quiet period in Q2, when really everyone hit the pause button for M&A, the year ended with quite a flurry of deals, particularly in the United States. That high level of M&A activity looks set to continue into the first part of 2021. So, rather than evolving, I would say it has largely picked up where it left off at the end of Q1. So I think M&A is alive and well and we have a very strong pipeline of opportunities at Rentokil Initial as we go forward into 2021.

**Andy Ransom**
Chief Executive

## Progress on our KPIs

Our Key Performance Indicators (KPIs) are focused on meeting our stakeholders' expectations: colleagues, customers and shareholders. In 2020, we have largely performed well across all three categories.

### Colleagues

**Ensuring everyone goes home safe**

**Lost Time Accident (LTA) rate**
**0.39**
26% improvement on 2019

**Working Days Lost (WDL) rate**
**8.46**
23% improvement on 2019

**Employer of Choice**

**Total colleague retention**
**88.6%** +1.7% points

### Customers

**Delivering outstanding customer service**

**State of Service (SoS)**
**89.4%** -7.8% points

**Keeping promises to customers**

**Customer Voice Counts (CVC)**
**45.5** +0.6 points

**Retaining our customers**

**Customer retention**
**84.5%** -1.7% points

### Shareholders

**Driving higher revenue**

**Ongoing Revenue growth at CER**
**+6.3%**

**Achieving greater profitability**

**Ongoing Operating Profit growth at CER**
**+5.4%**

**Delivering sustainable Free Cash Flow**

**Free Cash Flow conversion**
**123%**

Find out more on pages **16** to **19**

## Our COVID-19 Response and Key Decisions

# An outstanding response from our organisation

Our approach to managing through the COVID-19 crisis has been to address the challenge through three phases: 1. the Crisis phase; 2. the Recovery phase; and 3. the Strategic opportunity phase in the medium term. We provide a summary of these phases below.

Crisis

## Crisis phase

We started the year well, despite the unprecedented speed of the COVID-19 crisis, which disrupted our operations most severely from mid-March and throughout April. April was our most difficult month, with Ongoing Revenue falling by just over 12%.

### Essential services status for our key businesses

One of our first actions as the crisis deepened was to ensure that our key services qualified as 'essential'. Government and state-level liaison across the world ensured our technicians in Pest Control, Hygiene, medical and disinfection services could continue to serve customers, including supermarkets, hospitals, food producers and pharmaceuticals. In the US, all 50 states identified pest control as an essential service.

### Collective Group sacrifice to protect colleagues, customers and support our financial stability

We took decisive actions, moving 8,500 back office colleagues to home working and implementing strict protocols and additional PPE for frontline technicians to enable them to safely serve our customers. C.40% of our colleagues were affected by pay waivers, suspension of bonus payments and the Company's long-term incentive plan (LTIP) scheme, international employee support schemes and temporary lay-offs.

### Swift action to reduce costs, conserve cash and boost liquidity

We identified over £100m of cost savings and c.£400m of cash preservation measures, suspending our M&A and dividend programmes, and applying for the Bank of England's CCFF.

### Rapid deployment of disinfection services

It took us less than a month to train and equip around 7,000 colleagues to carry out disinfection services across 60 countries.

Recovery

## Recovery phase

### A resilient performance from Pest Control and Hygiene

From the trough in April, our rate of revenue decline improved in May to 5.7%, returning to positive growth of 4.2% in June. A strong rebound in Q3 delivered Ongoing Revenue growth of 9.8%, reflecting exceptional growth in Hygiene from continued high demand for disinfection services and a return to growth in Pest Control. Further improvements in Q4 led to a 6.3% increase in Ongoing Revenue for the full year – an excellent performance in highly challenging conditions.

### Return to M&A

We completed six acquisitions in North America, Latin America, Pacific and Rest of World in Q3, with combined annualised revenues of c.£27m, supplemented in Q4 with nine further pest control acquisitions with combined annualised revenues of c.£112m. Throughout the crisis we continued to engage with high-quality and resilient bolt-on targets in areas where we can build density, constructing a substantial pipeline for Q4 and into 2021.

### Returning our colleagues to work by the end of Q3

Temporary pay waivers put in place in Q2 for 5,080 of our managers ended at the end of June and by 30 September, virtually all colleagues had returned to work.

### Continued provision of disinfection services

We generated revenues from disinfection services this year of £225.1m, with Net Operating Margins broadly comparable to those in Pest Control.

Find out more on page 40

**£143.5m**

### Cash preservation, cost reduction and liquidity

At our interim results in July, we announced Free Cash Flow of £143.5m delivered through tight controls over costs, capex and working capital, £87m of cost savings, and liquidity headroom in excess of £800m following repayment of the Group's revolving credit facility (RCF) in Q2 and CCFF in July.

### Demonstrating our values and commitment to the communities we serve

We held 276 local events in 2020 to publicly thank health and other public sector workers, donating, among other things, disinfection services to emergency services, pest control treatments to care homes, and sanitiser and care packages to hospital staff.

Find out more on page 60

# Strategic opportunity

## Strategic opportunity phase

As the world emerges from the crisis, we have a strategic hand to play that is stronger than before – particularly in Hygiene – and are ideally placed to provide services that a post-pandemic world will require.


### Long-term change in attitudes towards the importance of hygiene

We believe the COVID-19 crisis will generate a long-term change in attitudes towards the importance of hygiene, as there is an increased focus on hand, surface and air hygiene, tighter regulation, higher standards and increased usage of hygiene products and services around the world. The hand sanitiser market, for example, is projected to grow by 11.5% every year for the next five years, to reach c.$3bn by 2025 (source: Infinium Global Research).

**20** in'20

### Launching Hygiene in 20 new countries

We launched our first hygiene services in North America in June, with hand and air hygiene products. We also launched hygiene services in Curacao (Caribbean) and also expanded our footprint in Latin and Central America, building on our position in 10 markets to provide hygiene services (including hand sanitisers, surface wipes and air care) in Mexico, Dominican Republic, Costa Rica, Brazil, Guatemala, Honduras, El Salvador and Uruguay.

We also commenced operations in Belgium, Germany, Jordan, the Netherlands, Poland, Sweden, Switzerland, Saudi Arabia, Turkey and the UAE.


### Expanding our digital range of pest control and hygiene products

We have seen rising customer focus on digital devices and reporting during the pandemic. This reflects demand for less physical contact between customers and service providers, greater speed of response and 24/7 remote monitoring for a fast reaction to a public health threat. We also believe that the COVID-19 pandemic will provide a potential springboard for increased digital hygiene services. Our connected, 'no touch' hygiene solutions currently comprise digital taps and soap dispensers, hand wash and footfall monitoring and air care, and we will continue to develop and roll out these product ranges.

Find out more on page **43**

### Expanding our services outside of washrooms

Our core Hygiene offer has been based around the provision of regular washroom services to customer premises. We have grown the business through broad-based operational improvements in our product range, density (product penetration and postcode density), service quality, productivity, innovation, digital applications and products, sales capability and highly targeted M&A.

We are now seeking to expand our Hygiene business from beyond the washroom into new, higher-growth areas.

These include innovations in hand hygiene products and services, air care and other route-based extensions.

Find out more on page **44**

### Rising and sustained demand for hand hygiene products

Customer demand for soaps, hand drying products and sanitisers has risen significantly this year. When the pandemic ends, we envisage particularly high standards of hygiene will follow: empty or missing soap dispensers will no longer be acceptable and hand drying and hand sanitiser facilities will become a vital third step in ensuring effective hand hygiene.

Find out more on page **43**

# Our 'Big Six' Challenges

## An overview

We regularly assess our strengths and weaknesses and examine the opportunities and threats to our business going forward. In this section, we give a brief overview of our 'big six' challenges, with links to further details and financial metrics.

1

### Employer of Choice/retention

Our people are our biggest competitive advantage and the key to profitable growth.


**Our challenge is to be an Employer of Choice and to drive improvements in colleague retention. By doing so, we can be confident in improving retention of our customers.**

**Key actions taken in 2020**

- We have managed our proactive response to the COVID-19 crisis to protect our people, moving 8,500 colleagues to working from home safely and effectively, and provided essential training and communications on new procedures and operating practices. We have maintained our core programme with over 300 graduates and 350 apprentices, delivered record levels of U+ training (3.2 million views, up 77%), created 650 new pieces of training content and delivered a 49% increase in visitors to our careers portal. We have also launched a new diversity, equality and inclusion programme and delivered very high levels of colleague retention, up by 1.7 percentage points to 88.6%.

**Priorities for 2021**

- Maintain our proactive support for colleagues through the pandemic. Deliver the next phase in our long-term Employer of Choice programme by rolling out the new diversity, equality and inclusion programme to leaders, managers and colleagues. Maintain a high level of U+ training and development, helping colleagues to develop a lasting career with the Company.

Find out more about our people and culture on pages **49** to **51**

2

### Driving Organic Revenue growth in Pest Control

Our challenge is to drive sustainably higher rates of organic growth across the business, particularly in our key North America market.

**Key actions taken in 2020**

- We have demonstrated the resilience of our business in 2020, growing revenues by 1% (1.6% in Growth markets). In our largest North America market, we grew Pest Services by 6.5%, reflecting good demand from residential customers. Revenue from product and service innovations continues to be significant. We have installed over 150,000 PestConnect units and won our biggest PestConnect contract to date in the UK. By the end of 2019, we had sold 115,000 units of our Lumnia LED fly trap, wih sales reaching 168,000 by the end of 2020.

**Priorities for 2021**

- Maintain growth in North America and target strong positions in megacities of the future. Deploy product and service innovations and digital applications. Further develop our range of sustainable, non-toxic and humane pest control solutions. Utilise our brand and digital marketing tools to raise market presence. Continue to grow national and global accounts.

3

### Building our Hygiene business

Our challenge is to build our global hygiene business into a second powerhouse alongside Pest Control.

**Key actions taken in 2020**

- We secured 'essential service' status to enable continued customer service during the pandemic. We moved quickly to provide new disinfection services in 60 countries, addressing a critical market demand and also supporting core service revenue shortfalls arising from temporary customer closures.

**Priorities for 2021**

- Greater focus on acquisitions to build density. Deliver excellent customer service to drive retention and upsell. Develop product and service innovations to drive range and volume in customer premises. Expand outside of the washroom into high-growth areas including air care, route-based service extensions (such as first aid) and digital products and applications.

Growth of Hygiene business

**36.8%**

reflecting strong sales of disinfection

Find out more on page **42**


Find out more on pages **28** to **44**

2020 was a year when, as a company, we once again proved our commitment to being a responsible business. The delivery of our purpose – to Protect People and Enhance Lives – was never more important.

4

## M&A execution

Our challenge is to maintain a strong pipeline of high-quality opportunities and to integrate acquisitions quickly and effectively.

### Key actions taken in 2020

- Despite suspending M&A in Q2, we acquired 23 new businesses in Pest Control, Hygiene and Protect & Enhance (Ambius). We had a particularly strong Q4, acquiring nine high-quality pest control companies in North America. Among them was the acquisition in Florida of Environmental Pest Service which builds on our position in the US's largest pest control market, adding density and providing improved customer service and incremental revenue to several of our sub-scale existing Rentokil locations on the Florida Gulf Coast, as well as building on our existing presence in northeastern Florida, metro Atlanta and North Carolina.

### Priorities for 2021

- Pest Control acquistions in Growth and Emerging markets. Hygiene acquisitions with a focus on higher growth extension areas (e.g. air care and surface hygiene).

Spend on M&A in 2020

**£201.9m**

Anticipated spend on M&A in 2021

**c.£400m**

Find out more on pages **30** and **44**

5

## Creating value through product and service innovations and digital applications

Our challenge is to drive further organic growth through product and service innovation and digital applications.

### Key actions taken in 2020

- In the early days of the pandemic, we identified the urgent need for disinfection services. Innovations that supported this new service included electrostatic fogging machines, high-powered tools that use UV light to disinfect sensitive areas and drones to disinfect major sports facilities.

### Priorities for 2021

- Develop key sector products with potential for non-toxic solutions. Expand Lumnia range. Develop digital solutions for crawling and flying insects. Evolve digital activity, leveraging current and new technology. Develop and launch new hygiene solutions, including Rapid Smart washroom solution alongside new air enhancement and air purification solutions.

Find out more on pages **33** to **35** and **43** to **44**


6

## Managing a responsible business

Our challenge is to create a safe, diverse and engaging workplace, deliver customer service responsibly, and support our communities and environment effectively.

### Key actions taken in 2020

- We delivered record levels of colleague safety, training and retention. We achieved our emissions intensity reduction target of 20% by 2020, achieving a 27.4% improvement, and set a new emissions target of a further 20% reduction by 2025. We also established our long-term goal of net zero emissions by the end of 2040. We undertook 276 community events to say thank you to public sector workers.

### Priorities for 2021

- Maintain high levels of safety, training and retention. Deliver environment improvement plans in all regions.
- Undertake a major colleague-led initiative to support our charity partner, Malaria No More.

Improvement in carbon emissions per £m revenue in 2020

**8.1%**

Find out more on page **47**

**rentokil-initial.com/responsible-delivery**

## Reasons to Invest

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

Rentokil Initial plc is a strong, global business with leading positions in structural growth markets. We see excellent opportunities to consolidate our positions in existing markets, enter new markets and lead the industry through differentiated investment into product and service innovation and disciplined and accretive M&A. Our strategy, culture of outperformance and consistent business model allows us to deliver strong and sustainable value for our shareholders. We set out our principal reasons to invest below.

1

### A leader in our chosen, structural growth markets across three core categories,

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

Find out more:
- Pest Control business on pages **28** to **35**
- Hygiene business on pages **38** to **44**
- Protect & Enhance businesses on pages **45** to **46**

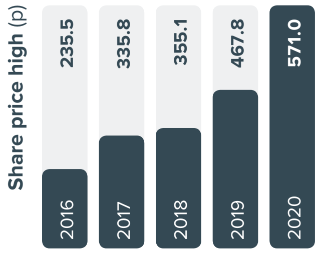
2

### Employer of Choice with a unique culture and business model supporting and rewarding sustainable growth.

As a service organisation, we rely on the commitment and ability of our colleagues to deliver the highest levels of service. We recognise that at the very heart of a great customer experience are passionate colleagues, so we strive to be an Employer of Choice, engaging our colleagues, recognising and rewarding effort, and offering career progression.

Find out more:
- Our responsible business approach and how we measure it on pages **47** to **66**
- **rentokil-initial.com/responsible-delivery**

3




### Strong track record of revenue and profit growth, generating high returns, strong cash flow and a strong credit rating.

Since February 2014, we have implemented an effective and consistent strategy – called our **RIGHT WAY** plan – at pace, and this strategy has delivered consistent progress against our financial targets.

Find out more:
- KPIs and their link to strategy on pages **16** to **19**
- Financial Review on pages **146** to **148**


**Watch our 'myInitial' digital hygiene video**


## 4

### Our consistency of performance allows reinvestment in our business to compound growth.

Our financial model to compound growth is a virtuous circle predicated on delivering growth organically and through M&A, which leads to increased density and which, in turn, targets improvement in gross margins. This, combined with our low-cost operating model, drives strong profitable growth and sustainable Free Cash Flow, which we deploy into our financially disciplined training, innovation and M&A programmes, and into maintaining our progressive dividend policy.

Find out more:
Our Business Model on pages **22** and **23**

## 5

### We have a fundamental understanding of density to consolidate our positions in existing markets

and drive margins in part by focusing on increasing route density through organic and inorganic revenue growth.

Find out more:
M&A in Pest Control on page **30** and in Hygiene on page **44**

## 6

### We see considerable opportunities for broader-based growth

as we enter new markets, drive innovation in products and services and deploy digital applications.

Find out more:
Global growth drivers for Pest Control on page **29** and Hygiene on page **39**

Playing our part

# by helping our customers protect their customers

## Helping our customers protect their people and customers and remain fully operational during the pandemic.

We are proud of the way our teams across the world pivoted at great speed to provide disinfection services to our customers in over 60 countries.

We offer three distinct types of disinfection: contingency survey, all-purpose specialist disinfection, and an emergency disinfection service where cases of COVID-19 have been confirmed on the premises during the previous 72-hour period.

All services are supported by standard operating procedures and the use of PPE and are carried out by our Specialist Hygiene, Hygiene, Pest Control and Ambius technicians.

As experts in hygiene, we have developed standard operating procedures to ensure maximum service efficacy and consistent global standards. These included, for example, a 19-stage donning sequence for PPE and removal of all waste from sites in line with guidance set out by public health authorities in order to prevent cross-contamination.

Customers who have used our disinfection services during the pandemic have done so to protect their people and their customers. In addition, ensuring their premises are safe and hygienic is also vital in protecting their brand and reputation. Multiple customer sectors have benefited from our services, including offices, shops, schools, airports, emergency vehicles and public transport.

In France, our Rentokil Initial business provided COVID-19 preventative disinfection services to RATP (public transport providers in Paris), an existing Pest Control customer that manages a fleet of buses, trams and Metro trains. A dedicated team of up to 80 technicians and four managers has been disinfecting 250 trams every week and 4,700 buses every night, seven days a week, and by the end of 2020, they had carried out over 1 million preventative disinfection treatments for the customer.

# 4,700

buses disinfected in Paris every evening after service

# 1 million+

preventative treatments across RATP's transport network of buses, trams and Metro trains were conducted by the end of 2020

To fight against the COVID-19 epidemic, we have been working with the RATP to nebulise its buses, which involves using foggers to generate ultra-fine particles of virucide, or disinfectant fog, to be deposited on the surfaces of vehicles across the RATP's network. Our objective has been to disinfect its 4,700 buses and 250 trams every night after service has ended and keep its customers safe.

We have been using this technique across our sites since May 2020. The process of nebulisation has made it possible to clean a single bus in just two minutes and 40 seconds. Traditional methods, which consist of spraying a virucidal product on a cloth which is then applied directly to surfaces, usually take much longer, and so this is a much more efficient process during these critical times.

**Stephane Bras,**
Responsable Operations de Desinfection

**Watch an interview with Stephane Bras on the part we've been playing**

# Key Performance Indicators

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

## Colleagues

### Ensuring everyone goes home safe

**Lost Time Accident (LTA) rate** ●●●

**0.39**

26% improvement on 2019

| | |
|---|---|
| 2020 | 0.39 |
| 2019 | 0.53 |
| 2018 | 0.63 |
| 2017 | 0.58 |
| 2016 | 0.63 |

LTA rate defined as number of Lost Time Accidents per 100,000 standard working hours.

**Working Days Lost (WDL) rate** ●●●

**8.46**

23% improvement on 2019

| | |
|---|---|
| 2020 | 8.46 |
| 2019 | 10.99 |
| 2018 | 14.77 |
| 2017 | 11.65 |
| 2016 | 16.14 |

WDL rate defined as number of Working Days Lost as a result of LTAs per 100,000 standard working hours.

**Link to strategy**

- As a service organisation, our people make our Company what it is.
- Our priority is ensuring everyone goes home safe.
- Health and safety is the first agenda item in all senior management meetings (including Executive Leadership Team and Board).

**Link to remuneration**

- Both LTA and WDL rates are part of the personal objectives of the Chief Executive and have an impact on the level of annual bonus achieved.

**Commentary on performance**

- We achieved a record safety performance in 2020, with a 26% reduction in LTA rate and 23% improvement in WDL rate at 8.46. All our regional operations have LTA rates at world-class levels (<1.0).
- Our UK business was awarded a gold award from the Royal Society for the Prevention of Accidents for the third year running. This award recognised our excellent health and safety (H&S) capability and performance.
- Our operations in the Pacific region became the first in the Group to achieve ISO45001, the new international H&S accreditation, demonstrating the maturity and effectiveness of our H&S management systems in Australia, New Zealand and Fiji.
- We implemented COVID-19 secure protocols across our global operations, ensuring that our colleagues' health and safety was protected and remained the number one priority throughout the pandemic. These protocols included: enhanced PPE, hygiene and social distancing measures for our frontline colleagues, enhanced cleaning and disinfection of vehicles and equipment, and home working for office-based colleagues.
- Globally harmonised protocols, including risk assessments, standard operating procedures, training, minimum PPE specifications were developed and implemented by our Global SHE team to enable safe delivery of new disinfection services. All countries were authorised centrally before launching these new services.
- Regrettably, there was one fatal incident in 2020. In India, a Pest Control technician sustained fatal injuries when the motorcycle he was riding collided with a heavy trailer truck which pulled out in front of him.

### Employer of Choice

**Sales colleague retention** ●●●

**87.7%**

+2.4% points

| | |
|---|---|
| 2020 | 87.7 |
| 2019 | 85.3 |
| 2018 | 82.1 |
| 2017 | 77.3 |
| 2016 | 78.2 |

**Service colleague retention** ●●●

**86.9%**

+0.8% points

| | |
|---|---|
| 2020 | 86.9 |
| 2019 | 86.1 |
| 2018 | 85.1 |
| 2017 | 76.0 |
| 2016 | 84.8 |

Defined as total Sales and Service colleagues retained in year as a percentage of Sales and Service headcount at start of year.

**Link to strategy**

- We invest in training and development to ensure that our colleagues' expertise is unrivalled.
- We recruit, appoint and promote on merit.
- We listen to our colleagues via Your Voice Counts (YVC) surveys and act on feedback to make improvements.
- By retaining our people, we also retain and build deeper relationships with our customers, which underpins our organic growth.

**Link to remuneration**

- Performance Share Plan (PSP) performance condition and annual bonus personal objectives.

**Commentary on performance**

- Total colleague retention (12-month rolling basis to December 2020) was 88.6%, up 1.7 percentage points.
- While Europe, Pacific, Asia and Latin America saw improvements in all areas, North America saw a very slight reduction in Service retention of 0.6%, as did the UK, falling 0.1% year on year.
- Group Sales colleague retention at 0–6 months rose by 3.1 percentage points to 85.9%, with retention at 6–12 months falling marginally by 0.5% to 87.3% and driven by strong increases in North America, Pacific and Latin America. North America sales retention improved across both groups (up 7.8 percentage points in the 6–12 months category), and in the Pacific region, 0–6 months retention jumped by 35.4 percentage points, while 6–12 months retention reached a maximum 100%. Latin America has also enjoyed significantly stronger retention compared with 2019 in both the 0–6 months (up 18.3%) and 6–12 months (up 39.1%) groups.
- Group Service colleague 0–6 months retention remains a challenge at 74.2%, a 4.2 percentage point decrease on 2019, impacted in part by our disinfection business, which has seen a higher than normal level of turnover in some areas. Group Service colleague 6–12 months retention also declined 3.4%; however, at 86.3%, this remains a very strong retention rate.
- 2020 saw record levels of visitors to the Rentokil Initial Careers Portal – up 49% – with the number of applicants up by 67%. In addition, we launched Careers+ which is an app for colleagues to post roles on their own social media channel and to support internal recruitment through their own networks.

# Customers

## Delivering outstanding customer service

### State of Service (SoS)

**89.4%**

-7.8%

| | |
|---|---|
| 2020 | 89.4 |
| 2019 | 97.2 |
| 2018 | 97.9 |
| 2017 | 97.8 |
| 2016 | 97.7 |

Defined as total number of service visits performed as a percentage of total number of visits due.

### Link to strategy

- We are passionate about delivering excellent service to every customer and keeping our promises to them.
- Excellent service helps us retain customers and build deeper relationships with them.

### Commentary on performance

- State of Service declined by 7.8 percentage points in 2020, principally as a result of our technicians' inability to service customer premises that were temporarily closed during the COVID-19 pandemic (up to 12% of premises were closed in Q2).
- North America was once again our highest-scoring region at 96.5%, although this included a decline of 1.6 percentage points year on year, closely followed by Pacific at 95.2%, Europe at 93.8% and Latin America at 90.6%.
- Our regions that were more significantly impacted by COVID-related disruption in 2020, notably UK & Rest of World and Asia, produced scores of below 90%, at 89.1% and 87.6% respectively.

## Keeping promises to customers

### Customer Voice Counts (CVC)

**45.5**

+0.6 points

| | |
|---|---|
| 2020 | 45.5 |
| 2019 | 44.5 |
| 2018 | 43.0 |
| 2017 | 44.0 |
| 2016 | 37.6 |

Measured by the implementation of an average Net Promoter Score across all branches, including in-year acquisitions. CVC score represents the net balance of those customers promoting our service, compared with those neutral or not promoting.

### Link to strategy

- Our business model depends on servicing the needs of our customers in line with internal high standards and to levels agreed in contracts. Strong performance on CVC is linked to retention and sale of additional services to customers. Measuring customer satisfaction allows us to identify unhappy customers, reduce customer attrition and increase revenue, profit and cash.

### Link to remuneration

- Improving Customer Voice Counts is one of the performance conditions of the PSP, which covers around 850 colleagues across the Group.

### Commentary on performance

- Our results this year have been significantly impacted by the pandemic, with a 64% reduction in total volume compared to 2019.
- Calls to our customers in 2020 asked them to rate us on five service elements: technician, complaint handling, customer contact, product quality and documentation.
- Our regional analysis shows that the UK, Ireland and the Baltics were the most improved territories, with an increase of 27.3 points to 95 points. This was followed by Europe, up a further 5.0 points to 16.6 points. Asia rose by 1.6 points to 55.5 points in 2020, while North America recorded a 6.1 point decrease to 55.0 points. The Rest of World region declined by 3.8 points, to score a total of 42.9 points for the year.
- Our category analysis of CVC scores shows that Pest Control is our highest-scoring business, although this declined in 2020 by 4.7 points to 53.4 points. Ambius was our second highest-scoring category at 48.1 points, a decline of 3.4 points year on year. Hygiene scored 34.6 points, a decline of 8.2 points.
- Our lowest-scoring category was Workwear and, although it scored a negative 9.5 points, this was nevertheless an improvement of 5.6 points on the prior year.

# Key Performance Indicators
continued

●●● Very strong progress ●●○ Strong progress ●○○ Good progress ● Further work required ● Disappointing progress

## Customers continued

### Retaining our customers

**Customer retention** ●○○

**84.5%**
-1.7%

| | |
|---|---|
| 2020 | 84.5 |
| 2019 | 86.2 |
| 2018 | 85.8 |
| 2017 | 85.7 |
| 2016 | 85.6 |

Defined as total portfolio value of customers retained as a percentage of opening portfolio.

**Link to strategy**

- Customer retention is crucial to our long-term success.
- Benefits include: increased purchasing and cross-selling; lower terminations; greater willingness to accept price increases; positive customer recommendations; and a strengthened unique selling point.

**Commentary on performance**

- During the second half of 2020 we saw a flattening of growth in customer portfolio (-0.1%) as a result of marginally lower retention rates, flatter sales and lower price increases as second waves of the COVID-19 pandemic impacted on customers' willingness or ability to retain contracts due to the economic environment.

## Shareholders

### Driving higher revenue

Medium-term financial target: 5% to 8% Ongoing Revenue growth

**Ongoing Revenue growth at CER**

**+6.3%**

| | |
|---|---|
| 2020 | 6.3 |
| 2019 | 10.6 |
| 2018 | 13.7 |
| 2017 | 14.6 |
| 2016 | 14.6 |

Defined as revenue growth at CER from the continuing operations of the Group including acquisitions, after removing the effect of disposed or closed businesses.

**Revenue at AER**

| **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **£2,823.5m (+4.0%)** | £2,714.4m (+9.8%) | £2,472.3m (+2.5%) | £2,412.3m (+11.3%) | £2,168.1m (+23.2%) |

**Link to strategy**

- We aim to drive shareholder value through driving higher revenues from our core Pest Control and Hygiene businesses, and also from our Protect & Enhance businesses, supported by M&A investment.

**Link to remuneration**

- Revenue targets are one of the Company's performance elements of the annual bonus which covers the Executive Directors and managers across the Group and they have an impact on the level of annual bonus achieved.

| Target and key activities | Performance | Progress in 2020 |
|---|---|---|
| 5% to 8% Ongoing Revenue growth | 6.3% growth in Ongoing Revenue (at CER) – an excellent performance, reflecting strong revenues from disinfection services, a return to growth in Pest Control from Q3 and steady performance improvements from our core Hygiene business in H2. | ●●○ |
| Ongoing Revenue growth in Pest Control | 1.0% growth in Ongoing Revenue (at CER) reflecting our essential service status and ability to continue to service customers during the crisis. | ●○○ |
| Supported by further momentum in Hygiene | 36.8% growth in Ongoing Revenue (at CER), aided by sustained and strong global demand for disinfection services and hygiene products, which have more than offset washroom service declines resulting from temporary business closures. | ●●● |
| Improved performance from Protect & Enhance businesses, including France Workwear | 12.0% decline in Ongoing Revenue (at CER) – a challenging year, principally driven by weak performance from France Workwear, which declined 10.4%. | ●○○ |
| Continued execution of M&A | Despite temporary suspension of M&A activity in Q2, an excellent outcome for 2020, with 23 businesses acquired with combined annualised revenues of £158.2m (including Environmental Pest Service). Cash spend in 2020 was £201.9m (excluding the consideration for Environmental Pest Service, which was paid in January 2021). | ●●● |
| Sustained progress in product innovation and capability | Our continued focus on R&D projects, based on target pest behavioural studies and strong external partnerships, delivered a pipeline of new market products, solutions and services focused on uniquely satisfying customer needs. | ●●○ |
| Ongoing development of digital products and applications | By the year end, 1.1m customer sites and 95% of our commercial customers use myRentokil online customer portal in 44 countries. Over 150,000 PestConnect units have been launched since 2016 across 7,684 customer locations in 26 countries. 25% increase in visits to our websites worldwide in 2020. | ●●○ |

# **Shareholders** continued

## Achieving greater profitability

### Medium-term financial target: Ongoing Operating Profit growth of c.10%

**Ongoing Operating Profit growth at CER**

+5.4%


Defined as operating profit at CER from the continuing operations of the Group including acquisitions, after removing the effect of disposed or closed businesses. Ongoing Operating Profit is an 'adjusted' measure and is presented before amortisation and impairment of intangible assets (excluding computer software) and one-off items.

**Operating Profit at AER**

| 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| **£293.8m (+10.6%)** | £265.6m (+8.2%) | £245.5m (-16.0%) | £292.4m (+25.8%) | £232.4m (+23.7%) |

**Link to strategy**

- Our objective is to deliver sustainable profit growth by growing Group revenues.

**Link to remuneration**

- Profit targets are one of the Company's performance elements of the annual bonus which covers the Executive Directors and managers across the Group and impacts the level of annual bonus achieved.

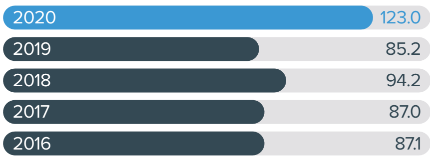
| Target and key activities | Performance | Progress in 2020 |
|---|---|---|
| Year-on-year improvement in Ongoing Operating Profit | 5.4% growth in Ongoing Operating Profit to £388.1m (at CER), reflecting significant actions to mitigate COVID-related revenue reductions, offset by an increased bad debt provision of £34m in 2020, £25m of additional costs of PPE for colleagues conducting disinfection services, and higher restructuring costs. | |
| Improvement in Net Operating Margin | Net Operating Margin of 13.6% (at CER), a 20 basis points deterioration on 2019, reflecting the impact of the COVID-19 crisis. | |
| Improvement in Net Operating Margin in Pest Control | Pest Control Net Operating Margin decline of 170 basis points to 16.2% (at CER). | |
| Improvement in Net Operating Margin in Hygiene | Hygiene Net Operating Margin of 23.6% (at CER), an increase of 580 basis points, reflecting revenues from disinfection. Excluding disinfection, Hygiene margins declined by 650 basis points to 11.3%. | |
| Progress towards 18% North America margin target | North America margin increase of 310 basis points to 17.3% (at CER), representing good progress towards our 18% regional margin target. | |
| Above-the-line restructuring costs maintained at below £10m | Restructuring costs of £13.3m (2019: £7.7m), consisting mainly of costs in respect of initiatives focused on our North America transformation programme from Q1, together with severance costs as a result of the COVID-19 pandemic. | |

## Delivering sustainable Free Cash Flow

### Medium-term financial target: Free Cash Flow conversion of c.90%

**Free Cash Flow conversion**

123%




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.

**Link to strategy**

- We are a highly cash-generative business and, after dividend and interest payments have been made, we reinvest our cash into the business for future growth through people, technology and M&A.

**Link to remuneration**

- Free Cash Flow is a gateway target for the annual bonus, which covers the Executive Directors and managers across the Group. Failure to meet this target results in no bonus being payable regardless of how well the Company performs against revenue and profit targets.

| Target and key activities | Performance | Progress in 2020 |
|---|---|---|
| Free Cash Flow conversion target c.90% | £336.8m Free Cash Flow, representing 123% conversion, delivered through tight controls over costs, capex and working capital. | |
| Net debt | Decrease in net debt of £78.7m and closing net debt of £994.3m. As at 31 December 2020, net debt to EBITDA ratio was 1.6x, below the 1.8x ratio reported at 31 December 2019 and 1.9x at 30 June 2020. | |
| Fully funded pension scheme | The buy-out and wind-up of the Company's pension plan will complete in 2022. The Trustee has agreed a pre-tax partial refund of surplus of £13m which was paid in December 2020, with the balance of the refund of the surplus to be paid on completion of the buy-out. | |
| S&P credit rating | Maintained at BBB Stable Outlook. | |


Playing our part

# by enabling a safe return to sport

**Rentokil Initial was appointed the official hygiene partner of the Saracens rugby club, believed to be a first in UK sport, for the restart of the 2019/2020 campaign.**

As the current title holders of the European Rugby Champions Cup and the current holders of the Premiership Rugby League title, the Saracens rugby team includes the best players from around the world. Therefore it is fitting that they should seek to appoint a hygiene partner who can offer expert, trusted and innovative hygiene services and products to enable the club's players and fans to enjoy a safe return to sport.

As part of the strategic partnership, we installed hand sanitiser dispensers at Allianz Park, home of the Saracens, and also provided a range of bespoke disinfection services. Treatments have been tailored to individual areas, including the players' changing rooms, the stands and the main hospitality concourse, and include the use of UV lamps, electrostatic disinfection, mist blowing space treatment and ultra-low volume (ULV) disinfection fogging.

**99%+**
of harmful pathogens are eliminated by our disinfection services

**ULV**
fogging disinfects large areas in short periods of time by being able to treat inaccessible areas that can't be reached using traditional methods

As a club, caring for our people is at the heart of everything we do and the safety of our players, staff and supporters is of paramount importance to us. Our partnership with Rentokil Initial, a globally recognised brand, provides the venue with an ability to create an environment within which our players and staff are safe, secure and protected at all times.

**Richard Gregg,**
Saracens Operations Director

We're proud to be supporting Saracens Rugby Club with a best-practice approach to hygiene and cross-contamination prevention.

**Jamie Woodhall,**
Technical and Innovation Manager, Rentokil Specialist Hygiene and Initial Washroom Hygiene

**Watch the ITV news video here**

## Our Business Model

# The most important element of our business model is our people:

they are the essential driver of our success as we continue to protect public health and ensure safe working environments around the world.

**By getting it right for our people, we provide a better service, retain more customers, sell additional services and ultimately create shareholder value.**

We have a clear and simple geographic model, in which our businesses are grouped into five strong regions. Operating in 83 countries, c.90% of our revenues are derived outside of the UK. Our decentralised model has single-country management teams leading integrated, multi-local and multi-service operations with combined back office functions underpinned by shared systems and processes, such as route optimisation and measurement of customer satisfaction. A benefit of our model is a natural resilience to fluctuations in market dynamics in individual markets and geopolitical and trade risks due to our local market operations.

We refer internally to our model as our 'machine'. Each of the cogs are interrelated and measured consistently at Group, business, country and branch level. Our success is driven by focused, consistent execution. We are proud that, despite the disruptions of 2020, we could continue to succeed due to our model's resilience and our colleagues' unwavering commitment and dedication to our customers around the world.

More information on all components of our business model is available in this report and is signposted in the diagram opposite. We have also provided additional commentary on the components shaded in blue in the graphic opposite with particular reference to our performance this year.

### Flexibility in our business model during the pandemic

#### Great service quality

Excellent service quality is at the heart of everything we do. It helps us build strong and lasting relationships with our customers and maximises long-term retention.

Our core businesses were granted essential service status during the crisis, enabling our Pest Control, Hygiene, medical and disinfection technicians to continue to serve customers that remained open during the pandemic.

With the health and safety of our customers' employees and customers dependent on high standards of hygiene within their operating environments, it has never been more imperative that the service quality we gave them this year was nothing less than outstanding.

Of particular importance in 2020 was the quality of our new disinfection services. We offer a premium standard disinfection service, with our risk-assessed infection control measures going beyond the minimum requirements set by guidance from the World Health Organization (WHO).

Find out more about this on page **58**

#### Low-cost model

Our low-cost operating model is focused on country-based management teams with shared properties and back offices.

We focus our cost base on servicing our customers and minimising other costs – hence a focus on service productivity and investing in efficient back office systems and processes. In total, c.73% of variable service costs are colleagues and vehicles.

Our key financial priority at the peak of the crisis was the preservation of the ongoing cash flow of the business, and we identified over £100m of cost savings and £400m of cash preservation measures for 2020.

We delivered cost savings of £121.8m in 2020, achieved through salary reductions across management grades in Q2, cancellation of H1 bonus schemes and postponement of the 2020 LTIP grant in relation to H1, as well as tight control over discretionary spend.

Cash savings included withdrawal of dividend payments and suspension of our M&A programme, reducing cash tax payments in line with local statutory schemes and reduced capital expenditure. Going forward, while we are likely to generate some savings in respect of our property footprint and reduced travel and accommodation costs, the majority of cost savings in 2020 will not repeat in 2021.

#### Mergers and acquisitions

M&A is central to our strategy, and we have made over 200 acquisitions since 2015, building a strong track record of delivery and spending an average of £330m each year for the last five years.

This has resulted in significant value creation, with our internal rate of return (IRR) considerably higher than the cost of capital. Suspending our M&A programme in Q2, while disappointing, was the right thing to do to protect cash and liquidity. We restarted M&A in Q3 and exited 2020 having acquired 23 new businesses, with combined annualised revenues of c.£158m. Cash spend on acquisitions in 2020 was £201.9m.

We have continued to engage with high-quality bolt-on targets in areas where we can build density and which have demonstrated their resilience through the pandemic and have built a substantial pipeline for 2021 and beyond.

Pest Control acquisitions remain a key priority, in both Growth and Emerging markets, and we are also giving greater focus to building the pipeline of Hygiene M&A focused on city-based opportunities.

Find out more about M&A on page **30** and **44**

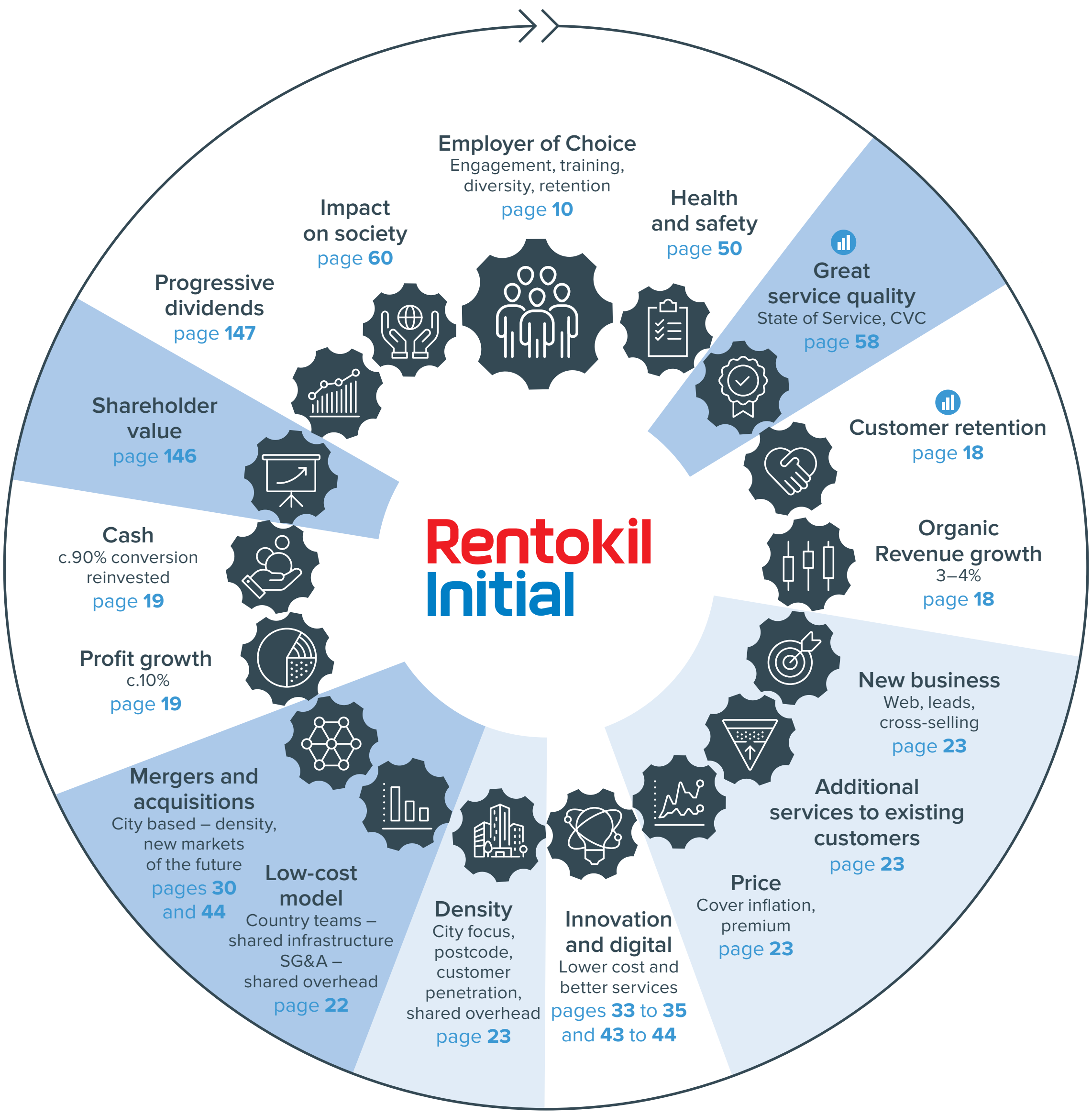
#### Shareholder value

We have a responsibility to generate long-term profitable growth, deliver value for our shareholders and protect their investment.

As the COVID-19 crisis took hold in March, we took quick and decisive actions to protect the Company, taking appropriate cost and cash measures to support the business and our liquidity. These included drawing down our RCF, successfully applying for the Bank of England's CCFF, suspending dividend payments and M&A, and reducing capex.

By July, we had repaid the RCF and the CCFF, generated cost savings of £87m, and delivered Free Cash Flow of £143.5m. We announced at that time that, should trading continue in line with our expectations throughout H2, we would expect to make a dividend payment in relation to 2020. Based on our performance in 2020 and our confidence in 2021, the Board is recommending a dividend of 5.41p per share.

Recognising that the potential impact of the crisis would concern our shareholders, we continued to engage with them fully throughout, releasing detailed trading updates and hosting virtual one-on-one and group conference calls around the the publication of set pieces and at other times, to enable them to engage with us on a regular basis.




### New business

We generate new business in a number of ways. Our sales specialists are responsible for identifying potential new customers, to whom they can introduce our services, through carefully targeted activities and campaigns.

We also rely on our service technicians to generate new business leads during their day-to-day activities. With existing customers we use our knowledge of their needs and requirements to expand our offer into additional value-added products and services. We also invest in our online marketing capability to drive new business through digital channels and our websites across the world.

### Additional services to existing customers

Annual Pest Control, Hygiene and Ambius contracts are structured around a series of scheduled customer call-outs, during which our technicians carry out essential services. Contract prices are determined by the number of visits and services taken by each customer.

Additional revenues can be gained through the recommendation of further products and services which our technicians consider necessary for the protection of our customers, and we describe this as upselling to the portfolio. An example in Pest Control could be blocking up open vents in building walls, or fitting bristle strips underneath external doors to prevent unwelcome pest entry. We want to ensure that no customer need goes unmet.

### Price

As the world's leading international commercial pest control business, we are a premium service provider and this reflects the training and skills of our technicians, our expertise borne out of over 90 years in the industry, and the insights we have gained by operating in over 80 countries around the world.

C.70% of our revenues are contracted, and in most regions we are able to increase prices in line with inflation to address inflationary cost increases and wage inflation.

### Density

Density is fundamentally important to our strategy. Route density is key – with greater density comes higher margins – and our strategy of acquiring bolt-on businesses to infill locally is central to this.

We achieve density in two ways. First is what we call postcode (or zip code) density – this means servicing as many customers as you can in a tight geographic zone. The second is customer penetration – and this involves selling multiple service lines to customers. Much of what we do is to make recommendations to customers about potential services and products which we believe they require.

## Our Stakeholders

# Understanding expectations

Our business, its strategies, processes and behaviours are influenced by the needs of our stakeholders. We recognise the importance of their views and actively engage with our stakeholder groups across the world to fully understand and act upon their issues and concerns.

We have a broad range of stakeholders who influence or are affected by our day-to-day activities, and have varying needs and expectations. Our aim at Rentokil Initial is to engage effectively with all our stakeholder groups to develop and maintain positive and productive relationships.

As communicated in last year's Annual Report, we conducted a stakeholder mapping exercise in 2019 to ensure that the groups we have identified as key stakeholders remained appropriate. There were no significant changes to the Group's businesses or operations which merited a further view during 2020, and the key stakeholders as set out opposite remain the same as the prior year. The Company has other wider stakeholders, key partnerships or business relationships, such as the general public, government and regulators, and industry bodies. We consider the environment in relation to all our key stakeholder groups but include it principally as part of our consideration and engagement with communities. We approach stakeholder engagement at a Group, country and local level to ensure that all our stakeholder groups have access to information about our business and activities and are able to identify issues which are important to them.

Our purpose, as set out on page 2, to protect people and enhance lives, and our core values of service, relationships and teamwork reaffirm the central importance of our stakeholders to our business. The impact of COVID-19 on our stakeholders is addressed throughout the Annual Report.

Details on how information from our stakeholder groups flows up to the Board and examples of outcomes of engagement can be found in the Corporate Governance Report, primarily on pages 90 and 91. More information on our responsible business approach can be found on pages 47 to 66 and in our responsible business website at **rentokil-initial.com/responsible-delivery**.

| Colleagues by region | |
|---|---|
| North America | 9,088 |
| Europe | 6,944 |
| Latin America | 2,193 |
| UK & RoW | 7,574 |
| Asia | 16,590 |
| Pacific | 2,200 |
| Total | **44,589** |

## Colleagues

We employ around 44,500 colleagues in 83 countries. Our colleagues are those who are directly employed by us, which excludes contractors.

**Key issues for stakeholder**
- Health and safety
- Training and career development
- Tools to do the job
- Wellbeing
- Reward
- Culture and values
- Community support

**Why we engage**
We rely on the skills, experience and commitment of our people to meet our business goals.

**Impact/value created**
We aim to be a world-class Employer of Choice providing a safe working environment and development opportunities.
- Pay and benefits to colleagues
- Training and development opportunities

**Methods of engagement**
All employees are provided with information on matters of concern to them in their work, through regular briefing meetings and internal publications. To inform employees of the economic and financial factors affecting our business, regular updates are posted on our Intranet and engagement events are hosted by individual businesses such as conferences, town halls and senior executive updates, which provide briefings on specific areas of the business. Other methods include:
- Your Voice Counts employee survey every two years and periodic pulse surveys
- Annual personal development reviews and line manager training
- The **RIGHT WAY** magazine published online quarterly
- Quarterly global internal update by the Chief Executive
- Speak Up ethics hotline
- Works councils including an EU Forum

**Measurements**
We measure our impact by monitoring our total headcount, diversity, the amount of new online training content made available and online learning views, the talent pipeline of graduate and apprenticeships, and our Core Culture Index. We also monitor external ratings, such as Glassdoor.

**88.6%**
colleague retention, up from 86.9% in 2019

## Customers

Our customers range from global food producers to hotel chains, and industrial goods businesses and restaurants to individual residential customers.

**Key issues for stakeholder**
- Health, safety and sustainability
- Expertise and service quality
- Innovation
- Digital portals
- Transparency
- Quality assurance and insights
- Cost
- Regulatory compliance

**Why we engage**
The Company's purpose is to protect people and enhance lives, and in a service industry we succeed or fail by the quality of the service we offer our customers.

**Impact/value created**
- Brand value
- Regulatory compliance (food safety, health and safety, etc.)
- Sustainability

**Methods of engagement**
- Management of ongoing customer relationships
- Customer satisfaction surveys/CVC (NPS)
- Participation in industry forums and events, such as the Global Food Safety Initiative and thought leadership
- Annual Report & Accounts and industry-focused publications
- Websites
- Innovation showcase, e.g. visits to our dedicated R&D and training facility, the Power Centre
- Provision of training for customers' staff

**Measurements**
We measure our impact by monitoring our net gain and portfolio development, operating margin and density, and opportunity pipeline. We also monitor customer satisfaction and external ratings and measurements, such as Trustpilot.

**4.8** out of 5
customer satisfaction score in 2020

**2.6**m
customer surveys were undertaken in 2020

### More information


- Our responsible business approach (including a summary of performance) on pages **47** to **66**
- Section 172(1) statement on page **66**
- Board engagement with stakeholders on pages **90** and **91**
- Our Key Performance Indicators (which are grouped by stakeholder) on pages **16** to **19**

**rentokil-initial.com/responsible-delivery**


## Shareholders

Our shareholders range from global investment funds and institutions based primarily in the UK, North America and Europe, to small private investors, who are often current or former employees.

**Key issues for stakeholder**
- Growth in revenue (organic/M&A) and profit
- Cash flow and returns, e.g. dividends
- Brand and market leadership
- Innovation and digital differentiation
- Consistent execution of **RIGHT WAY** strategy
- Environmental, social and governance (ESG) performance

**Why we engage**
Our investors are the owners of the business. Continued access to capital is vital to our long-term performance. We want our investors and investment analysts to have a strong understanding of our business, strategy and performance, and to understand their priorities.

**Impact/value created**
We aim to generate long-term profitable growth to help deliver value for our shareholders.
- Internal rate of return
- Earnings per share
- Compounding model
- Dividends
- Free Cash Flow

**Methods of engagement**
- Institutional investor meetings
- Capital Markets Days
- Investor roadshows
- Annual General Meeting
- Correspondence with retail shareholders
- Annual Report & Accounts
- Corporate website
- Results presentations
- Our Responsible Business Report

**Measurements**
We measure our impact by monitoring our share price and reviewing analyst notes on us.

**263**
interactions with investors, from 148 global institutions, were held in 2020

## Communities

Our communities are those who live in areas where we work, such as local residents, businesses, schools and charities.

**Key issues for stakeholder**
- Jobs and investment
- Contribution to public health and safe environment
- Environmental impact

**Why we engage**
We respect the communities in which we operate and employ people, but we also accept a wider responsibility to key communities and environments around the world.

**Impact/value created**
We partner with charities and community initiatives in communities where we operate and aim to minimise our environmental impacts.
- Tax paid
- Charitable donations
- Energy and fuel-derived emissions (a negative impact which we reduce or offset where possible)

**Methods of engagement**
- Employment of approximately 44,500 individuals
- Sponsorship and colleague volunteering
- Partnerships with schools, colleges and universities

**Measurements**
We monitor our impact by measuring the amount of charitable cash donations made each year, our inclusion in ESG indices, and our carbon emission ranking with the CDP. More information can be found on our responsible business priorities of the environment on pages 52 to 57, and communities on pages 60 to 63 in the Responsible Business section.

**£184,000**
charitable donations in 2020

**276**
community events to say thank you to key public sector workers were held in 2020

## Suppliers

Our suppliers range from major manufacturers of key products and consumables to our global business, to suppliers of indirect goods and services used to support our operations. Products supplied include pest control baits, paper, soaps and waste disposal units, while indirect supplies include technology services, fleet vehicles and telecommunications.

**Key issues for stakeholder**
- Long-term engagement and innovation
- Control of price increases and delivery of cost savings
- Continuous improvement approach
- High standards of product quality and service delivery
- Governance and corporate responsibility, including human rights and modern slavery

**Why we engage**
We recognise that strategic partnerships with suppliers deliver more value to our business and our customers than short-term deals.

**Impact/value created**
- Optimised supply chain from manufacturer to end customer
- Joint development of product and service innovations

**Methods of engagement**
The Global Procurement team manages the relationship with major suppliers, with senior management involvement where appropriate. Comprehensive audits of all critical suppliers, including factory inspections, systems review and ESG factors, are undertaken. However, the supplier audit programme was interrupted in 2020 by the pandemic and will resume as soon as travel restrictions allow.

**Measurements**
We monitor our impact by measuring our monthly On Time In Full (OTIF) delivery metrics and quality complaints and our annual revenue development, product innovations and pricing management. We also monitor the scores from supplier audits.

**228%**
increase of hand soap and sanitiser dispenser sales in 2020 over 2019

Playing our part

# by meeting rising demand for digital pest products

**The COVID-19 crisis has generated a greater customer focus on digital devices and reporting and reflects growing demand for proactive 24/7 remote monitoring of a public health threat, greater speed of response and less physical contact between customers and service providers in line with new COVID-19 protocols.**

Benefiting from this rising demand has been PestConnect – our innovative, award-winning remote monitoring system for rodents, which uses non-toxic and highly targeted treatments that reduce the rodenticide impact on UK wildlife. PestConnect provides immediate control of rodents, delivering maximum protection against pests but with minimum on-site visits and disruption, which in turn protects customers from the spread of COVID-19. Minimising physical contact during the pandemic has been critical for our hospital customers – including London's Nightingale Hospital, which was specially constructed to support all NHS London hospitals in the event of a surge in COVID-19 cases – as they have sought to minimise physical on-site interactions with service providers.

This year also saw our largest commercial contract to date with Tesco, for whom we have installed tens of thousands of PestConnect units across the majority of its UK estate. As the country's leading supermarket, Tesco has zero tolerance for pest issues, and required a rapid, proactive and also sustainable solution minimising the need for toxic baits, in line with the company's environmental agenda. Individually tailored to Tesco's business needs, we installed PestConnect across its UK locations, including external areas, distribution and storage areas, and shop floors.

Having PestConnect installed across their UK sites provides Tesco with a system that alerts our Rentokil technicians to pests the moment they enter a device. Also by having access to myRentokil, which delivers real-time information, the data produced can be used to identify trends and problems while also supporting Tesco's auditing and legislation requirements.

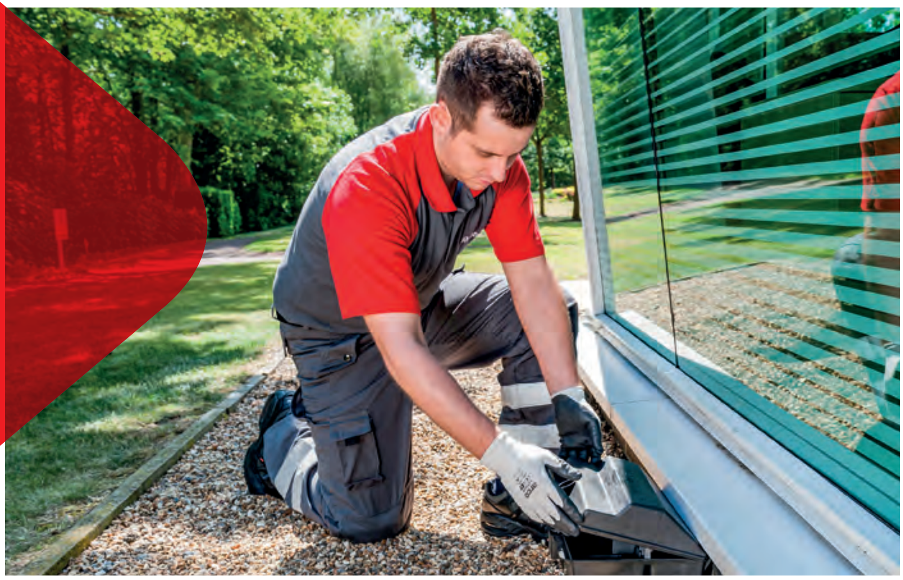
**Dave Hall,**
Operations Director, Rentokil Pest Control UK

Our contract with Rentokil is the world's largest contract for connected technology and surely marks the tipping point for digital pest control. For us, as an organisation, data is gold and we need to know at all times what is going on and why, as it is this knowledge that helps us do pest control better.

**Tony O'Donovan,**
Head of Pest Control, Tesco UK

# Pest Control

Our Pest Control operations have been very resilient in this challenging year, supporting our customers through the crisis and into restart and recovery. This resilient performance reflects our essential service status in the majority of our markets (allowing our frontline services to continue to operate), the largely contractual nature of the portfolio, and the fact that it has been less affected by temporary business shutdowns than our core Hygiene and Protect & Enhance categories.



## What we do

At Rentokil, our pest control specialists protect people and enhance lives by providing pest control solutions that ensure public health and protect the environment through energy efficient and sustainable pest control services. We offer a complete range of pest control services and solutions for commercial and residential properties, from common pests such as rodents, flies, stored product insects, biting insects and birds to other kinds of wildlife. We have extensive experience across a wide range of industries and use both preventative and responsive strategies to enhance protection for our customers through holistic, integrated pest management programmes.

Ongoing Revenue at CER

**£1,751.7m** +1.0%

| | |
|---|---|
| 2020 | 1,751.7 |
| 2019 | 1,734.8 |
| 2018 | 1,564.3 |
| 2017 | 1,393.7 |
| 2016 | 1,150.0 |

Ongoing Operating Profit at CER

**£283.7m** -8.5%

| | |
|---|---|
| 2020 | 283.7 |
| 2019 | 310.1 |
| 2018 | 277.3 |
| 2017 | 251.8 |
| 2016 | 213.6 |

Net Operating Margin at CER

**16.2%** -170bps

| | |
|---|---|
| 2020 | 16.2 |
| 2019 | 17.9 |
| 2018 | 17.7 |
| 2017 | 18.1 |
| 2016 | 18.6 |

## Our unique selling points

- **Global leader** – we are No.1 in 54 of our 82 markets
- **Strong Employer of Choice programme** – with outstanding technical training, building expertise and careers
- **Powerful brand**
- **Core strength in attractive commercial sector**
- **Leaders in digital** – connected devices, data, AI and apps
- **Unmatched capabilities in innovation**
- **Disciplined M&A** – highly fragmented market of c.40,000 companies, c.50% in North America

## Introduction

We are the world's largest commercial pest control company with an unrivalled global position in a resilient, non-cyclical and defensive industry characterised by strong structural growth drivers, which we present opposite on page 29. Our Pest Control business is a route-based business where profit growth is driven by a fundamental understanding of the importance of density. We have strengthened our position as global leaders in pest control through increased organic growth and by establishing stronger market positions, particularly in Emerging and Growth markets, through the introduction of innovative products and services, acquisitions and our determination to be an Employer of Choice across our global operations. The business has delivered a seven-year CAGR of 13.2%.

## The pest control market and industry

The global pest control market is an attractive, non-cyclical market worth some $21.0bn and estimated to grow at an expected average CAGR of 5.2% p.a. to 2025 (source: Allied Research Consultants LLC). Pest Control is a largely non-discretionary and essential service and our medium-term opportunities are undiminished by the COVID-19 crisis. We maintain our organic growth target for our Pest Control category of 4% to 6% p.a. The primary function of the professional pest control industry is to maintain hygienic surroundings for customers which are free of pests that could either damage commercial interests and reputation or endanger public health. Pest control contracts typically specify a certain level of preventative work be undertaken, such as the number of visits to customer premises, while reactive enquiries for one-off jobs require quick and efficient treatment for specific issues.

## Competitors

The pest control market is highly fragmented with an estimated 40,000 operators globally, c.20,000 of which are in North America. Key international competitors of Rentokil include

## Global growth drivers

Across the globe, pest control management is becoming increasingly important, driven by increasing populations, urbanisation, globalisation and changing demographics and standards. Stricter regulations and technology developments are important factors contributing to future pest management growth.

## Ongoing structural growth trends

**Growing population**

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

**Urbanisation**

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

**Rising middle classes**

160 million more people join the middle classes every year, with increasing hygiene standards and lower pest tolerance.

**Vector-borne diseases**

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

**Rising standards**

Increasing global convergence and transparency in global hygiene standards, particularly in emerging markets, is fuelling demand for pest control services.

**Increasing business pressure**

22% of facilities across the global food chain have some record of pest activity at any given time which carries significant reputational risk. 80% of US hotels and motels have reported some presence of bed bugs in the last year and have suffered potential damage to their reputation via social media.

**Climate change**

By 2050, climate change is expected to cause approximately 250,000 deaths each year from malnutrition, malaria and other diseases.

**Rise of pest intolerance**

Pest infestations cost businesses c.£5.8bn each year.

## COVID-19 pandemic-driven trends

**Pest brands people trust**

Brands face a fundamental reordering of priorities, with 53% of respondents believing that trust in the company that owns a brand is one of the most important factors in the purchasing decision (source: Edelman Trust Barometer Report 2020).

**Increased awareness of pests as vectors**

The pandemic has significantly elevated awareness of pest risks and the potential of virus and disease transfer to humans.

**Increasing focus on sustainability**

Customers are seeking safer pest control through the use of lower toxic solutions, including biological and physical methods and better waste management.

**Rising demand for remote monitoring solutions**

Customers are seeking to minimise physical interaction with service providers during the pandemic, requesting a variety of technology and sensors for the remote monitoring of pests. In addition, customers are demanding increased transparency of data from connected products across their estate.

Orkin, Terminix and Ecolab (all based in the United States) and Anticimex (based in Sweden). Over the last 12 months there has been further M&A activity across the sector with major players targeting acquisitions in Growth and Emerging markets. In addition, new technology solutions and increased digital marketing are driving inbound leads for national and smaller independents.

## Our customers

In 82 countries, businesses and homeowners trust Rentokil to solve their pest problems and prevent them from reoccurring. While the residential market is important to Rentokil, commercial pest control services account for 80% of our total pest control revenue, with residential pest control representing approximately 20% – over 75% of this coming from the US and Australia. Our key commercial customer sectors include food and beverage processing, hospitality, facilities management, offices and administrative, and logistics and warehousing. On a per capita basis, both the US and Australia have much larger residential markets for pest control than in Europe, primarily because of the presence of termites and wooden housing. Industries are increasingly adopting a 'zero tolerance' attitude towards pests to protect their customers and reputations, and as a result, we continue to set new standards for service excellence through market-leading technical training, innovation and digital tools.

## Overview of performance in 2020

Our Pest Control category demonstrated great resilience in 2020 despite the COVID-19 crisis. This reflects our essential service status in the majority of our markets which has enabled our frontline technicians to continue to service customers who required pest control in 2020. Pest Control performance has varied by geography and reflects the severity and duration of local, regional and country lockdowns. In addition, customer segments have been impacted differently by the crisis – while offices and the hotels, restaurants and cafes (HORECA) segment have been the most affected, demand from other customers including food retail, pharmaceutical companies, transport and residential customers has increased. By the year end, service provision to 0.7% of Pest Control customer premises remained suspended, versus c.7% at the peak of the crisis in April.

## Financial performance

Despite a Q2 decline in Ongoing Revenue of 5.9%, our Pest Control category delivered overall growth of 1.0% for the year. Overall, trading was most impacted in April, strengthened in May and showed a steady trend of improvement as the year progressed and lockdowns eased in certain parts of the world. Ongoing Operating Profit declined by 8.5% reflecting bad debt provisions and increased costs of PPE. Net Operating Margins declined by 170 basis points to 16.2%.

**Pest Control quarterly Ongoing Revenue performance by region £m**

| | Q1 | Q2 | Q3 | Q4 | FY2020 | % YOY |
|---|---|---|---|---|---|---|
| North America | 220.9 | 262.6 | 278.3 | 256.6 | 1,018.4 | 3.1 |
| Europe (incl. Latin America) | 72.0 | 64.5 | 74.6 | 71.6 | 282.7 | (0.4) |
| UK & Rest of World | 54.7 | 44.6 | 54.0 | 52.5 | 205.8 | (5.0) |
| Asia | 42.7 | 33.8 | 43.4 | 43.7 | 163.6 | (0.5) |
| Pacific | 21.3 | 18.7 | 19.4 | 21.8 | 81.2 | (1.3) |
| **Ongoing operations** | **411.6** | **424.2** | **469.7** | **446.2** | **1,751.7** | **1.0** |
| – Growth | 345.8 | 373.6 | 405.0 | 382.2 | 1,506.6 | 1.6 |
| – Emerging | 65.8 | 50.6 | 64.7 | 64.0 | 245.1 | (2.4) |

## Growth markets

These markets include North America, the UK and Ireland, Pacific, Germany, Benelux and the Caribbean. They represent 86% of total Pest Control Ongoing Revenue and 91% of category Ongoing Operating Profit and have delivered a five-year revenue CAGR of 13.3%. Our Pest Control operations in these markets grew by 1.6% in 2020.

As the world's largest pest control market, North America is a particularly important region for us. Our business here provides pest control coverage nationwide, supported by 378 branches, 48 distribution centres and 10,132 colleagues. Approximately 60% of our revenue is in commercial pest control, 40% in residential. C.70% of our Pest Control services revenue is contracted and c.30% comes from jobbing revenue. North America Pest Control has delivered a five-year revenue CAGR of 18.6%. Our strategy in this region is to build density through organic initiatives and M&A. Organic initiatives include growth in national accounts, product innovation, harnessing the digital opportunity and leveraging our business-to-business sales capability in our core sectors of food processing, food retail, healthcare and offices. We have a proven track record in M&A and, despite the suspension of our M&A programme in Q2, we acquired 14 businesses in the region with annualised revenues of c.£139.5m and our future pipeline of opportunities is strong.

North America Pest Control performed robustly in 2020, growing revenues by 3.1% to £1,018.4m. While we saw more significant disruption in coastal states, including New York and California, other regions, such as the mid-west and southeast, were less impacted. Demand for residential pest control has been good throughout the crisis but regular service provision for commercial pest customers has been hindered by temporary business closures. For a full review of our North America business (which includes product distribution, Ambius and our new disinfection business) and an update on our progress towards our objectives of 18% Net Operating Margins and revenues of $1.5bn, please see the Financial Review on pages 146 to 148.

Our German and Benelux Pest Control operations performed very robustly during the year, delivering revenue growth of 2.4% and 2.5% respectively, reflecting an easier trading environment in both countries during the crisis.

Ongoing Revenue in our UK and Ireland Pest Control business declined by 8.5% year on year, impacted by national lockdowns in Q2 and a subsequent inability to service customers whose premises were temporarily closed during this period, particularly those within the HORECA sector. Revenues were supported, however, by a number of new customer wins, including a contract with Tesco, the UK's leading supermarket chain, to install PestConnect – our digital connected pest control monitoring system – across two thirds of its UK estate (please see page 26 for further detail on this, our largest PestConnect contract win to date).

While our New Zealand Pest Control operations had an extremely difficult Q2 due to the strict lockdown there, overall Ongoing Revenue in our Pacific Pest Control operations were generally less impacted by the crisis and Ongoing Revenue declined by 1.3% in 2020, reflecting an improving performance from H2 in both New Zealand and Australia. We made one small pest control acquisition in Australia this year, with annualised revenues in the year prior to acquisition of c.£0.5m.

In 2020, we acquired 16 pest control companies in our Growth markets, bringing the total to 133 pest control acquisitions since 2015, of which 81 have been in North America.

## Growth market characteristics

| | Regional segment | Market position |
|---|---|---|
| North America | North America | 3 |
| Pacific | Pacific | 1 |
| UK & Ireland | UK & Rest of World | 1 |
| Germany | Europe & Latin America | 1 |
| Benelux | Europe & Latin America | 1 |
| Caribbean | UK & Rest of World | 1 |

Market characteristics

North America is the world's largest pest control market worth c.$10bn and set to reach c.$11bn by 2023 (source: Allied Research Consultants LLC, 2020). It is highly fragmented and competitive with five major players – Orkin, Terminix, Rentokil Steritech, Anticimex and Ecolab – and c.20,000 regional or local independents. Market trends include an improving housing market and economy, fuelling termite and commercial pest control, and rising demand for ant, bed bug and mosquito control services.

Key market trends in Australia and New Zealand are rising hygiene standards, legislation and regulation, and free trade agreements with China and India, which will fuel export demands and impact the pest and fumigation industry. Major players here are Ecolab, Rollins, Terminix, Anticimex and Massey Services. Rentokil is a market leader in the UK, Germany and Benelux, followed by a number of businesses with scale to service larger accounts and many smaller providers. Leading European operators include Ecolab and Anticimex. Key value drivers are sales capability, customer retention, upselling additional service lines, increasing technician productivity and optimising business mix. Pest pressures include termites, biting insects, rodents, pigeons and other small mammals. Main customer segments are food manufacturing, processing and retail, pharmaceutical, industrial and manufacturing, hotels, offices and residential.

● North America ● Europe & Latin America ● UK & Rest of World ● Asia ● Pacific

## Growth through M&A

Acquisitions are core to our Pest Control strategy – they enable us to build further scale and density and improve our ability to service customers. We have the in-house capability to identify, evaluate and execute acquisitions at pace and 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.

Despite taking the decision to suspend our M&A activity in Q2, the progress we made in Q1, combined with a very strong M&A performance in the second half, has resulted in 21 pest acquisitions in 2020. We acquired businesses in 11 countries: Australia, Canada, Chile, Colombia, Ghana, Netherlands, Peru, Singapore, Spain, Tanzania and the US (entering Peru and Ghana for the first time). Our pipeline of opportunities in both Growth and Emerging markets is very strong and we are confident of further high-quality acquisitions in 2021. Our strategy for pest control M&A is predicated on continuing to target acquisitions in key markets to build density, targeting acquisitions in mega and large cities and also seeking opportunities in new countries where the industry and economy supports expansion.

# Why Rentokil is a great place to work

"Rentokil is a sustainable employer that takes care of its people. There are great opportunities for progression and you get rewarded for hard work and dedication."

"It's definitely one of the best companies I have worked for. The pros of working for Rentokil? It's an amazing company – friendly, passionate, caring, really interesting work, highly innovative and inclusive. The cons? Well, it's fast paced, but I love that."

Employee reviews taken from Glassdoor, February 2021

I have been working at Rentokil North America full time for more than 10 years. It is an innovative company that works hard at controlling pests with the least amount of impact on the environment. It's a fun, family atmosphere with the backing of a large company. There are a lot of opportunities to do what you love and be promoted into the roles you desire.

## Emerging markets

We have a strong and rapidly growing position in the markets of Asia, Latin America, MENAT, Kenya, Fiji and Central America, which combined represent a strong platform for delivering sustainable, profitable growth. They represent 8.6% of Group Ongoing Revenue and 5.0% of Group Ongoing Operating Profit and have delivered a five-year revenue CAGR of 19.5%. However, our Pest Control operations in Emerging markets have faced significant challenges from the pandemic this year, particularly in India, and as a result Ongoing Revenue declined by 2.4% in 2020.

Overall performance from our Asia Pest Control operations declined by 0.5% in 2020, with significant differences in performance by country. Singapore, Indonesia, Thailand, South Korea and Sri Lanka performed extremely well. By contrast, Malaysia, India and Hong Kong were harder hit by the crisis, reflecting the nature of their country lockdowns. We made one acquisition in Asia during H1, acquiring a pest control business in Singapore with annualised revenues in the year prior to purchase of c.£3.5m.

Latin America is our youngest region, but expanding rapidly both organically and through a solid acquisition agenda.

Rentokil has top three leadership positions in all its Latin American markets and operates in nine of the 10 most populated cities. The business, which had been growing at double-digit rates until this year, declined by 7.9% in 2020, with growth significantly curtailed by the pandemic. The region acquired three new pest control businesses in 2020 in Colombia, Chile and Peru, with combined annualised revenues of c.£4m.

Rentokil Pest Control is also the market leader in the Middle East, North Africa and Turkey (MENAT), and National Pest Control, a market leader in the UAE with 180 colleagues which we acquired in 2018, is now fully integrated. We now have the capacity and footprint to operate across all of the main Emirates. The business declined by 3.0% this year, impacted by the COVID-19 crisis. Building on our already leading position in the region, we acquired a further new business in Accra, Ghana during the period, with annualised revenues of £0.4m.

Acquisitions have been central to our strategy for growth in Emerging markets and in addition to the four mentioned above, we also purchased a pest control business in Tanzania with revenues of £1.3m. This brings the total number of deals made since 2015 to 49.

## Growing demand despite current market volatility

Many positive macro-economic trends continue to drive growth in the pest control industry. While the economic landscape is challenging and many customer groups have been impacted by the pandemic, pest control remains a critical service requirement for both commercial and residential customers. In addition, the pest control market continues to consolidate, presenting strong M&A opportunities for active industry participants.

Navigating the customer landscape to maximise the opportunity in targeted growth and resilient sectors, while protecting our position in more vulnerable customer groups, will be critical as we go forward. While our pest control offer is strong and compelling, brand trust, differentiated expert service delivery (including innovation), and an increasing desire for digital customer engagement solutions, are all areas in which we will continue to focus and invest.

## Emerging market characteristics

| | Regional segment | Market position | Market characteristics |
|---|---|---|---|
| Asia | ● (Asia) | 1 & 2 | These are fast-growing markets linked to economic and social development. Population growth, a growing middle class and increased government regulation on hygiene and sanitation are fuelling growth. Market trends include strict regulations on food safety, health and the environment, the use of extranets to provide pest control monitoring and performance tracking for customers, the use of mobile technologies by pest control companies to enhance service productivity and a rising customer demand for eco-friendly services and products. |
| Latin America / Central America | ● (Europe & Latin America) | 1, 2 & 3 | |
| Middle East and North Africa | ● (UK & Rest of World) | 1 | The market is highly fragmented with the majority of pest control companies being made up of small, local businesses. Rentokil is a market leader and the most recognisable and trusted brand. Pest pressures include termites, mosquitoes, ants, cockroaches, rodents and flying insects. Cockroaches, carriers of diseases such as salmonella and gastroenteritis, are high-risk pests in homes. Main customer segments are food processing, food retail chains, industrial and manufacturing, hotels and resorts, and offices and residential. |
| Sub-Saharan Africa | ● (UK & Rest of World) | 1, 2 & 3 | |

● North America ● Europe & Latin America ● UK & Rest of World ● Asia ● Pacific

## Our strategy

Pest Control is our core business line and our main engine for growth. Our strategy for Pest Control remains on course as we transition from the pandemic to a new world after the virus. Our key strategic themes and priorities are set out in the table below.

### Key strategic themes

| | | |
|---|---|---|
| **Continue acceleration of our business by building on our global leadership, through further expansion in Growth (particularly North America) and Emerging markets, both organically and through M&A.** | In North America, we will continue to leverage our scale and build market share through a balanced programme combining organic initiatives (such as new product growth areas, national accounts, innovation, digital marketing, Employer of Choice and the Best of Breed transformation programme) and targeted M&A to build density and increase our expertise in new pest sectors such as vector control and lake management. | Emerging markets – in Asia our focus will be on implementing an improvement plan for India, further roll-out of digital technology to enhance service and efficiency, integration of recent acquisitions and further progress towards profitability in China. We will continue to build key city density in Latin America and build on our vector control capability in the core Brazilian market. |
| **Differentiation through our innovation pipeline, increasingly non-toxic pest control solutions.** | Rentokil has leveraged key new solutions to support growth including Lumnia, the world's first LED Electronic Fly Killer. Our strong pipeline of hardware and consumable products focuses on sustainability to address growing market and customer requirements. The global pandemic provides additional opportunities to accelerate our digital pest control products and deliver new solutions, such as proofing and disinfection. | In 2021, we will continue to develop non-toxic pest control solutions (biological and physical methods in place of synthetic chemical products and pesticides) in response to regulatory changes and customer preferences. |
| **Harness the digital opportunity – using our digital expertise including web, apps, portals and services and to lead digital pest control.** | We are the industry leaders in innovation, digital platforms, technical capability and unique proprietary products. COVID-19 is accelerating the adoption of digital solutions to help minimise human-to-human contact. | Rentokil has developed the world's leading digital pest control platform, providing an unmatched level of monitoring, reporting and insight for our customers. Our three key digital innovations are PestConnect, myRentokil and Command Centre (see page 34). |
| **Maximise our national and international accounts capability.** | Our growing scale and density is enabling us to be more competitive in securing an increasing share of national and global accounts. Our aim is to continue to grow by building long-term strategic customer relationships, carefully targeting attractive prospects, improving our sales execution and leveraging our combined national sales expertise of both Rentokil and Steritech. | Our target key sectors include facilities management and food and beverage production to maximise the global opportunity. |
| **Target key growth sectors and markets – particularly in commercial pest control.** | Different customer sector trends require a targeted approach. | With over 2 million small to medium-sized businesses and 30% of office real estate forecast to close by the end of 2021, we are preparing for a fast-changing landscape, proactively cultivating sectors in growth and adapting to emerging customer needs. |
| **Continued M&A strategy to expand the city footprint and density.** | Key focus areas are small bolt-ons to build density in existing markets, acquisitions in new markets and megacities of the future, and medium-sized transactions. Bolt-on acquisitions in urban areas will be targeted for customers, employees, existing routes and synergy opportunities. In new markets, we will focus on acquisitions in target city clusters and large urban areas, improving business performance by deploying our sales and service models, processes, standards, technologies and financial discipline. | We will also pursue medium-sized pest control businesses, particularly in North America, to build density (and also to supplement our growing expertise in sectors such as vector control), applying our own systems, processes and financial rigour to improve revenues and margins. |

## Pest Control growth in a post-pandemic world

Despite significant impact from the pandemic in 2020, our core strategy remains on course. The key components to growth are:

- increasing brand marketing activity in all markets with a brand recognised as the leader in pest control;
- enhancing digital communication platforms through the customer journey to engage customers and convert opportunities;
- continuing our successful M&A strategy to expand and strengthen our footprint;
- owning the position of the world's most sustainable pest control service company;
- implementing differentiated innovation, marketing and targeting activities built on robust data and insights; and
- expanding our digital pest control offer and increasing customer penetration.

On page 30 and over the following pages, we will give more details about four key pillars for growth: brand strength and digital engagement; M&A; digital infrastructure and capability; and innovation.

## Brand strength

Our Rentokil brand is of central importance to us. We want it to be seen as synonymous with the highest quality and trusted levels of service delivery, market-leading innovation and digital solutions that protect people and enhance lives. Our aim is to be recognised as the world's leading expert provider of pest control and the voice of authority to our customers, potential customers and influencers.

The global pandemic of 2020 has resulted in a shift in the importance of brand trust for customers. In addition, the environment and use of sustainably and ethically sourced materials are emerging as top-ten customer priorities. Our focus is on raising greater awareness of our brand through a global brand voice campaign focused on key trust and expertise messaging to: high-dependency customers such as food suppliers; employee locations such as offices and manufacturing facilities; and guest locations such as leisure, hotels, education, and food and beverage.

We are driving our brand alignment efforts for a unified, consistent global presence to build trust and credibility, and effectively track and measure our brand equity. This is through central deployment of global campaigns with supporting toolkits for local activation via a wide range of communication channels including online, social media, global and national sales, third party events and webinars.

## Digital engagement

We are strongly positioned to capitalise on a 'digital first' approach post the pandemic and to use our expertise in digital sales and customer engagement in a more socially distanced world. During the year we conducted a series of sector-specific digital marketing campaigns to highlight the services we can offer to customers as part of their restart programmes and for a post-pandemic world. This included sending 2.9 million emails in the UK with a very high 'open rate' of over 60% (versus an average services sector rate of 22%) in certain sectors. In the US, sessions to our Western and JC Ehrlich websites rose by 34% and 14% respectively.

We also undertook a series of webinars to build engagement with customers on key pest control and hygiene topics and these have proven to be very successful in 2020.

Our focus on delivering new content and localisation is driving record levels of traffic to our websites across the Group. Overall total Rentokil web traffic grew by c.18% in 2020, with total visits reaching c.33.2 million sessions (2019: 28.1 million). In 2020, we launched a series of online marketing campaigns focused on how our leadership in technology and innovation helps our customers 'stay one step ahead of pests' through industry-leading levels of monitoring, reporting and insight.

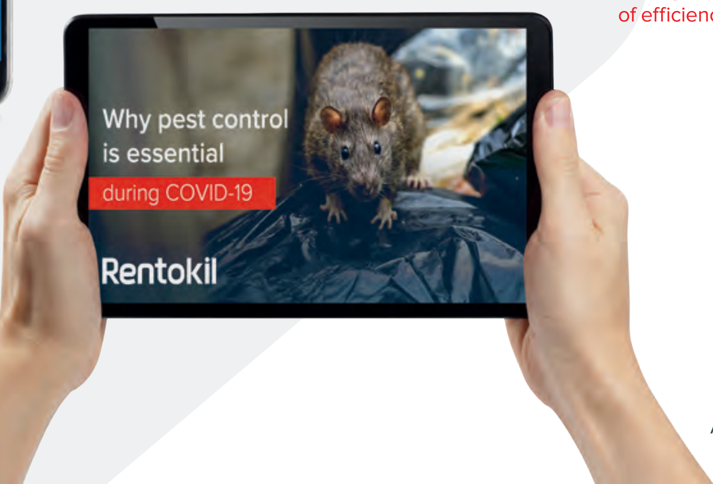
In July, we launched our first Rentokil website 'chat bot' in the UK to make us more effective, handle enquiries faster and reduce the 'hassle factor' for customers and prospects. People contact us via our websites for a variety of reasons, but the majority of inbounds are sales enquiries. Since launch, 99.7% of enquires to the chat bot have come from new customers, approximately two thirds of which are from residential customers, and just under half of all chats are conducted outside working hours. The chat bot is reducing the volume and duration of calls to our Contact Centre, freeing up time for our sales colleagues to focus on higher-value activities.

## Digital Pest Control


## Working smarter by harnessing the power of technology

Protecting customer facilities 24/7 against fast-evolving pest threats can be challenging, particularly in areas difficult to monitor for pest activity or areas that are automated or unmanned.

Our Internet of Things-enabled pest management solutions give our customers unrivalled pest data, insights and reporting to help proactively prevent, monitor and manage pests with new levels of efficiency and control.



## Digital infrastructure and capability

Digital innovation in Pest Control is necessary to meet the needs of an evolving world. Macro trends (including pandemic-driven trends) are increasing demand for digital solutions and these include demand for more remote monitoring solutions due to COVID-19, smart technology becoming a norm that is driven by younger generations, and customers demanding increased transparency of data. Rentokil has developed the world's leading digital pest control platform, providing an unmatched level of monitoring, reporting and insight for our customers who face the risk of increased fines and censure without effective pest management and reporting.

**PestConnect** is the world's most advanced digital system for pest control and the 'world's smartest mousetrap'. It provides our customers with a complete remote pest detection solution and full traceability. We have seen increased demand for the product in 2020 as customers (including hospitals such as London's Nightingale Hospital, which was specially constructed to support all NHS London hospitals in the event of a surge in COVID-19) have sought to minimise physical on-site interactions with service providers and prevent the spread of COVID-19.

This year also saw our largest commercial contract to date with Tesco, for whom we have installed tens of thousands of PestConnect units across the majority of its UK estate (see page 26). Since launch in 2016, we have installed over 150,000 PestConnect units across 7,684 customer locations in 26 countries. In addition, 12,000 frontline colleagues in 25 countries now have access to our PestConnect floorplan app to manage PestConnect at scale across customer sites. We continue to develop and expand our product range, and in Q4 we launched our newest unit, Multi-Mouse Riddance. We will add to our growing range in 2021 with the launch of six additional new products for rodents, crawling insects, birds and flies.

Our myRentokil online customer portal provides secure 24/7 access to real-time information that provides easy access to documentation required for pest control, including reviewing service recommendations and responding to audits. Currently 1.1 million customer sites and 95% of our commercial customers use myRentokil in 44 countries.

CommandCentre is our central information hub containing data compiled from over 50 countries with 7 billion records and populated with historic and current data to track pest trends and identify emerging risks. A total of 9 million messages were sent or received across our digital pest control network every day in 2020, recorded on the central command centre and stored on Google Cloud Platform.

## Innovation

Innovation is a core component of growth and embedded within our cultural DNA. We encourage and empower all our colleagues to innovate with the desire to improve customer service. We deploy innovation consistently, targeted at key pest sectors and with potential for new non-toxic and sustainable solutions, which are increasingly becoming an important source of differentiation. Our core innovation categories are stored product infestation, rodents, birds, crawling and flying insects.

**Rodents**
Rodent control accounts for c.$2bn of the global pest control market and continues to grow at c.4% p.a. (source: Allied Analytics). Recent new product innovations include Dual AutoGate Connect, Riddance Connect, Rodent Ceiling Trap (a ceiling solution for rodent control in gaps above ceilings and which provides indicator alerts to a capture) and our Multi-Mouse Riddance product – a monitoring sensor that can be attached to several live catch products for real-time reporting, allowing for early technician support.

In 2020, and after three years of development, we piloted Eradico, our new Global Bait Box, in 22 countries with launch planned for Q3 2021. Eradico is an innovative, single-solution, flexible, technology-enabled rodent solution, which addresses 57 different needs and market requirements. A connected version of the system, called RADAR X, a next generation $CO_2$ connected mouse riddance unit, will also be launched later this year.

**Bird control**
Birds can become a nuisance if they are allowed to congregate on business premises. They can dislodge roof tiles, block guttering, encourage insect infestations and their detritus can drive away customers and spread diseases. Certain nuisance bird species can be dealt with but others, such as wild birds, are protected by law in many countries. Laser technology is now being used for bird management in industrial, aerospace and urban areas as an effective dispersal technique – birds perceive the laser beam as an approaching danger and so move away from the area. In 2020, we added to our range of bird control solutions with the Agrilaser Autonomic deterrent system, securing a £650,000 contract with a major US customer.

## Digital innovation


Scan the QR code to watch our PestConnect video

### Award-winning digital pest control products

Our PestConnect range of connected pest control solutions has received the prestigious Queen's Award for Enterprise Innovation for digital innovation in commercial pest control. Our range includes RADAR Connect non-tox traps, Dual AutoGate Connect and Rat Riddance Connect. We are continually developing and improving our professional solutions to control rats and mice without using traditional toxic rodenticides which impact the environment and wildlife.

## Product innovation

**62%**

Lumnia generates c.62% lower carbon emissions by The Planet Mark.


**400%**

By choosing a contrasting colour relative to the background, the effectiveness of our Lumnia products is increased by up to 400%.

### Lumnia Slim

Lumnia Slim is the latest addition to our range of Lumnia products. It is a highly effective, elegant and discreet solution that has been specifically designed for customer-facing locations such as cafes, bars, restaurants and reception areas. The unit's modern exterior holds a powerful 10W LED lamp that draws in flying insects while using a very low amount of energy. This makes Lumnia Slim cost-effective and environmentally friendly.

**Flying insects**

We have sold c.168,000 Lumnia solutions across 58 countries since launch in 2017, with 2020 accounting for 32% of the sales volume. Lumnia is the world's first range of illuminated fly traps to use patented LED lighting technology rather than traditional fluorescent tubes and we were proud and delighted to win The 2020 Queen's Award for Innovation for the development and launch of Lumnia. Lumnia attracts, kills and encapsulates insects hygienically – eliminating the risks of contamination – and is suitable for a wide range of internal environments. It is also more environmentally friendly than traditional units, reducing energy output by c.70% and carbon emissions by 62%.

Our products include Lumnia Standard (offices, shops, food retailers) and Lumnia Ultimate (which uses second generation lamps for high-dependency customers). We have now added to this range with Lumnia Colour (offering customers a choice of coloured units to match their interior décor) and Lumnia Slim. In 2021, we will launch our new Lumnia Connect model, fitted with camera technology for better risk management and greater audit trail transparency, and Crawling Insect Connect, which will be positioned in no-tolerance areas in customer food processing sites to primarily target moths and cockroaches.

**Non-toxic solutions**

Customer and regulatory requirements are leading to an increasing demand for innovative, non-toxic solutions in pest control. Our aim is to become the leaders in sustainable pest control and to do this we need to find better ways to exclude, remove, destroy and monitor pests with the lowest possible impact on the environment. This impact must be sustainable, taking into account the impact of the hardware we use, consumables required and cost of service to the environment. Sustainable innovations are required both internally, where premises require safer pest control from lower toxic solutions using biological and physical methods and lower waste management, and externally, where we need to develop and promote solutions and service cycles to reduce our environmental footprint. We continue to expand and develop our range of sustainable, non-toxic and humane solutions across all pest types.

## Global and national accounts

We have seen strong growth this year from globally managed customers, particularly in the property and facilities management sector, with revenues increasing from £19.9m in 2019 to £167.4m in 2020, aided by a considerable contribution from disinfection. Our relationships with key partners – including Sodexo, ISS, JLL and CBRE – have continued to develop in 2020 as we work together in existing and new geographies. Demand for surface disinfection from our largest customers has been strong in 2020, and they have sought high-quality, compliant and consistent services across their global estates. We have also made good progress with new account wins across a range of customer sectors, including the pharmaceutical industry, IT, food processing and logistics, and our pipeline of new business is strong.

## Outlook

Our Pest Control category has delivered a robust performance in 2020, reflecting its 'essential service' status in the majority of countries in which we operate.

Looking forward into 2021, while there are concerns around potential customer bankruptcies, bad debt, price reductions and the timing of a rebound from the HORECA sector, we nevertheless expect to deliver further performance improvements in the coming year.


## Playing our part

# by combating COVID-19

**In December 2020, we announced the launch of the VIRUSKILLER™ air purifier in the UK, proven to kill 99.9999% of viruses with a single air pass, including the COVID-19 virus.**

The announcement came at a time when WHO had updated information on its website recognising that COVID-19 can be transmitted from person to person via aerosols in the air.

Unlike traditional air purifiers that simply trap airborne particles and microbes, VIRUSKILLER™ technology uses a series of carbon and HEPA filters and patented ultraviolet-C (UVC) lamps to trap and kill airborne viruses, bacteria and fungi. The lamps are surrounded by a mesh of chromed nano titanium dioxide tube filters that are polished with activated carbon. The emitted UV light reacts with the mesh, and in a process called 'photocatalytic oxidation' produces hydroxyl radicals, which act as a disinfectant and break down the organic molecules. This all-in-one solution effectively filters dirty air, neutralises toxic air and decontaminates sick air.

Different-sized units will be offered to a wide range of sectors, from offices, education and healthcare to hospitality and leisure venues, and it is hoped that this technology will play an important role in the UK's COVID-19 recovery, helping businesses and public facilities minimise the risk of airborne transmission when they are allowed to resume normal operations.

VIRUSKILLER™ is proven to kill

**99.9999%**

of viruses

We have had our air purifying VIRUSKILLER™ units for a few weeks now and have noticed that the air definitely feels cleaner in our business. It gives us peace of mind for our customers that visit and many have commented that it makes them feel safer.

**Jason MacNiven,**
Golf Principles, Basingstoke

Following the positive news surrounding several Coronavirus vaccines on the near horizon, VIRUSKILLER™ is another landmark development in the ongoing effort to battle Coronavirus. We hope it will play an important role as people look to resume their normal lives, providing confidence and peace of mind that airborne transmission is far less likely in indoor environments where the technology is installed.

**Jamie Woodhall,**
Technical and Innovation Manager, Rentokil Specialist Hygiene and Initial Washroom Hygiene

Unlike traditional air purification systems, VIRUSKILLER™'s UVC technology provides a photochemical deconstruction of the RNA and DNA of microorganisms, deactivating their reproductive processes so that the Coronavirus can no longer spread.

**Dr Colm Moore,**
Area Technical Manager UK, Ireland and the Baltics, Rentokil Initial

# Hygiene

Our Hygiene category delivered strong growth in 2020, driven by sustained global demand for disinfection services, which were rolled out across 60 countries in March and April. Our core global Hygiene operations have been negatively impacted during the peak of the pandemic, principally due to their inability to deliver regular washroom services for a substantial number of customers (particularly the HORECA sector), which temporarily closed their operations from Q2.


## What we do

At Rentokil Initial our Hygiene technicians provide hygiene services to business environments to make them cleaner, safer, healthier and more pleasant places in which to operate. Establishing good hygiene practices throughout an organisation reduces the risk of infection being passed from person to person. As a result, fewer days are lost to sickness, which translates directly into real cost savings and increased productivity. Initial offers the widest range of washroom hygiene services, including the provision and maintenance of products such as air fresheners, sanitisers, feminine hygiene units, hand dryers, paper and linen towel dispensers, soap dispensers, toilet paper dispensers and floor protection mats. Our two hygiene ranges, Signature and Reflection, offer a full range of services and a consistent look and feel across a customer's washroom.

Ongoing Revenue at CER

**£743.8m** +36.8%

| | |
|---|---|
| 2020 | 743.8 |
| 2019 | 543.7 |
| 2018 | 513.7 |
| 2017 | 416.8 |
| 2016 | 387.4 |

Ongoing Operating Profit at CER

**£175.5m** +81.4%

| | |
|---|---|
| 2020 | 175.5 |
| 2019 | 96.8 |
| 2018 | 89.6 |
| 2017 | 74.0 |
| 2016 | 67.5 |

Net Operating Margin at CER

**23.6%** +580bps

| | |
|---|---|
| 2020 | 23.6 |
| 2019 | 17.8 |
| 2018 | 17.4 |
| 2017 | 17.8 |
| 2016 | 17.5 |

## Our unique selling points

- **Global leader** – No.1 in 22 of the 45 markets (top 3 in 38 markets); plus 20 new markets in H2 2020
- **Recognised and trusted hygiene brand**
- **Award-winning product range**
- **Digital, connected devices and data expertise shared with Pest Control**
- **Operational focus** – route and product density
- **Disciplined M&A** – city-focused strategy
- **Strong Employer of Choice programme** – outstanding engagement and training

## Introduction

Our Initial Hygiene business is a strong complementary business to Pest Control. Both businesses service the same types of customers and also share country management, technology, infrastructure and back office services. They are also route-based businesses, where profit growth is driven by a fundamental understanding of the importance of density. The megatrends in the hygiene sector – and the importance of being able to prevent the spread of diseases, germs and bacteria – are fuelling demand for our services (see page 39 for structural and pandemic-driven growth trends). Over the past five years, our Hygiene business has delivered a significant improvement in revenue growth, established a strong product range, launched the myInitial customer portal for enhanced customer insight and engagement, and has begun to acquire bolt-on businesses to build scale and density. It has delivered a seven-year CAGR of 11.6%.

## Attractive and growing market

Our Hygiene businesses operate in an attractive industry offering good growth opportunities as expectations around standards of hygiene increase. Like Pest Control, Hygiene is an essential, non-discretionary business and we believe its medium-term opportunities are enhanced by rising demand for global hygiene services. From 2022 onwards, we are now targeting medium-term organic growth in core Hygiene services at rates comparable to those in Pest Control, at 4% to 6%. Margins in our Hygiene category are driven by postcode density (servicing as many customers as possible in any tight geographic zone) and customer penetration (selling multiple service lines to customers).

## Competitors

There are many routes to satisfy washroom hygiene needs with competitors providing a wide range of supply solutions. Regional, full-service companies provide service solutions, either direct or via cleaning companies/facility management,

## Global growth drivers

While the COVID-19 crisis has brought the short-term impact of lockdowns, it has also brought what we believe will be a longer-term change in attitudes towards the importance and perception of hygiene, which has moved from being viewed as a basic commodity to an essential service.

Initial Hygiene is a high-quality business ideally positioned to capitalise on new growth opportunities as the growing importance of hand, surface and air hygiene, tighter regulation, higher standards and increased usage of hygiene products and services rises around the world.

## Ongoing structural growth trends

**Global population**

The global population is growing by 80 million p.a. and forecast to reach 8.6 billion by 2030, creating further demand for washroom facilities.

**Urbanisation**

An estimated 70% of the population will live in cities by 2050, where hygiene and sanitation issues are most prevalent.

**Rising middle classes**

160 million people join the middle classes every year, with increasing hygiene standards and a growing health consciousness.

**Rise of millennials**

This generation is highly focused on health and wellbeing and vocal about its importance.

**Increasing legislation driving improved hygiene standards**

This is particularly so in the food industry, considered to pose greater risks to public health than non-food sectors.

**Growth in hand sanitiser market**

Valued at $2.6bn in 2019 and forecast to grow at a CAGR of 9.2% to 2026, this growth is driven by increasing health consciousness among consumers and rising incomes.

**Growth in air purification market**

The air purification market is expected to grow at a CAGR of 42% to 2025, to reach revenues of c.$90bn, with Asia Pacific the fastest-growing region and contributing 41% of market share.

## COVID-19 pandemic-driven trends

**Brand trust and expertise**
In this unprecedented period of extreme uncertainty and conflicting information, customers seek greater reassurance than ever from service providers, with brand trust being paramount.

**Legislation**
The speed of onset and global spread of COVID-19 has led to significant local government and agency response, along with rapidly evolving guidelines. A period of legislative changes are now expected.

**Sustainability**
In addition to the need to offer effective COVID-19 protection and significantly enhanced hygiene solutions, there is also a related and underpinning requirement to ensure that all solutions are delivered in the most sustainable way possible.

**Hand hygiene**
Good hand hygiene has been shown as one of the most basic yet powerful ways in which individuals can protect themselves from COVID-19 and other similar diseases.

**Surface hygiene**
COVID-19 has led to an explosion of sensitivity around microbe transmission points and surfaces being carriers of risk. This has led to wide-scale surface disinfection and significantly enhanced cleaning regimes and protocols.

**Air hygiene**
Increased sensitivities around air filtering, air purification and air quality monitoring are presenting significant new opportunities for air hygiene.

**Social distancing**
This is expected to continue in many countries for the foreseeable future, driving degrees of sustained or permanent behavioural change.

differentiating on services, products and coverage. In several markets, washroom requirements can be met by facilities management or cleaning companies direct, but this solution is not typically of the same standard provided by washroom services companies.

## COVID-19 and its impact on global hygiene standards

Since the start of the COVID-19 crisis, we have seen elevated standards for health and hygiene, particularly in the workplace, and, as a result, hygiene has arguably become one of the most important business categories in the world. Industry commentators believe this heightened focus will not be a temporary blip, rather a permanent change which will create ongoing market opportunities from which our business can benefit. In addition to structural growth trends which will support long-term growth of our Hygiene category and which are essential for the continued success and growth of our business, we have also identified new trends which are being compounded by pandemic-driven factors.

### Hygiene markets

| Regional segment | Market position |
|---|---|
| Europe | 1 or 2 |
| Latin America | 1 (Chile and Colombia) |
| UK and Ireland | 1 (UK), 2 (Ireland) |
| Rest of World | 1 or 2 (Caribbean), 1 or 2 (Nordics & Sub-Saharan Africa) |
| Asia | 1, 2 or 3 |
| Pacific | 1 (NZ), 2 (Australia), 4 (Fiji) |

**Market characteristics**

Initial Hygiene has a No.1 position in 22 countries, a No.2 position in 13, and leading market positions in the Pacific, Asia and Caribbean. Characteristics of the global hygiene market differ by country with regional variances based on social and legislative standards. For example, in countries such as the UK and Australia, where there is tight legislation and very high standards surrounding the disposal of blood waste, the feminine hygiene market is particularly important. In Asia, air care and air quality is of paramount importance to consumers, driving high growth in this sector. In Europe, there is a strong focus on textiles, for example roller towels, and floor care, such as dust mats. In developing countries around the world, where there is growing awareness in sanitation, public health and hand wash support is a key market sector.

North America · Europe & Latin America · UK & Rest of World · Asia · Pacific


Why Initial is a great place to work

"I absolutely love my job – there is always room for growth and you can go for bigger and better opportunities within the Company if that is what you want. There is no limit to how high you can fly. The support I have received from my managers over the years has been incredible. I would highly recommend Rentokil Initial."

Employee reviews taken from Glassdoor, February 2021

I have been working with Initial for just over a year. As an organisation, it is clear in its direction, decisive, helpful, organised and respectful.

## Customers and service culture

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

## Overview of performance in 2020

Our core Hygiene operations, also designated essential services, were more impacted than Pest Control in 2020 because of our inability to perform regular weekly washroom services for a substantial number of customers (particularly in the hospitality and leisure sector but also schools, offices and shopping centres), which temporarily closed their premises during the crisis. By the year end, service provision to 4.4% of Hygiene customer premises remained suspended, versus c.22% at the end of April, the peak of the crisis for our business. Shortfalls in washroom service provision have been more than offset, however, by strong global demand from both Hygiene and Pest Control customers for hygiene products – we generated record sales of hand soaps, sanitisers and dispensers in 2020 – and other hygiene services including general and specialist biohazard disinfection, deep clean services and precautionary disinfection risk assessment surveys.

## Financial performance

As with Pest Control, performance from our Hygiene business has varied by geography and lockdown regime. April was also our weakest month, but trading improved in May and June and demonstrated further sequential improvement in the second half.

Hygiene Ongoing Revenue and Ongoing Operating Profit rose by 36.8% and 81.4% respectively in 2020. Net Operating Margins increased by 580 basis points to 23.6%, reflecting additional revenues from disinfection. Excluding disinfection, core Hygiene revenues declined by 4.6% in 2020.

## Regional performance

We introduced our Hygiene services for the first time in North America in 2020, offering disinfection services to customers from Q2. Take-up from existing and new customers has been very strong, generating revenues of £144.4m for the year. In Europe, total Hygiene revenues were very strong, aided by strong disinfection sales, and more than offsetting a weaker performance from the region's core washroom businesses, particularly those in France, which were significantly disrupted by customer suspensions in the HORECA sector. Performance in our UK & RoW Hygiene operations was also mixed in 2020, with UK and Ireland Washrooms severely impacted by temporary customer closures while our Specialist Hygiene, Medical Hygiene and Products businesses benefited from increased disinfection services. In Asia, China, Hong Kong and South Korea were among the first countries in the Group to be impacted by the COVID-19 crisis and, as a result, were the first to recover, with strong demand for disinfection and hygiene product sales offsetting falls in contract revenue from other countries. However, our India and Malaysia businesses experienced the worst impacts from the crisis reflecting the nature of their lockdowns. In the Pacific, core Hygiene revenues were affected by severe lockdowns in both New Zealand and parts of Australia.

**Hygiene category quarterly Ongoing Revenue performance by region £m**

| | Q1 | Q2 | Q3 | Q4 | FY2020 | % YOY |
|---|---|---|---|---|---|---|
| North America | – | 21.7 | 49.6 | 73.1 | 144.4 | – |
| Europe | 46.3 | 52.9 | 62.7 | 71.0 | 232.9 | 22.3 |
| UK & Rest of World | 50.2 | 43.0 | 54.6 | 49.0 | 196.8 | 3.3 |
| Asia | 20.3 | 21.7 | 21.0 | 19.7 | 82.7 | 12.5 |
| Pacific | 23.0 | 18.1 | 22.7 | 23.2 | 87.0 | (2.6) |
| **Ongoing operations** | **139.8** | **157.4** | **210.6** | **236.0** | **743.8** | **36.8** |
| – Core Hygiene | 139.8 | 108.6 | 136.0 | 134.3 | 518.7 | (4.6) |
| – Disinfection | – | 48.8 | 74.6 | 101.7 | 225.1 | – |

## Our strategy

Our strategy is to deliver continued growth through a combination of **strong operational focus and targeted M&A** to build city density. Central to this is the delivery of excellent customer service, product innovation, service line extensions and improvements to productivity through digital products and applications.

### Key strategic themes

| | | |
|---|---|---|
| **Focus on operational execution – build margins through postcode and product density.** | Targeting of the right customers by capable and motivated sales colleagues will enable us to win new business and increase penetration regionally and through multiple service line adoption across customers' sites. | Analysis of our current footprint supported by the right sales incentives and selling methods will drive behaviours that will lead to improved density. |
| **Offer a complete product range to avoid cross-infection inside the washroom.** | Washrooms are high-risk areas for COVID-19 and other viruses. They are small spaces, with smooth services and high levels of traffic.<br>'No touch' and other solutions minimise cross-contamination, particularly prevalent within the cubicle setting. Products include toilet paper dispensers that seal paper until use, 'no touch' feminine hygiene units and toilet seat cleaners. | Our Signature range of washroom products have been designed with antimicrobial surfaces which also reduce cross-contamination, as do our 'no touch' auto-lift lids on bins and auto-dispense paper towels and soaps. Air care quality is also an important indicator of washroom cleanliness, with air sterilisers providing an ongoing method of removing potentially harmful pathogens from the air. |
| **Take our Hygiene services everywhere – expanding outside of the washroom.** | From a relatively low interest sector, hygiene has now become one of the world's most important, presenting opportunities for us to provide hand, air and surface hygiene products in multiple environments, including offices, kitchens and reception areas.<br>'Premises hygiene' – The COVID-19 pandemic is creating greater customer need for hygiene | solutions within premises as well as evolving social expectations. We will leverage our hygiene expertise into air purification, disinfection, mats, hand sanitisers and dispensers, and surface hygiene. In addition, there is a growing requirement for mature markets to improve occupant experience in 'enhanced environments' and this includes air quality, premium scenting, first aid service offers, green walls and biophilic design. |
| **Harness the digital opportunity, developing digital innovations to address customer needs and increase productivity.** | The global smart washrooms market is estimated to deliver an 11.5% CAGR to 2027, reaching a value of some $6.5bn (source: Grand View Research, August 2020). We continue to develop digital products for enhanced services combined with greater reporting and insight.<br>We believe the pandemic will provide a springboard for increased digital hygiene services and are taking our digital expertise from Pest Control and expanding into Hygiene. Increased regulations and | the threat of fines and reputational damage may prompt early take-up of digital applications in hygiene, as it has done in pest control. Our connected hygiene solutions currently comprise digital taps and soap dispensers, hand wash and footfall monitoring and air care. Our myInitial online reporting platform provides transparency of service, including signature capture, service history and details, dates of visits and reporting facilities. |
| **'Be the best we can be' in disinfection.** | Customer demand for disinfection services has risen dramatically during the crisis because of fears of cross-contamination and the need to contain the virus. | We will continue to provide high-quality disinfection services as part of the crisis response, but expect volumes and prices to significantly unwind as the year progresses and the crisis hopefully abates. |
| **International expansion – organically and through targeted, city-based M&A to build density and grow profits.** | '20 in '20' – By December 2020 we had launched Hygiene in 20 new countries, bringing the total number of countries in which we provide hygiene services to 65. In addition, we continue to identify and acquire new businesses to integrate into our existing operations and markets or new country entries where we currently provide Pest Control. | We have built a new Hygiene offering within our existing Rentokil and Ambius infrastructure in 20 countries this year, sharing branch locations and initially cross-selling hygiene into our existing customer base. Our focus in Hygiene M&A will continue to be on enhancing our position in existing markets to build density, particularly in Emerging markets, with a focus on mega and large cities to give the strongest position. |

## Reshaping our hygiene business

The COVID-19 crisis is changing the way the world views hygiene – it has gone from being seen as a basic requirement to an essential part of daily life. Without high standards of hygiene, our customers cannot protect their people or their customers from illness. While vaccines against the virus will hopefully enable the world to recover from the crisis, fear of other pathogens that may emerge in the future, and the severity of this particular pandemic, is likely to have a lasting effect on global hygiene standards.

Our core offer in our Initial Hygiene business has been based around the provision of regular washroom services to customer premises. We have grown the business through broad based operational improvements in our product range, density (product penetration and postcode density), service quality, productivity, innovation, digital applications and products, sales capability and highly targeted M&A.

We are now seeking to expand our Hygiene business from beyond the washroom into new, higher-growth areas. This can be illustrated by the fact that, while our ability to provide regular washroom services to customers during the pandemic was negatively impacted by the pandemic, we were able to support revenues through new disinfection services and other services which have more than offset washroom service shortfalls.

We anticipate that both volumes and prices for disinfection services will progressively reduce during 2021 as the world hopefully recovers from the pandemic. Other non-washroom hygiene services, however, are more likely to be sustainable long term and these include air care, surface hygiene, route-based service extensions (such as first aid) and digital products and applications.

## Capitalising on an evolving hygiene landscape

Our success in growing our Hygiene category in a post-COVID world will be dependent on:

- being the experts in hygiene and wellbeing – through service, product innovation and sales capability;
- having a compelling proposition that covers the three key areas of washroom, premises and environment;
- creating differentiated propositions, such as our Rapid range of hygiene products;
- targeting sales growth in sectors less impacted by the pandemic (e.g. logistics, food, health and education);
- investing in our brand in order to be recognised in all our markets as the global leader;
- leading sustainable provision of hygiene and wellbeing services; and
- investing in digital infrastructure to capture future opportunities.

## Growth opportunities

We see four main opportunities for growth for our Hygiene category. They are:

- Inside washrooms – which are high-risk areas for COVID-19 and other viruses. We offer a complete range of products and services, particularly 'no touch', to avoid cross-infection.
- Digital leadership – we continue to develop digital products for enhanced services combined with greater reporting and insight.
- International expansion – we plan to enter new markets in both established and Emerging markets.
- Using our expertise outside washrooms – and expanding into additional hand hygiene products and services, surface hygiene and disinfection services.

## Inside washrooms

Washrooms are high-risk areas for COVID-19 and other viruses – they are small spaces, with smooth surfaces and high levels of traffic. 'No touch' washrooms are the most effective way to avoid cross-contamination, particularly within cubicle settings. Toilet paper dispensers that seal away paper until use, 'no touch' feminine hygiene units and toilet seat cleaners all prevent cross-contamination. Our Signature range of washroom products have antimicrobial surfaces, which help reduce cross-contamination, as do our 'no touch' auto-lift lids on bins and auto dispense of paper towels and soaps. Air care quality is also an important indicator of washroom cleanliness, with air sterilisers providing an ongoing method of removing potentially harmful pathogens from the air.

## Digital first solutions


### myInitial

is a transparent online reporting tool for our Hygiene customers, which has been designed to offer an improvement in the transparency of service, including signature capture, service history and details, dates of visits and access to reporting facilities. myInitial has been designed to enhance customer experience by offering easy access to account information and convenient tracking of services, 24 hours a day, seven days per week.

## Washroom innovation

### Rapid washrooms

Our Rapid Smart Hygiene washroom solutions record key statistical data, which can be analysed to reveal patterns, trends and associations relating to product and human behaviours, helping customers become more efficient and able to provide the best possible user experience.


Scan the QR code to watch our Rapid Smart Hygiene video

The global smart washrooms market is valued at

**$2.5bn**


**Unprecedented demand for hand hygiene products in 2020**
As the world adopts increasingly high standards of hygiene, customer demand for soaps, hand drying products and sanitisers is rising significantly. This year we sold c.540,500 dispensers (soaps and sanitisers) during the year, three times that of our total sales in 2019, while refills of soaps and hand sanitisers were 17 times greater than in 2019. Hand sanitiser revenues of c.£21m increased by just under £15m in 2020.

## Harnessing the digital opportunity

We believe the COVID-19 pandemic will provide a potential springboard for increased digital hygiene services and we are taking our digital expertise from Pest Control and expanding it into Hygiene. Increased regulations and the threat of fines and reputational damage drove early take-up of digital pest control services and we anticipate the same trend will occur within Hygiene.

**Digital products**
The global smart washrooms market is estimated to deliver an 11.5% CAGR to 2027, reaching a value of some $6.5bn (source: Grand View Research, August 2020). In 2020, we launched our first range of digital 'no touch' products, which includes taps, soap dispensers, hand wash monitoring and cubicle sanitisers. Digital monitoring of consumables enables more efficient washroom operations at lower cost, with a reduced environmental impact and offering a better guest experience. We are expanding our Rapid Smart Hygiene range into new customers and regions, with customer trials currently under way in offices, retail malls, airports, leisure facilities and tourist attractions across five countries.

**Digital sales and service tools**
Our digital sales and service tools are also increasing productivity and are being used to build customer awareness of Initial's multiple product offerings. Our online Hygiene customer portal, myInitial, is being developed to highlight the full spectrum of Hygiene solutions on its home page and is now used by 22,300 customers in 18 countries. In addition, we now track sales leads per driver on a monthly basis and the current average across the Hygiene category is 1.29 leads per technician per month, up 17% from 1.07 last year, with our Denmark colleagues performing particularly well, averaging 5.76 leads.

Our smartphone field service app, ServiceTrak, also improves productivity and leads to better colleague retention, higher gross margins achieved through greater service productivity and cost savings, and more professional service delivery. Across 30 countries, our technicians use the app to record service visits – for example, start time, services performed, customer recommendations, customer signatures and end time. New for this year, we have received over 2.6 million responses to our digital customer satisfaction surveys, with an average score of 4.8 out of 5 in both Pest Control and Hygiene.

**Digital channels – building the sales funnel in Hygiene**
We focus on driving continuous improvements to our web estate around the world to increase customer traffic to our sites and generate new business leads. During 2020, total web traffic to Initial websites increased by 60% on 2019 and can be attributed to a number of successful, targeted cross-sell, up-sell and email campaigns to increase customer visits.

## International expansion

**'20 in '20'**
In 2020, we launched Hygiene in 20 new countries, and now operate in 65 countries, with top three positions in 38 markets. We launched our first Hygiene services in North America in June with hand and air hygiene products. Initially, this is being delivered through Ambius which has considerable expertise in wellbeing and an existing business of scale. We also launched Hygiene services in Curaçao (Caribbean) and also expanded our footprint in Latin and Central America, building on our position in 10 markets to provide Hygiene services (including hand sanitisers, surface wipes and air care) in Mexico, Dominican Republic, Costa Rica, Brazil, Guatemala, Honduras, El Salvador and Uruguay. We also commenced operations in Belgium, Germany, Jordan, the Netherlands, Poland, Sweden, Switzerland, Saudi Arabia, Turkey and the UAE.

## Growth through targeted M&A

As our confidence in our Hygiene model grows, so too has our focus on securing attractive hygiene acquisitions and we have acquired 24 hygiene businesses since 2014. While the pandemic has slowed M&A progress this year, we acquired one small business in Spain and will continue to pursue attractive bolt-on deals in 2021. Our focus will be on building our density across our cities and regions, and additions to our portfolio will focus on extension areas that we have defined as key to growth, including air care, surface hygiene, safety and digital monitoring.

## Expanding our expertise outside the washroom

From a relatively low interest sector, hygiene has now become one of the world's most important, presenting opportunities for us to expand outside of the washroom into high-growth areas including air care, route-based service extensions (such as first aid) and digital products and applications. We can provide hand, air and surface hygiene products in multiple environments, including offices, kitchens and reception areas.

**Solution innovation across our core service offer**

The pandemic has driven increased demand for hand hygiene and we are developing service innovations to satisfy long-term social behaviour change with a range of new solutions which include new hand hygiene products that enable positioning outside the washroom, new consumables for hand and surface, and larger-capacity soap and sanitiser dispensers. In addition, we are developing additional service solutions to provide a compelling offer to new target customer sectors, such as food processing and healthcare, which require specific hardware and consumables to comply with higher hygiene standards.

**Air care**

The global air care market is estimated to reach revenues of over $90bn by 2025 and is expected to deliver a 42% CAGR to 2025 (source: Arizton Advisory and Intelligence, July 2020). There is no safe level of airborne pollutants and, according to WHO, 68% of all diseases are related to air pollution. In addition, the pandemic has raised awareness of how viruses are transmitted via droplets produced by coughs and sneezes. Our current air care product range features air purification, air sterilisation and air scenting products, and in 2020 we launched two important new air filtration products: InspireAir72 which utilises a medical grade, multi-layer HEPA filter to capture 99.97% of harmful particulates and which can clean a 36m$^2$ office space in 10 minutes, and the VIRUSKILLER™ air purifier which uses its patented UV technology to kill 99.9999% of viruses with a single air pass, including the COVID-19 virus.

**Disinfection services**

One of our great successes in 2020 was disinfection and our people pivoted at great speed to provide these services in more than 60 countries this year. In addition to our existing c.1,000 Specialist Hygiene colleagues, we trained c.7,000 Hygiene, Pest Control and Ambius technicians to perform the service, sourced PPE and began selling disinfection to customers in under four weeks. £225.1m of revenue was generated in 2020 with Net Operating Margins broadly comparable to those in Pest Control. Multiple customer sectors have utilised the service this year, including offices, shops, schools, airports, emergency vehicles and public transport. Key customers include a global customer requiring weekly disinfection of its distribution centres at specific times of the night and a public transport customer in France requiring daily disinfection services across its network. By the end of December, we had made approximately 1 million service visits to this customer, disinfecting over 4,000 buses every day, seven days a week (see page 14).

As experts in hygiene, we have developed standard operating procedures to ensure maximum service efficacy and consistent global standards. These included, for example, a 19-stage donning sequence for PPE and removal of all waste from sites in line with guidance set out by public health authorities in order to prevent cross-contamination.

In our experience, there is a strong correlation between high levels of COVID-19 and a market requirement for disinfection services, and this can be illustrated by our experience in Australia. At the height of COVID-19 case levels, we responded to significant market need for disinfection services. However, Australia was one of the first countries to achieve a very low incident rate of COVID-19 transmission and, as a result, we have seen a significant reduction in demand for ongoing disinfection services in 2020. In addition, in countries where demand for disinfection remains high, other service providers have inevitably entered the market, offering lower-quality service provision at lower price points.

## Adapting and enhancing our sales capability

As our Hygiene offer evolves post the pandemic, we are evolving our sales model to enable better conversion of some of the more complex solutions we have described in this review. Historically, we have found that dedicated sales specialists demonstrate a higher payback than generalist sales colleagues and therefore we are putting in place additional dedicated 'experts' who understand the science, proposition and customer needs of new products, giving them certified training to enhance their knowledge and capability.

## Outlook

2021 will be a year of transition as we cross the bridge from the worst of the crisis in 2020 to, hopefully, a post-pandemic 2022. We are strongly placed to pick up where we left off this time a year ago, and expect to see further performance improvements in our core Hygiene business in the coming year.

We will continue to provide disinfection services as part of the crisis response, but expect volumes and prices to significantly unwind as the year progresses and the crisis hopefully abates.

# Protect & Enhance

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


## What we do

Ambius is the world's leading commercial provider of plants and scenting. The business installs and services flower displays, replica foliage, Christmas decorations and ambient scenting. It has No.1 or No.2 positions in 11 of its 16 countries. Our UK Property Care business provides damp proofing, property conservation, woodworm treatment and wood rot treatment services. Our France Workwear business has a No.2 position in France and specialises in the supply and maintenance of garments, such as workwear and PPE. Our Dental Services business operates principally from two main hubs and specialises in the disposal and recycling of dental waste.

Ongoing Revenue at CER

**£350.1m** -12.0%

| | |
|---|---|
| 2020 | 350.1 |
| 2019 | 397.7 |
| 2018 | 383.7 |
| 2017 | 381.2 |
| 2016 | 378.9 |

Ongoing Operating Profit at CER

**£33.3m** -29.7%

| | |
|---|---|
| 2020 | 33.3 |
| 2019 | 47.4 |
| 2018 | 44.7 |
| 2017 | 40.4 |
| 2016 | 50.5 |

Ongoing Operating Margin at CER

**9.5%** -240bps

| | |
|---|---|
| 2020 | 9.5 |
| 2019 | 11.9 |
| 2018 | 11.7 |
| 2017 | 10.6 |
| 2016 | 13.3 |

## A difficult year for Protect & Enhance, caused by significant disruption from the COVID-19 crisis

Our Protect & Enhance category represents 12% of Group Ongoing Revenue and 7% of Ongoing Operating Profit. In 2020, category Ongoing Revenue and Ongoing Operating Profit declined by 12.0% and 29.7% respectively. Net Operating Margins fell by 240 basis points to 9.5%. The businesses within the category are Workwear (France), Ambius (Global), Property Care (UK) and Dental Waste (Germany and Sweden). Our strategy for the category has been focused on protecting the businesses – quality, service, retention and operational efficiency.

The businesses within Protect & Enhance have a high exposure to the HORECA sector – for which we supply interior plants, ambient scenting and workwear – and hotels, bars and restaurant chains have been predominantly closed during the crisis and, in many places, will be the last to be reopened. Our UK Property Care business was impacted by both ongoing weakness in the commercial property market and also by residential customers unwilling to allow external service providers into their homes.

## Workwear

Approximately half of category revenue is generated from our France Workwear business, which specialises primarily in the supply and laundering of workwear, uniforms, cleanroom garments and personal protective wear. The business was significantly impacted by disruption caused by the pandemic in 2020 and delivered a revenue decline of 10.4% for the year. However, the rate of decline improved in the second half, down 4.9%, as business reopened due to the lifting of COVID-19 restrictions.

Recovery of the business is likely to take longer than our other operations, notably reflecting continued customer closures within the HORECA sector. As with our other categories, April was the weakest month for France Workwear, with May and June seeing progressive improvements in performance. Q4 volumes were once again affected but not to the same extent as the first wave of the pandemic. Actions taken by the business to protect costs and cash have included reducing working hours for around 1,500 employees and cutting spend on capital expenditure by 16% (c.£9m) on the prior year.

Notwithstanding the difficult conditions this year, our project to separate the Hygiene and Workwear businesses in France completed in 2020, with the remaining washroom services portfolio transferred from Workwear to Hygiene in the second half. We also opened five dedicated Hygiene branches in France, which completes Hygiene's national network coverage in the country.

## Why Ambius is a great place to work

"I have been with Ambius for almost a year now. When I arrived from South Africa in December 2017 I had no idea what my future held for me or where it was going to take me."

"I feel very lucky to have come across the position available with Ambius. I worked for Rentokil Initial a few years back and knew then it was a great company to be a part of. Working for Ambius has given me so many opportunities and I believe it has helped me grow as a person, especially being a newbie to the UK."

"The team is wonderful and the support is endless – this is from management right down to my fellow technicians."

Employee reviews taken from Glassdoor, February 2021

I love being part of the creative team at Ambius. I'm learning all the time as new systems are being put into play, which ensures we are ahead of the industry with regard to new products. There is a strong focus on innovation, which is a key part of the business.

## Ambius

Ambius operates in 16 countries and has No.1 positions in eight of its markets (including in the US, Canada, Australia and New Zealand). Its product offering is broadly consistent across the world and includes interior landscaping, Christmas decorations and premium scenting. The US business comprises 54% of total Ambius revenues. Key customer segments are offices, facilities management, hospitality, food and non-food retail, leisure, healthcare and education. Our products and services in Ambius have a strong link with health and wellbeing, and service quality, expertise and customer retention metrics are high. Our strategic focus is on higher-margin green (living) walls and premium scenting, expanding and exploiting international agreements and driving lead generation through digital applications. Key industry trends going forward include wellness at work being recognised as a serious aspect in building design, with air quality a major concern and a younger workforce demanding better workplace environments.

As with France Workwear and Property Care, Ambius's financial performance has suffered in 2020, with Ongoing Revenue and Ongoing Operating Profit declining by 15.5% and 41%. This reflects the discretionary nature of its products and services during the year.

## Property Care

Our Property Care business is based in the UK. Services include dry rot and woodworm treatment and damp proofing. We have a leading position in the industry and have developed a strong operational capability with certified teams undertaking work in commercial and social housing. The business has an excellent reputation for customer service and a loyal customer base. Since 2017, trading has been significantly impacted by overall weakness in the UK property market and – while the business is small, generating revenues of £18.9m in 2020 – its recent revenue decline over the last several years has dampened Organic Revenue growth in the UK & Rest of World region.

To counter ongoing market pressures, we have been implementing a business improvement plan based on better revenue, leveraging our digital expertise from Pest Control, focusing on cost and efficiency measures and developing pest proofing service lines to additional customer segments to reduce dependence on the UK housing market. As a result, the business's operating and financial performance had improved. However, the benefits we have seen from these self-help measures have been offset by the impact of the COVID-19 crisis in 2020.

## Dental Waste Management

Medentex is headquartered in Germany and specialises in the professional and compliant disposal and recycling of dental waste. It provides waste separating products to customers in Germany, Sweden, Netherlands, the US and Switzerland. It is a small, profitable business with revenues of £11.5m, and 58% of its annual revenues are generated through the sale of precious metals.

# Responsible Business

## Protecting People. Enhancing Lives.

2020 was a year when, as a company, we once again proved our commitment to being a responsible business. The delivery of our purpose – to Protect People and Enhance Lives – was never more important.

Clearly, there was much change: 8,500 colleagues moved to remote working; Hygiene became one of the world's most important categories; and in just four weeks disinfection services were launched across 60 countries.

But it was also a year when our operational model continued to run consistently and effectively: we delivered record levels of colleague safety, training and retention; our leadership in innovation and digital was vital to supporting customers; and, having recognised at an early stage that we faced a crisis, we acted with agility and pace.

It may well also prove to be a watershed year for Rentokil Initial, when our commitments to the environment and achieving net zero carbon emissions, and to diversity, equality and inclusion, were deployed in plans and targets that will further enhance the Company over the coming years.

Our commitment to acting responsibly was integral to our response to the challenges we faced this year and the key actions we took to address these. Through the difficult times, we ensured that the decisions taken were the right thing for our colleagues, customers, shareholders, suppliers and communities.

As the crisis deepened, our key services were designated as 'essential', allowing our technicians in Pest Control, Hygiene, medical and disinfection services to continue to serve customers, including supermarkets, hospitals, food producers and pharmaceuticals.

In keeping with our purpose, we dramatically expanded our specialist disinfection services – developing and deploying safe operating protocols and bespoke training. By the end of April 2020, 7,000 colleagues were trained.

We moved colleagues to home working and obtained the necessary PPE for our frontline technicians; we also implemented strict protocols enabling colleagues to serve our customers during the crisis, safely.

Our responsibility to colleague safety will always be our first priority. Tragically, three colleagues died as a result of COVID-19 during 2020.

We protected jobs and our liquidity by making a collective sacrifice – over 5,000 colleagues accepted pay waivers, our managers and leaders supported the suspension of bonus payments and the Company's LTIP scheme, and no dividends were paid to shareholders in 2020. Everyone made a contribution.

Finally, on behalf of the Board, I would like to pay tribute and sincerely thank our colleagues. Their commitment and sacrifice ensured that Rentokil Initial was able to exit the Crisis phase. We are now well into the Recovery phase and exploring strategic opportunities.

We will continue to act responsibly and create value for all of our stakeholders.

**Andy Ransom**
Chief Executive

### 2020 COVID-19 CRISIS

**2,000**
colleagues had to self-isolate

**28,000**
Working Days Lost due to lockdowns/self-isolation among frontline colleagues

**5,080**
colleagues waived part of their pay for three months or more



Find out more about our COVID-19 response and key decisions on page **8**

For our responsible business priorities and awards, please see page **48**

## Responsible business priorities

For Rentokil Initial, being a responsible and sustainable business means helping colleagues to have safe and fulfilling work lives, supporting customers by developing and delivering products and services responsibly, and benefiting society and the environment by acting in the most effective manner.

Our responsible business priorities are aligned with those of our key stakeholders (see page 24) and driven by the Chief Executive who has Board accountability for responsible business delivery, as well as engagement with our wider stakeholder groups.

Further details about our Board engagement can be found in the section 172(1) statement on page 66 and in the Corporate Governance Report on page 90.

Our responsible business priorities are: People and Culture, Environment, Service and Innovation, and Communities. Governance, trust and transparency also continue to remain central to our responsible business approach, as set out on page 64.

## Accreditation

Rentokil Initial has been a member of the Dow Jones Sustainability Index for 15 years (European Leader's Index) and is a member of the FTSE4Good Index. OpenCorporation places the Company 10th out of 568 companies for ESG, covering a broad analysis focused on areas such as workplace, social responsibility, finance, diversity, governance and environment. Vigeo Eiris ranks Rentokil Initial 1st out of 99 companies in Business Services. As at 31 December 2020, the Company was ESG rated as 'AA' by MSCI, as Prime by ISS ESG (with a decile rank of 1 indicating a high relative ESG performance) and as 'low risk' for ESG by Sustainalytics.

### Summary of performance in 2020

| Priorities | Activities/KPIs | 2020 performance |
|---|---|---|
| **People and culture** See pages 49 to 51 | Safety: Lost Time Accident rate | 26% improvement in 2020 to 0.39 (2019: 0.53) |
| | Safety: Working Days Lost rate | 23% improvement in 2020 to 8.46 (2019: 10.99) |
| | Total full-time headcount | 44,500 (2019: 42,933/2018: 39,480). Estimated 25% or 11,147 are female |
| | Board diversity | 50% of Board members are female |
| | Senior leaders diversity | 30% of senior leaders are female (2019: 28%) |
| | Colleague retention | 88.6% (2019: 86.9%), on a rolling 12-month basis |
| | New online training content | c.650 pieces of learning content developed in 2020 |
| | Online learning views | 77% increase in views of items on U+ to 3.2m (2019: 1.8m) |
| | Talent pipeline | Over 330 graduates and over 350 apprentices employed |
| | Glassdoor company rating | 4.1 out of 5 (average score 3.5). Best Places to Work 2020 – 18th overall |
| **Environment** See pages 52 to 57 | Emissions | 8.1% reduction in the emissions index in 2020 (vs. 2019) |
| | 5-year emissions intensity target – 20% reduction by end of 2020 | 27.2% reduction achieved (kg of carbon emissions per £m ongoing revenue at CER). New five-year target established: 20% reduction by end of 2025 |
| | Recycling | Over 150,000 Hygiene units recycled in France and Italy over three years |
| **Service and innovation** See pages 58 and 59 | State of Service | 89.4% (2019: 97.2%), reflecting temporary premises closures during the COVID-19 pandemic |
| | Customer satisfaction (NPS) | 0.6 point improvement in NPS (Q4 2020 vs. Q4 2019). 2.6m customer surveys undertaken (post service visit) in 2020 with an average score of 4.8 out of 5, in both Pest Control and Hygiene |
| | Trustpilot score | 5 stars for Rentokil and Initial in the UK from over 4,000 reviews each |
| | Total website visitors | Web traffic increased by almost 20%, with a 60% increase to Initial websites |
| | Internet of Things units in the field | Over 150,000 PestConnect units in customers' premises (2019: 80,000) |
| | Pest Control data usage | 9m messages sent or received each day on average during 2020 |
| **Communities** See page 60 to 63 | Charitable donations | £184,000 (2019: £202,000), excluding donations in-kind |
| | Local community events (donations in kind) | 276 events to say thank you to key public sector workers<br>See page 62 for more information about #sharethelove |
| | Global Handwashing Day (donations in kind) | Over 25 events undertaken around the world supporting schools and communities with better hand hygiene advice and products |
| | Rentokil Initial Cares (donations) | Coordinators in place in every region. Range of charities supported including Save the Children, Alzheimer's Society and Macmillan Cancer Support |
| | Disaster support (donations and in kind) | Provided support to Australian bushfire appeal, Beirut disaster appeal, support for colleagues after an earthquake in Turkey and hurricane in Latin America |

Key Performance Indicators – see more on pages **16** to **19**

## People and culture
# A culture of shared responsibility

During 2020, we focused on protecting the safety of our colleagues by moving 8,500 colleagues successfully to home working. We delivered record levels of training and colleague retention, and put in place a new plan for diversity, equality and inclusion. Our culture remains key to our success.

BEST PLACES TO WORK 2020
EMPLOYEES' CHOICE

### Enabling success during the pandemic

Underpinning everything we do is our 'One Rentokil Initial' culture. We have a one-team mentality with a common purpose and set of values, focused on delivering a great customer experience. Our culture is characterised as customer focused, commercial, diverse, down to earth and innovative.

Our culture enabled the Company to be agile and responsive to the challenges that COVID-19 presented in 2020. Our colleagues worked tirelessly in support of our customers across our businesses.

At the height of the crisis, we launched our specialist disinfection service and trained colleagues across 60 countries, introduced harmonised global protocols (including risk assessment and standard operating procedures), and rolled out e-learning modules.

Details of how we monitor culture can be found in the Corporate Governance Report on page 83.

## Culture model

Our culture model includes our purpose and values, and five core culture themes.


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

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

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

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

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


## Keeping our colleagues safe

In 2020, we delivered a record safety performance. Nothing is more important in Rentokil Initial than ensuring everyone goes home safe at the end of their working day. There has been a relentless focus to keep our colleagues safe through the pandemic, and we will continue to implement COVID-19 safety protocols across the Group. Health and safety has always been, and will continue to be, the first item on the agenda at every Executive Leadership Team and Board meeting.

Some of the key health and safety initiatives in 2020 included:

**26%**

improvement in our Lost Time Accident rate. Another record-breaking performance

- **Electricity safety:** we have made strong progress to embed our new Golden Rules.
- **Fumigation governance:** safety and compliance with new self-audit process implemented, regional compliance reviews conducted.
- **Site risk assessment app:** live now or being rolled out in over 20 countries, with more planned for 2021.
- **Incident reporting tool:** all countries now report incidents in real time.
- **COVID-19:** continuing implementation of COVID-secure protocols across the Group.

Although 2020 has been an incredibly challenging year for everyone, the safety performance targets we set at the end of last year have been achieved with Lost Time Accidents improving by 26% and Working Days Lost performance improving by 23% (year on year).

Regrettably, we had one fatal road traffic incident this year. One of our Pest Control technicians sustained injuries when the motorcycle he was riding collided with a heavy trailer truck. Following a police investigation, the third party was found to be at fault.

| Key Performance Indicators | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Lost Time Accidents (LTA)[1] | **0.39** | 0.53 | 0.63 | 0.58 | 0.63 |
| Working Days Lost (WDL)[2] | **8.46** | 10.99 | 14.77 | 11.65 | 16.14 |

1. The LTA rate is calculated as the number of Lost Time Accidents (injuries and illnesses) per 100,000 hours worked.
2. The WDL rate is calculated as the number of working days that colleagues could not work because of Lost Time Accidents (injuries and illnesses) per 100,000 hours worked.

## Diversity, equality and inclusion

Rentokil Initial is a diverse organisation by its nature – employing 44,500 colleagues in 83 different countries and cultures. But we are striving to ensure that our local businesses reflect the countries, markets and communities in which we operate and create an environment where everyone's view is heard, everyone's contribution matters, and everyone has equal opportunities to succeed.

This year, we introduced a new diversity, equality and inclusion strategy, which builds on our success in improving gender diversity across our business.

Our new strategy, which will drive change through to 2024, places even greater emphasis on wider diversity, where everyone, regardless of gender, race, colour, nationality, age, sexual orientation, physical ability, education or background, can reach the highest level based on merit.

We estimate that 11,100 (25%) of colleagues are female and 33,400 (75%) are male.

Currently, 30% of our senior leaders (Executive Leadership Team (ELT) and their direct reports) are women, up from 28% in 2019, and 38% of the people in our regional succession plans are women (2019: 35%). Also, in a 2020 survey of our senior leaders, when asked to define or self-identify their ethnicity, 21% responded that they were not of White or European ethnicity (2019: 19%).

**Five-point plan to achieve our 2024 vision**

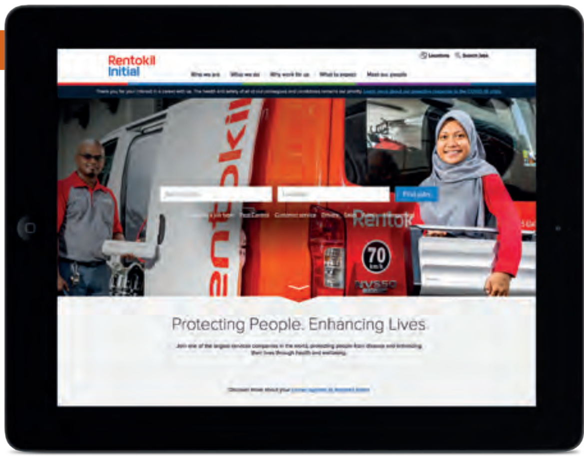

We have an equal number of male and female Board Directors.

In 2020, we were named in the Parker Review report as one of the FTSE 100 companies to have already met the recommendation to have at least one Board member from an ethnic minority background by 2021.

**7th**

The Hampton-Alexander review (February 2021) places the Company 7th for gender diversity for Board and senior leadership in the FTSE100

## Colleague retention and attraction




In 2020, colleague retention increased by 1.7 percentage points to 88.6%.

One of the key initiatives that has increased colleague retention is our line manager training programme, which develops line managers' skills and capability.

During the year, we also generated record levels of visitors to the Rentokil Initial Careers Portal – up by 49% year on year – with the number of applicants up by 67%.

In addition, we launched Careers+ which is an app for colleagues to post roles on their own social media channels and to support internal recruitment.

We have continued to perform strongly on Glassdoor with a score of 4.1 out of 5 (versus the average score of 3.5).

**49%**

increase in visitors to the Rentokil Initial Careers Portal

## Investing in our colleagues' futures

2020 was a record year for U+ training.

U+, our in-house 'university', delivers online courses and face-to-face programmes, as well as compliance and induction programmes.

In 2020, 3.2 million items of online training were viewed (1.8 million in 2019, a 77% increase), and c.650 pieces of learning content (videos, courses, etc.) were created, covering topics such as sales, safety, technical and operational best practice, and compliance. All were developed in house.

**3.2m**

items of online training were viewed in 2020

## Colleague Support Fund

We recognised that COVID-19 created many challenges for our colleagues and their families, and so in 2020 we established a Colleague Support Fund.

This was created using funds from RI Cares (the unclaimed dividends and shares-derived fund) together with a voluntary salary waiver by the Chief Executive of 65% of his Q2 salary (having already waived 35% as part of the Company's response to the pandemic), together with salary or director's fee waivers by several of the Board and a number of senior managers.

Funds have been used to support colleagues, principally in South Africa and India.

## Summary: supporting colleagues during COVID-19

1. **Culture of 'in it together/supporting one another'** – from the top to the bottom of the organisation – enabling changes at pace.
2. **Excelled at working from home** – many colleagues were prepared and practised it. Click & Collect for IT, chairs, etc.
3. **In-house developed RI app was launched** – to track health and whereabouts.
4. **Record safety performance** – reflecting culture, training and commitment.
5. **Digital and virtual learning** – to train and develop more colleagues in a consistent, dynamic and efficient way. Colleagues each completing around 80 online training sessions in 2020 on average.
6. **Agile, decisive, fast-paced and innovative** – delivering cost savings, disinfection services, etc.
7. **COVID-19 crisis team established** – senior managers and functional experts – to ensure an agile approach and fast initial response.
8. **COVID-related sales training** – rolled out globally while sales excellence initiatives were launched in India, Australia, South Africa, North America, Chile, Uruguay, Vietnam, Caribbean, Italy, Spain, France, Benelux and the UAE.
9. **Regular, shorter, more purposeful team meetings** – for decisions, consistency and alignment. ELT meetings became twice weekly, focused on managing the crisis and maximising the opportunities.
10. **Continued to listen to colleagues** – surveys undertaken showing strong support for senior leaders and pride in the Company.

# Environment
# Our journey to net zero

We believe that the journey to net zero emissions is not only the right thing to do for society, but it is also the right thing for our business. All of our stakeholders, particularly our colleagues, support our environmental ambitions. Over the last nine years, we have met our targets for 10% (2011–15) and a further 20% (2016–19) carbon efficiency improvements and, in 2020, we committed to achieving net zero emissions from our operations by the end of 2040.

**+51,800**
Hygiene units refurbished in 2020 (France and Italy)

**+150,000**
Hygiene units refurbished over three years (France and Italy)

## Our new environmental plan

In 2020, we developed a business-wide operational approach to environmental sustainability. A new Environment Action Plan was developed, which will be delivered through our country operations. This is built on three pillars: Sustainable Solutions, Sustainable Operations and Sustainable Workplace, with eight workstreams underpinning them with specific actions and individual short to medium-term targets.

Further details can be found on page 54 (our Task Force on Climate-related Financial Disclosures report).

**Net zero carbon emissions**
Our pathway to net zero by the end of 2040 includes a number of milestones along the way, with the breadth of initiatives consolidated into a summary 20-point plan for the next 20 years, which can be found on page 55. Key elements of the plan include our transition to a low-emission fleet, which has already commenced with a series of pilots, and the reduction in our energy emissions through the transition to renewable property electricity.

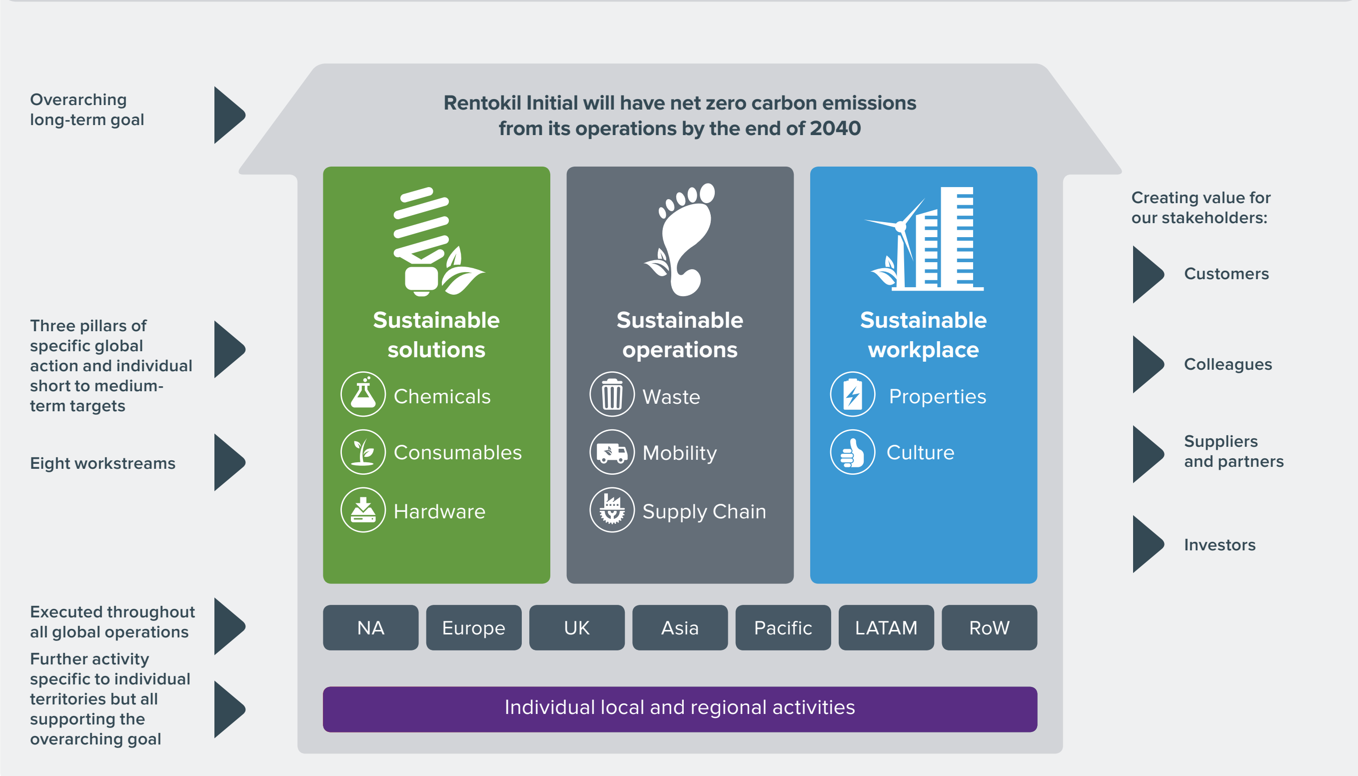
Other initiatives have begun to be introduced, for example, to reduce to zero the waste we send to landfill or incineration. Our Pacific region has implemented a regional action plan with battery and aerosol recycling initiatives already under way and resulting in 40 tonnes of batteries and other hazardous waste recycled to date, and so diverted from landfill sites across the Pacific.

See Sustainable Products on page 58

Our plan is underpinned by a robust commitment to stakeholder engagement which will ensure, in particular, that our colleagues are involved, informed and given the opportunity to put forward their own ideas. We have introduced the Chief Executive's Environmental Awards for 2020, to recognise both colleagues and best practices in developing local sustainable approaches and creative environmental solutions.

Included in our pathway to net zero is not only our approach to reduce emissions from our properties and fleet, but also the emissions from our use of sulfuryl fluoride, which has grown to become a more significant contributor to Rentokil Initial's environmental impacts following growth in public health-related fumigation contracts.

**Strategy** | Journey to net zero | 20-point plan



## New emissions target for 2025

In addition to our new net zero carbon emissions commitment, in 2020 the Board set a new target to reduce our emissions intensity index by a further 20% by the end of 2025 (using 2019 data as the baseline). Please see below for our 2020 performance.

Our previous emissions target was to achieve a 20% reduction in the emissions intensity index by the end of 2020, based on a 2015 baseline. We met this 20% target in 2019, a year early, and by the end of 2020 we had achieved a 27.2% improvement.

Our absolute values of tonnes of $CO_2$e are reported using UK government conversion factors for greenhouse gas reporting and International Energy Agency conversion factors for non-UK electricity.

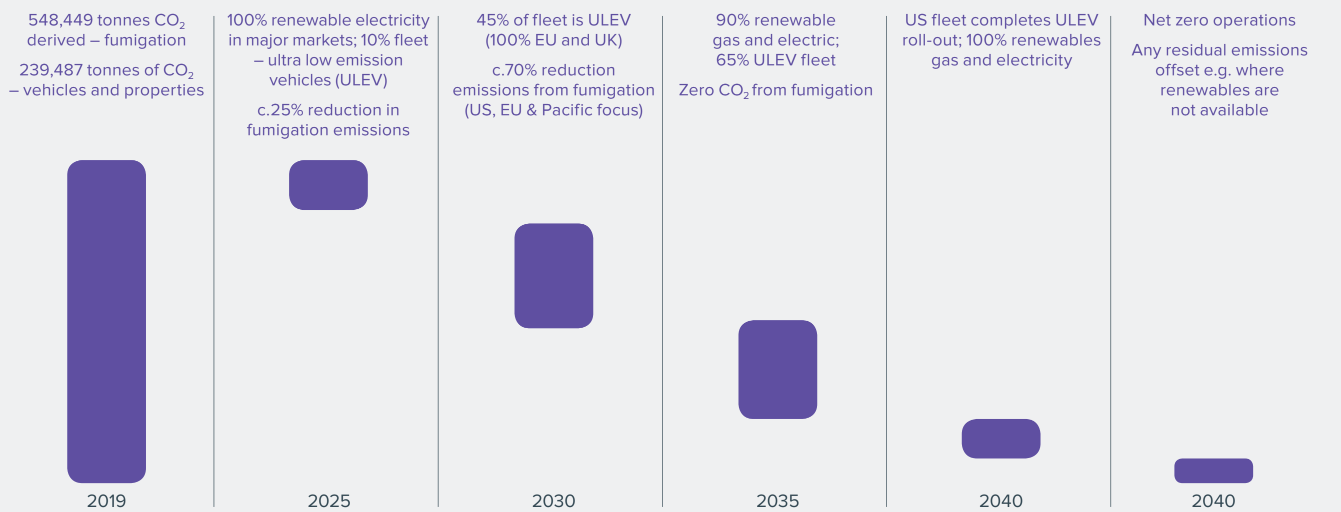
Absolute energy and fuel-derived emissions decreased by around 2.3%, reflecting changes in service mix (disinfection in particular), acquired businesses and customer site closures during lockdowns; Ongoing Revenues increased by 6.3% during the year.

Since 2018, we have also reported our energy consumption, and the UK operations' percentage. In 2020, global energy consumption was 788,158 MWh (2019: 810,361) with UK consumption representing just under 11%. Please see chart below.

As reported earlier, one of our eight workstreams is to look at the chemicals we use within our operations and, in particular, we continue to research and work with suppliers to identify alternative fumigants. Absolute emissions derived from the use of sulfuryl fluoride (a fumigant) were 605,442 tonnes in 2020 (2019: 548,449 tonnes; 2018: 363,339 tonnes; 2017: 481,390 tonnes). The year-on-year differences reflect the variability in customer demand and acquisitions.



### Illustration: Journey to net zero – fumigation, vehicles and energy




## Carbon summary

In 2020, our carbon emissions efficiency index improved by 8.1% year on year and has improved by 22.5% over five years.

Clearly, 2020 was a very different year to the others in our carbon summary with, for example, 8,500 colleagues working from home. We also delivered a significant increase in emergency disinfection services, where colleagues are generally on a customer's site for a longer period of time and therefore make fewer journeys each day.

### Absolute values of energy and fuel-derived emissions – tonnes of $CO_2$e

| Type of scope | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Total Scope 1 | **169,755** | 173,140 | 160,024 | 164,745 | 149,597 |
| Total Scope 2 | **15,390** | 17,031 | 16,282 | 17,513 | 14,209 |
| Total Scope 3 | **43,052** | 43,548 | 40,255 | 39,905 | 35,309 |
| Total outside scope | **5,769** | 5,768 | 5,238 | 5,084 | 4,519 |
| Total – all scopes and outside scope | **233,966** | 239,487 | 221,799 | 227,247 | 203,634 |

**Index of $CO_2$ emissions**

| Intensity indicator | **2020** | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Index of energy and fuel derived $CO_2$ emissions at CER | **77.55** | 84.37 | 84.89 | 97.64 | 100 |

Index of $CO_2$ emissions – calculated as an index of kilogrammes per £m revenue on a Constant Exchange Rate (CER) basis, providing an accurate like-for-like performance comparison, removing the variables of currency and divestments and acquisitions. The baseline year for this index is 2016.

Our vehicle fleet accounts for 85% of our Scope 1 emissions.

We continue to consolidate our property portfolio through co-location, improving property energy efficiency by 66% since 2015.

In 2020, UK emissions accounted for 25,056 tonnes of $CO_2$ (2019: 24,941) representing just under 12% of global emissions.

**Total energy consumed 2020 – MWh**

| Type of scope | Global | UK |
|---|---|---|
| Scope 1 – energy consumed from combustion of fuel or the operation of any facility | 740,792 | 82,350 |
| Scope 2 – energy consumed resulting from the purchase of electricity | 47,366 | 4,194 |
| Total | 788,158 | 86,544 |

Our total energy consumption is calculated using electricity purchased (kWh) and fuel volumes converted to kWh using the UK government GHG Conversion Factors for Company Reporting.

## Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD published recommendations to encourage companies to increase their disclosure of climate-related information – focused on governance, opportunities and strategies to manage climate-related risks.

Our priority over the last 12 months has been to develop our new Environment Action Plan and 2040 vision. This, together with specialist workstreams and targets, has been discussed and agreed by the Board, and we have now begun to implement country-level operational-based environment plans.

As part of this process, Rentokil Initial is committed to implementing the recommendations of the TCFD. This year, we have taken the first step to integrating these requirements into our Strategic Report.

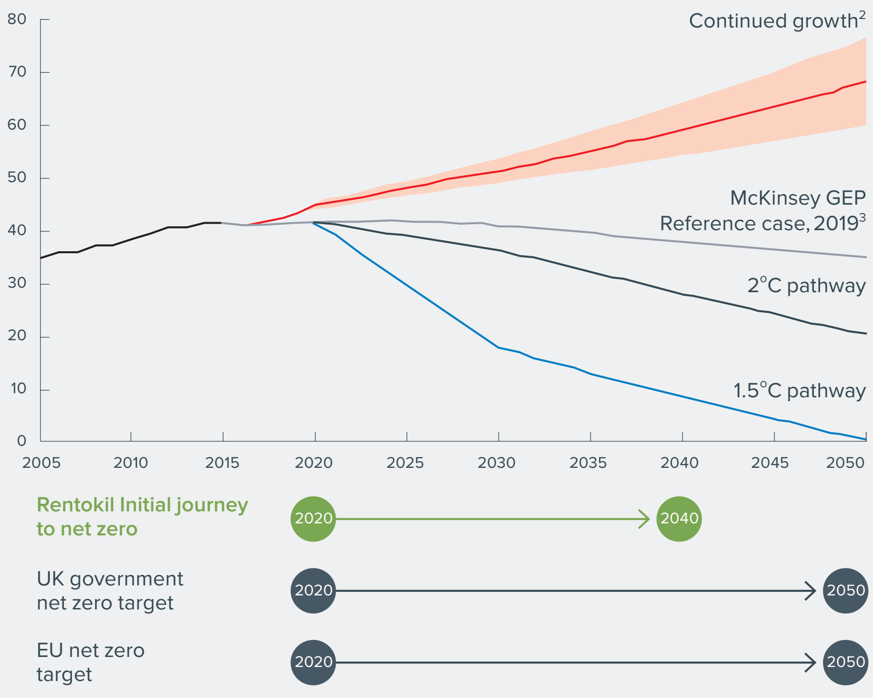
Rentokil Initial already responds to the Carbon Disclosure Project and is a member of the Dow Jones Sustainability (European Leader's) Index. The Company is rated 'Low ESG Risk' by Sustainalytics, Prime rated by ISS ESG (with a decile rank of 1 indicating a high relative ESG performance) and 'AA' by MSCI for ESG. In 2020, Vigeo Eiris ranked Rentokil Initial 1st out of 99 for ESG in the Business Services category.

**Governance**
The Rentokil Initial Board has responsibility for oversight of the long-term climate change strategy of the Group, including considering climate-related issues, investments, opportunities and risks.

In 2020, the Board analysed the Group's new Environment Action Plan, priorities of workstreams, and ambitions through to 2040. It formalised our vision to be at net zero greenhouse gas emissions from our operations by the end of 2040, together with a 20% energy efficiency improvement by 2025 (kilogrammes of carbon emissions per £m Ongoing Revenues at CER). This was one of the key topics for discussion at the Board's December meeting. Regional operating plans, presented to the Board each year, include environmental priorities and plans.

### Rapid declines in $CO_2$ emissions would be required to reach a 1.5°C pathway

Projected global $CO_2$ emissions per scenario[1]
**Metric gigatons of $CO_2$ ($GtCO_2$) per year**




1. In addition to energy-related $CO_2$ emissions, all pathways include industry-processed emissions (e.g. from cement production), emissions from deforestation and waste, and negative emissions (e.g. from reforestation and carbon-removal technologies such as bioenergy with carbon capture and storage, or BECCS, and direct air carbon capture and storage, or DACCS). Conversely, emissions from biotec feedbacks (e.g. from permafrost thawing, wildfires) are not included.
2. Lower bound for 'continued growth' pathways is akin to the IEA's World Energy Outlook 2019: Current Policies Scenario; higher bound based on IPCC's Representative Concentration Pathways 8.5.
3. GEP = Global Energy Perspective; reference case factors in potential adoption of renewable and electric vehicles. Source: Global Carbon Budget 2019; World Energy Outlook 2019, IEA, expanded by Woods Hole Research Center; McKinsey Global Energy Perspectives 2019: Reference Case; McKinsey 1.5°C scenario analysis.

We believe that our goal to be at net zero emissions (including emissions from sulfuryl fluoride) from our operations by the end of 2040 is bold and stretching, given we operate in 83 countries, including many Emerging markets. But, we believe this will unlock a new level of energy and innovation as we seek to differentiate the Company as a leader in environmental sustainability.

In order to meet the 1.5°C global warming target in the Paris Agreement, global carbon emissions should reach net zero around mid-century. The Company's new net zero target is ahead of the 1.5°C pathway, as illustrated by McKinsey in their 2020 report 'Climate Math: What a 1.5°C pathway would take', shown left.

Our Chief Executive has overall responsibility for Environment, Social and Governance and our operationally focused response to the risks of climate change. Responsibility for the delivery of our climate change plans is integrated into roles and responsibilities of senior managers across a number of key functions, including: marketing & innovation, supply chain, legal & compliance, regional managing directors and communications. An Environment Action Plan Coordinating Group has met throughout 2020.

During the year, it was agreed that the Group's ELT and Senior Leadership Forum (SLF) meetings will have Environment as the third item on every agenda (following Safety and People). The vehicle emissions intensity for the 20 largest operations have been presented to the ELT and SLF monthly. This tracks the vehicle fuel efficiency performance for each country against the prior year, per thousand litres of fuel used, per million of revenue in local currency.

Engagement with our key stakeholders, particularly colleagues, customers, suppliers, shareholders and analysts, about our environmental plan, progress and targets increased significantly during 2020 and we continue to welcome opportunities to engage.

For more information on our Environment Action Plan to 2040, please see page 52. This is fully aligned with our business plan and operations, has clear deliverables, and is one of the ways in which we deliver with impact our social purpose of Protecting People and Enhancing Lives.

**Strategy**
Our climate-related strategy focuses on the operational risks and opportunities that we have identified – and continue to identify as new climate-related information becomes available from sources such as the UN and OECD – to ensure that we have a resilient operation and supply chain.

Our strategy is embedded within our operating model as a multi-local, route-based business, delivering services mainly in urban areas. It comprises three broad focus areas and eight specific workstreams.

**Rentokil Initial will have net zero carbon emissions from our operations by the end of 2040**

### Sustainable solutions

**Chemicals**
Moving to non-tox services, including finding an alternative to sulfuryl fluoride, a GHG used in fumigation.

**Consumables**
Ensuring paper products are only sourced from sustainable suppliers.

**Hardware**
Ensuring hardware products are designed for sustainability.

### Sustainable operations

**Waste**
Measuring and reducing our waste to zero landfill and incineration.

**Mobility**
Reducing our carbon emissions from vehicles and colleague mobility.

**Supply Chain**
Working with suppliers to minimise their own climate-related impacts.

### Sustainable workplace

**Properties**
Moving to sustainable energy tariffs and property efficiency.

**Culture**
Taking our people on the journey and delivering day-to-day behaviour changes.

## 20 key activities on our journey to net zero

Summary:

1. Leading our industries with the most environmentally friendly range of products and services, supporting our customers' own environmental ambitions
2. 'Cradle to grave' analysis of all new products
3. Introducing new products made from recycled materials
4. Ensuring that paper products have come from sustainable sources
5. Changing the types of chemicals we use for fumigation to more environmentally friendly alternatives
6. Reducing and eventually removing the use of pesticides and insecticides
7. Reducing to zero the waste we send to landfill or incineration
8. Reducing packaging: move to 100% reusable or recyclable
9. Reducing our use of plastic, for example reducing the thickness of our FHU bags
10. Reducing the levels of waste batteries – examine options for reuse, recharge
11. Increasing product refurbishment and reuse
12. Transitioning to a low emission (EV) fleet
13. Reducing mileage – utilising route planning tools and building customer density
14. Examining how the use of digital tools can reduce our vehicle mileage/emissions
15. Ensuring our product formulations use palm oil extracts that are only from sustainable sources, eventually removing all use of palm oil
16. Working with suppliers to ensure that they have sustainability plans and minimising the environmental impact of our products
17. Introducing green energy tariffs for our owned buildings
18. Prioritising property energy efficiency savings opportunities, e.g. installing LED lighting
19. Reducing use of flights and business travel
20. Ensuring our colleagues are involved, informed and given the opportunity to put forward their own ideas

## Examples of country activities

**China**
189 electric bikes ordered for colleagues to service small food and beverage customers.

**Netherlands**
Electric vehicle trial in Amsterdam with combination of three-wheel and four-wheel tuktuks. Also in Uruguay.

**North America**
Delivery of first fully electric vehicles.

**Australia**
Battery recycling to safely recover mercury, lead, silver, nickel, cadmium, steel, lithium and plastic. Over 40 tonnes of batteries and other hazardous waste diverted from landfill.

## Climate-related risk management

Our approach to risk management is covered in more detail on page 67.

Climate-related risks are identified and analysed by our operational and functional teams. For example, our supply chain and procurement teams identify risks relating to the resilience of supply and access to materials, while our country and regulatory teams identify risks related to new laws and regulations, such as city-based low emission zones and associated access charging for commercial vehicles.

Risks and opportunities are discussed at the relevant Boards – Category Boards for Pest Control and Hygiene, as well as the Executive Leadership Team and the Board of Directors.

There are two broad areas of climate-related risk:

**1. Extreme local weather conditions**

**2. Legislation and changing expectations**

### 1 Operational disruption due to extreme local weather conditions

Operating in 83 countries means we see the local impact of climate change and extreme weather conditions in the countries and cities in which we operate.

In 2020, these included:

- **January:** The worst Australian bushfires in living memory. Several colleagues are volunteer firefighters and took part in the operations.
- **February:** Near-record flooding in parts of Mississippi and Tennessee.
- **May:** Heavy rainfall caused by Typhoon Vongfong in the Philippines destroyed homes and displaced over 140,000 people.
- **July:** In Northeastern India, 2.4 million people were affected by floods.
- **September:** The worst wildfires in 18 years across California and Oregon, driving 90,000 people from their homes.
- **October:** In Vietnam, extreme floods submerged over 178,000 homes and 7,000 hectares (17,297 acres) of crops.

In addition to the climate-related risks to operations, risks such as heat stress could affect the ability of colleagues to work outdoors or, in extreme cases, could put human lives at risk.

During 2020, in Australia, our colleagues were supplied with 'cool vests' and working outside was restricted as local temperatures became more extreme.

According to McKinsey, India (where we have a nationwide operation) and Pakistan (in which we do not currently operate) may be the first places in the world to experience lethal heatwaves. For the people living in these regions, the average annual likelihood of experiencing such a lethal heat wave is projected to rise to 14% by 2050.

While these are localised events, they demonstrate the potential risks, should climate change make weather events more extreme and more frequent, and underline the need for climate action.

### 2 Environmental legislation and changing expectations of customers and society

When considering our new Environment Action Plan, we also identified associated risks. The following examples relate to colleague mobility and the use of chemicals in pest control:

| Area | Risks | Mitigation/action plan |
|---|---|---|
| **Mobility** | ▶ City-based vehicle charging or access zones only for low emission vehicles<br>▶ Customer/society expectations<br>▶ Carbon taxes and regulatory policy interventions<br>▶ Access to a nationwide Electric Vehicle (EV) charging network<br>▶ Access to EV vehicles that meet our needs – daily mileage, weight and commercial terms | ▶ Detailed analysis tool in place – EV fleet availability by country, monitored for availability of suitable vehicles, price and charging network availability. RAG coded<br>▶ Pilots in 5+ major markets. Policy framework created<br>▶ Membership of EV100 – a global initiative bringing together companies committed to accelerating the transition to electric vehicles<br>▶ Roll-out plan to be completed by 2040 |
| **Use of chemicals in pest control** | ▶ New legislation to restrict the type of chemicals used in pest control in outdoor environments<br>▶ Customer/society expectations for fumigation services using chemicals that do not impact climate change<br>▶ High-carbon goods and services become socially unacceptable<br>▶ Behaviour on climate-related matters could become critical to corporate reputation | ▶ 80% of our innovation pipeline is now sustainable<br>▶ First non-tox/low-tox products launched<br>▶ Investigating non-tox alternative for fumigation with goal to change from sulfuryl fluoride<br>▶ Plan developed to become 100% non-tox by 2040<br>▶ Introduction of digital tools – more targeted usage |

## Climate-related opportunities

Pests are more of a burden in warmer climates and therefore, the impact of climate change is a factor in the growth of commercial pest management.

Warmer temperatures mean longer breeding seasons and higher survival rates during the milder winters. More volatility in temperatures and precipitation also has the potential to change the pest mix and demand for pest control over the medium to long term.

With market-leading positions around the globe, Rentokil Initial can play an important role in helping customers to mitigate the effects of global warming on their businesses and on public health.

The Company is already seeing the impact of warmer temperatures. For instance, increased survival rates of mosquitoes and other insects in southern Europe, and rising concerns about vector-borne diseases. In the US, we are also seeing an increase in mosquito populations being reported due to increasing amounts of standing water following more severe hurricanes and storms.

One of the best examples is the Asian Tiger Mosquito. The native range of this mosquito is throughout the tropics of Southeast Asia, the Pacific and Indian Ocean Islands, north through China and Japan, and west to Madagascar.

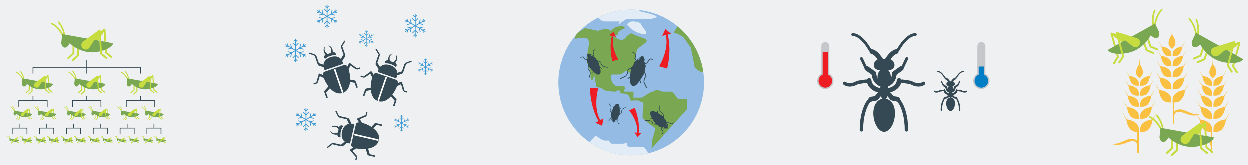
However, the Tiger Mosquito has been one of the fastest-spreading animal species over the past two decades. To date, it has spread to at least 28 countries outside its native range around the globe. This is the mosquito that brought Chikungunya disease to Italy in 2007.

**244%**

potential increase in fly populations by 2080 predicted by the World Health Organization (WHO)

As with mosquitos, flies thrive in warmer climates. According to the WHO publication, ‘Public Health Significance of Urban Pests’, climate change may have a significant impact on fly populations. A statement by the WHO, using predicted values for warmer temperatures, forecasts a potential increase in fly populations of 244% by 2080, compared with current levels. If this were to occur, concomitant increases in fly-borne diseases would be expected.

### How does climate change affect pests?




## Metrics and targets

For over 15 years, Rentokil Initial has published its emissions data and continues to improve the quality and range of its environmental reporting.

The Company first set an emissions target in 2012 of a 10% reduction in our emissions intensity index by 2016, which was achieved in 2015. Then using 2015 data as the baseline it set a five-year emissions target to achieve a 20% reduction in this intensity index by the end of 2020. As at the end of 2020, this had reduced by 27.2%.

In 2020, the Board set a new target to reduce the emissions intensity index by a further 20% by the end of 2025 (using 2019 data as the baseline). As at the end of 2020 this index had reduced by 8.1%.

The index of $CO_2$ emissions is calculated as an index of kilogrammes per £m revenue on a constant exchange rate (CER) basis, providing an accurate like-for-like performance comparison, removing the variables of currency and divestments and acquisitions.

The Company has also begun its journey to net zero carbon emissions from its operations by the end of 2040.

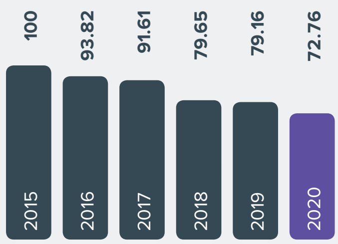
Our greenhouse gas emissions are derived from the use of energy in our properties and vehicles and through the use of sulfuryl fluoride in public health-related fumigation projects. In 2020, we set a new goal to achieve zero $CO_2$ emissions from the use of chemicals in fumigation by 2035.

Absolute emissions from the use of sulfuryl fluoride were 605,442 tonnes in 2020 (2019: 548,449 tonnes; 2018: 363,339 tonnes; 2017: 481,390 tonnes). The increase in 2020 occurred due to growth in customer demand in Europe for fumigation to protect products being shipped around the world and from acquisitions.

Our current Scope 3 reporting includes emissions in relation to our properties and vehicles – Transmission & Distribution (T&D) and Well to Tank (WTT). We are currently planning to enhance our data capture around Scope 3 emissions, in particular business travel and our supply chain.

See page 53 for our five-year data tables covering absolute values of energy and fuel-derived emissions – tonnes of $CO_2e$ covering Scope 1, 2 and 3 and our progress against the index of $CO_2$ emissions, against which our 20% target is set.

**Intensity index of $CO_2$ emissions**
Based on kg per £m of revenue on a CER basis – baseline year 2015 = 100.



## Service and innovation
# Trusted brands at a time of crisis

During the pandemic, our customers trusted Rentokil Initial to deliver high-quality services that protected their staff, their customers and the reputations of their businesses. Our services allowed them to exit lockdowns or maintain their own services safely – our services were designated 'essential' by government agencies around the world. We launched disinfection services and delivered record levels of hand soaps and sanitisers.

**c.80%**
of our innovation pipeline is now sustainable or non-tox

### Innovation

Around half of our innovation projects have been generated in house, either by our Science and Innovation team or as a result of insights gained from our businesses around the world.

Other projects are initiated as a result of a collaboration with external partners who bring their own specialised expertise to a project. Innovation is an integral part of our culture, and our partners engage with our scientific and technical teams to turn ideas into new and exciting solutions to meet customer needs now and in the future.

### New products to combat COVID-19

In 2020, in the early days of the pandemic, we identified the urgent need for disinfection services and within four weeks had deployed the service in 60 countries. This entailed obtaining the correct PPE and respirators, delivering over 30,000 pieces of training and, vitally, creating safe operating procedures, such as how to deliver the service safely, while in full PPE.

We supported a wide range of customers, from food manufacturers and retailers to distribution centres and public transport. In Paris, we undertook c.1 million treatments to protect people on the transport network.

In line with our business model, innovations were also deployed to support this new service. We introduced electrostatic fogging machines (that 'charge' the disinfectant solution, enhancing the spread and speed of delivery) and tools that use ultraviolet light to disinfect areas with sensitive equipment, such as server rooms, where liquids cannot be used. Drones were introduced to disinfect major sports facilities. See page 14 for a case study on disinfection services.

### Experts in hygiene

During 2020, our expertise in hygiene ensured that we were able to help customers with essential hand, air and surface hygiene services. We installed record levels of dispensers for soaps and sanitisers; working with our suppliers (external and in-house) to obtain high levels of 'no touch' units and refills. We also launched new air care services, such as VIRUSKILLER™ with 99.9999% effectiveness. See page 44.

During 2020, our UK businesses maintained their 5-star performance rating on Trustpilot.

## Investing in a sustainable future

The Power Centre is our industry-leading centre for science and innovation. We focus on four main areas: Non-toxic, Monitor and detection, Sustainable, and Digital. Currently, around 80% of projects within the innovation pipeline are sustainable and non-toxic.

**Non-toxic**
(environmentally friendly)
- Biotechnology
- Lures
- Heat
- Proofing/Exclusion

**Monitor and detection**
- Beam-break technology
- Scent detection
- Presence detection

**Sustainable**
- Recyclable material
- Resistance testing
- Lifetime use

**Digital**
- Cameras
- Remote management
- Data

## Non-toxic

In commercial pest control the use of chemicals is not our first thought. Before any treatment is considered we survey the premises and consider barriers, such as proofing and exclusion materials under doors or in gaps next to pipes, that might solve the pest problem. We then have a range of non-tox solutions, such as the use of heat treatments, rather than traditional chemicals, for the control of bed bugs and insects.

## Sustainable

After two years in development, in 2020 we undertook final testing and trials of Eradico, our first global hardware product made from recycled polymer. This new bait box, for external use, has improved functionality and is more efficient to install and service.

In 2020, Eradico was trialled in 22 countries and will be launched globally in 2021.

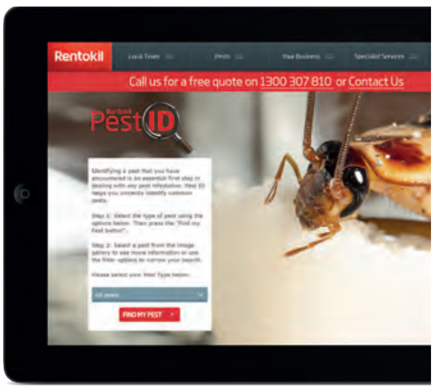
Rentokil Initial was awarded The Queen's Award for Enterprise: Innovation in 2020 – for the development and launch of Lumnia, which not only offers highly effective fly control, but is also the first range to use LED lighting rather than traditional fluorescent tubes, reducing carbon emissions by 62% and removing mercury from the waste stream.

**168,800**
Lumnia units sold since launch


## Monitor and detection

RADAR and AutoGate rodent control units use break-beam technology to identify the presence of a target species and alert the technician, via the online command centre, that a particular unit has been activated.

PestID, an image-based smartphone app, identifies a pest from a photo taken by one of our technicians. Once identified, PestID will recommend the best tools to control the pest, plus important information such as operational safety reminders.




## Digital

Rentokil Initial uses digital technology to improve the colleague experience, enhance services and reporting transparency for customers, and improve operational efficiency. Our workforce is enabled with smartphone technology and a wide range of apps to improve efficiency.

- **ServiceTrak** – our field service app. Over 7 million service visits were completed on ServiceTrak in Hygiene during 2020 and c.4.8 million customer signatures captured on completed visits. At the start of the pandemic, we quickly added a photograph function to include as proof of service with 2.4 million Proof of Service reports sent digitally to our Hygiene customers. Also introduced in 2020 was a new digital customer satisfaction survey. 2.6 million responses were received as a result of service visits, with an average score of 4.8 out of 5 for both Pest Control and Hygiene.

**7 million**
service visits were completed on ServiceTrak in Hygiene during 2020

- **PestConnect** – Internet of Things pest control – we now have over 150,000 units in the field in 26 countries (2019: 80,000). See page 26, for a case study on Tesco and PestConnect.
- **Command Centre** – brings together the data from our Internet of Things devices in the field with 9 million records processed each day in 2020. Cloud-based data storage and our own visualisation tools ensure that we can support customers with the highest standard of pest control data analysis.
- **myRentokil** – this customer portal is now live in 44 countries and has 187,000 active users (+12% vs 2019). myInitial is deployed in 18 countries and has 22,300 active users – up by 34% year on year.

## Communities
# Living our values

Our approach to charitable and community support is in line with our core social purpose – to Protect People and Enhance Lives. We also aim to make a meaningful contribution to the local economy and to support communities where we operate. This year, our values were even more visible than usual as, despite the crisis, we saw the incredible commitment of our colleagues to support local communities and charities.

### Saying thank you to key health workers

In May 2020, through our #sharethelove initiative, our colleagues around the world said a massive thank you to the inspirational health and public services workers who selflessly help others. Our colleagues supported the communities in which they live and work, via 276 activities, such as donating disinfection services, pest control treatments, hand sanitisers and care packages, and in many other ways.

Find out more about #sharethelove on pages **62** and **63**

Colleagues also participated in over 25 events around the world to mark Global Handwashing Day – particularly important in 2020 – and by making further valuable in-kind donations.


**276**
Our colleagues supported the communities in which they live and work, with 276 activities

### Providing long-term support to charitable causes

Rentokil Initial Cares is our charity and community programme which supports colleagues' own efforts locally, alongside national and global initiatives. It supports charities and good causes which have significant impact in many parts of the world, from protecting families from the threat of malaria in Africa and reducing deforestation in the Pacific, to providing community health and hygiene education in Asia.

This innovative programme was launched in 2019 and uses the Company's unclaimed shares and dividends to support our partner charities with a network of local ambassadors coordinating and championing the programme. During the year, we supported a number of community and charitable causes, including the following:

**Malaria No More UK**
Since 2010, Rentokil Initial has supported Malaria No More UK in its mission to fight the deadly global disease malaria, raising around £250,000. In 2020, we were partners to the 2020 campaign Malaria Must Die (www.malariamustdie.com). In addition, in early 2020 we were able to use our IT expertise to help the charity to adopt new back office technologies.

**Cool Earth**
Rentokil Initial is also very proud to support the UK charity Cool Earth, in tackling endangered rainforest degradation – a major source of carbon being released into the atmosphere. From investing in fresh water and sanitation programmes in Papua New Guinea to helping create sustainable livelihoods in Cameroon and Mozambique, Rentokil Initial has been a critical partner in these community-led conservation activities.

- In Papua New Guinea the community had great success with the water, sanitation and hygiene programme activities. Three community members received training to build long-drop toilets and flood-resistant waste systems, and we have also provided much-valued clean water tanks which support community health.
- There have also been encouraging results from agroforestry programme activities in Cameroon. Up to 5,000 additional cocoa and fruit trees have been added to Rentokil Initial-funded nurseries. During community interviews, 157 households within the supported communities indicated no further need for using forests for farmland expansion.

- The beekeeping programme in Cameroon has also had successes in 2020 with 53 new members from the supported communities receiving follow-up training on bee farming. Out of 214 beehives installed, a total of 145 have been fully colonised.

This year, Cool Earth also launched a crisis Rainforest Resilience Fund to help local partners and community members during the coronavirus pandemic when the cost of goods increased significantly. To ensure that 100% of the Rainforest Resilience Fund went directly to families in need, we underwrote the operational costs for this appeal. In 2020, we made donations to the value of £62,846 (2019: £54,000) to Cool Earth.

**Better Futures**
Rentokil Initial's Better Futures community health initiative was first launched in 2013 and continues to develop projects to deliver essential health and safety education across Asia, including India, Malaysia and Indonesia. Since its launch, more than 27,000 people have participated in these education events supported by volunteer colleagues from local branches. This year, the Better Futures team has undertaken events which benefited over 350 children in India, in cities including Chennai, Mumbai and Lucknow.

**+27,000**
participants in our Better Futures community events

**Australian Bush Fires 2020**
Rentokil Initial was extremely proud of the colleagues who are reserve firefighters and who volunteered to support their communities. We provided payment of unlimited Special Leave when they were called upon to assist during the emergency.

**The Brit School**
As part of our ongoing support, we provided £10,000 to The Brit School, a UK charity, to whom we also provided mentoring support as part of developmental training initiatives. We also supported their online Christmas performance for primary schools.

Other matched donations have been made to charities, reflecting the passion of colleagues, including: Save the Children, Oxfam – the Beirut emergency appeal, Alzheimer's Society, Macmillan Cancer Support and the Royal Marsden Hospital.

Charitable cash donations in 2020 (including matched donations) amounted to £184,000 in 2020 (2019: £206,000) – this excludes the provision of value-in-kind and management time which was significant in 2020, and colleague-generated donations and efforts. Our Community Involvement Policy sets out our principles for positive engagement.

The BRIT SCHOOL
COMMUNITY ARTS PRACTICE

**Further information**
Additional information about our practices can be found in our responsible business website: **rentokil-initial.com/responsible-delivery**

Company policies:
**rentokil-initial.com/responsible-delivery/policies**

Gender Pay Gap Report:
**rentokil-initial.com/responsible-delivery/gender-pay-gap-report**

Modern Slavery Statement:
**rentokil-initial.com/responsible-delivery/modern-slavery-statement**

## Playing our part

# by supporting our communities

**On 12 May 2020, we launched a global initiative called #sharethelove with the target of creating 100 community events around the world – donating disinfection and hygiene services to healthcare workers, emergency service facilities, care homes and many other organisations – to say thank you for their service during the pandemic.**

The programme enabled our colleagues to thank their local organisations in a globally coordinated way under the #sharethelove banner, reflecting our Group values and our purpose of Protecting People and Enhancing Lives.

Even in the toughest of times we were determined to demonstrate our values and our commitment to our global communities. We received an outstanding response from our colleagues and delivered a total of 276 events in 38 countries supporting over 8,000 people in the communities – far exceeding our initial expectations.

The primary impact of the programme on local communities was immediate support at a time of crisis where funding and resources were limited. Examples of what we delivered include: free disinfection services to selected care homes and emergency service facilities; 'hygiene hampers' (soaps and sanitisers) to local healthcare facilities; free pest control treatments to medical facilities and day care centres for the elderly; and free hand soaps and sanitisers to local emergency workers.

More specifically, our colleagues in Portugal have donated disinfection services to two hotels in Lisbon, which, while closed for business, have been supporting hospitals, doctors and nurses involved in fighting the pandemic. In Tuscany, Italy, we have donated disinfection and deep clean services to Dynamo Camp, a recreational therapy camp – and the first of its kind in Italy – that hosts children who are sick, in therapy, or recovering in a post-hospitalisation period.

In Chile, our teams performed specialised disinfection services in critical locations in the community, including a recreation room for children of the workers of the Roberto del Río hospital, and in the premises of a Foundation called Fundación Santa Clara in Santiago that supports children with HIV. In Sweden, our colleagues helped to produce protective equipment for medical staff, and in North America colleagues took part in over 80 events to say thank you to their 'hometown heroes'.

**276**

events organised by colleagues

**38**

countries

**8,000+**

people in the community supported

## Further examples of #sharethelove activities

**China** – colleagues donated disinfection services and hand sanitiser to nursing homes and emergency workers

**Thailand** – colleagues donated disinfection treatments in places of worship and temporary dormitories for medical workers

**South Africa** – colleagues donated a range of pest control and hygiene services to children's homes and care centres

**Saudi Arabia** – colleagues provided pest control and hygiene services to care organisations

**Belgium** – colleagues provided hand sanitisers to Moeders voor Moeders – a charity which helps mothers in need

# Governance, trust and transparency

**Governance and policies**
Our responsible business priorities are woven into our overall governance arrangements, the cornerstone of which is the Code of Conduct (available in local languages and supported by training programmes). The Code of Conduct sets out a fundamental commitment to comply with all applicable legal requirements and to operate with high ethical standards. It outlines responsibilities to colleagues, customers and to the Company and highlights our determination to embed our values of service, relationships and teamwork and a culture of integrity across the Company.

We have a robust policy framework for each of the key sustainability priority areas set out on pages 49 to 61. Policies are reviewed periodically to ensure that they meet current best practice and legislative needs. Our technical and safety standards and practices often exceed the regulatory requirements where we operate. By establishing clear policies and procedures in areas such as ethical conduct, human rights, data security and suppliers, and by reporting transparently on our progress, we can reduce risks to our business and our customers.

We have a Supplier Code which is designed to ensure that the standards of our suppliers are aligned with our Code of Conduct. The Supplier Code, available on our website in 17 languages, outlines the standards and controls expected within the operations of suppliers of goods and services to the Rentokil Initial Group. Since March 2019, all critical suppliers and major local suppliers who supply goods or services to the Group are required to acknowledge receipt of and compliance to the Supplier Code. Tangible aspects of the Supplier Code, such as safety standards, are inspected during the periodic audits of critical and major suppliers. A full list of our key policies is available on our website. We monitor our impact using performance metrics, which are summarised overleaf and shown on page 48.

**Management and compliance**
Adherence is reinforced by an annual Letter of Assurance process, signed by senior management confirming compliance with corporate policies and the Code of Conduct. All senior managers are required to sign a letter to confirm they comply personally with key corporate policies and the Code, and that the colleagues for whom they are responsible are aware of and understand what is required of them. Details must be provided of any areas of non-compliance or uncertainty.

Monitored by the Company's Group General Counsel and Internal Audit team, it is supported by mandatory training on the U+ learning platform. A review of the process is provided to the Audit Committee each year (see page 106). The Internal Audit team also manages the confidential independent reporting channel Speak Up (see page 106 of the Audit Committee Report). The Chief Executive has Board responsibility for our responsible business approach, including climate-related issues.

**Payment practices**
In the UK we have two legal entities that have an obligation to report semi-annually on their payment practices towards suppliers. Over the last few years improvements have been made in this regard, with invoices on average being paid comfortably within the standard terms of those legal entities. However, approximately 20% of invoices continue to technically be paid after the due date of the invoice. There are a range of factors impacting this metric, including invoices with immediate or very short payment terms, postal delays, internal approval delays, and incorrect invoice details. During the year, we have reviewed processes to identify procedural issues and made some changes to payment runs to improve supplier payment timings, as well as providing additional training for colleagues. All payment practice reports are reviewed by the Company's Audit Committee.

**Information security**
Like all organisations, the scale and complexity of cyber attacks against the business continues to increase and we continue to identify, monitor and mitigate the risk this presents (see page 70). During 2020 we moved approximately 8,500 colleagues to work from home as part of the business continuity response to the global pandemic, which included the expansion of existing remote access services and investments in security tools and technology specifically to enhance security for home workers. We continue to invest in IT security ensuring that the security posture of systems and services are maintained at an appropriate level and security posture is continually monitored and improved. Penetration testing exercises were undertaken to test our detection and response capability. An information security awareness programme is helping to reduce security incidents and improve awareness. In 2020, this included phishing simulation exercises (involving over 15,000 colleagues in critical user functions with over 57,000 simulation emails sent in a series of campaigns), workshops and online training packages. Improvements to our email security capability were also implemented to enable users to identify high-risk emails and improve technical resilience to phishing attacks. We also monitor external ratings using the Assessment of Business Cyber Risk framework provided by the US Chamber of Commerce and benchmark our cyber security where possible. We want to do the right thing to ensure that our business and our customers can operate securely and safely.

**Data privacy**
We have initiated a global data protection compliance programme based on the requirements of the EU General Data Protection Regulation (GDPR). We have required that all businesses globally sign and abide by the terms of an inter-company data transfer agreement, which incorporates EU standard model clauses. This demonstrates that all businesses are committed to taking privacy seriously. Our Group Data Protection Officer has established a global privacy network and all countries have assigned Local Privacy Officers and/or Privacy Champions to support the programme. The network of Local Privacy Officers and Champions is provided with support and guidance via regular newsletters, meetings, training and access to updated data protection compliance resources.

The core operational controls and compliance framework are underpinned by tools, systems, policies and processes. Privacy and data management considerations are implemented in project and contract governance mechanisms. A privacy notice is available in 17 languages and 95% of managers in the EU, including the UK, have completed data protection training. Since implementation, functional training for teams such as marketing, HR, sales and IT has also been delivered, supplemented by support and guidance from the network of local privacy officers and privacy champions. Data protection training material has been made available in 38 different languages for all employees globally.

Any identified data protection risks (see page 71), gaps and requirements are reported by the Group Data Protection Officer via the Group General Counsel to the Group Risk Committee and the Audit Committee. Metrics have been created to assess the compliance status of countries and regions, based on data protection programme activities and risk levels associated with local regulatory requirements, enforcement actions and breaches.

**Tax**
Our tax strategy is aligned with our wider business strategy, which we believe creates a responsible and sustainable tax strategy that will enhance long-term shareholder value. Tax will be considered as part of every significant business transaction. When considering tax issues, we will always seek to protect the Group's reputation and adhere to its Code of Conduct. We aim to meet all of our legal obligations, filing all required tax returns accurately and on time and paying the correct amount of tax when due. We seek to deal with HMRC and other tax authorities in an open and collaborative manner, aimed at reaching agreement on tax issues on a timely basis and minimising the risk of disputes arising. We will not undertake transactions where the sole purpose is to create a tax benefit in excess of what is intended by the relevant legislation. We aim to comply with both the spirit and the letter of the law in relation to tax matters and we will not establish companies in tax havens where there is no economic substance.

We operate appropriate tax risk governance processes, including oversight by the Audit Committee and the Board. Our tax strategy applies to all Group business, sets out our approach to tax and can be found on our website. Our Board reviews our tax strategy annually.

## Non-financial information statement

An overview of our approach to environmental matters, colleagues, social matters, human rights, and anti-corruption and anti-bribery can be found in the table below, with further details found throughout this Responsible Business section on pages 47 to 66. Details of our business model can be found on pages 22 and 23, and our principal risks are on pages 69 to 73. Our key policies can be found on our website.

Enabling **THE RIGHT PEOPLE** to do **THE RIGHT THINGS** in **THE RIGHT WAY**

| | Our approach and key policies | Outcomes of policies and impacts of activities | More information |
|---|---|---|---|
| **Environmental matters** | | | |
| | Our **Code of Conduct** states that all our colleagues must conduct their work in a way that complies with environmental laws and minimises any adverse effect on the environment. Our **Environmental Policy** sets out our commitment to carrying out our business in an environmentally responsible way. | 8.1% reduction in the emissions index in 2020.<br>We mitigate our carbon emissions through our partnership with Cool Earth. | See page 52 for more information on environmental matters. |
| **Colleagues** | | | |
| | Our colleagues are at the core of our business. Our **Code of Conduct** sets out our Company standards and applies to everyone at Rentokil Initial. It includes sections on health and safety, equality and fairness, human rights and protecting personal information.<br>There is nothing more important in Rentokil Initial than ensuring everyone goes home safe at the end of their working day. Our approach to making sure this happens is set out in our **Code of Conduct** and our **Health and Safety Policy**.<br>We aim to be an inclusive employer and have a wide range of policies, including our **Group Diversity and Inclusion Policy, Dignity at Work and Rights of Employees**. | We aim to be an Employer of Choice and our 44,500 colleagues are integral to our business model (see page 22).<br>0.39 Lost Time Accident rate in 2020.<br>8.46 Working Days Lost rate in 2020.<br>30% of our senior management are female. | Colleagues are one of our key stakeholders, as set out on page 24. Our culture is described on page 49 and you can read more about our colleagues on page 50. |
| **Social matters** | | | |
| | Our purpose is to protect people and enhance lives and, as well as making a meaningful contribution to the economy, we aim to support communities where we operate. Our **Community Involvement Policy** sets out our principles for positive engagement and our commitment to support colleagues' efforts to raise funds for good causes through a matched giving scheme. The **Code of Conduct** also contains a section on respecting the world in which we work. | £184,000 donated to charity in 2020 (excludes donations in kind). | Read more about our engagement with the communities in which we operate on page 60. |
| **Respect for human rights** | | | |
| | We support the rights of all people as set out in the Universal Declaration of Human Rights. Our **Human Rights Policy** outlines the human rights principles that reinforce colleagues' expected behaviours to respect the human rights of colleagues and business partners. The Company may operate in countries with potential human rights issues but we would not tolerate any connection with abuse.<br>As detailed in our **Code of Conduct** and our **Supplier Code**, we will only employ individuals who are working of their own free will and do not tolerate child labour, bonded labour or other forms of slavery in any part of our business or their suppliers. | No human rights violations were identified in 2020.<br>We publish a Modern Slavery Statement each year which is available on our website. | Read more about our Code of Conduct and Supplier Code on page 64. |
| **Anti-corruption and anti-bribery** | | | |
| | We expect our colleagues to maintain the highest standards of conduct and act with integrity at all times. Anti-bribery and corruption policy and controls are addressed within the **Code of Conduct** and a separate **Anti-Bribery Policy**, and these are reinforced by mandatory online training, reviews and supplier audits, tracking registers, and our ethics reporting system Speak Up. | c.16,100 Core Corporate Compliance training courses were completed by colleagues in 2020, with a 95% completion rate overall.<br>There were no fines, penalties or settlements for corruption reported in 2020. | Read about Board oversight of governance and compliance on page 98. |

The icons used above correspond to our stakeholder groups as set out on pages **24** and **25**.

**Colleagues** **Customers** **Shareholders** **Communities** **Suppliers**

## Section 172(1) statement

We consider that pages 85 to 89 in the Corporate Governance Report, which sets out the Board's activities and principal decisions in 2020 and details the Board's consideration of the factors set out in section 172(1) in making those decisions, also forms part of this statement, and is incorporated by reference into the Strategic Report.

This statement intends to set out how our Board of Directors, both individually and collectively, has had regard to matters set out in section 172(1) of the Companies Act 2006 when undertaking their duties during 2020. The aim of section 172(1) is to try to ensure a more comprehensive understanding of a company's key relationships with a broad range of interested groups, such as employees, suppliers and customers, and a proper consideration of external perspectives which will, ultimately, help drive success over the long term.

We identify our key stakeholders as colleagues, customers, shareholders, communities and suppliers. We consider the environment to be strongly related to communities and they are often considered together, although we are ever more conscious that the environment also impacts our customers and suppliers and is of increasing importance to our colleagues as well. In discharging their section 172(1) duties, the Board has had regard to the Company's key stakeholders, although at times some factors may have been more relevant than others. Appropriate regard was also given to other factors or interested parties considered relevant to the decision being made – for example, our relationship with regulators, industry bodies and other business relationships.

For details of how our Board operates and the way in which it reaches decisions, including the matters discussed and debated during the year, please refer to the Corporate Governance Report on pages 85 to 89.

We consider the principal decisions of the Board to be those decisions taken by the Board directly, which should not be delegated to management, or a committee of the Board unless considered and approved in principle by the whole Board first, and which may have a potentially material impact on the Company's strategy, a stakeholder group or the long-term value creation of the Company. Full details of the principal decisions taken by the Board during 2020, including examples of how the Directors have had consideration for the Company's stakeholders when considering the principal decisions and their regard to the matters set out in section 172(1), are provided in the Corporate Governance Report.

When considering the needs of relevant stakeholder groups, inevitably conflicting requirements arise and we seek to make judgements that serve the long-term interests of the stakeholders. We acknowledge that not every decision the Board has made will necessarily result in a positive outcome for all of our stakeholders. However, by giving consideration to key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. In making their decisions and choices and in setting policies and strategy, our Directors also consider any associated risks when discharging their duties (see page 67).

The Board aims to act in line with the Company's purpose of protecting people and enhancing lives. We are aware that there are potential incidences where our impact can be negative as well as positive, for example as a result of the chemicals that we use and the greenhouse gas emissions that are involved in providing services to our customers. We are engaging with suppliers and developing innovative technology to address this where practicable.

Our reputation is paramount to the success of our business as we rely on the satisfaction of our customers. We continue to monitor our culture recognising the important role it plays in underpinning the business's sustainable long-term success. We have a comprehensive set of policies and procedures in place to ensure high standards of professional business conduct, including the adherence to our Code of Conduct. We strive to act fairly between shareholders of the Company at all times.

### Where to find more information

| Section 172(1) consideration | Key sections |
|---|---|
| Long-term results | Q&A with our Chief Executive, page 6; Our Business Model, page 22<br>Responsible Business, pages 47 to 66; Strategy and culture, page 83<br>Principal decisions of the Board, page 88; Financial Review, pages 146 to 148 |
| Colleagues | Q&A with our Chief Executive, page 6; Our Business Model, page 22; Our Stakeholders, page 24<br>People and culture, page 49; Non-financial information statement, page 65<br>Principal decisions of the Board, page 88; Stakeholder engagement, page 90 |
| Our business relationships | Our Stakeholders, page 24; Responsible Business, pages 47 to 66; Strategy and culture, page 83<br>Principal decisions of the Board, page 88; Stakeholder engagement, page 90 |
| Communities and the environment | Our Stakeholders, page 24; Environment, pages 52 to 57; Communities, pages 60 to 63<br>Non-financial information statement, page 65; Sustainability and culture, page 83<br>Principal decisions of the Board, page 88; Stakeholder engagement, page 90 |
| Our reputation | Service and innovation, page 58; Governance, trust and transparency, page 64<br>Non-financial information statement, page 65; Principal decisions of the Board, page 88 |
| Fairness between our shareholders | Our Stakeholders, page 24; Principal decisions of the Board, page 88<br>Stakeholder engagement, page 90 |

## Risks and Uncertainties

# Managing risk and uncertainty within our business

Accurate identification, assessment and management of key risks is embedded in our processes and ensures appropriate actions to support our strategic objectives.

## Risk management approach

The Group's overall risk management approach, described here and on page 105, is designed to provide reasonable, but not absolute, assurance at all levels of the Group that risks are being properly identified and effectively managed. This includes the provision of appropriate mechanisms to ensure that issues and concerns relating to risk can be escalated up through the organisation effectively and confidentially.

The Board reviews the effectiveness of the risk management processes and manages the evolving risk environment as it approves the Group's overall strategy.

The key components of our risk management process are:

- identification and management of risk integrated into day-to-day operations;
- maintenance of a central risk register periodically reviewed by regional and functional management;
- annual presentation and approval of risk process by the Audit Committee; and
- emerging risks and potential mitigations reviewed at quarterly Group Risk Committee meetings, with the risk register being updated accordingly.

The Board is satisfied that, through the processes set out above, it is able to effectively identify and manage risks. The Board is further satisfied that the responsible managers have the necessary skills and expertise to ensure that the relevant risk management process and control systems are in place and fully operative. The Board relies on the assurances provided through the periodic reports presented to the Board and Audit Committee.

Using the process set out above, the Board believes that it has undertaken a robust assessment of the principal risks which threaten the implementation of the strategy and the long-term viability of the Group and is satisfied that appropriate mitigation plans are in place.

The Group's business model has remained the same in 2020 as in 2019. It incorporates a number of elements that moderate the risk profile of the Company, particularly as the portfolio accelerates its focus on Pest Control and Hygiene which together represent 88% of our total business.

- Low capital intensity and high portfolio retention rates: our categories exhibit strong defensive qualities, as density and efficiency gains are reflected in margin growth.
- Local market operations: the limited dependency on cross-border flows of people or products reduces the impact of geopolitical risks, and foreign exchange risk is muted since revenue is earned and costs are incurred in local currency.
- The global nature and scale of the Group's operations limit exposure to the economic cycle in individual markets: the largest market, North America, represents 44% of Ongoing Revenue at CER, with no other single market representing more than 11%.

## Changes in risk profile of the Company in 2020

In addition to the changing risk profile as a result of COVID-19, we continue to monitor existing and emerging risks regularly in both the Audit Committee (see pages 99 to 106) and the Group Risk Committee (see page 97), and take mitigating action as appropriate.

Areas where the risk profile of the business has improved in 2020 include:

- continuity of senior management in roles, maintaining corporate knowledge and experience;
- improving retention rates for technical and sales colleagues reducing recruitment costs and ensuring improving service levels;
- continued roll-out of our target financial and operational systems across the globe;
- further investment and standardisation of information security and data privacy to mitigate the risk of a successful cyber attack or loss of personal data;
- continued strong cash flow giving financial headroom to continue to acquire businesses with good strategic fit; and
- strengthening of our technical standards (Pink Notes) to cover all categories, refreshed Technical Hub and introduction of a mandatory training programme on U+ for Pink Note awareness.

Areas where our risk profile has increased in 2020 include:

- potential economic slowdown in a number of our key markets;
- ensuring our technical standards are fully implemented across the business at all times;
- ensuring payroll and employment regulations are fully implemented in line with local laws at all times;
- integration risk in relation to acquisitions – both effective execution of integration plans and avoiding local management distraction from delivering the business plans of the remainder of the business;
- maintaining financial control and IT security while working from home; and
- climate-related risk, including local extreme weather events and potential changes to legislation.

A summary of the impact of the COVID-19 pandemic on our risk profile is provided on page 68.

## Identified risks

The principal risks most relevant to the Group are described in the table on pages 69 to 73, together with mitigating actions.

Full details of our financial risks can be found in Note C1 on pages 176 and 177. The exact financial impact of one or more of our principal risks materialising will depend on the precise operational impact of the risk, its interaction with other risks and whether mitigating actions are successful in reducing the overall financial impact. The Group is exposed to other risks and uncertainties related to environmental, political, social, economic and employment factors in the territories in which we operate. Additional risks and uncertainties not presently known to management or deemed to be of lower materiality may, if they manifest themselves, have an adverse impact on the Group's growth, profitability, cash flow and/or net assets.

## Impact of COVID-19

The COVID-19 pandemic, travel restrictions, national and local lockdowns have impacted, and continue to impact, many countries within the Group.

As a result of the pandemic, further risks have been considered with specific mitigations, and these are reviewed regularly at all levels of the organisation.

| Risk | Mitigating actions |
|---|---|
| Macro-economic impact of COVID-19 on all aspects of the business, including sales, retention, bankruptcies and receivables. | Launch of new services in the Hygiene business to support sales.<br>Short-term suspension of services to support customers in affected sectors.<br>Regular monitoring and review of receivables and bad debt provisions. |
| Global supply chain disruption due to unforeseen circumstances (e.g. pandemic) prevents purchase of products required to provide service. | Review of strategic products and development of a continuity plan through:<br>▶ dual sourcing;<br>▶ strategic stocks of finished products;<br>▶ strategic stocks of raw materials/components; and/or<br>▶ identification of generic alternatives than can be sourced at short notice. |
| Restrictions on travel and/or isolation of colleagues impact our ability to service customers. | Local branch-based structure supported by digital route planning allows service levels to be maintained. |
| Requirement to work from home increases the risk of potential fraud and requires stronger financial control processes. | Additional review of key financial controls (May and October) to confirm continuation of a strong control environment. |
| Increased instances of phishing and cyber attacks during the COVID-19 crisis. | Acceleration of multi-factor authentication for remote access, deployment of anti-ransomware software to the data centres and colleague training to provide additional protection for our IT systems. |

The Group has responded swiftly and decisively to the COVID-19 crisis addressing the challenge in three phases as detailed on pages 8 and 9.

## Where to find further information

| Principal risk | Key sections |
|---|---|
| Failure to grow our business profitably in a changing macro-economic environment | Our Business Model, pages 22 to 23<br>Colleague and Shareholder KPIs, pages 16 to 19<br>M&A execution, page 11<br>Our journey to net zero, pages 52 to 55 |
| Failure to deliver consistently high levels of service to the satisfaction of our customers | Service and innovation, pages 58 to 59<br>Colleague and Customer KPIs, pages 16 to 19 |
| Failure to develop products and services that are tailored and relevant to local markets and market conditions | Innovation in Pest Control, page 34<br>Our 'Big Six' Challenges, pages 10 and 11<br>Service and innovation performance measures, page 48 |
| Failure to ensure business continuity in case of a material incident | Information security, page 64 |
| Failure to mitigate against financial market risks | Note C1 Financial risk management, pages 176 and 177 |
| Fraud, financial crime and loss or unintended release of personal data | Data privacy, page 64<br>Board monitoring and oversight, page 98<br>Our responsible business approach, pages 47 to 51 |
| Safety, health and the environment (SHE) | Key Performance Indicators, page 16<br>Keeping our colleagues safe, page 50<br>Environment, page 52 |
| Breaches of laws or regulations (including tax, competition and anti-trust laws) | Governance, trust and transparency, page 64 |

# Principal risks

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

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

### Impact should the risk materialise

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

Examples include:

- Recession and economic slowdown in some of our key markets and a trend for government increases in minimum wage to exceed inflation may make it difficult to maintain profitability.
- Low-growth economies with inherent cost inflation, where the Company has weak pricing power may make it difficult to maintain profitability.
- Growing market presence of multinational competitors may increase the cost of acquisitions and drive down prices, impacting profitability.
- Increased market presence by facilities management companies may drive down prices and increase compliance costs.
- Shift to greater proportion of key accounts in some markets may drive down prices and make it difficult to maintain profitability.
- Political instability and civil unrest in some markets may cause localised revenue reductions.
- Legislation, regulation or society expectation limits our 'licence to operate'.

### Mitigating actions

- Regular review of our capital allocation model which is differentiated by line of business to ensure that scarce resources are directed to countries and businesses with the most attractive prospects.
- Global Employer of Choice programme to ensure focus on the key priorities of the organisation, including recruiting and retaining critical talent in all markets.
- Working with governments and regulators on implementation of new regulations.
- Low-cost operating model, focused IT investment and route density incentives to deliver efficient operations for frontline and back office colleagues.
- International Key Accounts team developing business with multinational customers to take advantage of the Company's unique global capabilities and new Hygiene offerings.
- Increased review and focus on financial performance and controls.
- Group Procurement team tasked to deliver economies of scale and increasingly source materials and operational equipment on a global basis.
- Environmental action plan.

**Overall risk level** Medium
**Trend** No change

### Changes 2020 versus 2019

- North America business now accounts for 44% of Ongoing Revenue at CER, up from 38%
- Supply chain resilience
- Additional service lines in the Hygiene business
- Biannual review of key financial controls

### Performance measures to monitor risk

- Group Ongoing Revenue growth, in total and by category
- Group Organic Revenue growth, in total and by category
- Revenue contribution from acquisitions
- Group Ongoing Operating Profit
- Group Net Operating Margin
- Free Cash Flow conversion
- Net capital expenditure

## Failure to deliver consistently high levels of service to the satisfaction of our customers

**Our business model depends on servicing the needs of our customers in line with internal high standards and to levels agreed in contracts.**

### Impact should the risk materialise

If our operatives are not sufficiently qualified, or do not have the right skills, or we fail to innovate successfully, this may negatively impact our ability to acquire or retain customers, adversely impacting growth, profitability and cash flow.

Industrial action in key operations could result in diminished customer service levels; if prolonged, it could damage the Company's reputation and ability to secure or renew contracts.

In markets where overall employment rates are high, and/or our business is growing fast organically or via acquisition, we may have difficulty attracting and retaining key management of the right capability and the right calibre of operational personnel.

Major digital change programmes could disrupt our ability to deliver high levels of service to our customers.

Extreme weather could cause disruption to local operations and may impact colleague health and safety.

### Mitigating actions

- HR development processes, including Employer of Choice programme.
- Regular tracking of customer satisfaction and the perception by both customers and non-customers of Rentokil Initial, benchmarked against competitors.
- Dedicated Operational Excellence team to drive superior customer service and safe working practices, and to establish key metrics, combined with a strong focus on safety by supervisors and frontline staff.
- Incentives for sales and service staff aligned closely with strategic priorities, based on delivering improved customer service levels.
- Oversight of key industrial relations matters by Group HR Director and regular review by the Chief Executive for countries where industrial relations risk is elevated.
- Regular review of major IT programmes by the Chief Information Officer and the introduction of a quarterly IT risk meeting.

**Overall risk level** Medium
**Trend** Reducing

### Changes 2020 versus 2019

- 77% increased in U+ learning
- Refreshed and relaunched Technical Hub (Safe Working Practices)
- Continued deployment of IT programmes to frontline colleagues
- Quarterly IT Risk meeting

### Performance measures to monitor risk

- Sales and Service colleague retention
- The number of online training courses being developed
- U+ learning views
- State of Service
- Customer satisfaction (Customer Voice Counts)
- Customer retention

**Key:** Low | Medium | High | No change | Increasing | Reducing

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

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

### Impact should the risk materialise

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

Examples include:

- We must adapt to changes to the regulatory environment that may ban certain products or service models from being used, such as permanent rodent baiting.
- We need to respond to the expectations from customers and the wider populace for us to reduce our own environmental impact and support our customers in reducing their environmental impact.
- We need to develop products that are networked and capable of being monitored in real time, or react to competitor technology developments that are disruptive to the market.

### Mitigating actions

- Acquisition of targets with specific capabilities that address future changes in our markets.
- Targeted investment in innovation to meet market and regulatory needs and defend against commoditisation.
- Category Boards for Pest Control and Hygiene oversee the roll-out of innovations at pace across our regional businesses.
- Continued investment in digital platforms to support Sales and Service colleagues.

**Overall risk level** Medium

**Trend** Reducing

### Changes 2020 versus 2019

- Increased profile and importance of Hygiene category
- Increased penetration of digital technologies on customer sites
- Growth in use of digital platforms by customers
- Demonstration of business model resilience in the face of COVID-19

### Performance measures to monitor risk

- Sales growth for key innovations
- Percentage of job sales revenue from innovation
- Number of patents raised
- Number of sites with digital solutions
- Percentage of commercial customers registered for digital platforms
- Percentage of colleagues utilising digital applications

## Failure to ensure business continuity in case of a material incident

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

### Impact should the risk materialise

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

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

- A significant cyber attack or IT failure which impacts our ability to plan efficient routing, or ability to invoice, and is not recovered quickly.
- Fire or flood impacting our laundries (in Workwear) or warehouses (in Hygiene and Pest Control), preventing goods from being available to enable our technicians to service our customers.
- Industrial action by employees.

### Mitigating actions

- All countries and units maintain business continuity plans, with local plans to service from alternative locations if required, and IT disaster recovery plans.
- The majority of key data and applications are located in regional data centres with enhanced backup capability, and resilience and tools deployed to detect malicious behaviour and help prevent malicious files from spreading.
- Data encryption and implementation of AirWatch on laptops, tablets and mobile phones.
- Strong anti-phishing programme using phishing simulation tool to highlight risks to users.
- Annual penetration testing on all systems to test external firewalls and address any identified weaknesses.
- Annual inspections of key sites by insurers, on a rotating basis, to identify potential risks.

**Overall risk level** Medium

**Trend** No change

### Changes 2020 versus 2019

- Acceleration of multi-factor authentication for remote access
- Deployment of anti-ransomware software to the data centres
- Additional colleague training and awareness

### Performance measures to monitor risk

- Number of serious IT incidents and time taken to respond
- Major Incident Review actions
- Actions arising from IT security self-assessments
- External testing and benchmarking of our IT security environment

**Key:** Low · Medium · High · No change · Increasing · Reducing

## Failure to mitigate against financial market risks

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

### Impact should the risk materialise

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

### Mitigating actions

- Financing policy in place to ensure that the Company has sufficient financial headroom to finance operations and bolt-on acquisitions. Commitment to target credit rating of BBB.
- Treasury policies that limit the use of foreign exchange and interest rate derivatives, set limits for financial counterparty exposure, govern how financing is raised in bank and other debt capital markets and provide rules around treasury-related matters at operating company level.
- Monthly reporting and monitoring of financial covenants and rating agency metrics and compliance with treasury policies.
- Monitoring of the impact of exchange rate movements on non-GBP profits and net debt.
- Cash pooling and debt financing arrangement to match, as far as possible, currency availability/demand across borders.
- Revolving credit facility (RCF) increased to £550m.
- Refinancing completed in 2020.

**Overall risk level** Low

**Trend** No change

### Changes 2020 versus 2019

- Refinancing completed in 2020
- Rolling 13-week cash forecasting

### Performance measures to monitor risk

- Liquidity headroom at the year end of £1,089m
- Counterparty ratings above A-
- Monthly reporting against ratings metrics and financial covenants
- No unhedged foreign exchange positions above £0.5m; fixed interest >50%; and matching currency of net debt to underlying profitability
- Monitoring of amounts outstanding against counterparty credit limits

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

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

### Impact should the risk materialise

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

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

### Mitigating actions

- Ongoing programme to ensure all businesses are compliant with data privacy requirements (GDPR in Europe and data protection legislation in other markets).
- Mandatory online training by all senior employees for the Code of Conduct, preventing anti-competitive practice, preventing bribery and corruption, securing information and protecting privacy, avoiding conflicts of interest and preventing insider trading.
- Roll-out of Corporate Criminal Offence policy and training.
- Compliance with Code of Conduct and other key policies affirmed by the annual Letter of Assurance by all senior management.
- Standardised financial control framework operating in all locations.
- Confidential Speak Up hotline and email address, monitored and followed up by Internal Audit.
- Significant frauds investigated by Internal Audit and lessons learned widely shared.
- User security awareness guidance and policies refreshed and reissued.
- Updated policies on devices and the provision of Citrix-only access combined with global patching programmes, multi-factor authentication and deployment of anti-ransomware to our data centres.

**Overall risk level** Low

**Trend** Reducing

### Changes 2020 versus 2019

- Biannual review of key financial controls
- Inclusion of Corporate Criminal Offence policy in annual Letter of Assurance

### Performance measures to monitor risk

- Completion rate for mandatory U+ training modules
- Data privacy programme roll-out and implementation
- Speak Up investigations and remediation
- Key financial controls pass rates

**Key:** Low | Medium | High | No change | Increasing | Reducing

## Safety, health and the environment (SHE)

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

### Impact should the risk materialise

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

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

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

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

### Mitigating actions

- Robust health and safety (H&S) policies supplemented by the SHE Golden Rules and technical policies address higher risk and regulated activities.
- H&S officers appointed in all jurisdictions, supported by a dedicated central team.
- Mandatory training of all relevant employees in safe working practices.
- Focus on implementation of Group fumigation standards in all new acquisitions.
- H&S considered as the first item at all Board and senior management meetings; review of standardised H&S KPIs.
- Formal review of accidents and circulation of lessons learned.
- Strategy to further develop environmentally friendly approaches, e.g. lower pest control chemical use, recycling of hygiene units, piloting use of electric vehicles.

**Overall risk level** Medium

**Trend** Increasing

### Changes 2020 versus 2019

- New mandatory U+ module for Pink Notes
- Extension of Pink Notes to cover all business categories
- Refreshed and relaunched Technical Hub (Safe Working Practices)
- Updated Internal Audit work plan for SHE

### Performance measures to monitor risk

- Lost Time Accident rate
- Working Days Lost rate
- Total emissions
- Energy usage
- Compliance rates for mandatory U+ training

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

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

### Impact should the risk materialise

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

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

### Mitigating actions

- Group Legal involvement in all acquisitions.
- Tax strategy re-issued and approved by the Board annually.
- All significant tax planning opportunities have to be pre-agreed with the Group Tax Director and Chief Financial Officer with independent tax advice taken where necessary. Regular review of tax exposures.
- Authority schedule in place and regularly reviewed.
- Group and local policies in place and regularly reviewed.
- Requirement to report breaches in controls and/or laws to Group General Counsel and Head of Internal Audit. Follow-up by Group General Counsel of any significant regulatory breach in any country.
- Mandatory training on Code of Conduct and other core compliance topics, to instil a highly principled culture of ethical behaviour, completion rates reported to senior management monthly.
- All major business transactions or internal reorganisations are subject to a rigorous internal and external review.

**Overall risk level** Low

**Trend** No change

### Changes 2020 versus 2019

- Internal Audit of UK Coronavirus Job Retention Scheme
- Review and presentation of all Internal Audit issues for 2019 and 2020 to senior leadership

### Performance measures to monitor risk

- Central monitoring of material litigation
- Tax provisions
- Completion rate for mandatory U+ training modules, e.g. Code of Conduct and competition law

Key: Low  Medium  High  No change  Increasing  Reducing

## Failure to integrate acquisitions and execute disposals from continuing business

**The Company has a strategy that includes growth by acquisition, and has acquired 23 businesses in 2020. These companies need to be integrated quickly and efficiently to minimise potential impact on the acquired business and the existing business.**

### Impact should the risk materialise

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

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

### Mitigating actions

- Integration plans considered by the Investment Committee as part of the acquisition approval process. Integration activities and progress discussed during monthly performance reviews.
- Dedicated project teams established for largest acquisitions and demergers with clear deliverables over three months, six months and one year.
- Tried and tested induction programme for the first 100 days for all acquisitions.
- Continuity of management/leadership in acquired companies, where possible.
- Use of transaction structures including deferred consideration to mitigate deal risk.
- Group departments, e.g. health and safety, legal, insurance and IT, involved with acquisitions to drive integration plans and compliance with Group standards, especially when entering new geographies.
- Post-completion governance: formal post-acquisition review of every acquisition by Investment Committee against original business plan within 18–24 months; Board post-investment review of acquisitions in aggregate every six months; Internal Audit review of acquisitions in new geographies within 12–18 months.
- Board oversight of all acquisitions involving new country entries or new business lines.

**Overall risk level** Medium

**Trend** No change

### Changes 2020 versus 2019

- Additional resources provided to the US to support integration and replatforming

### Performance measures to monitor risk

- Integration plans (30 days, 100 days, 1 year)
- Reviews of integration plans for specific large acquisitions
- Post-acquisition review completions
- Post-investment review by the Board of aggregate performance of investment in M&A

**Key:** Low Medium High No change Increasing Reducing

# Viability Statement

In accordance with provision C.2.2 of the Corporate Governance Code, the Directors have assessed the viability of the Group, taking account of the Group's current financial position, the latest three-year strategic plan, and the potential impact of our principal risks described on pages 67 to 73. Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2023.

**Period of assessment**
Although the Directors have no reason to believe that the Group will not be viable over a longer timeframe, because of the degree of uncertainty, the period over which the Directors have a reasonable expectation as to the Group's viability is the three-year period to 31 December 2023. Having considered whether the assessment period should be extended in light of COVID-19, it is the view of the Directors that a three-year period is still appropriate as it is consistent with the period reviewed by the Group Board in the budgeting and strategic planning process and is also aligned with the typical duration of both the customer and supplier contract periods (one to three years) entered into by the Group.

**Strategic planning process**
The budget and longer-term plan have been prepared in line with the Group's strategy as described in detail in the Strategic Report (pages 2 to 66 and 146 to 148). The Board reviews the Group's performance monthly and, depending on the external environment and its potential impact on the Group's latest full-year forecast and strategic plan, will model a number of scenarios, as we saw during 2020.

**Viability assessment**
In making their assessment, the Directors have considered the current position of the Group and have undertaken a robust evaluation of the principal risks, in particular the ones that could impact on the liquidity, solvency and viability of the Group. The Directors have taken account of the Group's liquidity position and the Group's ability to raise finance and deploy capital. The results consider the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the identified underlying risks.

Mitigating actions that were identified as part of the viability assessment in previous years were rapidly executed as the COVID-19 pandemic emerged, such as securing additional liquidity, deferring shareholder distributions, pausing M&A activity, reducing planned capital expenditure, use of recognised tax payment deferral mechanisms and actively managing the cost base of the Group. Should these measures be insufficient then the Group would consider raising equity; however, that has not been required as part of its COVID-19 response.

Although the review considered all the principal risks identified by the Group, the focus was on how the current COVID-19 pandemic or another global event could impact on the Group's future financial performance, its cash generation and financial covenants under different scenarios. As a result, severe but plausible downside sensitivities were applied to the three-year plan approved by the Board. These were based on what was experienced during 2020.

The three-year plan is most sensitive to the reduction in revenue due to customer suspensions over extended durations; with that in mind the Directors have chosen three discrete, and non-concurrent, scenarios reflecting the principal risks to stress test the three-year plan for the following downside scenarios:

- Revenue reduces by 30% against the budget for six months of 2021. This scenario is significantly worse than the customer suspensions experienced during the first half of 2020, as a result of COVID-19, that peaked at slightly below 30% for one month only.
- A prolonged downturn where revenue reduces by 30% for each of the three years in the model.
- A significant one-off charge of £200m either in the form of a major fine or as a result of a number of bank failures.

The impact of the scenarios has been modelled to test projected liquidity headroom and compliance with financial covenants over the three-year viability period. In each of the scenarios the Group continues to retain sufficient liquidity headroom with the mitigating actions it can deploy. In the scenario of a significant one-off charge of £200m, there was no requirement for mitigating action to be taken.

As the COVID-19 pandemic emerged in March 2020, the Group drew down the full £550m available under its revolving credit facility (RCF) and, after establishing a £1bn Commercial Paper Programme at the start of April 2020, the Group drew down £600m on the Bank of England's Covid Commercial Financing Facility (CCFF). Both the RCF and the CCFF were repaid in full in June and July respectively.

In October 2020, the Group issued an eight-year €600m bond with a coupon of 0.50% under its Euro Medium-Term Note Programme. Part of the bond proceeds were used to repay c.50% of the €350m bond that matures in October 2021 following a successful tender offer in November 2020.

The remaining 50% (£156m) of the 2021 bond can be repaid at par on 7 July 2021. The Group has no other debt maturities falling due in the three-year period. As at 31 December 2020, the Group had total undrawn committed facilities of £550m and unrestricted cash, net of overdrafts and committed M&A spend, of £539m, giving the Group combined headroom of £1,089m.

Throughout 2020, the Group remained in compliance with its financial covenants and S&P Global reaffirmed the Group's long-term (BBB with a stable outlook) and short-term (A-2) credit ratings on 8 June 2020. In the event that the severe downside scenario modelled becomes a reality and financial covenants on the RCF come under pressure, the Group has a number of alternatives such as refinancing or negotiating covenant waivers. During 2020, many corporates have negotiated covenant waivers, suggesting a flexibility to do this in times of economic uncertainty with the banks' focus more on corporates having adequate liquidity.

The combination of a strong investment grade credit rating and the fact that the Group has remained cash generative throughout the COVID-19 pandemic provides the Directors with confidence that the Group could raise additional debt finance if required.

The geographical spread of the Group's operations helps to minimise the risk of serious business interruption. Furthermore, the Group is not reliant on one particular group of clients or sectors.

Based on this assessment and having carefully considered the Group's current standing, debt servicing and the risks and uncertainties referred to above, in line with the UK Corporate Governance Code, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2023.

# Corporate Governance



# Chairman's Introduction to Governance

The Board and Executive Leadership Team have worked extremely productively together throughout the challenges of 2020. Key to this success has been the rigour of our corporate governance standards, the collegiate Board culture we have created, the clarity of strategic thinking, and our core focus on ensuring the resilience and success of the business for all its stakeholders.

**Richard Solomons**
Chairman

## Highlights of 2020

- Record health and safety performance in a pandemic
- Speed and flexibility of response to the COVID-19 crisis, demonstrating resilience and clarity of purpose
- Smooth Chief Financial Officer and Board succession
- Continued strong operational performance through Q2 and H2
- Evolution of strategy, positioning the business to capture new opportunities in hygiene and disinfection services
- Success in virtual engagement with investors, especially on ESG

## Areas of focus for 2021

- Increase direct Board engagement with key stakeholders
- Undertake a successful overseas Board visit, when possible
- Execution in the Recovery phase, especially in Hygiene and against our digital strategy

## Dear Shareholder

I am pleased to report, after such an unusual year for us all, that 2020 and the COVID-19 crisis has only reinforced how essential Rentokil Initial's services are, and what a flexible, resilient and innovative business it is.

From late March, the Board has met entirely by virtual means. However, the quality of our discussions is unchanged. The Board members' dedication and commitment is shown by 100% attendance at all the many additional meetings that were required this year, enabling us to provide constructive support to Andy and the executive team throughout. The speed and quality of decision-making in Q2 in particular would not have been possible without a highly engaged and positive Board culture, and the range of skills and experience around the Board table.

The Company's purpose is clear – to protect people and enhance lives. We have long been confident in the strength and resilience of the business model but this was proven given the severe pressure it experienced in 2020. Our well-established approach of permitting a level of decentralised authority enabled the regions and countries to navigate fast-changing and highly varied public health and financial support measures across the globe. The collaborative culture across the business meant relevant experience, such as in China, and good ideas, such as disinfection and extending the Hygiene category, were shared and deployed at a very fast pace. Governments everywhere quickly recognised our importance and designated our frontline colleagues key workers and our services 'essential'. This enabled us to continue to deliver public health benefits for our customers and communities.

As a Board we were of course not able to spend as much time as planned physically visiting parts of the business, and had to postpone the visit to North America. However, we used Zoom to have a wider range of individuals present to and engage with the Board, and we still met with a broad range of investors.

In my first report to you as Chairman last year, I noted how impressed I had been by the enthusiasm and delivery focus of colleagues at the Company. This has been even more the case in my second year, when over 5,000 colleagues, including all of the Board, waived part of their Q2 salary, also raising over £200,000 in donations for their colleagues in Africa and India, where international employee support schemes were lacking. Approximately 5,700 colleagues benefited from employee support schemes across the world. I would like to express my thanks for this sacrifice and the hardship this will have entailed, and for their 'all in it together' approach.

We were forced to withdraw our recommendation of a dividend last year, as well as seeking additional liquidity through the UK Covid Corporate Financing Facility (CCFF) scheme, given the impact of the pandemic and consequent uncertainty. However, I am pleased to announce that, after a strong performance in the second half of 2020, the Board is now in a position to recommend a 2020 dividend of 5.41p per share, which is 5% higher than the full-year dividend for 2019 as originally announced. It is consistent with a return to our progressive dividend policy.

I have set out below some of the other key areas of focus for the Board during 2020. Full details of all our activities can be found in the Corporate Governance Report.

## Safety, health and environment

Health and safety is rightly the first agenda item at every Board meeting, and has been for many years. We want to ensure that all our colleagues go home safely every day. Sadly, we had one fatality this year, a road accident in India where a colleague died after a truck collided with his vehicle. This reinforces why we are never satisfied with our performance, even though our key safety metrics (Lost Time Accidents and Working Days Lost) continue to set all-time record lows, and our safety performance overall remains world-class. Further details are available in the Responsible Business section on page 50.

Environmental sustainability and emissions, as well as broader environmental, social and governance (ESG) matters, has received greater focus by the Board and the business in 2020, as we indicated it would in last year's report. Detailed discussions on sustainability took place in December: we reviewed some strong progress in setting key priorities and operational workstreams and defined a new emissions target of a further 20% reduction in energy intensity by 2025 on our path to net zero (further details are available on page 83 and in the Responsible Business section on page 53) .

As our shareholders will know from previous Annual Reports, ESG, including sustainability, is integral to the way management and the Board have operated Rentokil Initial's businesses for many years. It is closely aligned with core operational priorities (for example, the link between improving customer density and reducing vehicle emissions, or between our Employer of Choice agenda and improving Customer Voice Counts KPI performance). It has become an area of ever more intense focus for many of our key stakeholders. We are not new to these critical issues, but there remains much more to do to collect the data that will enable us to monitor, drive and benchmark our performance across all our eight operational workstreams. This will continue to be important for the Board in 2021, as we look to align ever more transparently with external frameworks such as that of the Task Force on Climate-related Financial Disclosures (TCFD).

Improving public health is at the heart of the services Rentokil Initial offers its customers, something more prominent than ever during COVID-19. We believe that the Company and its supplier and NGO partners can therefore play a significant role in helping customers and communities address the challenges of a safer environment and mitigate the impact of climate change. The Board has considered the risks and opportunities for the Company from the impact of its services and operations, taking into consideration the TCFD framework (see our Responsible Business section on page 54). I look forward to sharing more on this in the future.

## Culture and stakeholder engagement

Our values of service, relationships and teamwork have been in place for many years and are firmly embedded in the DNA of our businesses. Details of our culture can be found in the Strategic Report on page 49 and on page 83 of the Corporate Governance Report.

The Board agreed in 2018 to build on existing engagement processes to comply with the new provision in the 2018 UK Corporate Governance Code on workforce engagement. In the course of 2020, we have considered workforce engagement on several occasions as well as the linked topics of culture and broader stakeholder engagement. We monitor a dashboard to track performance across topics from retention to diversity, and from access and use of training tools to statistics on internal promotion rates from talent pools. The Board receives detailed reports on this twice a year, as part of our Employer of Choice agenda, and will continue to do so.

The Directors have also considered stakeholder impacts as part of our decision-making during the year. Full details of how, as Directors, we have complied with our duties to have regard to stakeholders (the section 172(1) statement) can be found in the Strategic Report on page 66, while examples of principal decisions taken during the year are shown on page 88. More information on engagement activities undertaken during the year can be found on page 90.

## Strategy

The Board's activities have had the Company's **RIGHT WAY** strategy and its objectives at their core. At the Board annual strategy review in November, the agenda included a review of each of the businesses (focusing especially on Hygiene this year), the innovation and digital agendas, and a review of the M&A strategy and portfolio as a whole. See page 83 for more information.

## Board changes

There were two changes in the Board in 2020, with Cathy Turner joining our Board on 1 April (we look forward to her first attendance at a face-to-face meeting when possible this year) and a smooth and well-planned Chief Financial Officer succession from Jeremy Townsend to Stuart Ingall-Tombs in August. Jeremy played a critical role in transforming the business over more than a decade since joining in 2010, and on behalf of the Board I would like to thank him for his huge contribution to Rentokil Initial's successes and wish him well for his retirement. Further details of the composition of the Board are provided on page 84.

The Nomination Committee has spent time this year considering the composition of the Board and recruiting for a new Non-Executive Director. Full details of the process can be found on page 108 but I am delighted to confirm that Sarosh Mistry will be joining the Board as a Non-Executive Director and member of the Nomination and Remuneration Committees from 1 April 2021. He brings a wealth of executive and Board experience, and my Board colleagues and I look forward to working with him.

## Remuneration

The Remuneration Committee engaged with key shareholders extensively during 2020 and early 2021 as we bring forward our new Directors' Remuneration Policy for shareholder approval at the AGM in May. Angela Seymour-Jackson will have served nine years on the Board and Remuneration Committee in March and is stepping down from the Board in May. She has been a highly effective, diligent and supportive colleague and Remuneration Committee Chair. I am delighted to say that Cathy Turner, who joined us in April 2020, will be taking over as Remuneration Committee Chair after more than 12 months on that Committee. She brings a wealth of executive and non-executive experience of remuneration alongside her broader business experience (see her profile on page 79).

Full details of the Remuneration Committee's activities can be found in the Directors' Remuneration Report from page 111.

## Compliance

I am able to report that we have complied fully with the UK Corporate Governance Code during the year, with the exception of two remuneration-related items which are being addressed in our proposed new Directors' Remuneration Policy. Our full statement of compliance is on page 82.

As a Board, we have reviewed and approved several key documents during the year, most notably the Company's 2019 Modern Slavery Statement and our Gender Pay Report for 2019. The Audit Committee, on behalf of the Board, also monitored the Company's payment practice reports for our two principal UK subsidiaries.

I would like to thank all our shareholders for their support for the Company and the Board and all our colleagues for their efforts that underpin its success. We look forward to the challenges in 2021 and beyond with both confidence and determination to deliver on the opportunities they present.

I would finally like to thank Andy, Jeremy, Stuart and the senior management team for delivering a remarkably successful performance in 2020, despite the enormous challenges faced.

**Richard Solomons**
Chairman

3 March 2021

# Board of Directors

## Richard Solomons N
Chairman

**Appointed:** March 2019 and became Chairman in May 2019

**Skills, experience and contribution**
Richard brings to the Board deep operational and financial expertise combined with a strong commercial and strategic development track record. As former Chief Executive Officer of InterContinental Hotels Group plc (IHG), and prior to that Chief Financial Officer, he has broad experience of leading a successful multinational, as well as delivering growth in North America and Greater China, and the effective use of digital tools in service-led global businesses. These attributes enable him to provide the necessary leadership to the Board and to contribute insights relevant to many of the strategic priorities of the business, as well as experience from the key hospitality customer segment. He is active, in parallel with the Executive Directors, in engaging with investors to ensure that their views and perspectives are considered within Board discussions.

Richard has a BA in Economics from the University of Manchester, trained as a Chartered Accountant with KPMG, and has seven years' investment banking experience in New York and London with Hill Samuel. Until May 2020, Richard was the Senior Independent Director of Aston Martin Lagonda Global Holdings plc.

**Current external commitments**
- Member of the Board of Governors and the Finance Committee at the University of Manchester
- NED and Chairman of the Advisory Committee, Hotelbeds Group S.L.U. (Spain)

## Andy Ransom
Chief Executive

**Appointed:** May 2008

**Skills, experience and contribution**
Andy has led Rentokil Initial as Chief Executive since October 2013 and was responsible for the creation of the **RIGHT WAY** strategy. He brings a focused operational management style, together with a broad range of commercial and strategic skills gained in senior executive positions and legal roles earlier in his career, including several years in the US and Canada. He has over 30 years' experience of creating value through mergers and acquisitions (M&A) around the world, at Rentokil Initial and ICI, and he has a strong record of engaging with stakeholders, from colleagues and customers to investors, as well as creating innovative partnerships with not-for-profit organisations.

He joined Rentokil Initial in 2008 as Executive Director of the global Pest Control business, from ICI where he was part of the executive management team with operational responsibility for ICI's Regional and Industrial Division, after holding various management positions as General Counsel and head of the M&A team since 1987. Andy is a graduate of the University of Southampton and a qualified solicitor. He is a patron of Malaria No More UK.

**Current external commitments**
- Vice Chair of Street League
- Senior Strategic Adviser – Business Services, Apax Partners LLP

## Stuart Ingall-Tombs
Chief Financial Officer

**Appointed:** August 2020

**Skills, experience and contribution**
Stuart has extensive experience in senior operational and corporate finance roles, gained at Group level and in key operational businesses over 13 years at Rentokil Initial, as well as other leading organisations. Most recently, he was CFO for North America, the Company's largest business, and before that spent several years as Group Financial Controller and Treasurer before four years as Regional Finance Director for Europe, driving organisational change and enhancing growth. A deep operational understanding of key regional businesses, combined with experience at the corporate centre, will enable Stuart to make a broad contribution to the ongoing development and growth of the Group.

After qualifying as an accountant at Stoy Hayward, he worked for organisations including Lex and RAC and joined Rentokil Initial in 2007 as Divisional Finance Director for the global Pest Control business. Stuart has a degree in Politics and International Studies from the University of Warwick and is a fellow of the Institute of Chartered Accountants in England and Wales.

**Current external commitments**
- None

## John Pettigrew A N
Senior Independent Director

**Appointed:** January 2018 and became Senior Independent Director in May 2019

**Skills, experience and contribution**
John has a strong track record of developing and implementing global strategies for profitable growth at National Grid, deep experience of running a major US business, a strong economic background and engineering leadership experience. His skillset includes service provision to a large commercial and residential customer base, delivering world-class levels of safety performance and driving transformational change in highly regulated environments. He has broad experience of dealing with governments and regulators in the UK and US, and leading development of ESG strategies.

John is Chief Executive of National Grid plc, a fellow of the Institute of Engineering and Technology, a fellow of the Energy Institute, a member of the UK government's Inclusive Economy Partnership, a member of the Edison Electric Institute Executive Committee, and sits on the President's Committee of the CBI.

**Current external commitments**
- Chief Executive, National Grid plc

## Key
A Audit Committee member N Nomination Committee member
R Remuneration Committee member ● Committee Chair
NED Non-Executive Director SID Senior Independent Director

## Company Secretary
Daragh Fagan acts as secretary to the Board. His biography can be found on page 80.

**Angela Seymour-Jackson** N R
Non-Executive Director

**Appointed:** March 2012

**Skills, experience and contribution**
Angela has gained, in her various executive and other senior roles, a strong strategic understanding and has extensive experience of leading highly customer-focused businesses, and improving processes and functions for a mobile workforce. She has a deep understanding of remuneration and incentives issues from her various remuneration committee chair roles, and extensive experience of engaging with investors on these topics.

Angela is a qualified marketing professional and a member of the Chartered Institute of Marketing. Angela was Chief Executive Officer of RAC Motoring Services from 2010 to 2012 and led the sale of that business to The Carlyle Group, having previously held a variety of senior sales and marketing roles at Aviva. Angela was Managing Director of Workplace Savings at Aegon UK from 2012 until 2016 and then Senior Adviser to Lloyds Bank (Insurance) from 2016 to 2017. She also served as a Non-Executive Director of esure Group plc from 2015 to 2018 and GoCo Group plc from 2016 until its acquisition by Future plc. She has over 20 years of experience in retail financial services. Angela holds an MSc in Marketing.

**Current external commitments**
- NED, Future plc
- NED, Janus Henderson Group plc
- NED and Chair of the Remuneration Committee, PageGroup plc
- Deputy Chair, Pikl Insurance Services Limited
- NED, Trustpilot A/S (Denmark)

**Julie Southern** A N R
Non-Executive Director

**Appointed:** July 2014

**Skills, experience and contribution**
Julie has extensive financial experience having had a long, successful career in a number of commercially oriented finance and related roles, working for some of the world's best-known consumer brands. In her non-executive career, she has extensive experience of leading audit committees in leading companies undergoing rapid growth and change. Through her various roles, Julie has also gained significant exposure to commercial, legal, HR and operational challenges and responsibilities.

She was Chief Commercial Officer of Virgin Atlantic Limited between 2010 and 2013, responsible for the commercial strategy of Virgin Atlantic Airways and Virgin Holidays, having previously been Chief Financial Officer of Virgin Atlantic Limited for 10 years. In addition, Julie was previously Group Finance Director at Porsche Cars Great Britain, and Finance and Operations Director at WH Smith – HJ Chapman & Co. Ltd. She was previously a Non-Executive Director of Stagecoach Group plc, Gategroup AG, Cineworld plc and DFS Furniture plc. Julie is a Chartered Accountant, having trained with Price Waterhouse, and has a BA (Hons) in Economics from Cambridge University.

**Current external commitments**
- NED and Chair of the Audit Committee, NXP Semiconductors N.V. (Netherlands)
- SID and Chair of the Audit Committee, easyJet plc
- NED and Chair of the Audit Committee, Ocado Group plc

**Cathy Turner** N R
Non-Executive Director

**Appointed:** April 2020

**Skills, experience and contribution**
Cathy has significant senior executive experience in banking and financial services following 15 years at Lloyds Banking Group plc and Barclays plc, where she was Group HR Director. She also brings a breadth of executive experience from having had wider responsibilities, including strategy, investor relations, corporate affairs, brand and marketing, as Chief Administrative Officer for Lloyds Banking Group and Executive Committee member at Barclays. She brings deep experience of leading international customer-focused businesses, operating in complex, highly regulated industries and navigating highly challenging environments such as the 2008 financial crisis.

Her earlier career as a consultant included roles with major audit and consultancy firms. Cathy graduated in Economics from Lancaster University. Until May 2020, she was a Non-Executive Director at Quilter plc.

**Current external commitments**
- NED and Chair of the Remuneration Committee, Aldermore Group plc
- NED and Chair of the Remuneration Committee, Spectris plc
- Partner, Manchester Square Partners LLP
- Trustee, Gurkha Welfare Trust
- NED, Motonovo Finance Limited

**Linda Yueh** A N R
Non-Executive Director

**Appointed:** November 2017

**Skills, experience and contribution**
As an economist, corporate lawyer and financial broadcaster, Linda brings a diverse range of skills to the Board, including strong commercial experience gained through her work in corporate law and previous non-executive positions, as well as deep insights into the economic environments in the markets in which Rentokil Initial operates, including key emerging and rapidly developing markets. Linda has acted in various advisory roles, including for the World Bank and the European Commission. Linda has obtained a BA at Yale; Master's at Harvard; Juris Doctorate at New York University; and an MA and doctorate at Oxford. Linda is a fellow at St Edmund Hall, Oxford University and Adjunct Professor of Economics at London Business School as well as Visiting Professor at the London School of Economics and Political Science (LSE). Linda is an Adviser to the UK Board of Trade and a member of the Independent Review Panel on Ring-fencing and Proprietary Trading.

**Current external commitments**
- Trustee of Malaria No More UK and the Coutts Foundation
- Chair of the Royal Commonwealth Society
- Chair of The Schiehallion Fund Limited and Chair of the Nomination Committee
- NED, Fidelity China Special Situations plc

## Board changes in 2020 and 2021

**Jeremy Townsend** retired as Chief Financial Officer in August 2020. **Angela Seymour-Jackson** is not seeking reappointment at the AGM in May 2021. Cathy Turner will take over as Chair of the Remuneration Committee.

**Sarosh Mistry** is due to join the Board as a Non-Executive Director on 1 April 2021 and will stand for election at the 2021 AGM. He brings deep executive experience of running services businesses in North America and is Chairman of Sodexo North America. He will become a member of both the Nomination and the Remuneration Committees.

# Executive Leadership Team

**Gary Booker**
Chief Marketing, Innovation and Strategy Officer

**Appointed:** January 2018

**Role**
As Chief Marketing, Innovation and Strategy Officer, Gary has overall responsibility for business strategy, brand, innovation, digital, global account sales, and global marketing for commercial and residential customers.

**Skills and experience**
Gary's career includes former CEO and General Manager positions as well as strategy and innovation leadership roles for several high-profile businesses, including Dixons Carphone, where he was Chief Marketing Officer and oversaw its Currys and PC World brands; O2 (Telefónica) in the UK; and Electronic Arts in San Francisco, where he gained strong experience across mobile and digital marketing. Prior to that Gary held senior roles at Dunlop Slazenger and Unipart. Gary holds an MBA in Strategic Marketing and a BSc (Hons) in Business Studies, Law and Psychology.

**Paul Cochrane**
Managing Director, Asia

**Appointed:** March 2016

**Role**
Paul oversees our businesses throughout the Asia region.

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

**Vanessa Evans**
Group HR Director

**Appointed:** January 2016

**Role**
As Group HR Director, Vanessa leads a team responsible for shaping and executing our Employer of Choice strategy, ensuring that we can attract, recruit, train, engage, reward and retain the talent we need to deliver on our business strategy and results.

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

**Daragh Fagan**
Group General Counsel & Company Secretary

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

**Role**
As Group General Counsel, Daragh has overall responsibility for the legal compliance of the Group. He also acts as Company Secretary to the Board of Directors.

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

**Chris Hunt**
Group M&A Director

**Appointed:** July 2019

**Role**
Chris leads Rentokil Initial's efforts to identify, evaluate, negotiate and integrate acquisitions and disposals, ensuring that the deals add value.

**Skills and experience**
Chris joined Rentokil Initial in 2012 as Head of M&A and has completed more than 200 deals for the Group. Prior to joining Rentokil Initial, Chris held various senior roles at AstraZeneca plc, including Head of Finance at AZ UK's Marketing Company, Corporate Strategy Director and Group M&A Director, and prior to that was a Director at KPMG Transaction Services. Chris has extensive operational finance, business development and corporate finance experience. He is a Chartered Accountant and sits on the ICAEW's Corporate Finance Faculty Board. He holds a BA (Hons) in Accounting and Computing from the University of Kent, Canterbury.

**Alain Moffroid**
Managing Director, Europe

**Appointed:** March 2016

**Role**
Alain oversees our businesses throughout the Europe region.

**Skills and experience**
Alain joined Rentokil Initial in 2013 as Managing Director, Pacific and became Managing Director, Europe in September 2019. He joined from Unilever where he held a number of senior roles across multiple geographies. He has significant experience in marketing, sales and business development acquired during 23 years with Unilever in Europe, Asia and Pacific. Alain is a dual national Belgian/Australian and is fluent in English, French and Dutch. He holds an MSc in Business from the Solvay Business School, University of Brussels.

## Executive Leadership Team

The Executive Leadership Team (ELT) supports the Chief Executive in managing the business at Group level, overseeing safety, performance, operational plans and actions, governance and risk management.

Due to the COVID-19 pandemic, a Coronavirus Action Steering Committee met on three occasions in March 2020 including all members of the ELT. In addition, from mid-March to mid-May an extended ELT met virtually on a twice-weekly basis. Attendees included the Regional Managing Directors of our Latin America and the Rest of the World territories to ensure that we could closely monitor the impact of the crisis with the latest information from every region and country. Several key functional executives also joined as needed and by mid-April the meetings started alternating between Crisis phase management and positioning the business for the Recovery phase. This operating rhythm proved highly effective and the extended ELT met fortnightly in the second half of the year, and will continue to do so in 2021. More information can be found on page 96.

Andy Ransom and Stuart Ingall-Tombs are also members of the Executive Leadership Team. Their biographical information can be found on page 78. The Chief Executive chairs the Executive Leadership Team.

### John Myers
Managing Director, North America

**Appointed:** October 2013

**Role**
John oversees our businesses throughout the North America region.

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

### Mark Purcell
Chief Information Officer

**Appointed:** April 2019

**Role**
Mark's role is to ensure a 'safe and secure first' approach is applied to Rentokil Initial's global IT systems and infrastructure. With his team, he works alongside the regional and functional teams to ensure that the IT strategy and investment is aligned to business priorities.

**Skills and experience**
Mark joined Rentokil Initial in 1988. He later became Global IT Delivery Director, UK Hygiene and Textiles IT Director, Pest Control and Ambius Division IT Director, IT Director for UK & Rest of World, and then CIO Europe, before becoming Group CIO in April 2019. Mark has significant experience in business transformation, change management and project/programme management, as well as expertise in M&A integration. Mark's early career was with the Civil Service where he held an executive officer position in IT.

### Andrew Stone
Managing Director, Pacific

**Appointed:** September 2019

**Role**
Andrew oversees our businesses throughout the Pacific region.

**Skills and experience**
Andrew joined Rentokil Initial in 2013 as Finance Director, Pacific, before becoming Managing Director, Pacific in September 2019. Previously, Andrew had held a number of senior finance and sales roles at Unilever within Australasia. He has extensive commercial, finance and supply chain experience.

Andrew is a Certified Practising Accountant and earned Bachelor degrees in Economics and Law from Sydney University. Additionally, he holds a Master's of Management from Macquarie Graduate School of Management and a Master's of Professional Accounting from Southern Cross University.

### Brian Webb
Group Operations Excellence Director

**Appointed:** August 2019

**Role**
Brian is focused on driving technical and operational improvements across the Group alongside the leadership of the global procurement function and supply chain network.

**Skills and experience**
Brian joined Rentokil Initial in 2011 as Supply Chain Director for Hygiene and Pest Control and has gained additional responsibilities, including Group Procurement, Workwear Supply and European Operations over the years. His career has included roles in engineering, production management and operations, mainly in the food and beverage sector, with global companies such as SABMiller, Mars Confectionery and Sara Lee. Brian is a Chartered Engineer (CEng) with an MSc in Engineering from Witwatersrand University (South Africa) and an MBA from Henley Management College (UK).

### Phill Wood
Managing Director, UK & Rest of World

**Appointed:** October 2013

**Role**
Phill oversees our businesses throughout the UK & Rest of World region.

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

# Corporate Governance Report

## Statement of compliance

The principal governance framework applying to the Company is the UK Corporate Governance Code, the latest edition of which was published in July 2018 (the Code). The Code is published by the Financial Reporting Council (FRC) and the full text is available on its website at **frc.org.uk**.

The Company has complied throughout 2020 with all the provisions in the Code other than provisions 36 and 38. Provisions 36 and 38 are remuneration-related items which are addressed in the Directors' Remuneration Policy proposed for shareholder approval in May 2021. A full explanation is provided below. Information on how the Company has applied the principles and complied with the supporting provisions during the year can be found throughout the Annual Report. Details of where key information can be found is provided below.

## 1 Board leadership and company purpose

The Directors of the Company are set out on pages 78 and 79.

### Long-term value

Our business model is set out on page 22 and our strategy can be found in the business reports on pages 32 and 41. Principal risks are on pages 69 to 73. A description of how these have been considered by the Board throughout the year is given on pages 85 to 89.

### Purpose and culture

Our purpose and values are set out on page 2 and a summary of our culture is provided on page 49. The Board's ongoing monitoring of the Company's culture and values is outlined on page 83.

### Stakeholders

Our key stakeholders are set out in the Strategic Report on pages 24 and 25. The section 172(1) statement, setting out how the Directors have had regard to stakeholders when undertaking their duties, can be found on page 66. Details of how the Board understands the views of key stakeholders are provided on pages 90 and 91.

### Significant votes against a resolution

We did not receive any significant votes against resolutions put to shareholders at our AGM held on 13 May 2020.

## 2 Division of responsibilities

### Role and independence of Directors

At least half the Board, excluding the Chairman, are considered independent. Full details are provided on page 84.

### Board and Committee meetings

A table detailing the number of meetings and Director attendance for the Board and the Audit, Nomination and Remuneration Committee meetings held during 2020 can be found on page 85.

### Directors' significant external commitments

Details of the Board's current external commitments are provided in their biographies on pages 78 and 79. The Board's approach to external commitments and the significant external appointments considered during the year are on page 93.

## 3 Composition, succession and evaluation

The Nomination Committee Report can be found on pages 107 to 110.

### Diversity and inclusion

Details of our diversity policy and key measurements are contained in the Responsible Business section on page 50. The Board's oversight of diversity and details of the Board diversity policy are provided in the Nomination Committee Report on pages 109 and 110.

### Director appointment and succession planning

The Nomination Committee has responsibility for ensuring the correct balance of skills, experience and knowledge, and oversees succession planning. Full details are provided in the Nomination Committee Report on pages 108 and 109.

### Board evaluation

The Board, Board Committees and individual Directors undertake a review annually. A description of the process undertaken is provided in the Corporate Governance Report on pages 94 and 95.

## 4 Audit, risk and internal control

The Audit Committee Report can be found on pages 99 to 106.

### Risk reporting

Our approach to risk management and internal control is set out on pages 67 to 73, along with the Group's principal risks. The Board's oversight of risk management and the internal control framework is set out on page 98 and further details on risks and controls are provided in the Audit Committee Report on page 105.

### Other reporting requirements

The Board's approach to ensure a fair, balanced and understandable report is provided on page 98. The going concern statement can be found on page 204 and the Viability Statement is on page 74.

The statement of Directors' responsibilities is on page 203.

## 5 Remuneration

The Remuneration Committee Report can be found on pages 111 to 137.

The current Directors' Remuneration Policy was approved by shareholders at our AGM in May 2018. Details of how the policy has been applied during 2020 and how the Remuneration Committee has undertaken its duties can be found in the Directors' Remuneration Report. A new Directors' Remuneration Policy is due to be proposed for shareholder approval at the AGM in May 2021.

Provision 36 of the Code states that the Remuneration Committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares. We currently have shareholding requirements for our Executive Directors while in employment as set out on page 132, and a requirement for Performance Share Plan awards to be held for two years post-vesting, which includes post-employment. A formal post-employment policy has been developed in the new Directors' Remuneration Policy as set out on page 123.

Provision 38 of the Code states that the pension contribution rates for Executive Directors, or payments in lieu, should be aligned with those available to the workforce. As set out in the Directors' Remuneration Report, the pension entitlement for new Executive Directors has been reduced to be in line with the UK workforce and has been formally included in the new Directors' Remuneration Policy being proposed at the AGM in May 2021. The new Chief Financial Officer was appointed in August 2020 on this basis. The Chief Executive's pension contribution has been frozen at the 2019 amount and will be reduced to be in line with the wider workforce by the end of 2022. See page 118 for more information.

## Strategy

The Board agenda is designed to include strategic proposals, M&A activity and other material transactions, as well as legal and governance matters. Board activities are structured to develop the Group's strategy and to enable the Board to support senior management on the delivery of this strategy within a transparent governance framework, and to provide constructive challenge using their business experience.

In 2020, as well as the above topics, this included the strategic response to the COVID-19 pandemic, from ensuring the resilience of the business through funding actions to the review of new opportunities to extend the scope of the Hygiene business into disinfection and other non-washroom services. As set out on page 41, Hygiene was launched in 20 new countries in 2020. The Board also approved three important acquisitions, and conducted an in-depth review of product innovation including digital and connected devices strategy. The Group's strategy is considered in detail at the Board strategy day each year (see below).

## Sustainability

In 2020, the Board continued to have an increased focus on sustainability, including the environmental impact of our operations and the potential risks and impacts of climate change on our business. In addition to the usual management updates provided to the Board throughout the year, in November 2020 the Board also received an overview of the implementation plan for safety, health and environment leading indicators in 2021 (see page 52). In addition, the Board held an in-depth review of sustainability at its meeting in December 2020, receiving presentations from members of the senior management team who provided an update on the Group's sustainability initiatives and facilitated a discussion on future priorities and objectives. More information on the environment and our journey to net zero can be found in the Responsible Business section on pages 52 to 57.

## Culture

Our aim is to be a world-class Employer of Choice, which we see as integral to being a world-class service company. One of the duties of the Board is to monitor the values and culture that underpin such ambitions and to ensure that our culture is aligned with our business goals and is right for our people and purpose. Our longstanding values of service, relationships and teamwork underpin everything we do. On page 49, we set out the key elements of our culture. To monitor this effectively, we have identified some key metrics which the Board receives detailed reports on during the two updates a year on culture, progress on our Employer of Choice agenda, and workforce engagement. The updates this year included an overview of the impact of COVID-19 by region on our colleagues, considering areas such as safety, learning and development, communications, manager capabilities and redefining the way we work. During the peak of the first wave of the crisis, the key metrics were reviewed weekly and included salary waivers, reduced hours and the use of international employee support schemes (see Monitoring employee wellbeing on page 91).

One of the key methods for both senior management and the Board to monitor culture is to analyse the results of the Your Voice Counts (YVC) colleague survey every second year, which includes questions mapped to each of the five core culture themes in our culture model to provide a score and trend for each at a Group, functional and regional level. The next YVC survey will be undertaken in 2021.

**86%**

of colleagues were proud to work for Rentokil Initial during the crisis, with a further 10.7% neutral

Examples of other ways that the Board monitors and assesses culture include:
- monitoring Sales and Service colleague retention rates;
- monitoring content and usage of U+ online learning platform and other means of delivering training and development;
- the results of employee pulse surveys;
- external views such as Glassdoor ratings; and
- mental health awareness and other employee campaigns. In 2020, these included stress, work–life balance, men's health day and world mental health day.

The Audit Committee also monitors culture through its oversight of:
- confidential reporting via the Company's Speak Up facility; and
- compliance failures, such as incidences of fraud.

The Board and its Committees consider other methods of measurement throughout the year as part of their ongoing engagement with stakeholders as set out on page 90.

Our approach to investing in and rewarding our colleagues can be found on pages 51 and 134.

The Board's culture update twice a year also includes an overview on the Company's approach to diversity, equality and inclusion, alongside data which allows the Board to monitor the Company's progress in this area. In July 2020, the Board received a special update on diversity and equality in North America. Full details of the Board's response to this can be found on page 90. Further details on fostering a diverse and inclusive culture can be found in the Nomination Committee Report on page 110.

## Our Board strategy day

The Board holds a special strategy review session each year. Usually, this is structured over the course of two days and accompanies a scheduled Board meeting. Due to the ongoing restrictions as a result of COVID-19, this year's strategy review was held virtually in November 2020, and the agenda and timings were modified slightly to facilitate this. The agenda for the strategy day is reviewed with the Chairman and Board and agreed in advance, including specific strategic issues which have been raised at previous Board meetings or requested by the Board.

In the highly uncertain environment caused by the COVID-19 pandemic, and as the pandemic continued to impact on our countries of operation to varying degrees, with different governments implementing a range of policy responses, this year's meeting was a timely opportunity to:
- further update the Board on the Company's response to the pandemic and to discuss the likely short to medium-term impacts and opportunities;
- set out a new three-year plan that underscores the resilience of the Company; and
- discuss strategic opportunities for the Company, especially in Hygiene.

Sufficient time was allocated for discussion allowing the Board the opportunity to provide advice, insight and challenge on the key strategic issues facing the business. Throughout the strategy review, the interests of stakeholders formed part of the Board's considerations but particular attention was given to the impact of COVID-19 on our colleagues, customers, shareholders and communities. The actions from the strategy review were discussed and agreed at the next Board meeting and will be incorporated into the Board agenda for 2021 where appropriate. Feedback was highly positive, despite the constraints of conducting the review virtually.

## Board composition

The Board currently comprises a Non-Executive Chairman, two Executive Directors and five Non-Executive Directors. They are advised and supported by the Group General Counsel & Company Secretary and their key responsibilities are set out on page 97. Full details of the Board members who served during 2020 and in 2021 to the date of this report can be found on pages 78 and 79.

The division of responsibilities between the Chairman and Chief Executive is set out in writing. Non-Executive Directors have regular opportunities to meet with members of the executive management team (see page 90) and also have an annual meeting with the Chairman to allow discussion without executive management present. A Nomination Committee comprising all the Independent Non-Executive Directors and chaired by the Chairman has responsibility for managing the appointment process to ensure a formal, rigorous and transparent procedure for appointing Directors. Pro-forma letters of appointments for the Non-Executive Directors and Chair of the Board are available on our website.

Cathy Turner joined the Company as a Non-Executive Director on 1 April 2020 and details of the recruitment process undertaken were provided in the Company's 2019 Annual Report. She became a member of the Nomination and Remuneration Committees from her date of appointment. Jeremy Townsend retired as the Company's Chief Financial Officer in August 2020 and was succeeded by Stuart Ingall-Tombs, who had worked at Rentokil Initial for 13 years prior to his appointment as a Director, as detailed in the Nomination Committee Report on page 109.

During 2020, a recruitment process was undertaken to appoint a new Non-Executive Director to the Board of Directors. This was delayed due to the impact of the COVID-19 pandemic but recommenced in October 2020 and resulted in the appointment of Sarosh Mistry who will join the Board of Directors and the Remuneration and Nomination Committees on 1 April 2021.

Further information on appointment and succession planning can be found in the Nomination Committee Report on pages 108 and 109. The Board considers that it and its Committees have an appropriate composition to discharge their duties effectively and to manage succession issues. The Board keeps its membership and that of its Committees under review to ensure that an appropriate balance is maintained.

## Independence of Board members

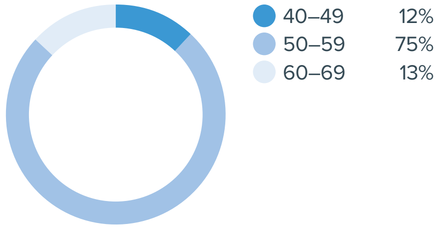
The independence of Directors is considered upon appointment and subsequently reviewed as part of the individual Director performance evaluation process, to ensure that all Non-Executive Board members retain the necessary independence of judgement. This continues to be reflected in constructive challenge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

All our Non-Executive Directors, other than the Chairman, have been determined by the Board to be independent, having retained their independence of character and judgement. In making this determination, the Board has taken into account indicators of potential non-independence as set out in the Code. No Director took part in the Board's consideration of their own independence. The Chairman was considered independent on his appointment. Details of the Directors' share interests in the Company can be found in the Directors' Remuneration Report on page 132. Angela Seymour-Jackson was appointed to the Board in March 2012 and will, therefore, have served for a period of nine years by the Company's AGM in May 2021. Accordingly, she plans to step down as a Non-Executive Director following the conclusion of the AGM. No other current Non-Executive Director has served on the Board for longer than nine years. The length of tenure for each Director can be seen opposite.

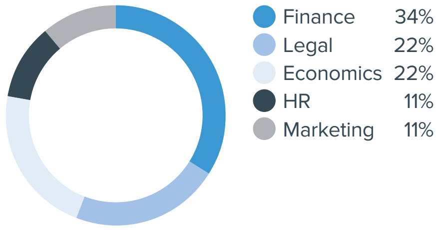
Any potential conflicts of interest are considered and addressed prior to any new external Board appointment. All potential conflicts are submitted to the Board for consideration and, as appropriate, authorisation in accordance with our Articles of Association and the Companies Act 2006. These are recorded on a register of conflicts, which is also reviewed in full annually by the Nomination Committee. No material conflicts have been declared. Further details of this process can be found in the Nomination Committee Report on page 110.

In accordance with the Code, the Directors are subject to annual re-election by shareholders and will, therefore, be stepping down and seeking re-election at the AGM. As Angela Seymour-Jackson plans to step down from the Board at the 2021 AGM, she will not be put forward for re-election. Having been appointed since the last AGM, Stuart Ingall-Tombs and Sarosh Mistry will be subject to election by shareholders at the AGM, being the first such meeting since their appointment.

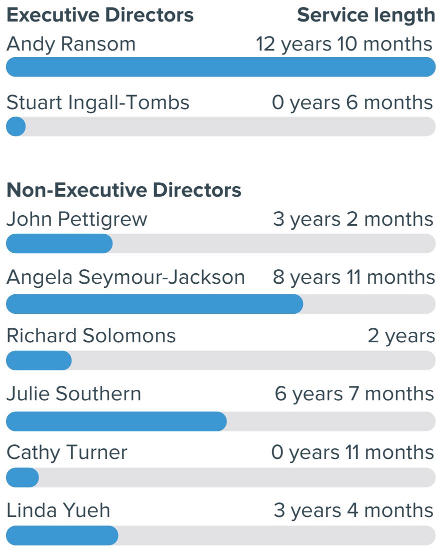
**Age of Directors**
at 3 March 2021




**Professional background**




**Directors' tenure**
at 3 March 2021



## Meetings and attendance

The Board met a total of 17 times during the year. Of these, eight meetings were scheduled meetings (one due to take place prior to the AGM was postponed to later that week) and the rest were additional meetings, with the majority arranged in response to the COVID-19 pandemic, the initial ones called at very short notice. In addition, a Committee of the Board met four times, of which three were scheduled in relation to the release of financial results and trading updates and one additional meeting was held in relation to M&A activity. The membership of and attendance at Board and Committee meetings during 2020 is shown opposite.

Despite the many additional meetings, and the simultaneous significant demands on Non-Executive Directors' time from their other appointments, 100% attendance was achieved. It is important to ensure that each Non-Executive Director has sufficient capacity to perform their roles effectively for the Company and it is therefore pleasing to note the commitment demonstrated and the absence of the risks of overboarding even in a year as exceptional as 2020.

While not relevant in 2020, Directors receive copies of all Board or Committee papers in advance and if unable to attend the Chairman or Committee Chair would seek the individual's views ahead of the meeting and brief them on the outcome.

## Board activities in 2020

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

The Chief Executive and the Chief Financial Officer present a report of business performance and key business activities at each meeting including updates on investor relations, M&A and people matters. Business performance includes operational KPIs relating to non-financial measures such as customer service. In addition, the Board receives detailed presentations from each of the Regional Managing Directors of the Company and their Finance Directors over the course of the year. These review operational performance and future strategy for the region, highlighting specific areas of progress or challenge, reviewing the financial and control environment, and allowing the Board to offer challenge on any area. In 2020, the Board received presentations from each region, as well as an additional review of our emerging business region of Latin America.

The key areas of focus of the Board are summarised in the table opposite. However, due to the impact of the COVID-19 pandemic, six additional Board meetings were held between March and May, with the key focus being the business's response to the crisis and then its progression into the Recovery phase (as set out on page 86).

### Board and Committee attendance in 2020

| | Board | | | | | |
|---|---|---|---|---|---|---|
| | Scheduled | Additional | Audit Committee | Nomination Committee | Remuneration Committee | Overall attended |
| **Number of meetings held** | | | | | | |
| **Directors** | | | | | | |
| Stuart Ingall-Tombs[1] | 3/3 | 3/3 | – | – | – | 100% |
| John Pettigrew | 8/8 | 9/9 | 4/4 | 2/2 | – | 100% |
| Andy Ransom | 8/8 | 9/9 | – | – | – | 100% |
| Angela Seymour-Jackson | 8/8 | 9/9 | – | 2/2 | 6/6 | 100% |
| Richard Solomons | 8/8 | 9/9 | – | 2/2 | – | 100% |
| Julie Southern | 8/8 | 9/9 | 4/4 | 2/2 | 6/6 | 100% |
| Cathy Turner[2] | 6/6 | 7/7 | – | 1/1 | 5/5 | 100% |
| Linda Yueh | 8/8 | 9/9 | 4/4 | 2/2 | 6/6 | 100% |
| **Former Directors who served for part of the year** | | | | | | |
| Jeremy Townsend[3] | 5/5 | 6/6 | – | – | – | 100% |

1. Stuart Ingall-Tombs was appointed to the Board on 15 August 2020.
2. Cathy Turner was appointed to the Board on 1 April 2020.
3. Jeremy Townsend retired from the Board on 14 August 2020.

### Board activities – areas of focus

| | |
|---|---|
| **Strategy and operations** | The Group's overall strategy, including monitoring strategic progress, receiving executive management reports, conducting regional business reviews, and approving the annual operating plan. The Board holds a strategy review over two days each year (see page 83).<br>Consideration of the Group's sustainability strategy (see page 83).<br>In 2020, a key focus in the year was the impact of, and measures taken in response to, the COVID-19 pandemic, and on positioning the business for the Recovery phase. |
| **Governance and compliance** | Board composition changes and Board evaluation.<br>Review of governance procedures and practices and oversight of forthcoming governance developments.<br>Approval of the Company's Modern Slavery Statement and Gender Pay Report (available on our website). |
| **Financial** | The Group's capital structure, including financing needs and funding, and the Company's treasury policy and tax strategy. In 2020, a key focus in March and April was ensuring that the Group had sufficient funding to navigate the reasonable worst case scenario of the COVID-19 crisis (see page 146).<br>Review of financial performance, reporting and dividend decisions. |
| **Mergers and acquisitions (M&A)** | Transactions of a size that require Board approval.<br>Post-investment reviews assessing the performance of acquisitions within the last 12–30 months and oversight of M&A strategy and the forward pipeline. |
| **Monitoring and oversight** | Oversight of the Company's safety, health and environmental measures. Reports from Board Committees.<br>Review of key risks and internal controls and oversight of material claims and disputes. Information security risk and mitigation plans.<br>Monitoring of the Company's culture (see page 83), workforce engagement and diversity. |

An overview of key activities and principal decisions taken by the Board during 2020, and the impact of the COVID-19 pandemic, are shown on pages 86 and 87, with further details of some of these principal decisions provided on pages 88 and 89.

## Key Board activities in 2020

Scheduled Board meeting · Board Committee meeting · Additional Board meeting

### January

- Approved the annual operating plan for 2020

### February

- Approved the 2019 final year results
- Recommended a final year dividend
- Recommended the reappointment of KPMG as the Company's auditors
- Discussed 2019 Board effectiveness review
- Approved the 2019 Modern Slavery Statement
- Approved the 2019 Gender Pay Report
- Approved the Board diversity policy
- Board changes

### March

- Withdrawal of 2019 final year dividend
- Support of management measures in response to COVID-19
- Approved application for funding from the Bank of England's Covid Corporate Financing Facility (CCFF)
- Establishment of a £1,000m Euro-Commercial Paper Programme
- Market update released on COVID-19 measures

### April

- Revision to AGM plans
- Postponement of planned North America visit in June
- Letters to investors re voluntary Board and management cost reduction measures
- Approved Q1 Trading Update
- Review of COVID-19 impact on colleagues and customers

### May

- Trading update and the impact of COVID-19
- Closed AGM held

### June

- Funding update and support of repayment of £550m drawn under the revolving credit facility (RCF)
- North America regional update
- Approval of two supplier contracts

## COVID-19 impact

### 2019 final dividend

In February 2019, the Board recommended a final dividend for 2019 of 3.64p per share based on the Company's dividend policy at the time. However, due to the significant uncertainty around the impact of COVID-19, the Company took immediate action to reduce costs and optimise cash flow and liquidity potential and, at a meeting in March 2020, the Board approved the withdrawal of the dividend. The decision to suspend dividend payments was announced in a trading update, setting out the various measures (see page 8) and the Directors did not subsequently declare an interim dividend for 2020.

### 2020 AGM

Due to the impact of the COVID-19 pandemic and the public health guidance in place at the time, the Company's AGM on 13 May 2020 was held as a closed meeting at the Company's offices in Crawley. The Board invited shareholders to submit questions ahead of the AGM in 2020. They received one question from ShareAction and the Living Wage Foundation which was responded to directly. The only other questions received were in relation to the practicalities of the meeting and requesting confirmation regarding the 2019 final year dividend which had been suspended. Engagement meetings were held with five key investors and the outcome of these discussions were considered by the Board at a meeting ahead of the AGM.

### Board site visit

It is customary for the Board to hold one Board meeting overseas each year and to use this as an opportunity to visit a business and engage with colleagues. However, due to the COVID-19 pandemic, the planned visit to North America in June 2020 had to be postponed. Instead, the Board received a detailed virtual update from John Myers, MD North America, Stuart Ingall-Tombs, CFO for North America (at the time), and other members of the North America management team on the performance and prospects of the business. The presentation included consideration of the impact of COVID-19, both generally and in relation to the business's strategic targets; mitigation actions taken (including international employee support schemes); and the successful launch of Hygiene and new disinfection services in North America. Discussion also covered the digital and innovation agenda, best-of-breed programme, IT replatforming project status, and benchmarking against key competitors. The Board recognised the strong performance that had been delivered by the business in the difficult circumstances.

## COVID-19 impact

### Monitoring stakeholder impact

Throughout the year, senior management and the Board have closely monitored the impact of the COVID-19 crisis on employee wellbeing (see page 91). Each COVID-19 update to the Board included specific data on colleagues, including the number who had contracted the virus and Working Days Lost. Regular updates were also provided on service and supply chain, particularly on the procurement of PPE. The Board had oversight of other stakeholder engagement, including the response from investors, receiving broker notes when published, and discussions held with external advisors.

### Additional Board meetings

The Board held an additional six Board meetings between March and May in 2020 as a result of the COVID-19 crisis. Following the initial review of the Company's response to the crisis (see page 88), the principal agenda item for these meetings was the ongoing COVID-19 crisis, and the Board monitored the impact by region along with the Company's response by receiving updates from the Executive Directors and relevant management team meetings (see page 96). From June, the Board returned to its scheduled timetable and, as is customary, no Board meeting was held in August.

### July

- Funding update and approval to repay the £600m drawn under the CCFF in April
- Review of employee support schemes internationally to protect jobs and employment levels
- Review of workforce engagement, culture and diversity
- Approved the Interim Results

### September

- Asia and Europe regional updates
- Funding update and approval of raising debt under the Company's Euro Medium-Term Note Programme
- Customer contract approval

### October

- UK and Latin America regional updates
- Approved Q3 Trading Update

### November

- Approved the Group's tax strategy
- Approved two acquisitions
- Approved bond buyback

### December

- Pacific regional update
- Considered 2021 operating plan
- Approved audit tender outcome
- Sustainability strategy review and approval of new emissions target
- Update on information security
- Review of workforce engagement and culture, including diversity, equality and inclusion vision
- Approved an acquisition
- Reviewed 2020 Board effectiveness review

All Board meetings were held virtually from March 2020 onwards.

## Principal decisions of the Board

We consider the principal decisions of the Board to be those decisions taken by the Board directly, which should not be delegated to management, or a committee of the Board unless considered and approved in principle by the whole Board first, and which may have a potentially material impact on the Company's strategy, a stakeholder group or the long-term value creation of the Company. We group the Board's principal decisions into the following categories: financial results; capital allocation; funding; strategy (including ESG strategy); M&A activity; risk management; supplier and customer contracts; and Board changes.

In addition, there are other matters reserved to the Board which are considered less material or strategically significant, such as the approval of the Board governance manual (including changes to the Group Authority Schedule), or the recommendation of re-election of all Directors at the AGM. These are not included in this report as principal decisions. In addition, during the year the Board approved the Company's Modern Slavery Statement for 2019, the Company's Gender Pay Report for 2019 and the Group's tax strategy (see page 64 for more information).

An overview of the Board's activities during 2020, including the principal decisions taken, can be found on pages 86 and 87. Examples are provided below to illustrate how the Directors have had regard to the matters set out in section 172(1)(a)–(f) of the Companies Act 2006 when making principal decisions in 2020 (these include regard to key stakeholders, including employees, communities and commercial counterparties but are set out in full in the key opposite).

More information on the Board's engagement with stakeholders and the impacts on the Board's considerations during the year can be found on pages 90 and 91. The section 172(1) statement can be found on page 66.

**Key to section 172(1) considerations**

- **Long-term results**
- **Colleagues**
- **Our business relationships**
- **Communities and the environment**
- **Our reputation**
- **Fairness between our shareholders**

## Reacting swiftly to the COVID-19 crisis

As set out on page 8, when the COVID-19 crisis hit in March 2020, the Company took swift action to manage and mitigate the impact on the business. By the second half of March 2020, COVID-19 was affecting the majority of the key countries in our Group with many markets in advanced stages of lockdown. The ELT met and set out an immediate action plan to reduce costs and optimise cash flow and liquidity. The Board held weekly additional meetings to respond to and then monitor the impact of COVID-19.

### Directors' consideration of factors in accordance with section 172(1)

Significant short-term measures, including the suspension of our M&A programme, were needed to reinforce the Company's resilience in the face of a highly volatile external environment so that the delivery of our long-term strategy and the ongoing creation of value for our shareholders could be ensured.

Implementing cost-saving measures would protect the profitability and cash generation of the business. Cash conversion measures should ensure that the Group would be able to make appropriate investments in products and services where demand was high, while conserving cash as far as possible where services had been disrupted.

Implementing a series of actions, including salary reductions for senior management and the Board, restricting travel, adoption of flexible working arrangements and the recommendation to colleagues to follow specific health protection protocols, should protect the health and safety of our colleagues.

Implementing a temporary hiring freeze and the use of international employee support schemes where necessary, along with other cost-saving measures, to help avoid the loss of roles in the long term.

Designating our services as essential and our frontline colleagues as key workers allowed our technicians to continue to service customers, enabling us to play our part in protecting public health and fighting the spread of COVID-19. Implementing new disinfection services and specific health protection protocols and use of PPE to protect the health and safety of our customers. Applying for government support where appropriate to help support the costs of employees.

Establishing an employee support fund (see page 51) would further protect colleagues in communities without government support.

Measures to continue to work safely and offer new services to help us fulfil our purpose at Rentokil Initial to protect people and enhance lives, an area of increasing importance as a result of COVID-19.

Suspending dividends for the time being and withdrawing the 2019 final dividend conserves cash in the short term in order that shareholders receive the best return on their investment in the long term.

### Outcome

The Board considered and approved the proposed actions, and a trading update was released to the market on 25 March 2020. The Remuneration Committee Chair also wrote to 20 of our largest investors and proxy agencies to set out the impact of the measures on remuneration within the Company, alongside the broader actions being taken. Over £100m of cost savings were identified, as well as approximately £400m of cash preservation measures for 2020, helping us to move into the Recovery phase by the second half of the year (see page 146 for details). The Board monitored the impact of the measures through reports from the senior management team. The actions taken and the speed with which they were implemented helped minimise the impact on the business; however, regrettably we have not been able to retain every colleague in our business lines which will not rebound in the short or medium term and where a suitable alternative role was unavailable. In a survey of colleagues from the UK, US, Europe and the Middle East during the Crisis phase more than nine out of 10 colleagues were either favourable or neutral in their belief that the actions taken by the Company were the right things to succeed in the crisis.

## The UK Covid Corporate Financing Facility

In March 2020, the UK government announced a number of measures designed to support businesses through the period of disruption caused by COVID-19. One of these measures was the joint HM Treasury and Bank of England lending facility, named the Covid Corporate Financing Facility (CCFF), which would purchase short-term debt in the form of commercial paper from eligible companies. Like many companies, Rentokil Initial applied to access the CCFF and on 2 April drew down £600m under the facility.

The Company drew down the CCFF as an additional contingency measure at the start of the COVID-19 crisis when both trading and the market liquidity was very uncertain. The Board received detailed funding updates in June and July looking at repayment options and the longer-term funding position of the Company. Given the trading performance of the Company during Q2, greater clarity in the external outlook by June, and the option to repay the CCFF before its expiry date in March 2021, the Board considered whether the CCFF should be repaid earlier than originally envisaged.

### Directors' consideration of factors in accordance with section 172(1)

Based on a detailed assessment of funding requirements and the forecast and modelling scenarios considered, the Company should retain sufficient liquidity headroom (balance sheet cash and undrawn revolving credit facility (RCF)), fully comply with bank covenants, and maintain its BBB credit rating.

The implications for paying bonuses or granting share awards to the wider workforce while the CCFF remained outstanding were taken into account.

Early repayment should present a positive message to stakeholders regarding the robustness of the business. While there were potential risks in future quarters around the economic environment and/or a second wave of the virus, the Company would have demonstrated the resilience of its business model at the peak of the crisis and its confidence in continuing to be able to respond quickly to customer needs.

The government introduced requirements for new CCFF issuers in relation to executive pay and dividends which could potentially create a reputational constraint on the Group in these areas while the Company remained a holder of the debt. Advisors confirmed that there should be no reputation risk if we were to recommence our M&A programme while holding the CCFF.

The Board would expect to be in a position to recommend a dividend for 2020 if trading continued in line with the Company's expectations in the second half of the year.

### Outcome

The Board approved the early repayment of the CCFF using available cash. On 27 July 2020, the Group repaid the £600m borrowed under the Bank of England's CCFF scheme. The Company announced in its half-year results liquidity headroom in excess of £800m following repayment of the Group's RCF in June and the CCFF in July.

## Strategic acquisition of pest control business

In December 2020, the Company acquired Environmental Pest Service (EPS LLC), a commercial and residential pest control company based in Tampa, Florida. The Board received a detailed paper setting out the proposed transaction at its meeting in November 2020. An additional Board meeting was then held later that month where the Board could discuss further details of the transaction and ask questions of John Myers, Regional Managing Director for North America. Chris Hunt, Group M&A Director, also joined the meeting.

### Directors' consideration of factors in accordance with section 172(1)

The acquisition was consistent with the Company's strategy to identify, purchase and successfully integrate high-quality bolt-on targets. EPS LLC generated annualised revenues of c.$82m (c.£62m) in 2020. Cost synergies, such as property footprint reduction, back office consolidations and technician density, were identified and would be executed by the experienced integration team in North America. The acquisition would enhance our pest services' scale and density in key markets in Florida, North Carolina and Georgia.

The acquisition of EPS LLC would increase the Group's headcount by approximately 640 people, more than half in frontline service roles. New colleagues would benefit from Rentokil technical training and potentially an enhanced career path within a larger, fast-growing, leading international pest control business. The Board considered the strength of the EPS LLC management team and the cultural fit between the companies, and planned to retain key talent and enhance the quality of the North America management team.

The increased scale and density created from the integration of EPS LLC was expected to help drive improved customer service levels due to quicker response times, deployment of Rentokil systems and better trained colleagues. It was expected that existing customers of the target would be offered the benefits of our global market-leading services. There might also be an opportunity to review material purchases and consolidate spend within our supply chain and pest products business.

EPS LLC colleagues are located in 30 branches across three US states. Due diligence included a detailed review of any environmental issues on the target's properties and material compliance with environmental laws. This included the use of specialist consultants and site visits. The Board considered the use by EPS LLC of environmentally sound pest control solutions and their humane wildlife capture service which could help expand Rentokil's equivalent service.

EPS LLC was ranked 15th in the PCT Magazine 2020 Top 100 list of leading US pest control companies. EPS LLC and Rentokil Initial cultures and ways of working appear to be aligned.

This acquisition meets our investment criteria and is aligned with execution of our growth strategy, which is supported by and is delivering benefits to shareholders.

### Outcome

The Board considered and approved the transaction, which completed after regulatory filings in the US and was announced alongside a trading update on 8 January 2021. Further details on the transaction can be found in the Financial Review on pages 146 and 147.

## Stakeholder engagement

Following the detailed stakeholder mapping exercise undertaken in 2019 to assess whether the identification of our key stakeholders remained appropriate, there were no significant changes to the Group's businesses or operations which merited a further review during 2020, and the key stakeholders as set out opposite remain the same as the prior year. Information on our key stakeholders is set out on pages 24 and 25, including their key issues and impacts as well as the methods of engagement by the businesses and management. Details of how the Directors receive information on our key stakeholders are set out opposite. The section 172(1) statement, which describes how the Board has regard to key stakeholders, can be found on page 66 with examples of principal decisions taken in 2020 on pages 88 and 89.

In the Board's consideration of its engagement with the Group's workforce and the UK Corporate Governance Code provision for workforce engagement, the Board had regard to the size, distribution and scale of our businesses and it was felt that none of the options set out in the Code would be as effective in engaging with a dispersed, global workforce as enhancing the existing framework of local and regional engagement tools and metrics (such as our European Works Council).

Management regularly report on performance against a set of key metrics (such as colleague retention, Your Voice Counts survey results and Glassdoor ratings) to the Board. We also identify ways for individual Board members and the Board collectively to engage with target groups across the year. However, the direct Board engagement opportunities planned for 2020 were severely impacted due to the COVID-19 pandemic and the resulting restrictions on travel. For instance, the planned Board site visit to North America in June 2020 was not able to take place. Consequently, the Board did not have the opportunity to engage directly with the Group's workforce to the level hoped and, as set out below, we plan to address this by increasing the level of virtual engagement in 2021.

In particular, each Non-Executive Board Director will be expected to engage individually with a range of colleagues, whether by ride-along visits with frontline technicians and surveyors, discussions with talent pools or relevant management teams across different regions, adding visits to local Rentokil Initial operations to their other travel plans, or attending town hall sessions. Our aim is for the Directors to have the opportunity to engage with a cross-section of colleagues and bring back their experiences to share with the Board. We will also consider other events where Directors can speak with colleagues without managers in attendance. Some of this engagement will necessarily be virtual, at least in the first part of 2021.

### Colleagues

**Information flow to the Board**
- Health and safety reports
- Results of Your Voice Counts colleague survey
- Regional 'deep dive' presentations
- Employer of Choice update provided twice a year
- Key management changes are included in every CEO report
- Monitoring external measures such as Glassdoor
- Notification of any awards won or other external validation
- Gender Pay Report
- Ethical concerns reported via the confidential reporting process Speak Up
- In Q2, detailed reporting on the impact of COVID-19 on colleagues (see page 91)

**Direct Board engagement**
In a normal year, the Board would meet with colleagues during site visits, undertake 'ride-alongs' with technicians and specialists, attend senior management meetings, and normally have the opportunity to meet with members of the Company's graduate programme at the AGM. From March 2020, much of this activity was impossible in person although a small number of events still took place (see pages 95 and 109 for examples). Members of the senior management team continued to regularly present to the Board.

### Customers

**Information flow to the Board**
- Regional 'deep dive' presentations
- Customer Voice Count (CVC) scores
- Strategy day review – especially product pipeline and innovation
- Material customer contracts requiring Board approval
- Monitoring external measures such as Trustpilot

**Direct Board engagement**
The Board has the opportunity to meet customers on overseas site visits and as part of a 'ride-along' with technicians. Due to the highly dispersed nature of our customer base, in which the largest portfolio customer represents significantly less than 1% of revenue, it is felt that this level of engagement is appropriate.

In 2020, the planned overseas visit (see page 86) and other site visits could not take place due to ongoing travel restrictions. It is hoped that there will be increased opportunities for engagement in 2021.

### Progressing diversity, equality and inclusion

Rentokil Initial was already recognised for its diversity and inclusion efforts, being rated No.1 in Britain's Most Admired Companies in 2019 for diversity, and 9th in the Hampton-Alexander Review 2019 report. 2020 saw further progress, notwithstanding the disruption from the pandemic, on gender diversity but also on broadening our efforts on inclusion and equality, including ethnicity. Attracting, developing and retaining talent from the widest possible pool helps drive our innovativeness, service quality and financial performance, as well as reflecting the communities we serve.

In July, the Board reviewed the initiative in North America to assess the ethnic diversity of our colleagues in detailed comparison with that of the metropolitan areas where our businesses are based. This would enable more nuanced data gathering and analysis. Further communication and training initiatives including town halls and 'listening events' took place in North America, as well as plans to embed diversity, equality and inclusion training as a core leadership competence. The Board agreed that clear and robust diversity and inclusion policies and practices covering every stage of the employment cycle were needed, and that this should ensure that we consider diversity and equality in the broadest sense across the 83 countries in which we operate, avoiding an overly UK- or Europe-centric perspective in our diversity definitions and activities.

Looking forward, in December the Board discussed a five-point plan over the next three years to further build an organisation where everyone with skill, imagination and determination, whatever their gender, race, colour, nationality, age, sexual orientation, physical ability or background, can succeed based on merit alone. The plan includes gender and ethnicity targets for senior managers and colleagues as a whole, and a scorecard for monitoring by the Board and ELT. It intends to secure our competitive advantage as a world-class Employer of Choice with a workforce that reflects the diverse nature of the business environments and markets in which we operate and the customers that we serve across the globe. The Board will continue to monitor the Company's progress against this plan.

## Shareholders

**Information flow to the Board**

- CEO report at each Board meeting includes an investor relations update
- Financial performance reports
- Analyst notes circulated
- Presentations on market perspectives by the Company's brokers
- Strategy day market perspectives session

**Direct Board engagement**

The Board engages directly with shareholders in a variety of ways, including writing to investors, calls or meetings held with the Chairman and Remuneration Committee Chair, consultation exercises (see below and page 117 for details of the Remuneration Committee consultation undertaken in 2020), and in a normal year through attendance at Preliminary and Interim Results announcements, investor roadshows and seminars, Capital Markets Days and our AGM.

In 2020, the Chairman met with six of our top 10 investors, representing almost 30% of our issued share capital. As set out on page 98, for the first time virtual attendance will be possible at our AGM in May 2021. It is hoped that this will facilitate a meeting that is accessible to a broader range of shareholders.

## Communities

**Information flow to the Board**

- Health, safety and environment updates
- Regional 'deep dive' presentations
- Annual Report review
- Responsible Business Report review
- Updates on RI Cares (see page 60)
- Responses to disaster relief and the creation and use of the COVID-19 Colleague Support Fund (see page 51)

**Direct Board engagement**

Board focus on our ESG agenda has continued to progress but due to COVID-19 no direct engagement took place between the Directors and communities during 2020. Engagement levels were considered as part of the stakeholder mapping exercise undertaken in 2019 and found to be appropriate. This will be kept under review.

## Suppliers

**Information flow to the Board**

Principal engagement is undertaken by operational management, especially the central procurement and supply chain function and national procurement managers, with the Directors having oversight of this engagement and its impact by:

- the approval of our Modern Slavery Statement;
- the review of payment practice reports for our two principal UK subsidiaries; and
- the review and approval of major supplier contracts.

In 2020, updates were provided on the impacts to suppliers as a result of COVID-19, particularly in Q2 regarding the sourcing of PPE for our colleagues.

**Direct Board engagement**

There was no direct engagement undertaken during 2020. It is felt that, due to the nature of the business, this level of engagement compared with the other stakeholder groups is appropriate. This will be kept under review.

### Remuneration policy consultation

In October 2020, our Remuneration Committee Chair wrote to investors in the top 30 of our share register, representing approximately 60% of our issued share capital, to outline proposals for the new Directors' Remuneration Policy to be put for shareholder approval at the AGM in May 2021. The Company also engaged with three of the largest proxy voting agencies. Of those written to, only one investor declined to engage with the Company and seven meetings were subsequently held in 2020. The Remuneration Committee reviewed the feedback received at those meetings in November and December and then wrote to the same investors and proxy agencies in December 2020 to update them. This second letter resulted in a further two meetings being held with investors in January 2021.

As a result of the engagement the Remuneration Committee decided to proceed with the proposed policy, making some modifications in response to feedback received. Full details are set out in the Remuneration Committee Report on page 117. The final policy is being submitted for shareholder approval at the AGM in May 2021.

### Monitoring employee wellbeing

In response to the COVID-19 crisis we took a number of short-term measures to preserve the ongoing cash flow of the business, many of which directly impacted colleagues (see pages 8 and 88). In order to monitor the impact of the crisis on colleagues and the measures taken, the Board received regular updates between March and May.

Rentokil Initial has high levels of colleague engagement and enablement, which are independently measured every two years (last measured just six months before the pandemic), and places the Company among the High-Performance group of leading companies. During the COVID-19 crisis, senior leaders maintained high levels of communication and visibility, via the use of meetings by video call, colleague social media platforms, newsletters and regular pre-recorded video messages from their desks at home which were sent to colleagues.

Colleagues also actively participated in a series of events to support their local communities and to say thank you to public sector workers. The response from colleagues to support the #sharethelove events was excellent, reflecting the values of the Company and the willingness of colleagues to go the extra mile for others, even at a time of crisis.

Data provided to the Board included the number of colleagues self-isolating and infected with COVID-19 and the number of colleagues affected by the employment measures taken across the world, including salary waivers, reduced hours and the use of international employee support schemes. They also received reports on the approximately 8,500 colleagues transferred to home working, the IT infrastructure to support this and measures taken to mitigate any potential risks associated with the shift. Copies of an internal communication were also shared.

The next formal measurement of colleague engagement and enablement across the Company will take place in September 2021 and will be reported in next year's Annual Report. However, during the crisis the Company continued to listen to colleagues. A series of pulse surveys were undertaken, including Europe, North America, the UK and the Middle East. Overall results showed more than nine out of 10 colleagues were either favourable or neutral in their belief that the actions taken by the Company were the right things to succeed in the crisis and about the effectiveness of senior managers to lead through the changes.

## Director induction and training

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

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

In 2020, inductions of both an Executive and a Non-Executive Director took place. As part of an orderly handover of the role of Chief Financial Officer from Jeremy Townsend to Stuart Ingall-Tombs, Stuart commenced his induction over several months prior to starting the role in August 2020. Full details are set out on page 93.

Cathy Turner joined the Board as a Non-Executive Director in April 2020. On appointment, all Non-Executive Directors are provided with the following materials:

- key policies, procedures and governance information about the Company, including the Code of Conduct, Board Governance Manual, Responsible Business Report and the Group Authority Schedule;
- details of the Group structure;
- analysis of the Company's key shareholders and share capital;
- recent analyst notes;
- Board and relevant Committee minutes and Board papers from the most recent meetings held, including the most recent strategy meeting;
- copies of the most recent Board and any relevant Committee evaluation reports; and
- guidance on the legal and regulatory responsibilities of a Director in a UK publicly listed company.

They are also given access to external advisors (auditors, legal advisors and brokers).

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

The induction process typically takes place over several months and a questionnaire is completed by new Directors after 12 to 18 months to provide an opportunity for feedback, to review the effectiveness of the training, highlight areas for improvement and to provide an opportunity for any further development needs to be identified.

Directors are provided with ongoing opportunities to meet colleagues (see Stakeholder engagement on page 90), although in 2020 these were restricted due to COVID-19 and the majority of meetings were held virtually. Directors also receive additional briefings or training as required. Details of externally facilitated events and training are also circulated to Directors on a regular basis to allow them to participate in peer group discussion forums and seminars related to the listed company environment. In 2020, the Board received a special training session from the Company's external legal advisors, providing an update on the Market Abuse Regulation. Further Board training sessions are planned to take place periodically in 2021.

## The impact of a virtual induction

Cathy Turner joined the Board of Rentokil Initial in April 2020 and due to COVID-19 was not able to meet her Board colleagues in person following her appointment for the rest of the year (although she did have meetings with the Chairman and others, and, as set out on page 95, visited the Company's Australian operations prior to her appointment).

At the end of 2020 we asked her how her first nine months with the Company had been.

**What have been your initial impressions of Rentokil Initial?**
The strong culture and well-developed identity at Rentokil Initial has shone through and has been a benefit throughout this difficult period. Even operating remotely as I have needed to do, the values are palpable. Culture is a hot topic in business but only really gets tested in times of need. It is good to feel the care and commitment to employees and customers that is so much a part of Rentokil Initial.

**Your induction had to be handled remotely. How did you find that worked?**
I think it worked very well. I enjoyed meeting many colleagues virtually and found those induction sessions educational, open and welcoming. Of course, as time progresses and this pandemic is controlled, I much look forward to meeting people face to face. I am particularly looking forward to going out on a Pest Control round when it is permitted!

**What have been the challenges of not being able to attend Board or Committee meetings in person?**
I am missing the feel of the Board dynamics and having a chance to be alongside my fellow Board colleagues. Everyone has been so welcoming but forging trusted relationships takes longer in the current environment. It makes me realise how challenging it must be for any staff joining our business to feel fully part of the team and to get up to speed in their roles.

**How has Rentokil Initial compared to your expectations before joining?**
Rentokil Initial is everything I hoped it to be based on its superb reputation externally. I have much to learn still but I am impressed with the focus on operational excellence, the commitment to customers, the innovation that is underway, and the effectiveness of M&A activity. There is so much energy and capability in Rentokil Initial. I am proud to be part of it.

**What are the things you are most looking forward to in terms of continuing your Board induction?**
Easy question – actually attending a Board meeting in person and getting out to the front line to meet colleagues and customers around the world.

It was announced in February 2020 that Stuart Ingall-Tombs would be taking up the role of Chief Financial Officer later in the year and he was subsequently appointed to the Board of Directors on 15 August 2020. An overview of his extended handover and induction process is set out below.

**Timeline of Chief Financial Officer's induction**

**February 2020**
- Attended Preliminary Results presentation
- Attended numerous one-to-one investor meetings with CEO, incumbent CFO and Head of IR

**March 2020**
- Attended numerous one-to-one and two group investor meetings with CEO, incumbent CFO and Head of IR
- Started attending Executive Leadership Team meetings

**April 2020**
- Attended the Q1 Trading Update Board call

**May 2020**
- Met with the Chairman
- Attended one-to-one investor meeting and a group investor meeting with CEO, incumbent CFO and Head of IR
- Commenced regular joint update meetings with CEO and incumbent CFO
- Commenced regular update meetings with Group Treasurer

**June 2020**
- Met with the Company's brokers, Goldman Sachs
- Met with the Company's auditor, KPMG

**July 2020**
- Attended Board, Board Committee and Audit Committee meetings
- Attended Disclosure Committee meeting regarding Interim Results
- Attended pre-results meetings with Goldman Sachs and Barclays
- Attended Interim Results presentation
- Met with the Company's brokers, Barclays
- Commenced induction meetings with Non-Executive Directors
- Attended one-to-one investor meetings and a group investor event

**August 2020**
- Handover meeting with incumbent CFO
- Meeting held with the Chairman
- Individual meetings with senior finance colleagues and members of the ELT
- Held introductory meetings with various advisors and business partners
- Attended one-to-one investor meetings

**September 2020**
- Met with the Chairman
- Introductory meetings with relationship banks
- Met with the Company's broker, Goldman Sachs

**October 2020**
- Introductory meetings with relationship banks
- Numerous one-to-one investor meetings
- Met with the Company's broker, Barclays

## External commitments

All Directors may serve on a number of other boards, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company, nor represent a conflict of interest. Any new external appointment must be approved by the Board, where the nature of the appointment and the expected time commitment are considered. The significant external commitments of the Directors are shown in their biographical information on pages 78 and 79.

The Company considers that significant appointments, as referred to in Principle 15 of the Code, are either a role with a listed company or a role with a time commitment equal to or greater than the time commitment of their current role with the Company. Currently, Non-Executive Directors are obliged to commit at least 20 days a year and the Chairman is obliged to commit an average of two days a week to the Company.

The significant external appointments considered and approved by the Board during 2020 were Jeremy Townsend's appointment as a Non-Executive Director to PZ Cussons plc which commenced in April 2020 and his appointment as a Non-Executive Director of Wm Morrison Supermarkets plc in July 2020. The Board approved the significant appointments as it was felt that the appointments would not affect the Director's availability or effectiveness in carrying out his responsibilities and duties as a Director at Rentokil Initial. It is the Company's policy that Executive Directors shall not take on more than one non-executive directorship in a FTSE 250 company. However, an exception was made by the Board for Jeremy Townsend in 2020 given his imminent retirement from the Company.

The issue of Board Directors becoming overcommitted by taking on too many potentially onerous positions, including the need to retain flexibility to deal with unforeseen events, is recognised and is monitored in line with published investor guidance. The Chairman typically attends all Committee meetings by invitation and Non-Executive Directors often attend too, even where they are not members of the relevant Committee. The fact that several of the members of the Board hold multiple non-executive positions has not presented any difficulties in their ability to manage potentially competing demands for their time. In addition to published investor guidance, the Board considers a Director's time commitment in aggregate and takes into account whether a Non-Executive Director holds any executive appointments. All Directors have demonstrated high levels of availability and responsiveness for the additional meetings held during 2020 and discussions outside of meetings where these have been required. Attendance has been 100% for all scheduled and additional Board and Committee meetings in 2020 and it is pleasing to note the commitment demonstrated by all Directors and the absence of risk of overboarding even in such an exceptional year.

### Building relationships with the senior management team

Following his induction as Chairman in 2019, Richard Solomons has continued in 2020 to pursue his ongoing agenda of getting to know the senior management team better.

As well as receiving Board presentations from members of the team, he held one-to-one meetings with the Managing Directors for the Asia, Europe and UK & Rest of World regions, as well as meeting with the Chief Marketing, Innovation and Strategy Officer and the Group Operations Excellence Director. These meetings as well as ad hoc calls with managers helped him deepen his understanding of the business and contributed to the strategic oversight and thoroughness of challenge both inside and outside of the Boardroom. It will continue in 2021.

## Board evaluation

In line with best practice, the performance and effectiveness of the Board, its Committees and individual Directors are comprehensively assessed annually through a formal evaluation.

During 2019, the Board and Committee process was internally facilitated with the outcomes informing elements of the Board's work. As outlined in Principle 21 of the UK Corporate Governance Code, the Company has adopted a three-year cycle of board evaluations. Following two years of internal reviews, in 2020 an external evaluation was undertaken, conducted by Christopher Saul from Christopher Saul Associates, following a competitive evaluation of several providers. The choice was made based on the clarity and depth of thinking demonstrated in the response, the credibility and experience of the individual in dealing with and understanding the dynamics of public company boards, and the importance of this being a pragmatic, tailored exercise for Rentokil Initial's specific situation. Christopher Saul has no prior connection with Rentokil Initial or any of its Directors.

The process involved a detailed review of relevant internal materials by Christopher Saul, discussions with the Chairman and Company Secretary on priority issues for consideration and the recommended approach and timeline, attendance at Board and Committee meetings, including part of the Board Strategy Day, one-on-one conversations with each Board Director, Jeremy Townsend as prior Chief Financial Officer, executives supporting Board and Committee activity, key external advisors including the auditor and remuneration advisor, and selected ELT members.

The report of findings and recommendations was presented by Christopher Saul to the Board at its meeting in December, and Board members discussed the recommendations in detail.

Priority actions to address the recommendations considered most valuable were discussed at the Board meeting in February 2021 and an agreed plan was put in place for the 2021 Board calendar to incorporate relevant topics and changes.

## Progress against 2019 actions

The outcome of the 2019 Board evaluation exercise, which was internally facilitated, was reported in detail in last year's Annual Report. The main action points arising from that exercise, and action taken in respect of each, are set out in the table below.

2019 evaluation recommendations and progress made during the year

| | |
|---|---|
| **Operation business reviews** | ▶ Detailed review of digital marketing and brand strategy<br>– Updates on digital marketing were included in CEO Reports to the Board; a detailed review of brand strategy took place at the November strategy day<br>▶ Continue to review and monitor organisational capacity<br>– Formed part of workforce engagement reviews and COVID-19 impact reports<br>▶ Monitor operational performance in India<br>– Part of Asia regional review in September<br>▶ Enhance customer understanding and insight<br>– Limited progress, part of 2021 plan |
| **Risk oversight** | ▶ Continuing focus on technical standards including fumigation, and scheduled Board review with Group Operations Excellence Director<br>– Review with Group Operations Excellence Director in January 2021<br>▶ Monitor cyber security and data privacy performance<br>– IT security update in December<br>▶ Conduct external Board evaluation<br>– Undertaken as detailed below |
| **Succession planning and talent management** | ▶ Ensure smooth Chief Financial Officer transition; enhance succession planning process for internal executive pipeline<br>– See page 93 for details of CFO induction. Progress on succession planning reviewed in December<br>▶ Induction of Cathy Turner and Board succession<br>– See pages 92 and 108. Board succession reviewed at each Nomination Committee meeting<br>▶ Engagement of individual Non-Executive Directors with senior management and talent pools<br>– Some limited engagement took place (see pages 90 and 91) but enhanced plans built into 2021 calendar |

## 2020 external Board and Committees evaluation

The 2020 Board and Committees evaluation process was externally facilitated and is illustrated in the following diagram:

**1**

Competitive evaluation of three possible facilitators.

Review of relevant background materials by facilitator and agreement with Company Secretary and Chairman on evaluation structure and priority areas.

**2**

Christopher Saul Associates undertook a series of detailed, in-depth one-to-one conversations held with the Board, key executives and representatives of key external advisors.

**3**

In November 2020, Christopher Saul attended part of the Board strategy day, a Board meeting, and an Audit Committee and Remuneration Committee meeting.

**4**

Following his evaluation, Christopher Saul produced a detailed report. A draft was discussed with the Chairman. He attended the December Board meeting to present his findings and recommendations for discussion.

**5**

Following the meeting, the Chairman, Chief Executive and Company Secretary reviewed the outcome of the discussion, and proposed actions for 2021 were presented at the Board meeting in February 2021 for agreement and inclusion in agendas.

## Findings and actions for 2021

The key conclusion of the Board evaluation conducted by Christopher Saul Associates was that the Board is operating effectively. It was found to be collegiate and well led, operating to high standards of professionalism, and benefiting from quality support from executive teams. A large number of recommendations were set out in the Board evaluation paper and the Board, at its meeting in December 2020, discussed the findings of the report and agreed it was important to determine the key recommendations which were most relevant to our strategy and would have the most material benefits. These were agreed in February 2021 and are outlined below.

| 2020 evaluation recommendations | Action to be taken during 2021 |
|---|---|
| **Review Board agendas and papers** | ▶ Continue to evolve the quality of Board materials and agendas to facilitate discussions<br>▶ Review annual calendar to ensure key areas are reviewed in the course of the year |
| **Review Board composition and succession** | ▶ Recruit Non-Executive Director for appointment by mid-2021<br>▶ Continue to monitor Board composition as the business develops<br>▶ Regular review of Executive Director and ELT succession plans and ensure Board familiarity with potential succession candidates |
| **Enhance Non-Executive Directors, engagement with senior management and key stakeholders** | ▶ Regular oversight of key non-financial KPIs<br>▶ Continue to enhance two-way Non-Executive Director and Board engagement with the business and key stakeholders |
| **Enhance consideration of risk** | ▶ Consider further discussion of risk mid-year, as well as December review of risk management processes and reporting<br>▶ Ensure key risk topics are covered in agendas |

## Board Committees

As described above, the evaluation process further assessed the effective performance and support provided by and to the Board Committees. Through the process it was confirmed that the operations of the Board Committees remain effective and that the Committees are well integrated into the Board decision-making processes. Specific findings and the agreement of actions were overseen by each Committee Chair, with consideration of the overall Board findings where they were deemed relevant to the Committee's work. Further details are set out in each Committee report on pages 106, 110 and 125.

## Directors

In previous years when the Board evaluation has been undertaken internally, each Non-Executive Director completes a self-evaluation questionnaire. This year the performance of all Directors was considered as part of the external evaluation process, with Christopher Saul meeting with each Director separately. In addition, the Chairman meets with individual Directors on a regular basis, which include discussions of performance.

As part of the broader Board evaluation the Senior Independent Director facilitates discussions with each of the Non-Executive Directors, without the Chairman being present, to appraise the Chair of the Board's performance. For the 2020 review, this took place in February 2021, the responses were collated on an anonymous basis and the Senior Independent Director then held a meeting with the Chairman prior to the Board meeting in February to provide feedback on his performance.

Executive Directors are subject to regular review and the Chief Executive appraised the performance of the Chief Financial Officer as part of the annual Group-wide performance evaluation of all colleagues. The Chairman evaluates the performance of the Chief Executive as part of the same process. Executive Director performance is also reviewed by the Remuneration Committee as part of its deliberations on bonus payments.

The Nomination Committee takes the outcome of these evaluation processes into account each year in order to inform the Nomination Committee's recommendation for Board members to be put forward for re-election by shareholders. All Directors were deemed to be effective members of the Board and are recommended for re-election at the Company's AGM.

## Next steps

The agreed actions will be implemented throughout 2021 and their impact and effectiveness will be considered as part of the internal Board evaluation to be undertaken in 2021. Due to the ongoing COVID-19 pandemic, it is possible that some elements – for example, involving physical visits or face-to-face contact – may need to be delayed and considered at a more appropriate later date. We will report on their progress in next year's Annual Report.

### Deeper understanding of the Australian business

In early March 2020, the Australian business was fortunate to host a visit of the newly appointed Non-Executive Director Cathy Turner.

During the visit, Cathy spent time with the Australia and Pacific Leadership Team, including Andrew Stone, Managing Director of the Pacific region (pictured right with Cathy). The team shared the key elements of safety, the core building blocks of the Australian business, and service productivity, as well as holding interactive sessions to showcase key innovations within the business, particularly digital innovation.

Cathy also spent time walking around the Lidcombe Head Office and Sydney branch and warehouse, meeting with colleagues during the course of the day, providing the opportunity to gain a deeper understanding of various sectors of the business.

## Governance framework

The Board's governance procedures delegate the day-to-day management of the Group's businesses to the Chief Executive who in turn cascades authority to the wider management population through a documented Group Authority Schedule, setting out responsibilities, decision-making and approval powers of managers at different levels in the organisation. This schedule is reviewed annually by the Board. Details of the Company's Executive Leadership Team can be found on pages 80 and 81.

This framework, along with clearly communicated authority guidelines, provides the Board with confidence that the appropriate decisions are being taken at the appropriate levels and further allows the Board to ensure that its obligations to the Company's shareholders and other stakeholders are being met.

### COVID-19 governance framework

In response to the first wave of the COVID-19 crisis, the Chief Executive enhanced the existing senior management framework as outlined below, with outcomes from the meetings being flowed up to the Board at its additional meetings or in briefing pages (see page 88 for more information on the Board's overview of the response measures taken by the Company).

**Coronavirus Action Steering Committee (CASC)**
In order to be in a position to make decisions and take action on a timely and considered basis as the pandemic's global impact started to become clear, the CASC was formed at the end of February 2020 and met weekly on three occasions in March 2020. The Chief Executive chaired the meeting and attendees included Regional Managing Directors, Finance Directors and Function Heads. Standing agenda items included health and safety, colleagues, customers, business impact, supply chain and marketing. Actions from the meeting were shared with the Chairman of the Board.

**Executive Leadership Team (ELT)**
In addition to the CASC meetings, from March 2020 extended ELT meetings were held virtually. In addition to all ELT members (see page 80), Alain van Lidth de Jeude, Managing Director for our emerging business region of Latin America, and Mark Gillespie, Managing Director for the Rest of World territories, attended all meetings during the Crisis phase and remained regular attendees at the ELT meetings for the rest of the year. The extended ELT met twice weekly to ensure that the senior management team stayed as up to date and connected as possible. As the crisis evolved, the meetings were structured so that one meeting each week focused on the ongoing response to the COVID-19 crisis, monitoring the impact of the crisis by region and country, and the other focused on positioning the business for the Recovery phase. Meetings returned to their normal fortnightly rhythm in the second half of the year.

### COVID-19 response in numbers

**6**
additional Board meetings

**3**
CASC meetings

**1**
market update

**2**
extended ELT meetings per week in Crisis phase

## The Board of Directors

The Board's role is to govern the Company within a framework of prudent and effective controls that enables risk to be assessed and managed. It operates to ensure that we are executing against the strategy and delivering excellent operational performance and innovative services for our customers in order to create sustainable, long-term value for shareholders. The Board strives to operate in a constructive, ethical and transparent manner at all times and to set the tone for the Company from the top.

The Board is collectively responsible for the governance of the Company, undertaking its duties using clear authority and reporting governance structures. Specific tasks are delegated by the Board to its Committees for Audit, Nomination and Remuneration. Matters reserved for the approval of the Board are set out in writing and reviewed annually. They are available to view on our website.

A summary of key elements of the roles of the Board Directors and Company Secretary is set out opposite. The appointment letter for the Chairman and a pro-forma appointment letter for a Non-Executive Director are available on our website.

## Board Committees

The Board delegates, under a clear division of responsibilities, some of its duties to Board Committees. Full details of the Committees' responsibilities and activities are detailed in their respective reports, and their terms of reference are available to view on our website.

## Management Committees

Operating under delegated authority by the Board to the Chief Executive and Chief Financial Officer, these Committees each have specific remits and authority to approve decisions within set limits.

View matters reserved for the Board, Committee terms of reference, and appointment letters at **rentokil-initial.com/investors/governance**

## The Board of Directors

### Chair of the Board

**Role and responsibilities**

- Leading and managing the Board
- Setting the agenda, including discussion of issues of strategy, performance, accountability and risk
- Providing constructive challenge to management
- Setting clear expectations on culture, values and behaviours
- Ensuring effective communication with shareholders and other stakeholders
- Performance evaluation of the Board and Chief Executive

### Chief Executive

**Role and responsibilities**

- Recommending and executing strategies and strategic priorities
- Managing operational and financial performance, including monthly performance reviews with all regions and identifying and managing risks to delivery of strategy
- With the Chief Financial Officer, explaining performance to shareholders
- Executive management capability and development
- Overall development of Group policies and communicating the Company's values
- Responsible business (ESG) agenda

### Chief Financial Officer

**Role and responsibilities**

- Supporting the Chief Executive in developing and implementing strategy
- Supporting the Chief Executive in managing the operational and financial performance of the Group
- With the Chief Executive, explaining performance to shareholders
- Recommending appropriate financing, treasury and distribution arrangements

### Senior Independent Director

**Role and responsibilities**

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

### Independent Non-Executive Directors

**Role and responsibilities**

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

### Company Secretary

**Role and responsibilities**

- Assisting the Chair in developing the Board calendar and agendas
- Assisting the Chair and Senior Independent Director in their evaluation of the Board's effectiveness
- Advising the Board and its Committees on governance matters and managing effective corporate governance and compliance arrangements for the Board and the Group
- Facilitating Board induction and development programmes
- Facilitating Board engagement with the business and key stakeholders

## Board Committees

### Audit Committee

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

Find out more on pages **99** to **106**

### Nomination Committee

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

Find out more on pages **107** to **110**

### Remuneration Committee

Reviews and agrees with the Board the remuneration framework, determines the remuneration packages of the Executive Directors and senior management, and considers workforce remuneration arrangements.

Find out more on pages **111** to **137**

## Management Committees

### Disclosure Committee

Comprising the Chief Executive, Chief Financial Officer, Group Financial Controller and the Group General Counsel, it supports the Board's responsibility for the accuracy and timeliness of external disclosures and compliance with the Market Abuse Regulation.

### Treasury Committee

Comprising the Chief Financial Officer and four other senior functional executives, it reviews and approves the capital structure and financing strategy as well as risk and cash management.

### Group Risk Committee

Comprising the Chief Financial Officer, Chief Information Officer, Group Operations Excellence Director, Group General Counsel and three other functional executives, it monitors the internal control environment and emerging external risks, and reviews internal policies and procedures for the identification, assessment and reporting of risks, meeting quarterly. Details of its discussions are reported to the Audit Committee.

### Investment Committee

Comprising the Chief Executive, Chief Financial Officer, Group Financial Controller and the Group General Counsel, it reviews and approves investments below the threshold requiring Board approval, including M&A and expenditure on property and environmental remediation. It also conducts post-acquisition reviews of completed M&A transactions and reviews material litigation quarterly.

## Monitoring and oversight

**Policies**

The Company has a robust Group-wide policy and procedure framework in place to supplement local policies or legislation. The content and appropriateness of policies are reviewed periodically by the relevant functional department head and approved by the Chief Executive. The cornerstone of this policy framework is the Code of Conduct. Our key policies are set out on page 65, with full details of our policies relating to ESG matters and their application being disclosed in our Responsible Business Report on our website. Key policies are also published on our website. In addition to the policies described there, the Company has a treasury policy in place to ensure that the Group has sufficient liquidity and to manage financial risk as outlined in Note C1 to the Financial Statements on page 176. In 2020, the Board reviewed and approved the Company's tax strategy which has been published on our website in compliance with the Finance Act 2016. More details on tax governance can be found on page 64.

Specific programmes are in place to support implementation of the Code of Conduct and underlying policies, national laws and regulations, and monitoring and reporting compliance with them. In some cases, dedicated specialists are in place to ensure that standards are set and complied with (for example, in health and safety, IT security, legal, company secretarial, data privacy, regulatory compliance, pensions and tax). More broadly, e-learning training on our online learning and development platform U+ is used to ensure and track dissemination and adoption across the Group. Clear guidelines are provided to all colleagues on how to seek further advice or report concerns. Compliance is monitored through an annual Letter of Assurance process covering all Group senior management, through Internal Audit reporting on control incidents, and by monitoring reports via the Company's confidential Speak Up reporting process. Further details can be found in the Audit Committee Report on page 105. The Group Risk Committee considers current and emerging risks, reviews current arrangements and makes recommendations for enhancements as appropriate.

**Board review of risk management and internal control**

The Board has overall responsibility for maintaining sound systems of risk management and internal control that are both fully effective and ensure compliance with the UK Corporate Governance Code. The Board delegates responsibility for risk management to the Audit Committee where appropriate. Further details on the Board's responsibility for the risk management approach can be found in the Audit Committee Report on page 105.

Risks are considered in the context of long-term strategic and emerging threats, and shorter-term risks to the delivery of the annual operating plan. The Board has also assessed the viability of the Group over a period of three years, the potential impact of the principal risks and stress-testing financial forecasts for severe but plausible scenarios, and the anticipated effectiveness of mitigating actions. The Board has carried out a robust assessment of the principal risks facing the Company, including those that would impact its business model and future performance. The principal risks identified can be found in the Risks and Uncertainties section on pages 69 to 73, along with the Company's Viability Statement on page 74. Details of briefings on risk and control topics which were provided to the Board during 2020 can be found on pages 85 to 89.

The framework of risk management and internal control described in the Risks and Uncertainties section on page 67 is designed to manage and mitigate risk rather than eliminate the risk of failure to achieve business objectives. In pursuing business objectives, internal controls and risk management can only provide reasonable, and not absolute, assurance against material misstatement or loss. Review of its effectiveness is achieved through regular and transparent management reporting, the governance processes and external and internal assurance processes, and in the Audit Committee and Board's annual review of strategy and operational risks.

The Board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2020 and confirms that:

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

**Fair, balanced and understandable**

The Directors' statement on 'fair, balanced and understandable' can be found on page 204. The requirement under the Code to provide a fair, balanced and understandable assessment of the Company's position and prospects in its external reporting is considered throughout the process of producing the Annual Report and Financial Statements. In order to provide the information necessary to comply with this requirement, the Board places particular reliance on the conclusions and recommendations arising from the Audit Committee's review of the Annual Report and Financial Statements, further details of which can be found on pages 102 and 103.

## 2021 Annual General Meeting

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

Due to the COVID-19 pandemic, the AGM in May 2020 was held as a closed meeting. It is currently very challenging to plan for potential changes in public health guidance and government restrictions and we have, therefore, decided for the first time to hold a hybrid AGM this year. This means that there will be both a physical meeting, albeit with severely restricted access, and the opportunity for shareholders to join virtually to listen to the meeting, ask questions and vote on the proposed resolutions. It is hoped that this will facilitate a meeting that is accessible to a broader range of shareholders and will allow the Board a further opportunity to engage more fully with our shareholders.

The 2021 AGM will be held at, and be broadcast via live webcast from, the Company's offices at the Power Centre, A1 & A2, Link 10, Napier Way, Crawley, RH10 9RA from 2.00pm on 12 May 2021. However, based on the UK government's current response to COVID-19, including restrictions on public gatherings and travel, and given that the health and safety of our shareholders and colleagues is always our utmost priority, we have regretfully concluded that it will not be possible to allow shareholders to attend in person on the day. It is intended that the only people present will be those required to form a quorate meeting and transact the formal business of the meeting. We encourage all shareholders to join the AGM safely and securely via the live webcast, where they will be able to engage in all elements of the meeting. Questions can also be submitted in advance of the meeting by emailing chairman@rentokil-initial.com.

A separate Notice of Meeting, containing both an explanation of the items of special business and full details of how to join the meeting remotely, has been sent to shareholders and is available on our website.

Find out more at **rentokil-initial.com/investors**

Full details of the AGM, including the 2021 Notice of Annual General Meeting, can be found at **rentokil-initial.com/agm**

# Audit Committee Report

## Dear Shareholder

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2020, which sets out how we have discharged our duties in accordance with the 2018 UK Corporate Governance Code and describes key activities and findings during the year. We have once again exercised the authority delegated by the Board to provide assurance for the integrity of financial reporting and to review the Group's internal controls. We have continued to discuss and challenge the assumptions and judgements made by management in the preparation of published financial information and to oversee the internal controls and compliance framework.

In last year's Annual Report, we identified technical governance, including fumigation, transition in leadership of the Internal Audit function and Group Financial Controller, continued evolution of the North America finance team, payroll tax compliance and the developing regulatory environment for audit, as particular areas of focus for 2020. There were 23 acquisitions completed in 2020. As a Group, we entered into two new jurisdictions during the year (Ghana and Peru), as well as starting to operate directly in Tanzania after acquiring our franchisee there. We continue to monitor the scale and complexity of the Group and review the scope, scale and resource available to conduct our internal and external audit processes to ensure that they remain appropriate.

The financial performance of the Group continues to progress well, despite the enormous challenges presented by the COVID-19 pandemic and the variation in its impact and the response by governments and customers around the world during the year. This was naturally the single topic to which the most additional attention was devoted, and led to the implementation of additional controls around IT access and network protection given the shift to remote working, key financial control self-assessments for all reporting units and enhanced guidance on revenue recognition and bad debts, for example. At the request of management, Internal Audit conducted an audit of the implementation of the UK Coronavirus Job Retention Scheme (CJRS). There were also several other areas on which the Committee spent additional time. These included the launch of disinfection services and related safety and other protocols; control issues including a cyber attack on our business in China and a Distributed Denial of Service (DDoS) attack on our EMEA data centre, both successfully mitigated; the reissue of the Company's technical Pink Notes governance requirements; and a revised policy to address an increase in supplier fraud attempts. After the focus in 2020 on fumigation compliance, the strong management response and enhanced technical governance resources appear to have addressed the issues experienced in 2019 but this remains an area of heightened operational risk which the Committee will continue to monitor closely. The control environment continues to be assessed as adequate and fit for purpose.

In discussion with the Director of Internal Audit & Risk, 11 audits were deferred to 2021 with the remainder being conducted remotely. In 2021, we plan to expand country full-scope internal audits and to introduce thematic audits to ensure resolution of common issues and share best practice across the Group. There will also be external, independent reviews of the Treasury and the Internal Audit functions during the year.

We reviewed the performance of the external auditor in February. The auditor role had last been tendered in 2017 but while KPMG has performed its duties to a satisfactory level and there are no material areas of concern that have been identified, certain planned enhancements in the audit process such as the use of technology had not been delivered and it was felt appropriate again to review the choice of auditor and to conduct a further competitive tender process. Following the conclusion of that process, the Committee recommended and the Board approved the appointment of PricewaterhouseCoopers LLP (PwC) as Group auditor from 2021. They have shadowed the 2020 audit to ensure a smooth handover from KPMG. PwC will therefore be recommended for election as the Company's auditors at our AGM in May 2021.

Following discussion of the recommendations of the Board effectiveness review, the Committee has decided to add a further meeting to its regular calendar, in April, to allow further time for consideration of risk areas and addressing areas of focus on a more regular basis. The plans for enhanced Board engagement with the business and key stakeholders will also be considered by Committee members in the context of their Committee responsibilities.

There have been no changes to the composition of the Audit Committee during 2020 and I am pleased to report that I believe that the Audit Committee continues to have the necessary balance of skills, experience, professional qualifications and knowledge, as detailed on page 100.

**Julie Southern**
Chair of the Audit Committee

3 March 2021

### Committee members

- Julie Southern (Chair)
- John Pettigrew
- Linda Yueh

## Areas of focus in 2020

- COVID-19 impact
- Smooth succession of CFO, Group Financial Controller and Director of Internal Audit & Risk
- New disinfection service and related protocols
- Impact of working remotely on Internal Audit reviews and control environment
- Payroll tax compliance

## Areas of focus for 2021

- Change of Group external auditor
- Thematic approach to Internal Audit
- Developing regulatory environment for audit, including ESG reporting
- Data privacy compliance beyond Europe
- External reviews of Treasury and Internal Audit

## Role of the Audit Committee

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

As is customary, the Audit Committee undertook a review of its terms of reference during 2020, making only minor amendments. These new terms of reference were approved by the Board in December and are available on our website. Due to the increased length and complexity of the terms of reference following their substantial update at the end of 2017, the Audit Committee now reviews its detailed activities on an annual basis to consider their alignment with each of the duties and responsibilities of the Audit Committee as set out in the terms of reference. This review confirmed that the Audit Committee had conducted its role fully effectively in line with the terms of reference.

## Membership and attendance

Julie Southern, Chair of the Audit Committee, is a Chartered Accountant and is considered to have relevant and recent financial experience. John Pettigrew has extensive commercial and operational experience in overseeing the financial affairs of substantial business undertakings and Linda Yueh has a strong economic and academic background with considerable experience gained in advisory roles.

The Audit Committee as a whole is, therefore, considered to have competence relevant to the sector in which the Company operates. Full biographical details of the members of the Audit Committee are contained on pages 78 and 79. All Audit Committee members are independent Non-Executive Directors. The Audit Committee did not find it necessary to seek external advice during the year, other than through its usual dialogue with the external auditor.

The Audit Committee met four times during the year with the members attending all meetings. Full details of the attendance of the members during 2020 can be found on page 85. Meetings of the Audit Committee are attended by the Chairman of the Board, the Chief Executive, the Chief Financial Officer, the external auditor, the Director of Internal Audit & Risk, the Group Financial Controller, the Company Secretary (who acts as secretary to the Audit Committee) and the Deputy Company Secretary.

The Audit Committee meets at least once per year separately with the Company's auditor, KPMG LLP, and the Director of Internal Audit & Risk without executive management present. In 2020, two such meetings were held. The Chair of the Audit Committee also meets periodically with the external auditor and the Director of Internal Audit & Risk. The Chair of the Audit Committee reports to the Board on the activity of the Audit Committee and any matters of particular relevance in the conduct of its work.

## Activities of the Audit Committee in 2020

In 2020, the Audit Committee considered the following key areas:

| Matters considered | Discussion and outcome | Find out more |
|---|---|---|
| **Financial reporting** | | |
| **Financial reporting** | The Committee reviewed the 2019 Annual Report and the Company's Annual and Interim Financial Statements and received reports from both the Group Financial Controller and the auditor on the significant financial reporting judgements relating to each statement. | Financial reporting on page 102 |
| **Key accounting matters** | The Audit Committee considered key accounting matters, including Alternative Performance Measures, the implementation of new accounting standards, taxation, pensions, one-offs and restructuring, and acquisition accounting in relation to the Company's financial results for 2019 and 2020. | Significant issues and judgements on page 102 |
| **Other financial reporting matters** | The Audit Committee reviewed the going concern analysis, the Viability Statement and the internal control statement for recommendation to the Board. | Other financial reporting matters on page 103 |
| **External audit** | | |
| **2019 Financial Statements** | The Audit Committee received a report from the auditor on the results of the audit of the 2019 Financial Statements, considering key judgements and risks. The letter of representation was also reviewed and recommended for approval to the Board. | – |
| **Independence** | In February 2020, the Audit Committee undertook a review of the analysis setting out the basis on which KPMG LLP continued to meet the appropriate professional standards of independence as auditor to the Company. | Auditor independence and objectivity on page 104 |
| **External audit appointment and evaluation** | The Audit Committee reviewed and approved the terms and scope of the audit engagement for the Annual and Interim Financial Statements and undertook a review of the effectiveness of the external audit process. The Audit Committee undertook a formal and competitive audit tender during the year and are recommending the appointment of PricewaterhouseCoopers LLP (PwC) as external auditor at our AGM in May 2021. | Effectiveness and audit tenure on page 104 |
| **Audit strategy** | The Audit Committee considered the audit strategy for the 2020 audit, including the key areas of focus, materiality levels, scope and coverage at its meeting in July. | External audit on page 103 |
| **Future of audit profession** | The Audit Committee considered and will continue to monitor recent publications, market reviews and recommendations regarding the future of the audit profession in the UK. | – |

| Matters considered | Discussion and outcome | Find out more |
|---|---|---|
| **Internal controls and risk** | | |
| **Internal control framework** | The Audit Committee reviewed the effectiveness of the internal control and risk management framework. | Risk management and internal control on page 105 |
| **Control environment** | The Audit Committee received and reviewed matters relating to the internal control environment provided by the Director of Internal Audit & Risk, including the impact of the COVID-19 pandemic, and reviewed the Group Risk Committee minutes. | Risk management and internal control on page 105 |
| **Internal Audit investigations** | The Audit Committee reviewed the outcome of Internal Audit investigations, including the most significant issues raised in Internal Audit reports, and received updates on the status of resolution of issues raised. | Internal Audit on page 106 |
| **Group risk** | The Audit Committee reviewed the Group risks and actions to enhance their measurement, monitoring and mitigation actions, including approval of the principal risks disclosed in the 2019 Annual Report and consideration of those for the 2020 Annual Report. | Principal risks on pages 69 to 73 |
| **Financial controls** | The Audit Committee reviewed the results of the financial controls testing carried out across the Group by the Company's auditor, KPMG LLP. | Risk management and internal control on page 105 |
| **Internal Audit** | The Audit Committee received and reviewed the conclusions and themes emerging from Internal Audit reviews conducted during the year and approved the Internal Audit Plan for 2021 in conjunction with the Board's strategic review and operating plan for the year. | Internal Audit on page 106 |
| **Governance and compliance** | | |
| **Regional 'deep dive'** | During 2020, the Audit Committee received a presentation from the Regional Finance Director of the Pacific business. This provided detail on the financial reporting for the region and the control environment in their businesses. | Other regional updates were provided as part of the Board agenda (see page 85) |
| **Tax** | The Audit Committee considered and recommended the Group's 2020 tax strategy for approval at its meeting in November. The Company's Tax Director and the UK & International Tax Manager attended the meeting in December to provide an overview of the Group's tax structure and material tax issues relevant to the Group. | Our tax strategy can be found on our website |
| **Litigation** | The Audit Committee reviewed reports of all material litigation and disputes provided by the Group General Counsel at three of their meetings. | – |
| **Disclosure Committee oversight** | The Audit Committee reviewed a report of the Disclosure Committee's activities during the year and its terms of reference. | – |
| **Letter of Assurance** | The Audit Committee reviewed a summary of the returns of the annual Letter of Assurance provided by the senior country, regional and functional management including any actions proposed as a result of those returns. | Governance and compliance on page 106 |
| **Terms of reference** | The Audit Committee undertook its annual review of its terms of reference. | These are available on our website |
| **Performance review** | The Audit Committee undertook its annual review of the effectiveness of the Committee. | Effectiveness review on page 104 |
| **Payment practices** | The Audit Committee noted and discussed the payment practice reports for our two principal UK subsidiaries submitted during 2020. | These are published online at gov.uk |
| **Non-audit services** | The Committee updated the non-audit services policy to ensure compliance with the FRC's Revised Ethical Standard 2019. | The policy is available on our website |

## Financial reporting

The Annual Report should provide the information necessary for shareholders to assess the Company's position, performance and prospects and, as a whole, should be fair, balanced and understandable. The Audit Committee considered closely the judgements and decisions taken by the management team in the preparation of the Financial Statements. The sections below set out the significant issues and judgements that were applied in the 2020 Annual Report, as well as providing additional details on other financial reporting matters considered during the year. As part of the Committee's review of the 2020 Annual Report at its meeting in February 2021, a report on management procedures was produced for review which clearly detailed the steps undertaken by management to ensure full compliance.

## Significant issues and judgements

The Audit Committee has reviewed the following significant financial reporting issues and judgements made during the preparation of the Financial Statements with management and the auditor. The significant areas of focus considered and actions taken are set out below. These issues have been discussed and reviewed by the Audit Committee during the year, notably at the review of the interim results and at the review and agreement of the audit plan for 2021.

| Significant matter | Action taken |
|---|---|
| **Acquisition accounting** | |
| The Group makes a large number of acquisitions each year, many of which require the valuation of acquired intangible assets including brands, customer lists and goodwill. The calculations for valuing these assets on acquisition are subject to significant judgement and estimation about the future performance of the acquired business, such as forecast customer termination rates, discount rates and growth rates. The Group utilises the allowances for provisional accounting within the standards where appropriate, and there is judgement required during this period as to whether the adjustments relate to the pre- or post-acquisition period. | At the year end, management provided the Audit Committee with a summary of M&A activity in the preceding year, including updates to provisional accounting as well as details of new acquisitions. The Audit Committee reviewed the accounting treatment of certain aspects of significant acquisitions, including determination of the consideration paid, the identification and valuation of acquired intangible assets and a review of provisional opening balance sheets. |
| **Deferred tax assets recognised on unused tax losses** | |
| The Group holds a substantial UK deferred tax asset recognised on unused tax losses. The amount recognised is a judgement and is based on estimates of future profitability and judgements in determining the forecast period. | The Audit Committee reviewed the position at the half-year and year-end balance sheet dates supported by papers from the Group Tax Director, and is satisfied that the assumptions supporting the valuations are appropriate and that the assets are reasonably stated in the Financial Statements. Where judgements are material to the Group, the external auditor uses its own specialists to assist in the review of the approaches taken and assumptions made by management, to ensure these are appropriate and result in adequate provisions. Further detail is disclosed in Note A14 Deferred income tax. |
| **Tax provisions** | |
| The Group holds a number of provisions for tax contingencies in relation to various claims and potential claims from tax authorities, which require significant judgements and estimates in relation to tax risks. The complexity is increased as a result of the large number of tax jurisdictions in which the Group operates, and the time taken for tax matters to be agreed with the relevant authorities. | Management employed local tax experts to support judgements where there was significant uncertainty and the amounts involved were material. In respect of transfer pricing across tax jurisdictions, the Group benchmarked its approach using transfer pricing experts to ensure the risk of breaching local tax authority requirements is minimised. As noted above, the Audit Committee reviewed the position at the half-year and year-end balance sheet dates supported by papers from the Group Tax Director, and is satisfied that the assumptions supporting the valuations are appropriate and that the liabilities are reasonably stated in the Financial Statements. Further details can be found in Note A13 Current tax liabilities. |
| **Bad debt provision** | |
| The Group holds provision for impairment of trade receivables. The level of trade receivables and the age of the debt has increased as a result of the COVID-19 pandemic. The complexity of the calculation of an appropriate provision for impairment has therefore also increased, in part due to the pandemic affecting different customer sectors in different ways. | The Group performed an extended expected credit loss analysis on a country by country basis and overlaid with a robust central review to ensure all risk was adequately covered. |
| **Credit note provision** | |
| In the year, the Group has been unable to meet its usual high levels of service, as COVID-19 lockdown restrictions have prevented the Group from being able to perform a significant proportion of planned service visits on customer premises. As a consequence, some customers may potentially be entitled to credit notes against amounts invoiced. | The Group has reviewed its service delivery data and credit notes already issued in order to establish the quantum of credit notes that need to be provided. |

| Significant matter | Action taken |
|---|---|
| **Goodwill impairment review** | |
| The Group carries material balances for goodwill and acquired intangible assets, and due to the acquisition programme makes material additions to these balances each year. Annual impairment tests are based on value-in-use calculations which require significant judgements in relation to the inputs used, including forecast growth rates and discount rates. Management is required to perform annual tests for impairment of goodwill balances over £1m, and on other acquired intangible assets when there are indicators of impairment. | Management reviewed all goodwill balances over £1m for impairment using a centrally provided model. The intangible assets were grouped into cash-generating units (CGUs) for the purpose of assessing recoverable amount, using cash flows based on the most recent strategic plans, as amended for any significant changes since their preparation. Cash flows were discounted using discount rates, which are adjusted to reflect local country risk. It was determined that the carrying value of the Rentokil PCI (India) goodwill balance needed to be impaired by £8.1m due in part to an increase in the discount rate used since the last review, as well as some operational underperformance. It was also determined that the goodwill balance in Brazil needed to be impaired by £2.5m due to an increase in the discount rate used, driven by external factors. No other CGUs were found to be impaired. The Audit Committee received a summary of the results of the review and, although the total value of intangible assets is significant, was satisfied that the outcome of the impairment review was adequately disclosed in Note B2 Intangible assets. |

## Other financial reporting matters

**Going concern and viability statements**
At its meeting in February 2021, the Audit Committee considered the Group's ability to continue as a going concern, taking into account budgets, borrowing facilities, timing of cash flows, and financial and operational risk management, before recommending to the Board that it adopt the going concern basis of preparation for the 2020 Financial Statements. At the same meeting, the Audit Committee also considered the longer-term viability of the Company, reviewing the analysis from management to support the Viability Statement in the 2020 Annual Report. This included forecasts of future cash flows, stress-testing scenarios and an analysis of other risks that could impact the viability of the business over the three-year period 2021 to 2023 and how they could be mitigated.

The statements for 2020 were both reviewed in light of the impact of the COVID-19 pandemic, with consideration given to the guidance published by the FRC. As a result, the process behind the statements has been enhanced, using for example actual experience from lockdowns and customer closures to model a longer-term impact on the Group in more precise and rigorous detail. The going concern statement for 2020 can be found on page 203. The Viability Statement for 2020 can be found on page 74.

**Fair, balanced and understandable reporting**
During 2020, the Audit Committee undertook a review of the 2019 Annual Report ahead of its publication to consider whether it was fair, balanced and understandable as required by the UK Corporate Governance Code. The Committee received a report from management summarising the process undertaken, which covered, but was not limited to, the following:

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

The Audit Committee was satisfied that the Annual Report did provide a fair, balanced and understandable assessment of the Company's position and prospects. A similar process was repeated for the 2020 Annual Report and the Board's statement on fair, balanced and understandable in relation to the 2020 Annual Report can be found on page 204.

**FRC review of 2019 Annual Report and Accounts**
As part of its ongoing review of financial reporting, the Conduct Committee of the Financial Reporting Council (FRC) wrote to the Chairman, Chief Financial Officer and Audit Committee Chair in July 2020 regarding a review of our Annual Report and Accounts for the year ended 31 December 2019. While the letter stated that there were no substantive issues identified, the FRC did provide a schedule with a small number of suggestions which have been considered in the preparation of this Annual Report.

**FRC Audit Quality Review (AQR) of KPMG audit of the 2019 Financial Statements**
The FRC wrote to the Audit Committee Chair in September 2020 following a review of KPMG LLP's audit of our Financial Statements for the year ended 31 December 2019. The AQR Inspection Report found that limited improvements were required with only one general finding arising from the review which related to the evidence supporting the auditor's evaluation of the Company's disclosure on impairment of goodwill. The Audit Committee considered the report at its meeting in November and as a result the auditor will more fully evidence such evaluations in future.

## External audit

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

The auditor attends all meetings of the Audit Committee. During 2020, KPMG met with the Audit Committee twice without executive management present and met with the Audit Committee Chair independently twice. The main engagement with the Audit Committee in 2020 has been over the audit and publication of the Annual and Interim Financial Statements, including the auditor's scope and priorities approach and key judgement areas. During 2020, the Audit Committee considered the findings of the FRC's Audit Quality Review 2019/20 inspection of KPMG and the other large external audit firms and received a report from KPMG on how they were responding to identified issues.

As reported on page 104, the Audit Committee formally reviewed the effectiveness of the auditor during the year and as a result the Audit Committee undertook a tender for the external auditor and is subsequently recommending that PwC be appointed as the Company's external auditor from the 2021 audit. PwC have shadowed the 2020 audit process.

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

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

The Audit Committee regularly reviews the amount and nature of non-audit work performed by the auditor to ensure that the auditor's independence is not compromised. Any engagement fee on permitted services in excess of £10,000 requires the approval of the Chair of the Audit Committee and any engagement fee in excess of £250,000 requires the approval of the Audit Committee. A copy of our policy on the provision of non-audit services by the external auditors is available on our website. The non-audit services policy was reviewed in July 2020, and an updated version to reflect the FRC's changes in the Revised Ethical Standard 2019 was approved. There was no significant non-audit service rendered during 2020.

Audit fees for the statutory audit for 2020 were £3.2m (2019: £2.6m). Fees for audit-related assurance services and other non-audit services incurred during the year amounted to £0.1m (2019: £0.2m). The ratio of non-audit fees to statutory audit fees for the year was therefore 0.03:1 (2019: 0.08:1). The majority of the audit-related services were in relation to non-statutory accounts audits and assurance services. Further details of the fees paid for audit services, audit-related services and non-audit services can be found in Note A8 to the Financial Statements on page 163.

**Disclosure of information to the auditor**
The Audit Committee monitors the process leading up to the preparation of the Financial Statements, including the arrangements the Company has in place for disclosing all relevant audit information to the auditor. A formal confirmation on disclosure of information to the auditor is provided in the Directors' Report on page 203.

**Effectiveness**
Under the UK Corporate Governance Code, the Audit Committee is required to review and monitor the auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. The 2019 audit was completed and all milestones reached, and there were no significant unexpected events relating to the publication of the 2019 year-end results in February 2020.

In 2020, the Audit Committee considered the findings of the review of the auditor's effectiveness during the 2019 audit process which had been conducted during the preparation of Group and local statutory accounts for the 2019 financial period. The process drew input from the Chief Financial Officer, the Director of Internal Audit & Risk and other members of the senior finance management team, as well as from the majority of the Finance Directors of the Group's subsidiaries. The process made use of a formal evaluation using a questionnaire which was completed by business units in 36 countries as well as by the central accounts, tax and treasury functions. In order to allow direct comparability of the evaluation scores across periods, the questions were exactly the same as those used in previous years. The questionnaire covered:

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

The Audit Committee considered the comprehensive findings of the review. It was noted that, although the majority of individual feedback was satisfactory, the lowest scores continued to be in the areas of planning, continuity, and the focus on low-risk areas. Further, there was once again some concern on the knowledge and experience of more junior members of the audit teams and frustration due to time spent learning system complexities. Taking all responses into account, the scoring mechanism demonstrated that the audit performance was effective and at a similar level to the previous year. While no material areas of concern were identified, it was noted that the performance had not improved since the previous year and certain promised enhancements in the audit process such as the use of technology had not been delivered since the previous tender in 2017.

**Audit tender**
KPMG LLP has been our external auditor since the audit for the year ended 2009. KPMG LLP are required to rotate the audit partner responsible for the Group audit every five years. Mike Maloney was appointed lead audit partner in 2018 and has attended all Audit Committee meetings during 2020.

As previously mentioned, the Audit Committee oversaw a formal and competitive tender process during 2020 in relation to the Group's external auditor.

The last tender process took place in 2017 resulting in the re-appointment of KPMG LLP as the Group's external auditor. Over the last three years, the Audit Committee, conscious of the changing size and shape of the Group, and in light of technological developments in auditing software, took the decision to run a new audit tender to see if the Group's audit requirements could be met in a different way.

The process started in August 2020 with the establishment of a Steering Committee made up of the Chief Financial Officer, Group Financial Controller and the Director of Internal Audit & Risk. The Steering Committee completed a review of potential audit firms to be invited to participate in a detailed selection exercise, including the incumbent auditor and those that had been shortlisted in 2017. Of the three firms contacted one was unable to commit to the tender, and as such two were selected and sent a formal Request for Proposal (RFP). This included KPMG (incumbent) and PwC who came second in the scoring of the 2017 tender.

Each of the teams from the two tendering audit firms were given identical opportunities to meet and demonstrate their proposed offerings. This included meetings with a number of Board members and senior executives, including:

- the Chairman and the Audit Committee Chair;
- the Chief Executive and Chief Financial Officer;
- the Managing Directors and Finance Directors of each of the five regions; and
- the Group Financial Controller and the Director of Internal Audit & Risk.

The firms were also invited to present their IT auditing software to a smaller group comprising the Chief Financial Officer, Group Financial Controller, and the Director of Internal Audit & Risk.

Formal written responses to the RFP were then submitted and each firm presented to the Audit Committee Chair, the Chief Executive, Chief Financial Officer, the Group Financial Controller and the Director of Internal Audit & Risk.

A formal evaluation process was followed at all stages with the Audit Committee and Board being regularly updated and key reflections of the Steering Committee being presented to the Audit Committee for consideration. Areas of consideration included technological innovation, technical expertise, a demonstrable understanding of Rentokil Initial's business, commitment to building a long-term relationship, cultural fit and proposed fee structure and development. The tender was further used as an opportunity to refresh input on the approach to the audit, the Company's external reporting and the internal separation of the audit firm's audit operations.

Further to the outcome of the tender, the Audit Committee recommended to the Board that PwC be appointed as the Company's external auditor based on the clearly presented intentions of the team backed up by supporting positive confirmations from external references taken on PwC that gave senior management confidence in their capabilities, responsiveness, technology and challenge to Group management. The Group and PwC have agreed a detailed set of joint objectives to ensure that commitments made during the audit tender are delivered and followed up on in regular meetings between PwC and senior management.

The Board approved the Audit Committee's recommendation and the Directors will be proposing the appointment of PwC for the financial year ending 31 December 2021 and the setting of its fees at the Company's 2021 AGM. The new audit partner will be Neil Grimes.

The Company confirms its compliance with the provisions of the UK Competition & Markets Authority Order regarding statutory audit services for the financial period ended 31 December 2020.

**Auditor independence and objectivity**
The Audit Committee considers annually the scope, fee, performance and independence of the external auditor. Having considered the relationship with the existing independent auditor, their qualifications, expertise, resources and effectiveness, the Committee concluded that the incumbent external auditor remained independent for the purposes of the 2020 year end. In concluding that PwC should be proposed for appointment as auditor at the AGM in May 2021, as part of the criteria considered in the tender process, the Board and the Audit Committee took into account the need to ensure that auditor independence was safeguarded. The Audit Committee received confirmation from PwC that they were independent and objective within the context of applicable professional standards.

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

## Risk management and internal control

The Group's approach to managing risk and ensuring that an effective internal control environment is maintained is set out in the Risks and Uncertainties section on page 67. The Board's statement on risk management and internal control is set out in the Corporate Governance Report on page 98. Independent reassurance of the effectiveness of risk management and internal controls across the Group is provided to the Chief Executive and the Board by Group Internal Audit.

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

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

Some of the above responsibilities are delegated to the Audit Committee as previously described. The Audit Committee receives regular reports from the Chief Financial Officer and the Director of Internal Audit & Risk on financial controls and process improvement programmes. These include:
- an annual report on the overall status of the control environment in the Group, including the results of testing and reports on identified areas of weakness in controls;
- action plans on control environment improvements and updates on their implementation;
- the impact of the COVID-19 pandemic, including its impact on existing and emerging risks, and mitigating actions (see page 68);
- updates on control weaknesses and planned actions to prevent a re-occurrence; and
- periodic reports from regional and Group Finance executives, and Internal Audit.

During 2020, the Audit Committee continued its practice of reviewing in depth the risk and control environment in the main regional businesses, as well as the Regional Finance Directors' assessment of the quality and priorities of the Finance function in the relevant part of the business. Audit Committee members received a presentation from the Regional Finance Director for the Pacific region during the year. Other regional updates were provided as part of the Board agenda. This provides the Audit Committee with high-level insight, as well as an opportunity to challenge key managers on potential risks. It further supports the discussions that take place in the Nomination Committee on talent and succession in the Finance function, which were helpful in the decision to appoint the North America CFO Stuart Ingall-Tombs to the Group Chief Financial Officer role in 2020.

The number of control issues across the Group remains relatively low, with those that do occur not resulting in a material impact on Group performance. Nonetheless, significant control issues were experienced; in China, where a cyber attack was successfully mitigated; in Trinidad, with an attempted supplier fraud; a Distributed Denial of Service attack on our global websites; a data breach; and a potential unauthorised bank account. Operational controls examined by Internal Audit generally work well. Testing of these controls during 2020 highlighted some issues regarding the administrative process around documenting and retaining training records in some countries. These issues are being reviewed to define the most appropriate best practice for the operating units to follow. The Audit Committee also receives a regular report of matters reported via Speak Up, our internal whistleblowing process. There were 45 control incidents reported in 2020 (2019: 56). The number of Speak Ups reduced in 2020 compared with 2019, but are at a higher level than previous years. The nature of the matters reported indicates that this increase is likely to be the result of better awareness of the Speak Up facility rather than a worsening of the internal control environment. The majority of Speak Ups relate to employee and employment matters; very few relate to fraudulent activity, which remains at a very low level across the Group. Further details can be found in our responsible business website at **rentokil-initial.com/responsible-delivery**.

In 2021, the Audit Committee's responsibilities will include appropriate review of the Company's activities and processes to identify, assess and manage the opportunities and risks related to climate change. This will support enhanced reporting and disclosures in alignment with the Task Force on Climate-related Financial Disclosures (TCFD) framework. See pages 52 to 57 for further information on the Company's journey to net zero.

There is a Group Risk Committee composed of key functional and operational senior managers which considers the risk framework and key and emerging risks. This Committee sits within our governance framework as set out on pages 96 and 97. Copies of the minutes of the Group Risk Committee are provided to the Audit Committee. Where appropriate, items that are raised as significant or emerging issues by the Group Risk Committee are reflected in adjustments to the control environment.

## Internal Audit

The Group has an operational Internal Audit team of six led by the Director of Internal Audit & Risk. During the year, the previous Director of Internal Audit & Risk, who had been in position for almost nine years, retired. An experienced successor had been identified from within the business and she was appointed from September 2020 following a comprehensive handover. The Director of Internal Audit & Risk reports to the Chief Financial Officer and has direct lines of communication with the Chair of the Audit Committee, the Chief Executive and the Chairman of the Board, as well as to all operational and functional leaders in the business. The Internal Audit team has since 2019 included one senior auditor focused specifically on the North America business.

In 2020, Internal Audit continued to conduct in-depth reviews of a broad range of business processes at business locations across all regions. These included:

- key financial controls;
- entertainment and travel expenses;
- authority schedules;
- payroll;
- IT general controls and IT corporate-level controls including Payment Card Industry Data Security Standard (PCI-DSS) compliance;
- customer contract management;
- stock and warehousing;
- procurement;
- operational effectiveness including compliance with Group technical standards;
- business continuity management; and
- compliance with the Code of Conduct and anti-corruption policy.

The 2020 Internal Audit Plan was approved by the Audit Committee in December 2019. Due to COVID-19, the Internal Audit programme was suspended for approximately three months, resulting in approximately 20% of the audits being moved to 2021. Once it had restarted, the Internal Audit programme was conducted remotely. An additional audit was performed on the UK CJRS at the request of management. The common themes arising from the internal audit work during 2020 were presented to the Audit Committee in December 2020, together with recommendations to senior management to improve the controls across some processes.

The 2021 Internal Audit Plan has been designed to address the areas that emerged in 2020, and to improve the process in several ways. Country audits will be expanded and made more risk-based in scope. Thematic audits will focus on resolution of the most common or high-risk issues, with tighter sanctions for audits revealing several mid-tier items while addressing the least significant points through proactive, enhanced sharing of best practice.

None of the failures identified in the control environment by Internal Audit or any of the recommendations relating to individual audits represented a systemic underlying issue. The overall work of the Internal Audit function is supportive of the Audit Committee's and the Board's view that the financial and operational controls environment, set out on page 105, is working adequately. The Board's statement on the effectiveness of risk management and internal control can be found on page 98.

## Governance and compliance

The Audit Committee has responsibility for reviewing the Company's procedures for handling compliance with our Code of Conduct and anti-corruption policy, and confidential reporting (whistleblower) arrangements, known as Speak Up. The Code of Conduct, a fundamental commitment to comply with all applicable legal requirements and to operate with high ethical standards, can be found on our website. The Company uses an international confidential Speak Up email address, which is monitored by Internal Audit.

The Audit Committee is informed of feedback from senior management who are required to provide an annual Letter of Assurance confirming compliance with key Group policies, including the Code of Conduct, and the dissemination of these policies to their respective country and functional teams (see also Management and compliance on page 64). There are policies and procedures in place for the reporting by colleagues of suspected wrongdoing, for these suspicions to be formally investigated, and for the results of the investigation to be reported to the whistleblower.

The Audit Committee also periodically reviews the communication process in place throughout the Company regarding whistleblowing and the use of Speak Up to ensure its effectiveness and to monitor our colleagues' understanding of the system.

## Audit Committee effectiveness

In November 2020, a review of effectiveness of the Audit Committee was undertaken as part of the broader external Board evaluation as detailed on pages 94 and 95. The review concluded that the Audit Committee continued to perform effectively and had received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities. Following discussion of the recommendations of the Board effectiveness review, the Committee intends to add a further meeting in the first half of the year, to allow further time for consideration of risk areas and addressing the areas of focus on a more regular basis. The plans for enhanced Board engagement with the business and key stakeholders will also be considered by Committee members in the context of their Committee responsibilities.

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

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

# Nomination Committee Report

## Dear Shareholder

In 2020, we welcomed a new Non-Executive Director, Cathy Turner, on 1 April, and appointed a new Chief Financial Officer, Stuart Ingall-Tombs, who took over from Jeremy Townsend in August. The Nomination Committee was naturally fully involved in both processes.

In the second half of the year, the Nomination Committee has been overseeing the recruitment of a new Non-Executive Director as set out on page 108. The Nomination Committee's key objective is to make sure that the members of the Board have the appropriate balance of skills, knowledge and experience to govern the Company in a professional, ethical and transparent manner, and to ensure that the Board is rigorous and effective in discharging its responsibilities.

### Committee members

- Richard Solomons (Chair)
- John Pettigrew
- Angela Seymour-Jackson
- Julie Southern
- Cathy Turner
- Linda Yueh

## Areas of focus in 2020

- Smooth Board succession and induction processes for both Non-Executive Director and Chief Financial Officer
- Improvements in the gender balance and readiness of our executive succession and talent pipeline
- Recruitment of new Non-Executive Director

## Areas of focus for 2021

- Executive Director and senior management succession planning and talent development
- Monitoring and fostering a successful performance culture
- Diversity, equality and inclusion, within our ESG strategy, including focus on ethnicity

As part of the recruitment process the Nomination Committee considered the composition of the Board and the desired skills and experiences of the new Non-Executive Director. The process was paused due to the COVID-19 pandemic but subsequently recommenced and, following a very thorough search, I am delighted to say that Sarosh Mistry will be joining the Board as a Non-Executive Director, as well as a member of the Nomination and Remuneration Committees, from 1 April 2021. He has a wealth of executive experience at leading organisations and brings the deep knowledge of the US market (where he is based) that had been identified as a priority skill to supplement on the Board, given the scale and importance of the Company's business in North America. He will, I am sure, be a great addition to the Board.

The external Board effectiveness review was conducted by Christopher Saul from Christopher Saul Associates, and further details of the selection, process and outcome are set out on pages 94 and 95.

The Nomination Committee has also dedicated time during the year to consider succession plans for the Executive Leadership Team and other critical roles. In particular, we spent time (as we had in 2019) considering and making recommendations in relation to the succession plans for our Chief Financial Officer, Jeremy Townsend, who retired in August. I would like to thank Jeremy for his efforts in developing internal talent within the Finance function which enabled and supported the appointment and smooth succession of Stuart to the Chief Financial Officer role.

Details of the induction and training activities for new Directors and a detailed timeline for the Chief Financial Officer induction, as well as a case study on the impact of a virtual induction of a Non-Executive Director, are set out on pages 92 and 93.

The Board considered its own diversity, as well as that of senior management and the wider workforce, during 2020. We reviewed the Board diversity policy during the year and I am pleased to say that currently half our Board are female and we have one Director from an ethnic minority background. We also welcomed the publication of the latest report of the Hampton-Alexander Review in February 2021, which saw Rentokil Initial placed 7th in its ranking of women on boards and in leadership in all FTSE 100 companies.

In 2021, we will continue to focus on diversity and the impact of the policies and processes that have been put in place.

Finally, having served for a period of nine years, Angela-Seymour Jackson will not be seeking re-election at our AGM in May 2021. Cathy Turner will succeed her as Chair of the Remuneration Committee. Cathy has served on the Remuneration Committee since her appointment in April 2020.

**Richard Solomons**
Chair of the Nomination Committee

3 March 2021

## Role of the Nomination Committee

The Nomination Committee has delegated authority from the Board as set out in its terms of reference. The annual review of the terms of reference of the Nomination Committee took place in December 2020 and the terms of reference are available on our website.

## Membership and attendance

All Non-Executive Directors are members of the Nomination Committee in order to ensure that they are able to provide input and help determine the future composition of the Board. Richard Solomons acts as Chair of the Nomination Committee. The Nomination Committee met formally twice during the year, with one scheduled meeting being cancelled. The members of the Nomination Committee also held discussions outside of these formal meetings in relation to Board succession plans and the recruitment process for a new Non-Executive Director which was undertaken during 2020. Full details of the meeting attendance of members of the Nomination Committee during 2020 can be found on page 85.

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

## Appointment process to the Board

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

## Non-Executive Director succession

Following a formal recruitment process undertaken in 2019, Cathy Turner was appointed as a Non-Executive Director from 1 April 2020 and also became a member of the Company's Nomination and Remuneration Committees from her date of appointment. Full details of the recruitment process were disclosed in the Company's 2019 Annual Report, which is available on our website.

The Nomination Committee considered the composition of the Board during 2020 and, as usual, a key area of focus was the recruitment of a new Non-Executive Director to join the Company's Board of Directors. Angela Seymour-Jackson will have served on the Board as a Non-Executive Director for a period of nine years by the AGM in May 2021 and a successor was, therefore, needed. The Nomination Committee engaged Heidrick & Struggles to assist with the process. Heidrick & Struggles has no other material connections with the Company or any Director and is a signatory to the Enhanced Voluntary Code of Conduct for Executive Search Firms.

The Nomination Committee devised a candidate profile, containing a brief of the requirements and the desired skillset for the role, working with Heidrick & Struggles. The process commenced in early 2020 but was subsequently delayed due to the impact of the COVID-19 pandemic on the business and the prioritisation of resource and focus. The search for a new Non-Executive Director recommenced in October 2020. A broad global search was undertaken, yielding a pool of candidates which was reduced to a shortlist of several potential candidates. Regard was given to the Company's approach to culture and diversity (as set out on page 110) at all times in the process.

Heidrick & Struggles conducted initial interviews of the short list in order to evaluate fit against the role criteria, our culture and the skills and competencies of other Board members. Following this, the Chairman and Group HR Director interviewed the preferred candidates, and those who most met the criteria and culture fit were next interviewed by the Chief Executive and Senior Independent Director to further narrow the field.

Once a preferred candidate was identified, all remaining members of the Board and the Company Secretary interviewed the candidate. All feedback was taken on board and, following full deliberation, the Nomination Committee recommended the appointment of Sarosh Mistry to the Board. The Board approved the appointment and Sarosh will join the Board as a Non-Executive Director and a member of the Nomination and Remuneration Committees from 1 April 2021. The Nomination Committee also recommended that Cathy Turner succeed Angela Seymour-Jackson as the Chair of the Remuneration Committee with effect from the conclusion of the Company's AGM on 12 May 2021, which the Board fully supported.

## Activities of the Nomination Committee in 2020

In 2020, the Nomination Committee considered the following key areas:

| Matters considered | Discussion and outcome | Find out more |
|---|---|---|
| **Board succession** | The Nomination Committee undertook a search for a new Non-Executive Director in 2020. | See above and Board composition on page 84 |
| **Senior management succession** | The Nomination Committee considered Executive Director and senior management succession throughout the year, and received a briefing from the Group HR Director in December 2020 on talent and succession planning. | See page 109 for more information |
| **Terms of reference** | The Nomination Committee reviewed its terms of reference in December 2020. | Available to view on our website |
| **Nomination Committee effectiveness** | The Nomination Committee undertook a review of its effectiveness. | See effectiveness review on page 110 |
| **Director effectiveness** | A review of individual Directors' performance was conducted, as part of the Board evaluation process, and the Nomination Committee made appropriate recommendations to the Board over the re-election of Directors at the AGM. | See page 110 and the Board evaluation on pages 94 and 95 |
| **Diversity** | The Nomination Committee considered the Board diversity policy, including its effectiveness. | See pages 109 and 110 for more information |
| **Conflicts of interest** | The Nomination Committee reviewed potential conflicts of interest authorised by the Board and the processes in place to ensure that they are properly considered. | See Managing conflicts of interest on page 110 |

## Chief Financial Officer succession

Following a rigorous recruitment process undertaken in 2019 and early 2020, Stuart Ingall-Tombs was appointed as the Group's Chief Financial Officer in August 2020 following Jeremy Townsend's retirement. Stuart has worked for the Company since May 2007, covering a number of senior roles in the Group, including Regional Finance Director, Europe from 2014 to 2018, Group Financial Controller from 2011 to 2014, and most recently as Chief Financial Officer for North America. Full details of the recruitment process were disclosed in the Company's 2019 Annual Report, which is available on our website. To ensure a smooth succession, there was an extended handover and induction period in 2020, details of which can be found on page 93.

## Senior management succession planning and talent development

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

The Group HR Director presented an update on the Company's talent strategy to the Nomination Committee in December 2020. This reviewed the current succession pipeline for key senior management roles, most notably the members of the Executive Leadership Team (ELT, see page 80) and other critical roles, as well as wider talent development priorities. The Nomination Committee considered the progress made against the priorities for 2020, including how we benchmark and develop talent. An overview was provided of the global, regional and fast-track talent pools, which have been established to help identify successors for roles in our ELT and Senior Leadership Forum (SLF, our top 25 senior management team), to improve the succession pipeline for senior operational management, and to identify and accelerate the development of fast-track talent.

### Knowledge sharing with talent pool

In November 2020, one of our Non-Executive Directors, Linda Yueh, facilitated a presentation and discussion, using our new Rentokil Initial virtual classroom platform, on the global economic outlook for 2021, with over 30 of our global talent pool participants. The group comprised successors from 20 countries for our key leadership roles around the world. Linda's presentation covered the economic impact of the COVID-19 pandemic, the US election and Brexit. Questions and discussion topics ranged from how countries are managing sovereign debt to the impact of the pandemic on our customers and businesses around the world.

Feedback from the session was provided to members of the Executive Leadership Team and the session was also discussed at the next Nomination Committee meeting as part of the discussion on talent and succession planning.

## Board diversity objectives

| Objectives | Progress |
|---|---|
| A target of at least 33% female Directors by 2020, and to maintain this thereafter. | 50% of our Directors are currently female. |
| Appoint at least one Board member from an ethnic minority background by 2021. | This was achieved with the appointment of Linda Yueh in 2017. |
| Commitment to a merit-based approach to Board composition within a diverse and inclusive culture. | A rigorous process was undertaken for the recruitment of Sarosh Mistry. See full details on page 108. |
| To work only with executive search firms who have signed up to the Enhanced Voluntary Code of Conduct for Executive Search Firms on gender diversity and best practice (Enhanced Code). | All executive search firms retained by the Company during 2020 for Board appointments have signed up to the Enhanced Code (see page 108). |
| To support the executive management of the Company in developing and implementing appropriate policies, programmes and initiatives designed to promote diversity at all levels of the organisation. | In 2020, our ELT and its direct reports (excluding colleagues in administrative roles) were 30% female (2019: 28%). Regional successors are 38% female. Approximately 25% of our colleagues are female. The Board receives two detailed briefings on culture and our Employer of Choice agenda each year, which address progress on diversity and inclusion. |
| To ensure that there is a pipeline of female executives within the organisation who are qualified and capable of taking up senior leadership positions. | Women comprise 31% of successors for ELT and SLF roles, up from 26% in 2019 and 24% in 2018. Our progress on improving female representation in the most senior leadership roles in the Company saw us ranked 7th of all FTSE 100 companies in the most recent Hampton-Alexander Review published in February 2021, up from 9th previously. |
| Aim to ensure that there is appropriate and meaningful disclosure in the Company's Annual Report of Board composition, appointment processes, and the policies and initiatives the Company has in place and the steps it is taking to promote diversity, both at Board level and across the Company. | The Nomination Committee reviews this each year. |

As a result of our talent development and succession planning activity, 94% of ELT and senior leadership roles now have a named near-term successor, up from 84% in 2019 and 76% in 2018.

Talent development activity had to be paused in the first half of 2020 due to the COVID-19 pandemic, and development modules were conducted virtually in the second half of the year due to ongoing travel restrictions. This has shown us the potential benefits that can be achieved from developing talent virtually and we will leverage this extensively in 2021 to improve the reach and numbers for our talent pools. High numbers of participants in our talent pools have subsequently been promoted (97% of 2017/18 participants and 64% of 2019/20 participants), demonstrating the important role the talent pool programme plays in identifying and preparing the future leaders of the Group.

## Fostering a diverse and inclusive culture

A key strategic aim of the Company is to be recognised as a world-class Employer of Choice, which is able to attract, recruit and retain the best people from the widest possible pool of talent. We are, therefore, committed to creating a diverse and inclusive working environment for all employees by, at all times, striving to be an organisation that values everyone's talents and abilities and where diversity is encouraged. Details on how we are achieving this can be found in the Responsible Business section on page 50 and our Group Diversity, Equality & Inclusion Policy is available on our website.

The Board of Directors has adopted a Board diversity policy, which is reviewed and reported against annually. As part of its monitoring of gender, the Board reviews our Gender Pay Report each year and the reports are available to view on our website.

Our Board diversity policy reaffirms our commitment to meeting and maintaining the recommendations made in the Hampton-Alexander Review on improving gender balance in FTSE leadership, which set a target of 33% female Board representation by 2020. We achieved this target in 2017 and have been able to maintain it since then. The objectives contained in our Board diversity policy, and how we are meeting these, are set out on page 109.

In 2017, we achieved the aim set in the Parker Review for each FTSE 100 Board to have at least one Director from an ethnic minority background by 2021, and have maintained it since then. We are also steadily increasing the number of women in senior roles, with 30% of all WL4+ roles being held by women, up from 28% in 2019 (defined as all ELT direct reports excluding administrative staff). We have also had no material gender pay gap for the last four years in our UK businesses.

As a global organisation, we also believe that it is important to have a senior management team that is representative of the markets in which we operate and the customers we serve. To that end, we are able to report that 21% of our senior management roles are currently filled with individuals who are defined as ethnic minorities (2019: 11% – note this increase is in part due to changes in the composition of the ELT and reporting lines). While this increase is encouraging, we believe that, if our leadership is to reflect the diversity of our countries in which we operate, our target for ethnic diversity in our senior leadership population should be at least 28% and this will continue to be an area of focus for us moving forward. We can also report that 24% of the participants in our current global talent pools are defined as being of an ethnicity that is not White or European, building us a growing pipeline of future leaders from ethnically diverse backgrounds. We aim to remove bias from our recruitment processes and to ensure that we are attracting the best people from the widest possible pool of talent.

A summary of our culture and further details on our colleagues are provided in the Responsible Business section from page 49. Details on how the Directors monitor culture can be found on page 83.

## Managing conflicts of interest

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

The Company has a procedure in place to deal with the situation where a Director has a conflict of interest and as part of the process the Board considers each potential conflict situation on its merits. Since the procedure was introduced, a number of potential situational conflicts arising from appointments on other boards or through some other ongoing relationship have been authorised after review by the Board, none of which is subject to any specific limitation or condition. The Company has not encountered any 'transactional' conflicts involving Directors that would require a Director to be excluded from any part of the Board's activities. A register of authorisations granted is maintained and reviewed in full annually.

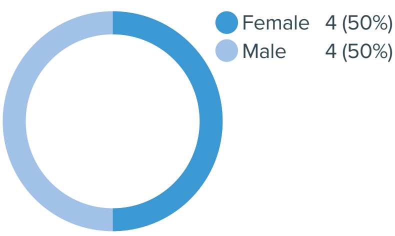
Under its terms of reference, the Nomination Committee has responsibility to review the current schedule of authorisations with a view to considering whether they remain appropriate or whether they should be revoked or otherwise limited. This review is undertaken annually and also considers the process for considering and authorising potential conflicts of interests. In 2020, the process for the disclosure of any perceived conflicts upon the appointment of a new Director was reviewed and it was concluded that no updates were necessary. All authorisations given were considered appropriate and none were revoked or otherwise limited.

## Nomination Committee effectiveness

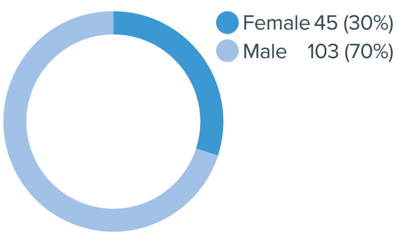
The annual Board evaluation, and its outcomes and actions, are considered by the Board at its meetings, and details of the process are therefore disclosed in the Corporate Governance Report on pages 94 and 95. The Nomination Committee was considered as part of the broader Board effectiveness review. The review concluded that the Nomination Committee had operated effectively in 2020, but it is planned for it to meet at least quarterly in 2021. The Nomination Committee has also conducted an independence evaluation of each Non-Executive Director seeking election or re-election and recommended to the Board that they be put forward for election or re-election on the basis that their performance, both individually and in aggregate, continues to be effective and that each demonstrates commitment to the role.

**Gender profile**
at 31 December 2020

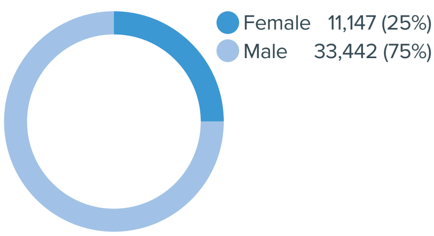
**Board**




**Senior management**[1]




**Total workforce**




1. We define senior management as the members of our Executive Leadership Team and all of their direct reports, excluding colleagues in administrative roles.

# Directors' Remuneration Report

## Dear Shareholder

I am pleased to present, on behalf of the Board, the Directors' Remuneration Report for the financial year ended 31 December 2020. I do hope this update finds you, and your families, safe and well after what has been an unprecedented 12 months.

## Introduction

2020 was an extraordinary year by anyone's standards and I will be addressing in this report the key areas the Remuneration Committee have been focused on, which include:

- Our review of the Directors' Remuneration Policy (the Policy) which is due for renewal and will be voted on at the AGM in May 2021. In this section I will endeavour to explain what the key findings of the review were, our approach to shareholder consultation, shareholder feedback, and the final proposal.
- Our response to COVID-19 and its impact on the remuneration of our Executive Directors, the Executive Leadership Team (ELT) and our colleagues worldwide.
- Our approach to pay in 2021 for our Executive Directors, ELT and the wider workforce, taking account of the level of uncertainty that we are dealing with as we continue in full or partial lockdowns in many of the countries we operate in and with vaccination programmes at different stages of maturity.

### Committee members

- Angela Seymour-Jackson (Chair)
- Cathy Turner (appointed 1 April 2020)
- Julie Southern
- Linda Yueh

## Areas of focus in 2020

- Review of the Directors' Remuneration Policy
- Incorporating best practice guidelines and corporate governance updates into our remuneration packages and Policy

## Areas of focus for 2021

- Seeking approval of the Directors' Remuneration Policy at the 2021 AGM
- Succession for the Remuneration Committee Chair who will be stepping down at the May 2021 AGM

## Policy renewal

The Remuneration Committee has spent time throughout 2020 reviewing the current Policy. Our aim has been to ensure that the Policy supports the delivery of our strategy while appropriately balancing the incentivisation and reward of our high-performing Directors, with the interests of shareholders, employees and the wider community.

**Key findings**

As I am sure you are aware, Rentokil Initial has, over the last five years, continued to grow and move up the FTSE index. At the end of 2015, we stood at 133rd position with a market capitalisation of £2.9bn and today we sit in the middle of the FTSE 100 with a market capitalisation of around £10bn.

I am conscious that we have increased elements of our Executive Directors' pay at different stages over the last few years, the most recent being the realignment of the CEO's salary last year when we were grateful for the overwhelming support we received from shareholders. The reason for these changes is that we have continually found ourselves in a position of playing 'catch up'; as the Company grows in size it means that we continue to fall behind what would be considered an appropriate market level of pay for the size of company we have become. Therefore, and given our exceptionally strong and resilient performance over a number of years, the Committee believes it is important to align our Executive Directors' reward with the shareholder experience, as well as ensuring our competitiveness as a global business.

It has always been our approach to set our Policy based on where we are now, not where we aspire to be. While many companies with strong aspirations might set their Policy with these in mind, we continue to be prudent and set our Policy based on the here and now, as we do with our wider workforce across the globe. However, our prudence matched with the business's continued outperformance has meant that our package has lagged behind other companies of a similar size, as we have continued to grow. During the review this became very evident, with our CEO's total remuneration package benchmarking more in line with the lower quartile than the median.

**Shareholder engagement**

We have engaged extensively with our top shareholders who hold around 60% of our share capital, along with shareholder representative bodies/proxy agencies. A large number of our shareholders provided feedback to our proposal and we have been encouraged by their interest and support. We have really valued the time that has been taken by shareholders to consider and fully understand our proposal within the context of our recent performance and the requirement to reward our Executive Directors appropriately. We are extremely cognisant of the current remuneration climate and, therefore, have particularly appreciated the vast majority of our shareholders indicating their support.

Although the response we received was overwhelmingly positive, we carefully considered all the feedback gathered during our consultation. As a result of this, we made some changes to our original proposal, which are detailed below.

**Final proposal**

Full details of the proposed changes are set out in the table on page 116 and the key changes are detailed below.

### Annual bonus

- The scheme design will be simplified by separating the personal performance element from the financial element. This means the personal performance element will operate independently rather than acting as a modifier.
- This change is proposed as we recognise our current scheme is considered complex and misaligned with current best practice. Shareholders have shown strong support for this amendment throughout the consultation process.

### Performance Share Plan (PSP)

- Annual share awards under the PSP will be increased from 250% to 375% for the CEO and from 200% to 300% for the CFO.
- In response to shareholder feedback during the consultation:
  - The threshold vesting level will reduce to 20% from 25%. This will mean that the proposed increase in the PSP will only be realised for delivering outperformance, as this change reduces the value at threshold to a level similar to that of our current Policy, further reinforcing our commitment to pay for performance.
  - The application of the higher award level will be phased for both Executive Directors. Our CEO will receive a PSP award of 325% in 2021 and the full Policy amount of 375% in 2022. Our new CFO will receive a PSP award of 200% of salary in 2021, which was the previous policy award level to reflect that he is settling into his new role and gaining experience.

### Pension

- For new appointments, the pension contribution will be in line with the wider workforce in the UK, currently 3% of salary. This has been applied to our new CFO.
- Our CEO's pension has been capped at the 2019 level which is currently 21.9% of salary and will continue to decrease as a result of any salary increase until the end of 2022, when it will be aligned with the wider workforce, currently at 3% of salary.

### Shareholding guidelines

- Post-cessation guidelines will be introduced which will normally require Executive Directors to hold shares, for two years post-cessation, to the value of the shareholding guideline that applied at the cessation of their employment; or, in cases where the individual has not had sufficient time to build up shares to meet the guideline, their actual level of shareholding at cessation.

**Rationale for changes**

We understand that the external environment is not conducive to material pay increases; however, we also recognise that it is incumbent upon the Committee for all concerned, shareholders, employees and customers alike, to ensure that we can effectively reward, motivate and retain our high-performing Executive Directors. We have therefore thought long and hard about this issue and strongly believe that the best way to address this is by increasing the PSP opportunity, as it places the Company in the best possible position to incentivise our now highly experienced CEO to continue to deliver superior returns for all our stakeholders. It also ensures that the overall pay positioning of the CEO is broadly aligned with the FTSE 100 median which, in our opinion, is both fair and reasonable for a company which is firmly in the top half of the FTSE 100 and for an individual who has consistently delivered upper quartile performance. Finally, it should allow us to operate at a level which is consistent with the wider market, only pays out for delivery of continued outperformance and ensures our policy remains fit for purpose over the next three-year period without the need for above inflationary increases or other significant changes to the policy.

## Response to COVID-19

The toll of COVID-19 has been felt by our customers, colleagues and shareholders alike. Our CEO, CFO and senior management team provided strong and committed leadership to enable us to successfully manage a path through the crisis, with our focus on introducing temporary measures that would enable us to retain as many colleagues as possible in the long term.

Even in the face of COVID-19 and the extreme challenges it has presented, the Company has continued to innovate, drive performance and deliver to customers. I believe this is a testament to the strength of the business model, the organisational culture and the leadership of the Company, which has been headed up so successfully by Andy Ransom since 2013.

**Impact on our management team**

Following the recommendations of our CEO, the following temporary measures were put in place:

- The Executive and Non-Executive Directors waived 35%, and senior management up to 20%, of their salary for three months. Andy went even further, voluntarily waiving the remaining 65% of his salary in Q2 and donating it to the Colleague Support Fund set up to help colleagues experiencing hardship as a result of the crisis. Other members of the management team and the Board of Directors also contributed to the fund.
- Cancellation of the global employee annual bonus scheme for H1. In H2, a reduced 'In It Together' bonus scheme was introduced for eligible colleagues. However, the Executive Directors, on their request, and in agreement with the Committee, asked not to participate.
- Cancellation of the PSP grant in March and instead granting in September 2020 ensured we had a clearer understanding of the impact of the pandemic before we granted, and resulted in the grant price being at £5.302 rather than at £3.586.

The table below shows the impact of these initiatives on the CEO's remuneration.

| | Policy £ | Actual £ | % difference |
|---|---|---|---|
| Fixed cash | 1,086,056 | 867,306 | -20.1% |
| Maximum bonus | 1,575,000 | 0 | -100.0% |
| PSP | 2,187,500 | 2,187,500 | 0.0% |
| **Total maximum package** | **4,848,556** | **3,054,806** | **-37.0%** |

In addition, the Committee has not made any adjustment to the targets or performance conditions for in-flight plans for the Executive Directors.

**Impact on wider workforce**

Our priority throughout the pandemic has been the safety of our colleagues. We moved 8,500 colleagues to remote working and implemented strict protocols, including obtaining all the necessary PPE for our frontline technicians, enabling them to safely serve our customers throughout the crisis.

Although our frontline colleagues were designated as 'essential workers' in the majority of the countries we operate in, our business has been impacted by COVID-19 due to a significant number of our customers being affected – for example, the high level of closures across the HORECA sector. This has resulted in a reduction in the number of colleagues required to service our customers. We have also followed government guidance for employees considered vulnerable and worked with colleagues and their families to help support them with childcare challenges when schools were closed.

In order to effectively provide support to our people, and in line with our focus on retaining as many colleagues as possible, we temporarily utilised government support programmes available within the countries we operate in globally. However, through initiatives such as training 7,000 colleagues in specialist disinfection services, we were able to limit the use of such schemes and get the majority of our colleagues back to work by the end of July 2020. Unfortunately, we have not been able to retain every colleague in our business lines which will not rebound in the short or medium term and where a suitable alternative role was unavailable.

**Shareholder experience**

As a result of the pandemic, we suspended dividend payments in March 2020 and no dividends were paid to shareholders during 2020. Although the share price was initially impacted, this recovered to pre-crisis levels within three months.

## Key decisions in 2020

**Context of business performance**
Despite the impact of COVID-19 on our business in 2020, we have delivered strong financial performance, with Ongoing Revenue up 6.3% on 2019 and Ongoing Operating Profit up 5.4%.

People remain at the forefront of our strategy and I am delighted that we have continued to make excellent progress on our Employer of Choice initiatives, which underpin our robust financial results. I am particularly proud of our overall employee retention levels, which ended the year at 88.6%, as they are so vital in delivering the service our customers have come to expect.

**Annual bonus outcome**
One of the initiatives put in place to enable the business to successfully navigate COVID-19 in 2020 was to cancel the H1 portion of the annual bonus, for all eligible colleagues.

For H2 a reduced incentive was put in place for all the annual bonus population; however, the Executive Directors requested not to participate. Despite the impact of COVID-19, the original full-year financial targets for revenue, profit and cash were met at threshold level or above and therefore the H2 element of the bonus was still payable. However, the Committee has respected the CEO's continuing wishes that the Executive Directors should take no bonus in relation to 2020.

Therefore no bonus is payable to the CEO or the current or former CFO for 2020.

**Performance Share Award (PSP) vesting**
During 2020, the PSP award granted in 2017 came to the end of its three-year performance period. The vesting level of the award was dependent on two performance conditions: earnings per share (EPS; measured over three financial years to 31 December 2019) accounting for one-third; and relative total shareholder return (TSR; measured over a three-year period ended 30 March 2020), which accounted for the remaining two-thirds. The Committee reviewed the vesting level based on the achievement against targets of 90.8%, to ensure that the outcome was a true reflection of the wider business performance. This scheme operates identically for our management team across the Group.

The 2018 PSP is due to vest on 29 March 2021 and performance will be measured one-third on EPS (measured over three financial years to 31 December 2020) and two-thirds relative TSR (measured over a three-year period ending 28 March 2021). Vesting is currently estimated at 85.97%, using the actual EPS outcome and an estimated TSR result based on performance up to 31 December 2020.

**PSP grants**
As we have previously communicated, we cancelled the grant of our PSP award that was scheduled for March 2020. Prior to going ahead with the grant in September the Committee undertook a detailed review of the performance conditions that had been proposed for the cancelled grant alongside the updated investor guidelines for COVID-19. Our intent was to keep the performance conditions closely aligned to our original plan, while ensuring we could set meaningful targets that continued to be stretching, but were also achievable. This resulted in the removal of EPS as a performance measure for this award as we were unable to set effective targets. All the other performance conditions were retained with the weightings adjusted to reflect the removal of EPS, with the majority going into TSR and financial metrics, as detailed below:

- TSR – weighting increased from 50% to 60%
- EPS – weighting decreased from 25% to 0%
- Other financial measures (Organic Revenue growth and Free Cash Flow conversion) – weighting increased from 10% to 20%
- Strategic/ESG measures (Sales and Service colleague retention, customer satisfaction and vehicle fuel intensity) – weighting increased from 15% to 20%

**Windfall gains**
As we delayed the grant of our PSP award in 2020, which resulted in the award being granted at £5.302 (share price on 8 September 2020), rather than £3.586 (share price on 23 March 2020), we are confident that the potential for windfall gains has been removed as the share price at grant was back to pre-COVID-19 levels.

**Shareholding**
As at 31 December 2020, the CEO's shareholding greatly exceeded the required level and the CFO was well on track to meet the required level within five years, having attained 40% of the requirement less than six months into the role. The CEO's shareholding is more than three times the required level and, if vested but unexercised, PSP awards and DBP awards are included net of tax, his shareholding is nearly eight times the required level.

| | Shareholding requirement | Shareholding as a % of salary for shares held outright | Total shareholding as a % of salary including qualifying PSP & DBP shares net of tax |
|---|---|---|---|
| Andy Ransom | 300% | 910% | 2,295% |
| Stuart Ingall-Tombs | 200% | 81% | 81% |

**Strategic alignment of pay**
Ensuring that our remuneration supports the delivery of the strategy is important to the Committee and this is achieved through aligning the measures used in our incentive schemes with our key strategic priorities. The Committee also ensures that the right behaviours and actions are driven from the top of the organisation down by ensuring that focus is balanced across both financial and non-financial outcomes, for example the inclusion of employee, customer and health, safety and environment metrics in both the personal element of the annual bonus and the PSP. The Committee also takes into consideration the wider business performance when reviewing formulaic outcomes of metrics across all incentives.

**Use of discretion**
The Remuneration Committee has exercised its discretion on executive remuneration outcomes on a consistent basis over the last few years, in order to ensure any outturn is aligned with performance. The table below shows the Committee's use of discretion over the past five years.

| Year | Applied to | Discretion applied |
|---|---|---|
| 2016 | PSP awarded in 2014 | EPS targets were increased from 14% at threshold and 20% at maximum to 17% at threshold and 23.1% at maximum, due to material M&A activity. |
| 2017 | PSP awarded in 2015 | EPS targets were increased from 7% at threshold and 13% at maximum to 11.9% at threshold and 18.2% at maximum, mainly due to Steritech acquisition. |
| 2018 | PSP awarded in 2016 | EPS targets were increased from 9% at threshold and 15% at maximum to 9.6% at threshold and 16.1% at maximum, due to material M&A activity. |
| 2019 | PSP awarded in 2017 | EPS targets were increased from 6% at threshold and 11% at maximum to 6.9% at threshold and 14.1% at maximum, due to material M&A activity. |
| 2020 | No discretion was applied | |

### Director changes

Jeremy Townsend, Chief Financial Officer, retired from the Board on 14 August 2020 and was succeeded by Stuart Ingall-Tombs. Jeremy was treated as a good leaver and full details of the terms are set out on page 131.

Cathy Turner was appointed to the Board as a Non-Executive Director on 1 April 2020 and was appointed to the Remuneration Committee on the same date.

### Wider workforce engagement

Following changes to the UK Corporate Governance Code that seek to broaden the role of the Committee to include oversight of wider employee remuneration and related policies and to show how the Committee has engaged with the wider workforce, we have built on practices that were already in place and embedded in the way we work. As detailed on pages 47 to 51, our colleagues have been at the forefront of the significant progress we have made over the last few years and our Employer of Choice agenda (including safety, health and environment) remains our number one priority. More information about the Board's engagement with stakeholders, including our approach to workforce engagement, can be found on pages 90 to 91. The Committee takes into account the wider workforce when making remuneration decisions for the Executive Directors and the Executive Leadership Team and has done so historically. The Committee is proud that both the PSP and annual bonus scheme operate consistently for both Executive Directors and the wider management teams, across all countries within the Group, and penetrates deep into the organisation creating alignment and focus, as well as ensuring that the success of the Company is shared by our colleagues.

## Looking ahead

### Salary review

We have taken the decision to move our annual pay review to mid-year. Therefore, any salary increase awarded to the CEO is likely to be modest, in line with the wider workforce, and would not become effective until 1 July 2021.

In line with the terms of his appointment Stuart Ingall-Tombs salary will increase to £550,000 once he has been in role for 12 months, assuming both his and the Company's performance is satisfactory.

### Appointment of a new Chair of the Remuneration Committee

Having served nine years on the Board, and in line with good governance, I will be standing down as Chair of the Remuneration Committee and from the Board at the AGM in May 2021. I have been proud to be part of the Board and the Remuneration Committee for the past nine years and continue to be impressed and encouraged by the incredible performance delivered over that period.

I will be succeeded by Cathy Turner, who joined the Remuneration Committee upon her appointment to the Board in April 2020 and will have spent more than a year on the Remuneration Committee before taking over as Chair, in line with the Investment Association's Principles of Remuneration and the 2018 Code. She joins us as an experienced Remuneration Committee Chair with current appointments as Chair for Aldermore Group plc and Spectris plc. I wish her every success in the role.

Finally, I would like to thank our shareholders for their continued support during what has been an unparalleled year. I hope you will find the information in this report clearly explains the remuneration approach taken by the Company and enables you to understand how it links to our strategic business priorities and the delivery of our business plan. As always, I welcome any comments you may have.

**Angela Seymour-Jackson**
Chair of the Remuneration Committee

3 March 2021

## This report is structured as follows:

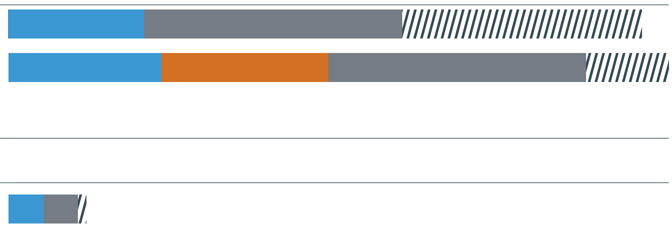
# Remuneration at a glance

**Components**
- **Fixed pay** – base salary, benefits, pension
- **Bonus**
- **Performance Share Plan (PSP)**
- **Unearned**

## Breakdown of Executive Directors' total remuneration

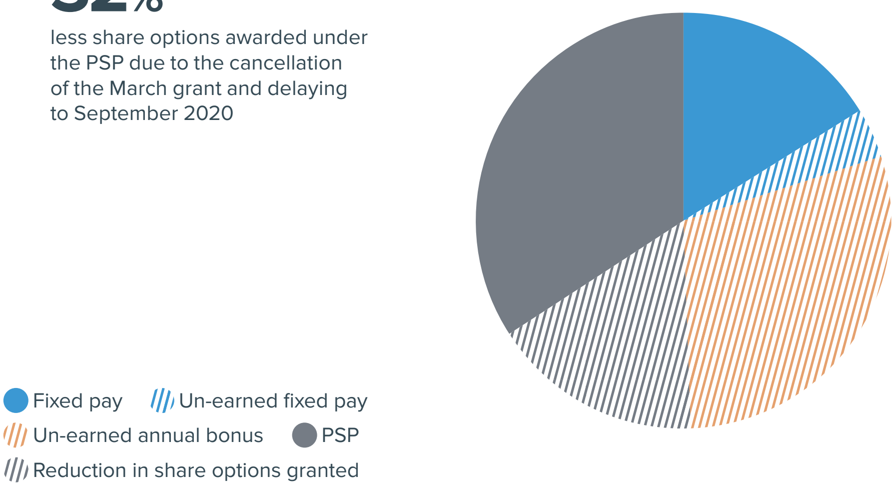
The table shows a comparison of the Chief Executive and Chief Financial Officer's total remuneration for 2020 and 2019 and shows the potential maximum that was unearned.

| £'000 | Fixed pay | | | Variable pay | | |
|---|---|---|---|---|---|---|
| | Base salary | Benefits | Pension | Bonus | PSP | Total |
| **Andy Ransom, Chief Executive** | | | | | | |
| **2020** | **656.3** | **19.7** | **191.3** | **0.0** | **3,187.9** | **4,055.2** |
| 2019 | 765.3 | 19.8 | 191.3 | 1,069.0 | 2,182.1 | 4,227.5 |
| +/-% | -14.2% | -0.3% | – | -100% | 46.1% | -4.1% |
| **Stuart Ingall-Tombs, Chief Financial Officer** | | | | | | |
| **2020** | **188.5** | **29.3** | **5.0** | **0.0** | **50.5** | **273.3** |
| 2019 | – | – | – | – | – | – |




## Response to COVID-19 – Chief Executive

**32%**
less share options awarded under the PSP due to the cancellation of the March grant and delaying to September 2020




**100% salary waived in Q2**
CEO waived (35%) and donated (65%) to the Colleague Support Fund

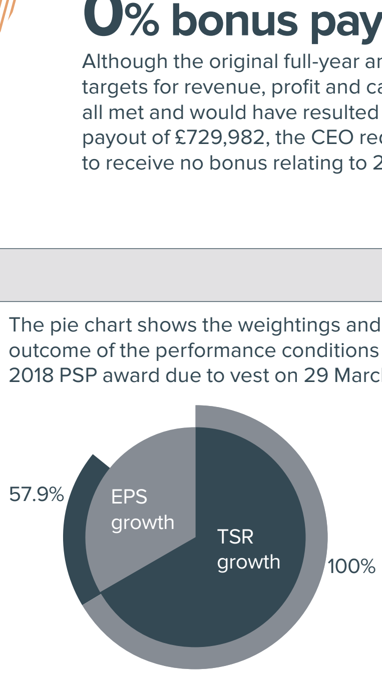
**0% bonus payable**
Although the original full-year annual bonus targets for revenue, profit and cash were all met and would have resulted in a bonus payout of £729,982, the CEO requested to receive no bonus relating to 2020

## Performance Share Plan (PSP)

The bar chart compares the value of the PSP received for 2020 and 2019.

PSP value (£'000)


The pie chart shows the weightings and estimated outcome of the performance conditions of the 2018 PSP award due to vest on 29 March 2021.



# Proposed changes to the Directors’ Remuneration Policy

The table below summarises the proposed changes to the Directors’ Remuneration Policy (the Policy) and details how it will be applied in 2021.

<table>
<tr><th>Element</th><th>Current Policy</th><th>Proposed change</th><th>Proposed application in 2021</th></tr>
<tr><td>Base salary</td><td>Increases are normally broadly in line with those awarded to the wider workforce. Adjustments to this may be made where the Remuneration Committee deems it appropriate.</td><td>None</td><td>We intend to increase pay for the CEO in line with the wider workforce, which we believe will be modest in 2021 given the impact of COVID-19. The annual pay review has been moved to July.<br>As detailed on appointment, the CFO salary will increase to £550,000 on his first anniversary subject to both his and the Company’s performance being satisfactory.</td></tr>
<tr><td>Benefits</td><td>Benefits provided at a rate commensurate with the market and include life assurance, car or car allowance, family healthcare, permanent health insurance and relocation benefits.</td><td>None</td><td>As per previous years.</td></tr>
<tr><td>Pension</td><td>Executive Directors may contribute to a defined contribution arrangement or receive a cash supplement in lieu of pension. Contributions for the existing Executive Directors are 25% of salary for the CEO and 15% of salary for the CFO.</td><td>Changes made in 2020: The Executive Directors’ contribution rate was updated in January 2020 to be in line with the wider UK workforce, which is currently 3% of salary. The new CFO was appointed in August 2020 on this basis. In addition, a commitment was made to cap the CEO’s pension at the 2019 amount and for it to be reduced to be in line with the wider workforce at the end of 2022.</td><td>The CFO will receive a 3% of salary pension contribution, in line with the wider workforce.<br>The CEO’s pension amount, currently 21.9% of salary, will continue to decrease as a result of any future salary increases. At the end of 2022, it will reduce to be in line with the wider workforce, currently 3% of salary.</td></tr>
<tr><td></td><td colspan="3">Rationale for change<br>▶ This change is proposed to align with the 2018 UK Corporate Governance Code and investor guidance that the pension contribution should be brought in line with the wider workforce by the end of 2022.</td></tr>
<tr><td>Annual bonus</td><td>Bonus opportunity of 150% of base annual salary (before the application of the individual performance modifier). Maximum opportunity of 180% of base annual salary (after the application of the individual performance modifier). Deferral of 40% of bonus into shares with a minimum three-year holding period.</td><td>No change to maximum opportunity.<br>The personal performance element will be separated from the financial element, rather than acting as a modifier and will operate independently. This change is to make the bonus simpler and more market aligned, as we recognise it is considered complex and doesn’t meet current best practice.</td><td>The targets will remain stretching and it is anticipated that the financial element will continue to be measured against Free Cash Flow, revenue and profit targets, and personal performance will continue to be measured through the Company performance review process, as is the case across the wider workforce.</td></tr>
<tr><td></td><td colspan="3">Rationale for change<br>▶ This change is proposed as we recognise our current scheme is considered complex and misaligned with current best practice. The amendment has been supported by shareholders throughout the consultation process.</td></tr>
<tr><td>Performance Share Plan (PSP)</td><td>250% of annual base salary for the CEO and 200% for the CFO. Maximum award of 300% in exceptional circumstances.<br>No more than 25% of the award shall vest for meeting threshold levels of performance and 100% of the award shall vest if maximum performance is achieved. Two-year holding period.<br>Dividend equivalents may accrue between grant and vest or exercise date.</td><td>Increase the maximum PSP award permitted under the new policy to 375% of salary for the CEO (from 250%) and 300% of salary for the CFO (from 200%).<br>No more than 20% of the award shall vest for meeting threshold levels of performance.<br>Dividend equivalents may accrue between grant and vest date or the end of the holding period.</td><td>We will not use the proposed Policy maximums in 2021. The increase will be phased with the CEO receiving an award of 325% in 2021 and our CFO receiving an award at the current Policy level of 200%, to reflect that he is settling into his new role and continuing to gain experience.</td></tr>
<tr><td></td><td colspan="3">Rationale for change<br>▶ The Company has grown in size considerably over the last five years, moving from around the FTSE 150 to the middle of the FTSE 100, with our market capitalisation has increased from £2.9bn in 2015 to around £10bn today, and our Executive Directors’ total remuneration package has not kept pace with the speed with which the Company has grown.<br>▶ Despite the Committee having to play catch-up on more than one occasion, our Executive Directors’ total remuneration package is still well below the median compared to companies of a similar size, which does not fit with the principles we apply to our wider workforce of ensuring that our pay is fair and competitive. This low benchmark for a high-performing leadership team also represents a retention and recruitment risk that we, as a Committee, need to address by creating a policy that is fit for purpose for the next three years.<br>▶ We are proposing to increase the PSP opportunity, rather than other elements of the package, to further align our Executive Directors’ remuneration with returns to shareholders and the sustainable, long-term success of the Company.<br>▶ We believe that, as a Company and a Committee, we have a strong track record of operating with restraint and due regard for all our stakeholders, including shareholders, employees and customers, and therefore can be relied upon to use this increase in PSP sensibly in the pursuit of motivating and retaining our executive team, evidenced by our proposed application of a lower award level in 2021.</td></tr>
</table>

| Element | Current Policy | Proposed change | Proposed application in 2021 |
|---|---|---|---|
| **PSP performance conditions** | The policy initially envisaged two performance measures weighted two-thirds and one-third respectively:<br>▸ relative total shareholder return (TSR) performance; and<br>▸ the achievement of earnings per share (EPS) targets.<br><br>Following consultation with shareholders in 2018, other financial and strategic measures were introduced with a weighting of 10% and 15% respectively. TSR was reduced to 50% and EPS to 25%. | Awards are subject to the achievement of financial and ESG/strategic measures, with specific measures and weightings set by the Remuneration Committee each year to ensure alignment with the business strategy at the time of grant. However, a minimum weighting of 75% should relate to financial (including TSR) measures. Potential measures include:<br>▸ relative TSR performance;<br>▸ Organic Revenue growth;<br>▸ Free Cash Flow conversion; and<br>▸ ESG measures (colleague retention, customer satisfaction and vehicle fuel intensity). | Our intention is to increase focus on key business metrics that drive our performance and the following metrics and weightings are proposed:<br>▸ relative TSR performance – 50%;<br>▸ Organic Revenue growth – 15%;<br>▸ Free Cash Flow Conversion – 15%; and<br>▸ ESG measures (colleague retention, customer satisfaction and vehicle fuel intensity) – 20%. |
| | **Rationale for change**<br>▸ The changes proposed increase the weightings of the measures which we believe drive long-term sustainable business performance.<br>▸ They are measures that we use to manage the business on a day-to-day basis, while still retaining a high weighting on TSR to ensure alignment with the shareholder experience.<br>▸ We have decided to exclude EPS as it continues to be difficult to set meaningful targets and, despite always adjusting outcomes for acquisitions and disposals, some shareholders continue to be concerned that M&A can positively impact the outcome. | | |
| **Shareholding guidelines** | 300% of salary for the CEO and 200% of salary for the CFO (within five years of appointment). | Introduction of post-cessation guidelines which will normally require Executive Directors to hold shares, for two years post-cessation, to the value of the shareholding guideline that applied at the cessation of their employment; or, in cases where the individual has not had sufficient time to build up shares to meet their guideline, the actual level of shareholding at cessation. | The CEO has significantly exceeded the requirement and the CFO is on track to meet his requirement within five years of appointment.<br><br>The shareholding levels for each Executive Director will be reviewed by the Committee in July each year to ensure their holdings meet the requirement or are on track to do so. |
| | **Rationale for change**<br>▸ This change is proposed to align with the 2018 UK Corporate Governance Code and investor guidance. | | |

## Consideration of shareholders' views

The Company is committed to maintaining good communications with investors.

During the Policy review the Remuneration Committee Chair engaged extensively with our top shareholders who hold around 60% of our share capital, along with shareholder representative bodies/proxy agencies through a mix of letters, emails and meetings.

The consultation was undertaken in two phases: the first to outline the key proposed change to the PSP and the minor change to the bonus structure, to enable shareholders to input into the Policy design, and the second to provide details of the final proposed Policy.

A large number of our shareholders provided feedback to the proposed changes and the Committee has been encouraged by their interest and support. In particular, they have valued the time taken by shareholders to consider the proposal within the context of the Company's performance and the requirement to reward our Executive Directors appropriately. The Committee is extremely cognisant of the current remuneration climate and, therefore, has particularly appreciated the vast majority of our shareholders indicating their support.

Although the response received was overwhelmingly positive, the Committee carefully considered all the feedback gathered during the consultation. As a result of this the Committee made changes to the original proposal, which included:

- Reducing the threshold vesting level of the PSP from 25% to 20%. This will mean that the proposed increase in PSP will only be realised for delivering outperformance, as this change reduces the value at threshold to a level similar to that of the current Policy, further reinforcing our commitment to pay for performance.
- Phasing the increase for the CEO and the CFO so that the full quantum is not delivered in the first year. In the case of the CFO, no additional quantum will be delivered in 2021.

The Remuneration Committee also considered feedback from a limited number of shareholders to reduce the quantum of the proposed increase. However, upon reflection, it was felt that any reduction would mean that the CEO's total remuneration package would still lag behind those packages offered by companies of a similar size, and therefore would not be in line with our reward philosophy, nor secure the retention of our high-performing CEO.

# Proposed 2021 Directors' Remuneration Policy

This part of the Remuneration Report sets out our proposed 2021 Directors' Remuneration Policy and has been developed taking into account the UK Corporate Governance Code and the views of our major shareholders.

The Policy will be put to a binding shareholder vote at the 2021 AGM to be held on 12 May 2021 and, subject to shareholder approval, will take formal effect from the conclusion of the AGM. The proposed Policy is broadly consistent with the current Directors' Remuneration Policy that was approved by shareholders at the 2018 AGM. Key areas of difference between the current and proposed policies are set out in the table on page 116. The current Directors' Remuneration Policy is available to view on the Company's website at rentokil-initial.com/investors/governance.

The information provided in this section of the Remuneration Report is not subject to audit.

In setting the Remuneration Policy for the Executive Directors, the Remuneration Committee ensures that the arrangements are in the best interests of both the Company and its shareholders, by continuing to take into account the following general principles:

- to ensure that total remuneration packages are simple and fair in design;
- to ensure that total remuneration is highly performance-orientated;
- to ensure that incentives balance the achievement of financial performance objectives and delivering sustainable profitable growth in the long term; and
- to provide a substantial proportion of performance-linked pay in shares allowing senior management to build a significant shareholding in the business and, therefore, aligning management with shareholders' interests and the Group's performance, without encouraging excessive risk-taking.

## Base salary

| | |
|---|---|
| **Purpose/ link to strategy** | To attract and retain executives of the calibre required to implement our strategy. |
| **Operation** | Base salaries are payable in cash and are normally reviewed annually. Base salaries are set taking into account:<br>▶ scope and responsibilities of the role;<br>▶ external economic environment;<br>▶ individual skills and experience;<br>▶ contribution to overall business performance;<br>▶ pay conditions for other colleagues based in the UK and other regions which are considered by the Remuneration Committee to be relevant for that executive; and<br>▶ comparable salaries in a cross-section of companies of a similar size and complexity at the time of review – which will be taken into consideration, but not be the key determiner of salary levels. |
| **Levels of payout** | Base salaries are set at an appropriate level taking into account the factors described under 'Operation' above and salary increases are considered in this context.<br>While there is no maximum salary level, the Remuneration Committee would normally expect percentage pay increases for the Executive Directors to be broadly in line with the wider workforce in relevant regions. However, higher increases may be awarded in certain circumstances, where the Remuneration Committee considers this appropriate, such as:<br>▶ where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role, then larger increases may be awarded in following years to move salary positioning closer to typical market levels as the executive grows in experience, subject to performance;<br>▶ where the Executive Director has been promoted or has had a change in responsibilities, salary increases in excess of the above level may be awarded; or<br>▶ a substantial change in the Company's size or market capitalisation leading to the positioning of an Executive Director's salary falling behind market practice.<br>In exceptional circumstances, where a Non-Executive Director temporarily takes up an executive position, salary increases for the Non-Executive Director may be awarded as appropriate. |
| **Performance measures and period** | The payment of salary is not dependent on achieving performance targets although individual performance is taken into account when setting salary levels and determining any salary increases. |

## Pension

| | |
|---|---|
| **Purpose/ link to strategy** | To facilitate Executive Directors' planning for retirement. |
| **Operation** | Executive Director pension arrangements are by way of a defined contribution arrangement or through a cash alternative of a similar value or a combination of the two. |
| **Levels of payout** | For the current Chief Financial Officer and any future Executive Director hires the maximum contribution will be in line with the wider workforce in the UK, which is currently 3% of base salary although this rate may change from time to time.<br>The maximum contribution for the Chief Executive has been frozen at the cash amount paid in 2019, when the Policy in force at the time was 25% of salary and is currently equivalent to 21.9% of base salary. This cash amount will be reduced to be in line with the maximum contribution for the wider workforce in the UK at the end of 2022. |
| **Performance measures and period** | Not applicable. |

## Benefits

| | |
|---|---|
| **Purpose/ link to strategy** | To provide market-competitive benefits that support the executive to undertake their role. |
| **Operation** | The Company pays the cost of providing the benefits on a monthly, annual or one-off basis. Benefits are determined taking into account market practice, the level and type of benefits provided throughout the Group and individual circumstances. All benefits are non-pensionable. The main benefits for Executive Directors are:<br>▶ life assurance;<br>▶ car or car allowance;<br>▶ family healthcare;<br>▶ permanent health insurance; and<br>▶ relocation benefits – in the event that an executive were required to relocate to undertake their role, the Remuneration Committee may provide an additional appropriate level of benefits to reflect the relevant circumstances. Such benefits may be one-off or ongoing in nature.<br>Should an Executive Director be appointed in a country other than the UK, benefits appropriate to that market would be considered. The Remuneration Committee retains the discretion to change the benefits provided (including offering additional benefits) in line with market practice and may include offering participation in any future all employee share plan. |
| **Levels of payout** | Levels of benefits are set in line with market practice. The level of benefits provided varies year on year depending on the cost of the provision of benefits to the Company and therefore it is not meaningful to identify a maximum level of benefits. |
| **Performance measures and period** | Not applicable. |

## Annual bonus

| | |
|---|---|
| **Purpose/ link to strategy** | To recognise and reward for stretching business performance against annual financial targets and/or personal objectives that contribute to Company performance.<br>To attract and retain executives of the calibre required to implement our strategy and drive business performance.<br>The deferral of an element of the annual bonus into shares provides alignment with shareholders' long-term interests following the successful delivery of short-term targets and supports the balance of achievement of short-term and long-term business performance. |
| **Operation** | The annual bonus is paid each year after the Remuneration Committee has reviewed performance against targets, which are set around the beginning of each year for each Executive Director, taking into consideration the underlying performance of the business.<br>Normally no more than 60% of any bonus is generally paid in cash with the balance deferred in shares under the Deferred Bonus Plan (DBP).<br>Deferred shares typically vest after a period of three years with no further performance conditions.<br>Shares awarded under the DBP are typically awarded as nil-cost options and have an exercise period that extends from the date of vesting to the tenth anniversary of the award being made although awards may be structured in other ways. If nil-cost options remain exercisable at the tenth anniversary of grant then they will be exercised automatically on a participant's behalf.<br>The Remuneration Committee retains the right to exercise discretion to ensure that the level of bonus payable is appropriate and a fair reflection of the Company's performance.<br>Malus and clawback rules apply to both cash bonus payments and DBP awards (see Malus and Clawback section for details).<br>Deferred shares may be adjusted in accordance with the rules in the event of a variation of the Company's share capital, demerger, special dividend or similar event that materially affects the price of shares. |
| **Levels of payout** | Bonus payouts start to accrue at a level of up to 20% of base salary for meeting threshold levels of performance and a maximum opportunity of 180% of base salary, with an on-target bonus opportunity of no more than 50% of the maximum opportunity. Payouts for performance levels in between these levels will typically be paid on a straight-line basis.<br>Dividend equivalents accrue between grant date and vesting date on shares that vest under the DBP and are normally settled in the form of additional shares. |
| **Performance measures and period** | The annual bonus is normally based on the achievement of financial targets and/or personal objectives, although the Committee may include other strategic priorities. Performance is typically tested over a one-year performance period.<br>The Remuneration Committee reserves the right to set appropriate measures that ensure alignment with business strategy and shareholder interest, subject to the financial measures accounting for at least 75% of the total.<br>Financial measures may be linked to Group performance or the Executive's specific area of responsibility, if appropriate. |

## Performance Share Plan (PSP)

| | |
|---|---|
| **Purpose/ link to strategy** | To motivate and incentivise delivery of stretching business performance over the long term and to create alignment with growth in value for shareholders.<br>To act as a retention tool for Executive Directors. |
| **Operation** | The PSP operates under the rules approved by shareholders in 2016 (and as amended).<br>An award of shares is granted on an annual basis with a face value in line with the multiple of base salary approved by the Remuneration Committee, with vesting subject to the achievement of performance conditions.<br>Shares awarded under the PSP are typically awarded as nil-cost options (although may be structured in other ways) and have an exercise period that extends from the date of vesting to the tenth anniversary of the award being made. If nil-cost options remain exercisable at the tenth anniversary of grant then they will be exercised automatically on a participant's behalf.<br>Award levels and performance conditions are set to support the business's long-term goals and seek to reflect market practice and shareholder guidance.<br>Awards are subject to a two-year holding period post vesting. Directors may sell sufficient shares to pay taxes due related to the award, if required, during this period.<br>Malus and clawback rules apply to shares awarded under the PSP (see Malus and Clawback section for details).<br>Awards may be adjusted in accordance with the rules in the event of a variation of the Company's share capital, demerger, special dividend or similar event that materially affects the price of shares. |
| **Levels of payout** | The maximum regular annual award will be 375% of base salary for the Chief Executive and 300% of base salary for the Chief Financial Officer and any other Executive Directors. This increase in award will be implemented on a phased basis, with the CEO receiving 325% of salary (75% of salary increase) in the year ending 31 December 2021 (Year 1). The CFO will receive an award of 200% of salary (this remains at the current level) in Year 1, while he settles into the role and gains experience.<br>No more than 20% of the award shall vest for meeting threshold levels of performance and 100% of the award shall vest if maximum performance is achieved. Performance between these points will typically be measured on a straight-line basis.<br>Dividend equivalents may accrue between grant date and vesting date or to the end of the holding period on shares that vest under the PSP and are normally settled in the form of additional shares. |
| **Performance measures and period** | Awards are subject to the achievement of financial and ESG/strategic measures, with specific measures and weightings set by the Remuneration Committee each year to ensure alignment with the business strategy at the time of grant. However, a minimum weighting of 75% should relate to financial (including TSR) measures. Potential measures include:<br>▶ relative TSR performance;<br>▶ Organic Revenue growth;<br>▶ Free Cash Flow conversion; and<br>▶ ESG measures (colleague retention, customer satisfaction and vehicle fuel intensity).<br>If events happen which cause the Remuneration Committee to consider that a performance condition would not, without alteration, achieve its original purpose, it may amend that performance condition provided that the amended performance condition is materially no less challenging than it would have been had the event not occurred.<br>The Remuneration Committee retains the right to exercise discretion to ensure that the formulaic vesting outcome is appropriate and a fair reflection of the Company's performance. |

## Shareholding guidelines

| | |
|---|---|
| **Purpose/ link to strategy** | Encourages greater levels of shareholding and aligns Executive Directors' interests with those of shareholders. |
| **Operation** | Executive Directors are expected to achieve and maintain a holding of the Company's shares.<br>A further post-cessation shareholding requirement will normally apply to Executive Directors (see Termination section for details). For two years following cessation of employment, Executive Directors will be required to hold shares to the value of the shareholding guideline that applied at the cessation of their employment unless the Remuneration Committee exceptionally determines otherwise; or, in cases where the individual has not had sufficient time to build up shares to meet their guideline, the actual level of shareholding at cessation. |
| **Levels of holding** | Chief Executive: 300% of salary, Chief Financial Officer and other Executive Directors: 200% of salary. To be achieved within five years of appointment or other significant event. |
| **Performance measures and period** | Not applicable. |

### Proposed changes to the Policy
The proposed changes to the previous Policy are explained in the table on pages 116 and 117.

### Measures and targets
All the performance measures selected, both in the financial and ESG/strategic categories, support the delivery of short and long-term financial performance of the business and shareholder value creation. Targets are set each year based on stretching internal budgets and achieving or exceeding these targets will both return value to shareholders and reward the executive team for delivery.

The annual bonus measures are reviewed annually to focus on delivery of key financial targets and strategic goals for the forthcoming year, as well as key strategic or operational goals relevant to the individual. Over the long term, PSP performance measures are focused on generating returns to shareholders through the relative TSR measure and other measures focus on improving business performance.

### Malus and clawback
Malus and clawback rules apply to the Executive Directors' incentive arrangements. Under these provisions, the Remuneration Committee at their discretion may reduce bonus payments in respect of the current year or future years and have the ability to scale back awards that have not yet vested under the Company's PSP or DBP (potentially to nil) in the event of:

- a material misstatement of the Company's audited results for the current year or prior years;
- actions which result in serious reputational damage or corporate failure affecting any part of the Group, which can be reasonably attributed to be the result of an individual's serious misconduct;
- the discovery that an assessment of performance connected to the award (including relating to the original bonus amount for the DBP) was based on misleading or inaccurate information;
- there has been fraud or gross misconduct, or circumstances which, in the opinion of the Remuneration Committee, would entitle the Company or any other member of the Group to summarily dismiss the individual; or
- in other circumstances where the Remuneration Committee, in its discretion, considers that this treatment is appropriate.

For bonus, a clawback provision exists to give the Remuneration Committee, in the same circumstances to malus, the ability to recover sums already paid for up to two years after bonus determination.

For PSP, a clawback provision exists to give the Remuneration Committee, in the same circumstances as malus, the ability to recover sums already paid for up to five years from the grant date.

### Use of discretion
The Remuneration Committee is cognisant of its responsibility to make informed and thoughtful decisions on remuneration that are both balanced and in the long-term interests of the business and shareholders and, where necessary, will apply discretion to remuneration targets or outcomes that would otherwise be inappropriate.

In addition, the Remuneration Committee also retains the right to apply discretion in the operation and administration of the incentive plans. This includes, but is not limited to, the following areas: setting appropriate performance conditions, weightings and targets from year to year for the PSP and annual bonus, the timing of PSP and DBP grants, the timing of annual bonus payments, the size of PSP awards granted, and determining the treatment of leavers.

Any discretion applied will be in accordance with the respective plan rules (or relevant documentation) and within the limits of the Policy.

### Illustration of proposed Directors' Remuneration Policy for 2021
The charts below provide an illustration of what could be received by each of the Executive Directors in 2021 including how a 50% increase in the share price could impact what they receive.

These charts are illustrative as the actual value that will be received will depend on business performance in 2021 for the bonus and in the three-year period to 2024 for the PSP, as well as share price performance to the date of exercise for awards made under the DBP and the PSP.

Our remuneration arrangements are designed so that a significant proportion of pay is dependent on the delivery of short and long-term goals that are aligned with our strategic objectives and the creation of shareholder value.

**Key**

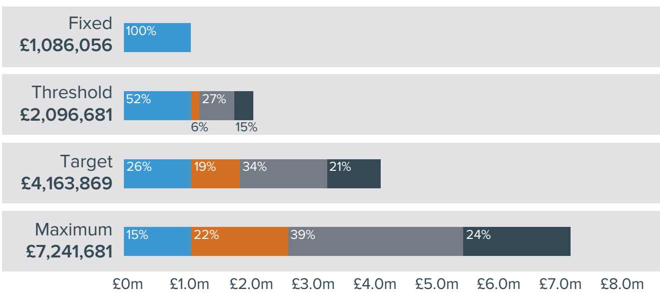
**● Fixed pay**
Includes all elements of fixed remuneration:
– base salary; and
– pension and benefits.

**● Annual bonus including Deferred Bonus Plan (DBP)**
Represents the potential value of the annual bonus for 2021, as shown on page 136. 40% of any bonus would be deferred into shares for three years and this is included in the value shown.

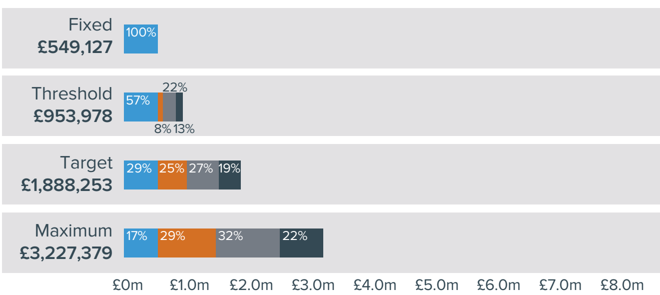
**● Performance Share Plan (PSP)**
Represents the potential value of the PSP to be awarded in 2021, (325% of salary for the CEO and 200% of salary for the CFO), which would vest in 2024 subject to performance against the targets disclosed on page 137. Awards would be held for a further two years.

**● 50% share price growth**
Represents the potential impact of a 50% share price increase. This has been applied to the PSP and DBP.

### Chief Executive – Andy Ransom




### Chief Financial Officer – Stuart Ingall-Tombs[1]




1. Assumes salary increase to £550,000 from 15 August 2021, as per the appointment announcement.

## Recruitment

**Executive Directors**
The Remuneration Committee's key principle when determining appropriate remuneration arrangements for a new Executive Director (whether appointed from within the organisation or externally) is to ensure that arrangements are in the best interests of both the Company and its shareholders, without paying more than is considered necessary by the Remuneration Committee to recruit an executive of the required calibre to develop and deliver the business strategy. When determining appropriate remuneration arrangements, the Remuneration Committee will take into account all relevant factors. These factors may include (among others):

- the level and type of remuneration opportunity being forfeited;
- the jurisdiction the candidate was recruited from and whether any relocation is required;
- the skills, experience and calibre of the individual;
- the circumstances of the individual; and
- the current external market and salary practice including market practice on additional benefits.

The Remuneration Committee would comply with the terms of the Remuneration Policy outlined in the table on pages 118 to 120.

In addition, if necessary, it may make awards on appointing an Executive Director to 'buy out' remuneration terms forfeited on leaving a previous employer. In doing so, the Remuneration Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally, buy-out awards will be made on a comparable basis to those forfeited but, in any event, will reflect those terms in some way (e.g. through a more substantial discount to the amount).

In the event of recruitment, the Remuneration Committee may grant awards to a new Executive Director under Listing Rule 9.4.2R, which allows for the granting of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval or under other appropriate Company share plans. The use of Listing Rule 9.4.2R will be limited to granting buy-out awards only.

In the event that an internal candidate was promoted to the Board, legacy terms and conditions may be honoured, including any outstanding incentive awards and the exercise of any discretion in connection with such payments. Similarly, if an Executive Director is appointed following the Company's acquisition of or merger with another company, legacy terms and conditions would be honoured; however, steps would be taken to align with the Policy over time.

In the event of the appointment of a new Chair of the Board or Non-Executive Director, remuneration arrangements will normally reflect the Policy outlined on page 123.

The Remuneration Committee's intention is that timely disclosure of the remuneration structure of any new Executive Director or Chair of the Board will be made by the Company wherever practical.

**Directors' service agreements – Executive Directors**
Executive Directors are employed on permanent contracts which are terminable on 12 months' notice by either party. A description of the payment in lieu of notice provisions can be found below. The Company's policy in respect of the notice periods for the termination of Executive Directors' contracts conforms to the UK Corporate Governance Code. The remuneration and contractual arrangements for the Executive Directors and senior management do not contain any matters that are required to be disclosed under the Takeover Directive. The contracts of service for Executive Directors are available for inspection by shareholders at the Company's registered office.

## Termination

When an Executive Director leaves the business on the basis of mutual agreement, the Remuneration Committee will determine an appropriate payment taking into account the circumstances of leaving but any payment will be no more generous than that for leavers by reason of disability, ill health, retirement, redundancy, death or sale of an individual employing business. There are no provisions for notice periods or compensation in the event of the termination of the appointment of a Non-Executive Director. The Chair of the Board has a notice period of six months.

**Base pay and benefits**
Executive Directors are entitled to a payment in lieu of notice equal to base pay and the value of benefits only for the duration of the remaining notice period, subject to mitigation. The Company has the ability to terminate Executive Directors' employment, in the event of a prolonged mental or physical incapacity to carry out his/her Company duties and without notice (summary dismissal), in the event of gross misconduct or being disqualified to act as a Director. Appropriate medical benefits may still be provided in the case of prolonged mental or physical incapacity.

**Other**
Executive Directors may be entitled to other payments including, but not limited to, costs of appropriate repatriation/relocation, outplacement, settlement agreement, non-compete agreement, legal and/or tax and other relevant professional costs. The Remuneration Committee would look to ensure that the level of these costs/benefits was reasonable and in the best interests of shareholders.

**Bonus including Deferred Bonus Plan (DBP)**
**Cash bonus**
In the event of retirement, death, disability, redundancy, change of control, sale of the employing company or any other circumstance at the discretion of the Remuneration Committee, Executive Directors may receive a bonus payment for the year in which they cease employment. This payment will normally be pro-rated for time and performance; however, the Remuneration Committee retains the discretion to review overall business and individual performance and determine that a different level of bonus payment is appropriate.

Otherwise, generally, Executive Directors must be employed at the date of payment to receive a bonus. In certain circumstances, the Remuneration Committee may determine that a bonus payment may be due to reflect performance and contribution to the point of cessation.

**DBP – leaving before date of vest**
Deferred bonus shares will normally vest in full following completion of the three-year vesting period, unless the Committee determines in its absolute discretion that vesting will be accelerated. Participants will have six months from the date of vest to exercise.

The vesting of awards will be accelerated in the event of death and there will be a period of 12 months from death to exercise (or up to 24 months if the Remuneration Committee so determines).

**DBP – leaving after date of vest**
The Executive Director will normally have six months in which to exercise their awards from the date of leaving (12 months for death (or up to 24 months if the Remuneration Committee so determines)).

**Performance Share Plan (PSP)**
**Leaving before the end of the performance period**
In the event of ill health, disability, death, retirement, redundancy, change of control, sale of the employing company or any other circumstance at the discretion of the Remuneration Committee, awards will vest on the original vesting date on a time-apportioned basis (unless the Remuneration Committee determines otherwise). Performance will be measured at the end of the original performance period. Participants will have six months from the end of the holding period to exercise.

At the Remuneration Committee's discretion in the event of ill health, disability or death (or in the event of any other exceptional circumstance if it determines), awards can vest early on a time-apportioned basis. In this circumstance, performance will be measured to the early vesting date. Participants will have six months from leaving to exercise (12 months for death (or up to 24 months if the Remuneration Committee so determines)).

If participants leave for any other reason before the end of the performance period, their award will lapse on termination.

#### Leaving after the end of the performance period
Any awards in the two-year holding period will be available to exercise following completion of the two-year holding period. Participants will have six months from the latest of the end of the holding period or the leaving date to exercise (12 months for death (or up to 24 months if the Remuneration Committee so determines)).

#### Post-cessation shareholding requirement
For two years following the cessation of employment, Executive Directors will normally be required to hold shares to the value of the shareholding guideline that applied at the cessation of their employment; or, in cases where the individual has not had sufficient time to build up shares to meet their guideline, the actual level of shareholding at cessation.

The post-cessation shareholding requirement is to be satisfied from shares vesting under the DBP and PSP from grants from 2021 onwards. On exercise sufficient shares may be sold to cover taxes due, but until the shareholding requirement is met the remaining shares will be held by the Company in nominee/escrow for the benefit of the Director.

If the Executive Director has met the shareholding requirement through other means, with the exception of shares bought with their own funds, and the above approach results in a shortfall at the date of leaving, the Executive Director will be required to transfer the appropriate number of shares into the nominee/escrow in order to meet the requirement.

In the event of ill health, disability or death (or in the event of any other exceptional circumstance that the Remuneration Committee determines), the post-cessation shareholding requirement will not apply.

## Chair of the Board and Non-Executive Directors

### Fees

#### Approach
Non-Executive Directors' remuneration is determined by the Board on the recommendation of the Non-Executive Directors' Terms Committee of the Board (comprising the Chair of the Board, the Chief Executive and the Chief Financial Officer) within the limits set by the Articles of Association. Non-Executive Directors' fees are set at a level which is considered appropriate for the calibre of individual required to support the delivery of business strategy and taking into account skills, experience, time commitment and independent surveys of fees paid to Non-Executive Directors of similar companies.

Fees for the Chair of the Board are determined by the Board based on external remuneration advice and considered by the Remuneration Committee taking into account typical fee arrangements at other companies of a similar size and complexity, the time commitment required to fulfil the role and the calibre of the individual required. Fees are reviewed at appropriate intervals.

#### Details
Non-Executive Directors' fees are payable in cash and currently consist of a basic fee plus additional fees payable to:

- the Senior Independent Director; and
- the Board Committee Chairs.

Additional fees may be paid to Non-Executive Directors on an ongoing or temporary basis if there is a change in their responsibilities or a significant increase in the time commitment required from them to fulfil their role or to remain competitive.

The fees for Non-Executive Directors, including the Chair of the Board, shall not exceed in aggregate £1,000,000 per annum or such higher amount as the Company may from time to time by special resolution determine, as set out in the Company's Articles of Association.

#### Other items
No element of Non-Executive Director remuneration is performance-related.

The Chair of the Board and the Non-Executive Directors do not participate in any of the Company's incentive schemes, nor are they eligible to join the Company's pension scheme.

The Non-Executive Directors do not currently receive any other benefits. However, benefits may be provided in the future if, in the view of the Non-Executive Directors' Terms Committee (for Non-Executive Directors or the Remuneration Committee for the Chair of the Board), this was considered appropriate. Non-Executive Directors who are based outside the UK may be provided with support in relation to their tax reporting.

### Letters of appointment

#### Non-Executive Directors
Non-Executive Directors have letters of appointment, but not service contracts. Subject to annual re-election at the AGM, Non-Executive Directors will be appointed for an initial period of three years, which may be extended for a further period of three years by mutual consent and thereafter reviewed annually, subject to acceptable tests of performance and independence. Non-Executive Directors do not have periods of notice. See page 201 for details of their appointment dates.

#### Chair of the Board
The Chair of the Board has a letter of appointment setting out his responsibilities for the management of the Board. The Chairman's contract may be terminated by either party on six months' notice, notwithstanding a requirement for annual re-election at the AGM.

Copies of the Chair of the Board and Non-Executive Directors' letters of appointment are available for inspection by shareholders at the Company's registered office.

## Remuneration Policy – other information

### Change of control
If the Company is taken over or wound up, PSP awards may vest by reference to the extent to which the performance conditions are met and on a time pro-rated basis (calculated on a monthly basis) unless, in the case of pro-rating, the Remuneration Committee decide otherwise. Outstanding PSP awards may be vested automatically on a change of control on the participants' behalf. Typically salaries and bonuses will be paid to the date of change of control.

DBP awards shall vest in full. If participants are offered, and consent to, an equivalent award in the new company they will not vest and instead will be exchanged for a new award. Participants have one month from the change of control date to exercise their award; any options that are not exercised at the end of that period will be automatically exercised.

### Legacy arrangements
The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed:

- before the date the Company's first Directors' Remuneration Policy approved by shareholders in accordance with section 439A of the Companies Act 2006 came into effect;
- before the Directors' Remuneration Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or

- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted. The Remuneration Committee may make minor amendments to the Directors' Remuneration Policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

**Wider workforce engagement**
Remuneration Committee engagement with our colleagues forms part of the wider workforce engagement undertaken by the Board of Directors as set out on page 90. In addition, the Remuneration Committee received and reviewed details of the wider workforce remuneration when considering the base pay, bonus, PSP awards and outcomes for the Executive Directors and the Executive Leadership Team throughout 2020. The UK and global workforces were also considered when reviewing pension contribution levels for Executive Directors.

**Wider workforce remuneration policy**
The following summary provides additional context but does not formally form part of the Policy and may change from time to time.

During 2020, the Company had approximately 44,500 colleagues based in 83 countries (2019: approximately 43,000 colleagues based in 81 countries). We have a broad remuneration policy which reflects the diversity of cultures, legislative environments, employment markets and the types and seniority of roles that this geographic spread requires. We structure our colleague reward to enable us to recruit and retain the right people, doing the right job for our customers.

The Remuneration Committee monitors and reviews the effectiveness of the senior remuneration policy and has regard to its impact and compatibility with remuneration policies in the wider workforce. Principles include:

- competitive: setting pay with reference to internal relativity and external market practices;
- simple: helping all employees to understand how they are rewarded;
- fair: achieving consistent outcomes through flexible and transparent policies; and
- sustainable: aligning reward to business strategy and performance.

The table below compares our typical wider workforce policy with the 2021 Directors' Remuneration Policy.

| | Wider workforce policy | Comparison with 2021 Directors' Remuneration Policy |
|---|---|---|
| **Base salary** | Salaries are set taking into account:<br>- scope and responsibilities of the role;<br>- individual skills and experience;<br>- pay conditions for other colleagues based in the country; and<br>- comparable salaries in companies of a similar size and complexity.<br>Salaries are reviewed on an annual basis and budgets are typically set at a country level, taking into account local differences.<br>Annual salary budgets are set taking into account affordability, economic data including price inflation and unemployment, affordability and market practices. | No difference. |
| **Benefits** | Benefits are determined at a country level and are aligned with typical market practice in that country.<br>Eligibility to benefits differs by work level. | No difference. |
| **Pension** | Pension benefits are provided in countries where this is a typical market practice. The level of benefit typically differs by work level. | Executive Directors' pensions are in line with the wider workforce for the country they are based in. |
| **Annual bonus** | Our management team across the Group are eligible to participate in an annual bonus scheme.<br>The scheme has a company and personal element. Payout under the company element is determined by performance against financial targets such as revenue, profit and cash. Targets are tailored to the area of business responsibility for the management team, rather than based on Group-level outcomes.<br>An individual modifier, based on personal performance, is applied to the bonus outcome under the financial element.<br>Bonus opportunities are differentiated by work level, but are consistent across all countries in the Group at each level.<br>Frontline employees in sales and service are eligible to participate in monthly or quarterly incentives and/or commission schemes. | The Company element and the Group targets work in broadly the same way as the management scheme.<br>The personal element is measured in the same way as the wider workforce, but is calculated as part of the bonus rather than as a modifier. This change was made to align Executive Director bonus design with market practice, following feedback from shareholders about the complexity of the modifier arrangement.<br>The modifier arrangement was retained for our management scheme as it is well understood within the Company and making changes to the bonus scheme at this time was not felt to be optimal. However, it will be relooked at as part of a broader review in the future. |
| **PSP** | Our management team across the Group are eligible to participate in our PSP.<br>Eligibility is determined by work level and award levels differentiated by grade. Awards are based on a percentage of salary and are subject to the achievement of performance conditions over the three-year performance period. | Executive Directors' awards are identical, but are also subject to a two-year holding period. |

# Directors' Annual Remuneration Report – Introduction

## Introduction

The Annual Remuneration Report has been split into three sections for ease of reference. This introductory section provides an overview of the Remuneration Committee and their activities during the year. The second section, from page 127, provides an explanation of how the current Directors' Remuneration Policy was implemented in the year ended 31 December 2020 and shows the alignment between the Company's strategy, remuneration framework and performance, as well as the payments made to Directors during this period. The final section, from page 136, provides an overview of how the new Directors' Remuneration Policy will be applied in 2021.

## Remuneration Committee responsibilities

The Remuneration Committee's main responsibilities are developing and setting the Directors' Remuneration Policy and overseeing its application. It determines and agrees the executive remuneration policy with the Board and approves individual remuneration arrangements for the Chairman, Executive Directors and members of the Executive Leadership Team. It reviews executive performance and strives to ensure that remuneration structures align the interests of management with those of shareholders and operate in the best long-term interests of the Company.

The Remuneration Committee oversees contractual terms on termination affecting Executive Directors and members of the Executive Leadership Team, and seeks to ensure that any payments made are both fair to the individual and to the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised. The Remuneration Committee also oversees the Company's incentive schemes including the operation and effectiveness of performance measures and targets in both the annual bonus plan and the PSP. It also lends oversight to major changes in employee remuneration across the Group.

## Membership and attendance

The number of scheduled Remuneration Committee meetings in 2020 was increased to five to support the review of the Policy. There was also an additional meeting held in July 2020 to conclude matters arising from the main July meeting. Details of the members of the Remuneration Committee and their attendance during the year can be found on page 85. The Group HR Director, the Group General Counsel & Company Secretary, the Deputy Company Secretary (who acts as secretary to the Remuneration Committee) and the Group Head of Reward also attend Remuneration Committee meetings.

The Group HR Director has direct access to the Chair of the Remuneration Committee and, together with the Group Head of Reward, advises the Remuneration Committee on remuneration matters relating to Executive Directors and members of the Executive Leadership Team. The Company Chairman also attends meetings and makes recommendations in relation to the remuneration and incentive arrangements for the Chief Executive. The Chief Executive attends meetings and makes recommendations in respect of remuneration arrangements for his direct reports. No Executive Director or member of the Executive Leadership Team is present when their own remuneration is under consideration.

The Remuneration Committee members have a broad and diverse set of skills and knowledge that, when combined, bring the necessary level of experience and know-how to ensure that remuneration matters are dealt with in a balanced, independent and informed manner. No member of the Remuneration Committee has any personal financial interest in the matters to be decided by the Remuneration Committee, other than as a shareholder. No member of the Remuneration Committee has any conflict of interest in carrying out their role on the Remuneration Committee arising from other directorships nor does any member participate in any of the Company's incentive or pension arrangements or have any involvement in the day-to-day running of the Company.

In order to avoid any conflict of interest, remuneration is managed through well-defined processes ensuring no individual is involved in the decision-making process related to their own remuneration. The Remuneration Committee also receives support from external advisors and evaluates the support provided by those advisors annually to ensure that advice is independent, appropriate and cost-effective.

## Remuneration Committee effectiveness

The Remuneration Committee undertook a review of its performance during the year as part of the broader external Board evaluation as detailed on page 94. The review concluded that the Remuneration Committee continued to operate effectively and that individual Directors serving on the Remuneration Committee continued to have access to appropriate advice and information. The key area of focus for the Committee in 2021 will be the presentation of the new Directors' Remuneration Policy to shareholders at the 2021 AGM and the succession of the Remuneration Committee Chair who will be stepping down at the 2021 AGM.

## External advisors

Material advice and/or services were provided to the Remuneration Committee during the year by FIT Remuneration Consultants LLP (FIT) who are retained to provide independent advice on executive remuneration matters and on the Company's long-term incentive arrangements. FIT is a member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting in the UK. Fees charged during the year for advice to the Remuneration Committee by FIT were £38,193. FIT also acts as remuneration advisor to the remuneration committee of Trustpilot A/S which Angela Seymour-Jackson chairs. However, the Remuneration Committee is satisfied that this has not impaired their independence in any way. FIT has no other material connections with the Company or any Director and the Remuneration Committee is satisfied that the advice it receives is independent and objective.

## AGM voting outcomes

At the Company's last AGM on 13 May 2020, the outcome of the advisory vote in respect of the Directors' Remuneration Report was as follows. There was no vote on the Directors' Remuneration Policy at the 2020 AGM as it had been approved in 2018.

| 2020 AGM – Remuneration Report voting results | |
|---|---|
| Votes for | 1,470,892,523 |
| Percentage for | 97.73% |
| Votes against | 34,127,839 |
| Percentage against | 2.27% |
| Total votes cast | 1,505,020,362 |
| Votes withheld (abstentions) | 1,379,693 |

| 2018 AGM – Remuneration Policy voting results | |
|---|---|
| Votes for | 1,088,397,058 |
| Percentage for | 75.01% |
| Votes against | 362,586,597 |
| Percentage against | 24.99% |
| Total votes cast | 1,450,984,015 |
| Votes withheld (abstentions) | 52,008,445 |

A vote 'for' includes those votes giving the Chair discretion. A vote 'withheld' is not classed as a vote in law and is not counted in the calculation of the proportion of votes cast for or against a resolution.

The Remuneration Committee is pleased with the level of shareholder support received at the 2020 AGM. The Company remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to Directors' remuneration, the Company would seek to understand the reasons for any such vote and would set out in the following Annual Report any actions in response to it.

## Activities of the Remuneration Committee

In 2020, the Remuneration Committee considered the following key areas:

| Matters considered | Discussion and outcome | Find out more |
|---|---|---|
| **Executive remuneration** | | |
| **Executive Director remuneration** | The Remuneration Committee considered and approved base salaries for 2020, bonus outcomes for 2019, bonus structure for 2020 and the 2020 PSP awards and targets for the Executive Directors. | See pages 127 to 131 for more information |
| **Executive Leadership Team (ELT) remuneration** | The Remuneration Committee considered and approved base salaries for 2020, bonus outcomes for 2019, bonus structure for 2020, and the 2020 PSP awards and targets for the members of the ELT. | – |
| **2017 Performance Share Plan (PSP) vest** | The Remuneration Committee approved the upward adjustment of the EPS targets due to material M&A activity and approved the vesting of the 2017 PSP awards as a result of the performance measures being met at 90.8% of maximum. | – |
| **2020 PSP award** | Following the cancellation of the grant in March, the Remuneration Committee approved the PSP grant for September 2020 and its performance conditions, and subsequently noted a summary of the grants made under the PSP. | See page 130 for more information |
| **PSP measures** | The Remuneration Committee monitored the performance status of the outstanding awards under the PSP. | – |
| **2020 annual bonus** | Following the cancellation of the H1 2020 bonus, the Remuneration Committee considered and approved a reduced H2 2020 annual bonus for ELT members and eligible members of the wider workforce. The Executive Directors did not participate in this incentive. | See pages 127 to 129 for more information |
| **2021 annual bonus** | The Remuneration Committee reviewed the overall structure of the 2021 annual bonus plan for Executive Directors and ELT members. | See page 136 for more information |
| **CFO retirement** | During 2020, the Remuneration Committee considered the leaving arrangements of the outgoing Chief Financial Officer. | See page 131 for more information |
| **CFO appointment** | During 2020, the Remuneration Committee considered the remuneration terms for the appointment of the new Chief Financial Officer. | See page 127 for more information |
| **2021 Directors' Remuneration Policy** | The Remuneration Committee considered and agreed the structure and content of the new policy. | See Directors' Remuneration Policy on pages 118 to 124 |
| **Shareholder engagement** | The Remuneration Committee engaged with shareholders on the new Directors' Remuneration Policy and considered the feedback received. | – |
| **Governance and oversight** | | |
| **Share dilution limits** | The Remuneration Committee noted the impact of the Company's executive share plans on share dilution limits. | – |
| **Terms of reference** | The Remuneration Committee undertook its annual review of its terms of reference. | These are available on our website |
| **Performance review** | The Remuneration Committee undertook its annual review of the effectiveness of the Committee. | See Committee effectiveness on page 125 |
| **Corporate governance and proxy voting guidelines** | The Remuneration Committee received three updates during 2020 on changes in corporate governance and proxy voting guidelines. | – |
| **Gender Pay Report** | The Remuneration Committee considered and approved the 2019 Gender Pay Report in February, which was published in March 2020. | Read about diversity on page 50 and our reports are on our website |
| **Directors' Remuneration Report** | The Remuneration Committee reviewed and approved the Directors' Remuneration Report to be included in our 2019 Annual Report. | Available on our website |
| **Shareholding guidelines** | The Remuneration Committee approved new shareholding requirements for members of the ELT. | – |
| **Annual planner** | The Remuneration Committee considered the annual planner for 2021. | – |

The Chair of the Remuneration Committee presents a summary of material matters discussed at each meeting to the following Board meeting and minutes of the Remuneration Committee meetings are circulated to all Directors. The Remuneration Committee reports to shareholders annually in this report and the Chair of the Remuneration Committee usually attends the AGM to address any questions arising, although this was not possible in May 2020 due to restrictions as a result of the COVID-19 pandemic.

# Directors' Annual Remuneration Report – 2020

## Directors' remuneration in the year to 31 December 2020

**Single total figure for the remuneration of Executive Directors**

The table below has been audited.

| | | Fixed pay | | | | Variable pay | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Base salary[9] £'000 | Benefits[1] £'000 | Pension[2] £'000 | Total fixed pay £'000 | Bonus[3] £'000 | PSP[4,5] £'000 | Total variable pay £'000 | Total £'000 | Value attributed to share price growth[6] £'000 | % attributed to share price growth |
| Andy Ransom, Chief Executive | **2020** | **656.3** | **19.7** | **191.3** | **867.3** | **–** | **3,187.9** | **3,187.9** | **4,055.2** | **1,535.8** | **48.2%** |
| | 2019 | 765.3 | 19.8 | 191.3 | 976.4 | 1,069.0 | 2,182.1 | 3,251.1 | 4,227.5 | 795.6 | 36.5% |
| Stuart Ingall-Tombs, Chief Financial Officer[7] | **2020** | **188.5** | **29.3** | **5.0** | **222.8** | **–** | **50.5** | **50.5** | **273.3** | **24.3** | **48.2%** |
| | 2019 | – | – | – | | – | – | | – | – | |
| Jeremy Townsend, Former Chief Financial Officer[8] | **2020** | **278.5** | **29.1** | **45.2** | **352.8** | **–** | **1,275.1** | **1,275.1** | **1,627.9** | **614.3** | **48.2%** |
| | 2019 | 492.0 | 16.6 | 64.8 | 573.4 | 604.8 | 1,402.7 | 2,007.5 | 2,580.9 | 511.5 | 36.5% |

1. Executive Directors are provided with life assurance, permanent health insurance and a car allowance. Stuart Ingall-Tombs was also provided with support with his relocation from the USA to the UK costing £23,557. Jeremy Townsend received £19,038 in holiday pay on his termination for accrued but untaken holiday in line with his contract. The value of the taxable benefit is included under 'Benefits' in the above table. There were no other taxable benefits paid to Executive Directors in 2019 or 2020.
2. Andy Ransom received a pension contribution, in the form of a cash supplement, worth 25% of base salary in 2019 and 21.9% of base salary in 2020. Stuart Ingall-Tombs received a pension contribution, in the form of a cash supplement, worth 3% of base salary in line with the UK wider workforce. Jeremy Townsend's pension contribution was 15% of base salary, which delivered as a cash supplement reduces to 13.2% of base to account for additional cost of employer NI contributions, in line with the practice for the wider workforce in the UK.
3. 40% of the individual's 2019 bonus entitlement was awarded as deferred shares, which vest after a period of three years.
4. The 2020 single total figure includes the 2018 PSP which is due to vest in March 2021. The value of the 2018 PSP at vest has been estimated based on the average of the Company's share price over the last financial quarter of 2020, giving a price of 523.3p, and the anticipated performance outcomes giving a vesting level of 85.97% detailed on page 129. The actual value of the 2018 PSP will be restated next year once the final performance outcome and the share price at date of vesting are known.
5. The 2017 PSP estimates included in the 2019 single figure have been restated. The award vested at 90.8% and has been restated to reflect the actual share price at the date of vesting on 31 March 2020 of 387.80p.
6. The 2020 PSP award value attributed to share price growth is 252.1p per share (estimated share price at vest of 523.3p less share price at grant of 271.2p), which is 48.2% of the PSP value. The 2019 PSP award value attributed to share price growth is 141.4p per share (share price at vest of 387.8p less share price at grant of 246.4p), which is 36.5% of the PSP value. The Remuneration Committee has not exercised discretion as a result of this share price appreciation for either award.
7. Stuart Ingall-Tombs was appointed to the Board on 15 August 2020. His PSP award was granted prior to his appointment as an Executive Director and in line with the reporting requirements the value has been pro-rated to reflect his qualifying earnings as an Executive Director.
8. Jeremy Townsend stepped down from the Board on 14 August 2020; values for 2020 relate to the period while he was an Executive Director. Details of his leaving arrangements are set out on page 131.
9. Andy Ransom waived all his base pay and Jeremy Townsend 35% of base pay in Q2 2020 as part of the initiatives to address the impact of COVID-19.

## Annual bonus 2020

**2020 annual bonus cancellation**

On the recommendation of the Chief Executive, and with the agreement of the Remuneration Committee, one of the initiatives put in place to enable the business to successfully navigate COVID-19 was to cancel the H1 portion of the 2020 annual bonus for all eligible employees.

The Chief Executive also recommended that the remaining portion of the bonus was replaced with a reduced H2 'In It Together' bonus opportunity for the annual bonus population, to ensure they were incentivised and motivated to continue driving business recovery. The Chief Executive requested, and agreed with the Board, that the Executive Directors would not participate in this incentive.

While the financial performance against the original full-year annual bonus targets for revenue, profit and cash were all met and would have resulted in a bonus payout above threshold for the Executive Directors, given the impact of the COVID-19 crisis on colleagues, customers and shareholders, the Chief Executive requested, and agreed with the Board, to receive no annual bonus for 2020, foregoing £729,982. Similarly, the former Chief Financial Officer, Jeremy Townsend, will receive no bonus in relation to the period prior to his leaving foregoing £185,869. The new Chief Financial Officer, Stuart Ingall-Tombs, will also receive no bonus in relation to the period since his appointment, foregoing £125,802.

**2020 annual bonus outcome**

Although, no bonus is payable to either the Chief Executive, the former Chief Financial Officer or the newly appointed Chief Financial Officer for 2020, for transparency details of the annual bonus outcome that would have been payable under the scheme approved by the Remuneration Committee for 2020 are described below.

The annual bonus plan comprises three parts: gateway measures, company performance and individual performance. This means that bonuses earned reflect the performance of the constituent businesses which make up the overall Group performance as well as achievement against specific personal objectives. The gateway measures and Company performance are measured against financial targets. The Executive Directors had a maximum bonus opportunity of 150% of salary if the Company financial targets are achieved in full. Personal performance is accounted for using an individual performance modifier, which is linked to the Group's performance and development review process. This modifier can increase the maximum bonus opportunity up to 180% of salary, but also reduce the amount payable to 0%.

### Gateway measures
For any bonus to be payable to an Executive Director, two gateway measures had to be met as follows:

- Profit Gateway: The Company must achieve at least 95% of the Ongoing Operating Profit target (£411.0m) which is £387.8m. The outcome was £401.4m.
- Free Cash Flow Gateway: The Company must achieve Free Cash Flow generation of £200.0m. The outcome was £336.8m.
- Both gateways were achieved.

### Company performance measures
Executive Directors' bonuses were determined by achievement against two independent financial measures: Ongoing Revenue and Ongoing Operating Profit (before restructuring costs) performance. These measures were given equal weighting.

### Ongoing Revenue (weighting 50%):
To support the delivery of profitable growth in 2020 and to ensure incentives were aligned with the Group's strategy, revenue targets for Executive Directors were weighted to focus on sectors that were critical to the business. To provide this focus, coefficients were applied to the revenue generated from the quadrants as follows:

| | Coefficient 2020 |
|---|---|
| Pest Control – Emerging markets | 1.5 |
| Pest Control – Growth markets | 1.1 |
| Hygiene | 0.9 |
| Protect & Enhance | 0.39 |

The targets used to assess Ongoing Revenue performance are disclosed below, along with the achievement against these targets.

| | Threshold | Target | Maximum | Result |
|---|---|---|---|---|
| Targets | 2,845.3 | 2,874.0 | 2,902.7 | 2,875.3 |
| Targets as % of on-target | 99% | 100% | 101% | 100.05% |
| % of maximum bonus opportunity | 10% | 50% | 100% | 52.28% |

### Ongoing Operating Profit (before restructuring costs; weighting 50%):
The targets used to assess Ongoing Operating Profit performance are disclosed below, along with the achievement against these targets.

| | Threshold | Target | Maximum | Result |
|---|---|---|---|---|
| Targets | 387.8 | 408.2 | 428.6 | 401.4 |
| Targets as % of on-target | 95% | 100% | 105% | 98.34% |
| % of maximum bonus opportunity | 10% | 50% | 100% | 36.71% |

### Company performance outcome
The table shows the bonus outcome for Company performance for the Chief Executive and Chief Financial Officer and the amount payable.

| | Ongoing Revenue (50% weighting) | Ongoing Operating Profit (50% weighting) | Bonus outcome as % of salary before IPM | Bonus outcome before IPM |
|---|---|---|---|---|
| Andy Ransom | 52.28% | 36.71% | 66.74% | 584.0 |
| Stuart Ingall-Tombs[1] | 52.28% | 36.71% | 66.74% | 125.8 |
| Jeremy Townsend[2] | 52.28% | 36.71% | 66.74% | 185.9 |

1. The bonus outcome for Stuart Ingall-Tombs has been pro-rated from 15 August 2020 when he was appointed to the Board.
2. The bonus outcome for Jeremy Townsend has been pro-rated to 14 August 2020 when he retired from the Board.

### Individual performance modifier (IPM)
The Executive Directors' personal performance is reflected in the bonus outcome through the individual performance modifier as set out in the table below. Performance is measured through the Group's performance and development review process and objectives typically include areas such as People, Customers, Safety, Systems, Governance & Control, and Key Strategic Projects.

The individual performance modifier is applied to the outcome of the Company performance element of the bonus. The individual performance modifier can only increase or decrease the outcome of the Company financial results.

| Performance rating and definition | 1: Below standards required | 2: Development required | 3: Good performer | 4: Exceeds expectations | 5: Outstanding |
|---|---|---|---|---|---|
| Modifier | 0% | 75% | 100% | 110% | 125%[1] |

1. The maximum individual performance modifier that can be applied to the bonus is 125%. However, for the Executive Directors the annual bonus is capped at 180% of salary.

The performance rating for the Chief Executive has been awarded a 5 rating resulting in a 125% modifier applying to the Company performance outcome. The assessment of the performance rating by the Chairman takes into account the Chief Executive's key achievements during 2020 as detailed on page 129.

The former Chief Financial Officer and the newly appointed Chief Financial Officer focused on COVID-19 crisis management and recovery actions as well as handover and induction duties and therefore no rating has been applied for 2020.

The table below details the total bonus outcome after the application of the individual performance modifier.

| | Bonus outcome before IPM | IPM | Bonus outcome after IPM | **Bonus payable** |
|---|---|---|---|---|
| Andy Ransom | 584.0 | 125% | 730.0 | **£0** |
| Stuart Ingall-Tombs | 125.8 | – | 125.8 | **£0** |
| Jeremy Townsend | 185.9 | – | 185.9 | **£0** |

The table details the key achievements for the Chief Executive which were used to determine his performance rating.

| Strategic objectives | Achievements |
|---|---|
| **Employer of Choice** | ▶ Delivered world-class safety standards across the Group with an improvement of 26% in Lost Time Accident rate on prior year and an improvement of 23% in Working Days Lost<br>▶ Continued improvement in colleague retention up 1.7% points to 88.6%<br>▶ Maintained Trustpilot 5 star rating<br>▶ Employee Pulse Survey showed 96% of employees rated the leadership of the Company as 'doing the right things to succeed during the crisis'<br>▶ Implemented Hybrid Working globally to ensure colleague's safety as well as supporting flexible working and our Employer of Choice strategy |
| **Ongoing Revenue** | ▶ Maintained delivery within our medium-term target range, with Ongoing Revenue increase of 6.3% over previous year, despite COVID-19 impact |
| **Ongoing Operating Profit** | ▶ Delivered Ongoing Operating Profit increase of 5.4% over previous year despite COVID-related bad debt provisions and PPE costs |
| **Cash and liquidity** | ▶ Delivered very strong Free Cash Flow of £336.8m, representing 126% cash conversion through tight controls over costs, capex and working capital |
| **M&A** | ▶ 23 businesses acquired, despite a suspension of M&A in Q2, adding annualised revenues of £158.2m |
| **Hygiene business development** | ▶ Opened up 20 new markets for Hygiene in 2020 including North America and Germany<br>▶ Trained 7,000 colleagues in four weeks in specialist Hygiene in order to build a global disinfection business to support customer requirements |

## Performance Share Plan (PSP) and Deferred Bonus Plan (DBP) awards

The PSP is our long-term incentive plan which the Executive Directors, Executive Leadership Team and over 750 managers and technical experts participate in. This participation supports delivery of our strategic priorities. The DBP is the long-term incentive plan under which 40% of any bonus payable to the Executive Directors is deferred in shares.

**2018 PSP award**

The 2018 PSP award was subject to two performance measures: relative TSR performance (with a weighting of two-thirds) and EPS growth (with a weighting of one-third). The EPS performance period for this award ended during the 2020 financial year. Vesting is on a straight-line basis between median and upper quartile performance for the TSR element of the award. No awards vest for below median performance. The TSR performance period for the 2018 award is measured over a three-year period ending during the 2021 financial year. The TSR element of the award is therefore estimated using the average of the Company's share price over the last financial quarter of 2020. Vesting is on a straight-line basis between threshold and target and between target and maximum for the EPS element of the award.

Andy Ransom was granted an award of shares worth 200% of salary in March 2018 and a further award of 50% of salary in May 2018 following approval of the 2018 Directors' Remuneration Policy. The former Executive Director, Jeremy Townsend, was granted an award of shares worth 200% of salary in March 2018 and he retained a pro-rata of the award to his leaving date in line with his good leaver status (see page 131 for more details). Stuart Ingall-Tombs was not an Executive Director at the time of grant.

### 2018 PSP vesting level

The outcomes for the 2018 PSP are summarised below.

The table below has been audited.

| Performance condition | Condition definition | Performance period | Threshold | Maximum | Actual/estimated result | Vesting level |
|---|---|---|---|---|---|---|
| Relative TSR (weighting two-thirds) | TSR measured against the FTSE 350 Index, excluding financial services, property and primary resources sectors | 29 March 2018 – 28 March 2021<br>14 May 2018 – 13 May 2021 | If median rank is achieved, 25% of the award vests | If upper quartile rank is achieved, 100% of the award vests | 85.5% increase in TSR. Ranked 14 out of 179 comparator companies[1] | 100% of the TSR element of the award is on track to vest in March 2021 |
| EPS (weighting one-third) | Annualised EPS growth | 1 January 2018 – 31 December 2020 | 8.0% p.a. for 25% of the EPS element to vest | 13.0% p.a. for 100% of the EPS element to vest | 10.1% p.a. | 57.9% of the EPS element of the award to vest |
| Total | | | | | | 85.97% |

1. The estimated outcome of the TSR element of the 2018 PSP has been based on performance to the end of December 2020. The numbers will be restated in next year's Annual Report to reflect actual performance.

### 2018 PSP awards vesting

The aggregate number of shares anticipated to vest in 2021 is summarised in the table below. The table also includes an estimate of the number of additional shares relating to dividends accrued throughout the performance period which will be added to the final awards. The table below has been audited.

| | Maximum award of shares | Vesting level of award | Total number of shares post performance conditions | Dividend equivalent shares at vest | Total shares vesting | Value of shares vesting[1] | Value of share vesting attributed to share price growth | % of vesting value attributed to share price growth |
|---|---|---|---|---|---|---|---|---|
| Andy Ransom | 691,625 | 85.97% | 594,590 | 14,597 | 609,187 | £3,187,877 | £1,535,761 | 48.2% |
| Stuart Ingall-Tombs | 10,954 | 85.97% | 9,417 | 231 | 9,648 | £50,490 | £24,323 | 48.2% |
| Jeremy Townsend[3] | 276,647 | 85.97% | 237,833 | 5,839 | 243,672 | £1,275,137 | £614,298 | 48.2% |

1. The value of the 2018 PSP at vest is estimated based on an average of the Company's share price over Q4 of 2020 of 523.3p.
2. Stuart Ingall-Tombs was appointed to the Board on 15 August 2020. His PSP award was granted prior to his appointment as an Executive Director and in line with the reporting requirements the value has been pro-rated to reflect his qualifying earnings as an Executive Director.
3. Jeremy Townsend received good leaver status and retained shares on a pro-rata basis to the date of his retirement from the Board on 14 August 2020.

**PSP awards granted during the year**

The PSP grant planned for March 2020 was cancelled as part of the initiatives put in place to enable the Company to successfully navigate the crisis caused by COVID-19. Following review of business performance, the Remuneration Committee approved for a grant to go ahead in September. Andy Ransom and Stuart Ingall-Tombs were granted an award of shares under the PSP on 8 September 2020. The awards are subject to a three-year performance period and a two-year holding period post-vesting.

This delay resulted in the award being granted at 530.2p (share price on 7 September 2020), rather than 358.6p (share price on 23 March 2020). The Committee have considered and are comfortable that the delay in timing of the grant removed the potential for windfall gains as the share price at grant was back to pre-COVID-19 levels.

Prior to the grant in September, the Remuneration Committee undertook a detailed review of the performance conditions that had been approved for the cancelled grant in March to ensure they were fit for purpose. This resulted in the removal of EPS as a performance measure as the Company was unable to set effective targets for this measure given the level of uncertainty and business disruption. All the other performance conditions were retained with the weightings adjusted upwards to reflect the removal of EPS as detailed below:

The number of shares that vest under the PSP will be based on the following performance conditions and weightings:

| Performance measures 2020–2023 | Weighting | Threshold: 25% vesting | Target: 50% vesting | Maximum: 100% vesting |
|---|---|---|---|---|
| Relative TSR | 60% | TSR performance is median measured against the FTSE 350 Index, excluding financial services, property and primary resources sectors | Straight-line vesting between threshold and maximum | Upper quartile TSR performance against the FTSE 350 Index, excluding financial services, property and primary resources sectors |
| Organic Revenue growth | 10% | £160m | £200m | £240m |
| Free Cash Flow conversion | 10% | 80% | 85% | 90% |
| Strategic measures<br>– Sales and Service colleague retention<br>– Customer satisfaction<br>– Vehicle fuel intensity | 20%<br>Split equally | Targets for these measures have not been disclosed as the Board believes that these measures are commercially sensitive. They will be based on straight-line vesting between threshold and target and between target and maximum performance which will be reported at vesting. | | |

In addition, when determining the level of vesting, the Remuneration Committee will also consider the underlying financial performance of the business, as well as the value added for shareholders during the performance periods, and may adjust the vesting outcome if it considers this to be appropriate.

Awards to Executive Directors under the 2020 PSP are set out in the table below.

### 2020 PSP award

The table below has been audited.

| Participant | Date of award | Number of shares awarded[1] | Share price used to determine award | Exercise price | Face value of shares | % of salary awarded | Date of vest[3] | Performance period end[2] |
|---|---|---|---|---|---|---|---|---|
| Andy Ransom | 8 Sep 2020 | 412,580 | 530.2p | 0.0p | £2,187,500 | 250% | 8 Sep 2023 | 7 Sep 2023 |
| Stuart Ingall-Tombs | 8 Sep 2020 | 188,608 | 530.2p | 0.0p | £1,000,000 | 200% | 8 Sep 2023 | 7 Sep 2023 |

1. The figures shown for the number of share awards are maximum entitlements and the actual number of shares (if any) which vest under the PSP will depend on the performance conditions being achieved as set out above.
2. The TSR condition will be measured over three years to 7 September 2023. The other performance conditions will be measured over three years to 31 December 2022. The PSP awards are subject to a holding period of two years which commences from the date of vest.
3. The awards granted were in the form of nil-cost options and may be exercised after vesting up to 10 years from the date of grant.

**DBP awards granted during the year**
On 24 March 2020, Andy Ransom and the former Executive Director Jeremy Townsend were also granted awards under the DBP which equated to 40% of the value of bonus earned under the 2019 Annual Bonus. These awards will vest after a period of three years with no further performance conditions.

Awards to Executive Directors under the 2020 DBP are set out in the table below.

**2020 DBP award**
The table below has been audited.

| Participant | Date of award | Number of shares awarded | Share price used to determine award | Exercise price | Face value of shares | Date of vest | Performance period end |
|---|---|---|---|---|---|---|---|
| Andy Ransom | 24 Mar 2020 | 119,243 | 358.6p | 0.0p | £427,606 | 24 Mar 2023 | 23 Mar 2023 |
| Jeremy Townsend | 24 Mar 2020 | 67,459 | 358.6p | 0.0p | £241,908 | 24 Mar 2023 | 23 Mar 2023 |

**Payments for loss of office (audited)**
**Jeremy Townsend**
Jeremy Townsend retired from the Board with effect from 14 August 2020. He was treated as a good leaver, which is the automatic treatment for retirement and the Remuneration Committee agreed was appropriate to apply. His leaving terms were in line with the Directors' Remuneration Policy in force at the time and are summarised below. No discretion was applied by the Remuneration Committee to his leaving arrangements.

- Jeremy's salary, pension and benefits were paid up to his retirement date of 14 August 2020, which were £278,492, £45,166 and £10,070 respectively. The leave date was mutually agreed and he did not receive any additional pay in lieu of notice. For the period 1 January 2020 to 14 August 2020, this totalled £333,728.
- In line with his Service Agreement, on termination he received £19,038 holiday pay for accrued, but untaken holiday.
- He was eligible for a pro-rata annual bonus for the 2020 financial year up to and including 14 August 2020. Although the financial results generated a payment under the scheme of £185,869, as detailed on pages 127 and 128, it was determined that the Executive Directors would not receive a bonus in 2020. Therefore, Jeremy will not receive a bonus payment in relation to his time served in 2020.
- He did not receive a PSP award in 2020.
- His PSP awards that have vested, but are still in their holding period were retained in full and will be released at the end of holding period.
- He will receive a pro-rata from time of grant to his leave date 14 August 2020 for his 2018 and 2019 PSP awards, as detailed on page 133, and these awards remain subject to the achievement of performance conditions and will vest in 2021 and 2022 respectively. Any shares that vest will be released following the two-year holding period.
- His Deferred Bonus Plan awards granted in 2019 and 2020 will be retained in full and released at the end of the deferral period in 2022 and 2023.
- All outstanding awards will remain subject to malus and clawback.

**Payments to past Directors (audited)**
There were no payments made to past Directors during 2020.

**Single total figure for the remuneration during 2020 of the Chairman and Non-Executive Directors**
The table below has been audited:

| Chairman and Non-Executive Directors | **Fees 2020[1] £'000** | Fees 2019 £'000 | **Benefits 2020 £'000** | Benefits 2019 £'000 | **Total 2020 £'000** | Total 2019 £'000 |
|---|---|---|---|---|---|---|
| Richard Solomons[2] | **342.2** | 254.3 | – | – | **342.2** | 254.3 |
| John Pettigrew[5] | **63.9** | 66.9 | – | – | **63.9** | 66.9 |
| Angela Seymour-Jackson[3,6] | **58.4** | 69.7 | – | – | **58.4** | 68.1 |
| Julie Southern | **68.4** | 75.0 | – | – | **68.4** | 75.0 |
| Cathy Turner[4,7] | **36.8** | – | – | – | **36.8** | – |
| Linda Yueh | **54.8** | 60.0 | – | – | **54.8** | 60.0 |

1. The Chairman and the Non-Executive Directors waived 35% of their fees in Q2, in line with waivers made by the Executive Directors as part of a range of initiatives to help support the business through COVID-19.
2. Richard Solomons was appointed to the Board on 1 March 2019 and as Chairman on 8 May 2019.
3. Angela Seymour-Jackson waived an additional £10,000 of her fees to the benefit of the Colleague Support Fund, see page 51 for details.
4. Cathy Turner waived an additional £3,000 of her fees to the benefit of the Colleague Support Fund.
5. John Pettigrew was appointed as Senior Independent Director on 8 May 2019.
6. Angela Seymour-Jackson was appointed as Remuneration Committee Chair on 8 May 2019.
7. Cathy Turner was appointed to the Board on 1 April 2020.

### Directors' shareholdings and share interests

#### Directors' share interests

The interests of the Directors and their connected persons in the share capital of the Company as at 31 December 2020, or their date of cessation if earlier, and at 31 December 2019, or their date of appointment if later, are set out below. No Director has any beneficial interest in the shares of any of the Company's subsidiaries. This table has been audited.

| | **Number of ordinary shares as at 31 Dec 2020** | Number of ordinary shares as at 31 Dec 2019 |
|---|---|---|
| Richard Solomons | **25,000** | 25,000 |
| Andy Ransom[1] | **1,562,544** | 1,562,544 |
| Stuart Ingall-Tombs[2] | **79,592** | – |
| Jeremy Townsend[3] | **734,099** | 734,099 |
| John Pettigrew | **10,000** | 10,000 |
| Angela Seymour-Jackson | **10,574** | 10,574 |
| Julie Southern | **9,891** | 5,000 |
| Linda Yueh | **1,590** | 1,590 |
| Cathy Turner[4] | **15,384** | – |

1. Andy Ransom has an interest in 4,328,951 vested PSP shares from the 2012, 2013, 2014, 2015, 2016 and 2017 awards which he has not yet exercised. These figures are not included in his beneficial interest of shares figure at 31 December 2020 above but are included in the share award table below.
2. Stuart Ingall-Tombs was appointed to the Board on 15 August 2020.
3. Jeremy Townsend retired from the Board on 14 August 2020 and the table shows his shareholding at this date.
4. Cathy Turner was appointed to the Board on 1 April 2020.

There has been no change to the current Directors' shareholdings between 31 December 2020 and 3 March 2021.

#### Executive shareholdings

All Executive Directors are required to hold shares equivalent in value to a percentage of their salary within a five-year period from their appointment date. For the Chief Executive, this requirement is 300% of annual salary and for the Chief Financial Officer 200% of annual salary.

As of 31 December 2020, the Chief Executive substantially exceeded the minimum shareholding requirement and Stuart Ingall-Tombs was on track to meet the shareholding requirement within five years. Jeremy Townsend retired from the Board on 14 August 2020 and is no longer required to meet the shareholding requirement.

The table below sets out the number of shares held at 31 December 2020 by each Executive Director. Shares owned outright include those held by connected persons. This table has been audited.

| | Shareholding requirement as a % of salary | Number of shares owned outright | Value of shareholding as at 31 Dec 2020[1] | Shares owned outright as a % of salary | Interest in PSP and DBP share awards as at 31 Dec 2020[2] |
|---|---|---|---|---|---|
| Andy Ransom | 300% | 1,562,544 | £7,962,724 | 910% | 6,142,519 |
| Stuart Ingall-Tombs | 200% | 79,592 | £405,601 | 81%[2] | 350,908 |
| Jeremy Townsend[3] | – | 734,099 | £3,740,969 | – | 512,647 |

1. The share price is based on the closing share price on 31 December 2020 of 509.6p.
2. Stuart Ingall-Tombs is 4.5 months into his five-year period to meet the shareholding requirement. He is on track to meet the holding requirement.
3. Jeremy Townsend retired from the Board on 14 August 2020 and was not required to maintain his shareholding post-cessation. His number of shares held outright is the number he held on leaving.

**Total PSP and DBP awards held by Executive Directors**
The table below has been audited.

| | Date of award | Share price used to determine award | Scheme interest at 1 Jan 2020 | Shares awarded during 2020 | Shares lapsed during 2020 | Dividend equivalent shares at vest | Shares available for exercise during 2020 | Dividend equivalent shares at exercise | Shares exercised during 2020 | Outstanding awards at 31 Dec 2020 | Performance period end |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2012 PSP[1]** | | | | | | | | | | | |
| Andy Ransom | 08/05/12 | 83.5p | **163,625** | – | – | – | **163,625** | – | – | **163,625** | 07/05/15 |
| **2013 PSP[1]** | | | | | | | | | | | |
| Andy Ransom | 30/04/13 | 96.0p | **513,403** | – | – | – | **513,403** | – | – | **513,403** | 29/04/16 |
| Andy Ransom | 01/10/13 | 109.0p | **388,853** | – | – | – | **388,853** | – | – | **388,853** | 29/04/16 |
| **2014 PSP[1]** | | | | | | | | | | | |
| Andy Ransom | 31/03/14 | 123.4p | **912,792** | – | – | – | **912,792** | – | – | **912,792** | 30/03/17 |
| **2015 PSP[1]** | | | | | | | | | | | |
| Andy Ransom | 31/03/15 | 135.5p | **883,906** | – | – | – | **883,906** | – | – | **883,906** | 30/03/18 |
| Jeremy Townsend | 31/03/15 | 135.5p | **460,552** | – | – | – | **460,552** | **11,510** | **472,062** | – | 30/03/18 |
| **2016 PSP[1]** | | | | | | | | | | | |
| Andy Ransom | 12/05/16 | 159.4p | **869,324** | – | – | – | **869,324** | – | – | **869,324** | 10/03/19 |
| Jeremy Townsend | 12/05/16 | 159.4p | **558,851** | – | – | – | **558,851** | **6,533** | **565,384** | – | 10/03/19 |
| **2017 PSP[1,2,3]** | | | | | | | | | | | |
| Andy Ransom | 31/03/17 | 246.4p | **597,048** | – | **54,929** | **20,557** | **562,676** | – | – | **562,676** | 30/03/20 |
| Jeremy Townsend | 31/03/17 | 246.4p | **383,814** | – | **35,311** | **13,215** | **361,718** | – | **361,718** | – | 30/03/20 |
| Stuart Ingall-Tombs[4] | 31/03/17 | 246.4p | **57,070** | – | **5,251** | **1,965** | **53,784** | – | **53,784** | – | 30/03/20 |
| **2018 PSP** | | | | | | | | | | | |
| Andy Ransom | 29/03/18 | 271.2p | **553,300** | – | – | – | – | – | – | **553,300** | 28/03/21 |
| Andy Ransom | 14/05/18 | 271.2p | **138,325** | – | – | – | – | – | – | **138,325** | 13/05/21 |
| Jeremy Townsend | 29/03/18 | 271.2p | **355,690** | – | **79,043** | – | – | – | – | **276,647** | 28/03/21 |
| Stuart Ingall-Tombs[4] | 29/03/18 | 271.2p | **52,888** | – | – | – | – | – | – | **52,888** | 28/03/21 |
| Stuart Ingall-Tombs[4] | 06/09/18 | 320.0p | **74,978** | – | **26,544** | – | – | – | – | **48,434** | 05/09/21 |
| **2019 PSP[6]** | | | | | | | | | | | |
| Andy Ransom | 25/03/19 | 346.6p | **551,987** | – | – | – | – | – | – | **551,987** | 24/03/22 |
| Jeremy Townsend | 25/03/19 | 346.6p | **283,879** | – | **157,711** | – | – | – | – | **126,168** | 24/03/22 |
| Stuart Ingall-Tombs[4] | 25/03/19 | 346.6p | **79,529** | – | **18,551** | – | – | – | – | **60,978** | 24/03/22 |
| **2019 DBP[5]** | | | | | | | | | | | |
| Andy Ransom | 25/03/19 | 346.6p | **72,505** | – | – | – | – | – | – | **72,505** | 24/03/22 |
| Jeremy Townsend | 25/03/19 | 346.6p | **42,373** | – | – | – | – | – | – | **42,373** | 24/03/22 |
| **2020 DBP[5]** | | | | | | | | | | | |
| Andy Ransom | 24/03/20 | 358.6p | – | **119,243** | – | – | – | – | – | **119,243** | 23/03/23 |
| Jeremy Townsend | 24/03/20 | 358.6p | – | **67,459** | – | – | – | – | – | **67,459** | 23/03/23 |
| **2020 PSP** | | | | | | | | | | | |
| Andy Ransom | 08/09/20 | 530.2p | – | **412,580** | – | – | – | – | – | **412,580** | 07/09/23 |
| Stuart Ingall-Tombs | 08/09/20 | 530.2p | – | **188,608** | – | – | – | – | – | **188,608** | 07/09/23 |

1. Shares held by Andy Ransom under the 2012, 2013, 2014, 2015, 2016 and 2017 PSP awards are vested but unexercised.
2. The 2017 PSP award is entitled to receive dividend equivalents in the form of shares based on dividend payments between the date of grant and vesting. These are included in the total shares at vest. The awards are also entitled to receive dividend equivalents in the form of shares post vest based on dividend payments between the date of vest and the date one month before exercise. These shares are applied at exercise.
3. The 2017 PSP award partially vested at 90.8% on 31 March 2020.
4. The 2017, 2018 and 2019 awards for Stuart Ingall-Tombs were made prior to his appointment as an Executive Director. Part of the 2018 and 2019 awards are subject to the achievement of North America specific targets related to revenue and profit margin growth and the shares for this element have been pro-rated for his CFO North America role.
5. The 2019 and 2020 DBP award has no additional performance conditions beyond the three-year holding period.

## Remuneration in context

**Wider workforce policy**
During 2020, the Company had approximately 44,500 colleagues based in 83 countries. We have a broad remuneration policy which reflects the diversity of cultures, legislative environments, employment markets and the types and seniority of roles that this geographic spread requires. We structure our colleague reward to enable us to recruit and retain the right people, doing the right job for our customers.

**Wider workforce engagement**
Remuneration Committee engagement with our colleagues forms part of the wider workforce engagement undertaken by the Board of Directors as set out on page 90. In addition, the Remuneration Committee received and reviewed details of the wider workforce remuneration when considering the base pay, bonus, PSP awards and outcomes for the Executive Directors and the Executive Leadership Team throughout 2020. The UK and global workforces were also considered when reviewing pension contribution levels for Executive Directors.

**CEO pay ratio**
The CEO pay ratio compares the CEO single figure earnings to the single figure earnings of UK employees. It has been calculated using method A, where the employees at each quartile are identified using details of their full-time equivalent pay and benefits for 2020. This method was chosen as it best replicates the Chief Executive's single figure. The table below shows the ratios at the 25th percentile, median and 75th percentile for 2020, 2019 and 2018

| Year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| **2020** | **A** | **203:1** | **160:1** | **111:1** |
| 2019 | A | 220:1 | 173:1 | 119:1 |
| 2018 | A | 229:1 | 189:1 | 145:1 |

The ratios have improved again in 2020. This is due to the Chief Executive not receiving a bonus in 2020, a lower PSP vesting level and waiving his salary in Q2 (see page 127). This downward trend is not expected to continue in 2021 as it is expected that the pay ratios will increase if the Chief Executive's pay returns to historical norms.

This table will continue to be built on over time to cover a rolling 10-year period and will include reasons for the changes to the ratios from year to year. However, it is anticipated that variations in the PSP and annual bonus outcomes will have the biggest impact on the ratios. For PSP, this is due to vesting levels and the share price changing. For the annual bonus, although our comparator employees are also eligible for a bonus, the Chief Executive is targeted on Group-level outcomes, whereas our comparator employees are based on their specific remit, which given the UK makes up only a small percentage of Group, means the outcomes may vary from year to year.

The median pay ratio is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole. We have a consistent approach to reward across the Group and employees' packages are set with reference to the external market.

**Gender pay gap**
The make-up of the UK workforce changed significantly from 2019 to 2020 with the acquisition of Cannon Hygiene contributing to a 15% increase in headcount. The reporting period was also impacted by COVID-19, with the use of employee support schemes and management taking pay waivers.

Despite this, we continue to have no material gender pay gap between men and women, with a median of -3% and a mean -11%, which is significantly better than the UK average of 15.5% reported by the Office for National Statistics.

While these are encouraging results overall, and we continue to make good progress in building our female representation in senior management roles (on a like-for-like basis female colleagues now account for 30% of roles compared to 28% in 2019) and our 2019 employee survey shows that 96% of colleagues believe that we do not preclude male and female colleagues from having equal opportunities to succeed, we remain focused on making Rentokil Initial an even more diverse and inclusive place to work, in line with our **RIGHT WAY** plan. Our key areas of focus continue to be increasing the number of female frontline technicians and improving the proportion of females in senior manager roles in our head office functions.

**Relative importance of spend on pay**
The table below sets out amounts paid in total employee costs and total dividends paid for the years ended 31 December 2020 and 31 December 2019.

| | **2020[1] £m** | 2019[1] £m | % change |
|---|---|---|---|
| Remuneration paid to all employees of the Group | **£1,298.7** | £1,312.2 | (1.0%) |
| Distributions to shareholders | **–** | £85.8 | (100%) |

1. The average number of people employed by the Group during the year was 44,589 in 2020 and 42,933 in 2019.

Details of the remuneration paid to all employees can be found in Note A9 to the Financial Statements on page 163. Details of the dividends declared and paid during the periods are contained in Note D1 to the Financial Statements on page 183.

**Percentage change in remuneration**
The table below sets out a comparison of the change in pay for the Chief Executive, Chief Financial Officer, Chairman and Non-Executive Directors for the year ended 2020 compared with 2019 and employees of Rentokil Initial plc. This table will continue to be built on over time to cover a rolling five-year period.

| | Salary/fees[1] | Annual bonus[2] | Benefits[3,4] | Total |
|---|---|---|---|---|
| Andy Ransom | (14.2%) | (100%) | (0.3%) | (63.5%) |
| Stuart Ingall-Tombs[5] | – | – | – | – |
| Richard Solomons[6] | 34.6% | – | – | – |
| John Pettigrew | (4.6%) | – | – | – |
| Angela Seymour-Jackson | (16.2%) | – | – | – |
| Julie Southern | (8.8%) | – | – | – |
| Cathy Turner[7] | – | – | – | – |
| Linda Yueh | (8.8%) | – | – | – |
| Employees[8] | 2.7% | (62.8%) | 1.3% | (15.2%) |

1. Base salary includes overtime and allowances.
2. Annual bonus includes our Group Management Bonus Scheme (GMBS) and any other bonus commission or cash incentive but excludes any long-term incentives.
3. Benefits include private healthcare, car allowance, cars, fully expensed fuel cards and commercial vans (private use).
4. Pension and retirement benefits are not included in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.
5. Stuart Ingall-Tombs was appointed as CFO on 15 August 2020.
6. Richard Solomons was appointed to the Board on 1 March 2019.
7. Cathy Turner was appointed to the Board on 1 April 2020.
8. In line with regulations, employees includes those employed by Rentokil Initial plc, excluding Executive Directors and Non-Executive Directors.

**Shareholder engagement**
In 2020, the Remuneration Committee continued to engage with leading shareholders and their representative bodies. The main activities included updating shareholders about our changes to Executive Pay in response to COVID-19 and consulting about changes to our Directors' Remuneration Policy (see page 111 for more details) and were conducted through a mixture of calls, emails and letters.

### Use of discretion

The Remuneration Committee is cognisant of its responsibility to make informed and thoughtful decisions on remuneration that are both balanced and in the long-term interests of the business and shareholders and, where necessary, will apply discretion to remuneration targets or outcomes that otherwise would be inappropriate. The application of discretion over the last five years is detailed on page 113 and has mainly focused on the increase of EPS targets to take account of material acquisitions and disposals.

### Chief Executive remuneration over a 10-year period

| Chief Executive | Single total figure for remuneration | Annual bonus payout versus maximum opportunity | % long-term incentive vesting rates versus maximum opportunity |
|---|---|---|---|
| 2011 – Alan Brown[1] | £3,564,971 | 0.0% | 22.0% |
| 2012 – Alan Brown | £1,115,000 | 13.3% | 0.0% |
| 2013 – Alan Brown[2] | £994,396 | 27.0% | 0.0% |
| 2013 – Andy Ransom[2] | £401,006 | 28.7% | 0.0% |
| 2014 – Andy Ransom | £1,326,045 | 51.4% | 0.0% |
| 2015 – Andy Ransom | £1,655,757 | 59.1% | 15.1% |
| 2016 – Andy Ransom | £5,581,304 | 72.2% | 67.5% |
| 2017 – Andy Ransom | £3,969,607 | 70.1% | 80.3% |
| 2018 – Andy Ransom | £4,962,076 | 55.8% | 91.3% |
| 2019 – Andy Ransom[3] | £4,227,473 | 93.1% | 90.8% |
| **2020 – Andy Ransom[4]** | **£4,055,183** | **0%** | **86.0%** |

1. The 2011 single total figure for Alan Brown, the Chief Executive at the time, includes the value of the 2008 Share Incentive Plan of £2,573,971 which was valued on the release date of 20 May 2011. These shares were called for during 2014.
2. Alan Brown was appointed as Chief Executive on 1 April 2008 and stepped down on 30 September 2013; Andy Ransom was appointed from that date. The single total figure has been apportioned to reflect payment during these periods.
3. The 2019 single total figure for the Chief Executive, Andy Ransom, includes the restated value of 562,676 shares under the 2017 PSP award which vested at 90.8% on 31 March 2020, based on the closing share price on 31 March 2020 of 387.8p.
4. The 2020 single total figure includes the estimated value of 609,187 shares under the 2018 PSP award which is due to vest on 29 March 2021 and 14 May 2021 based on the average share price over Q4 of 2020 of 523.3p.

### UK Corporate Governance Code provisions

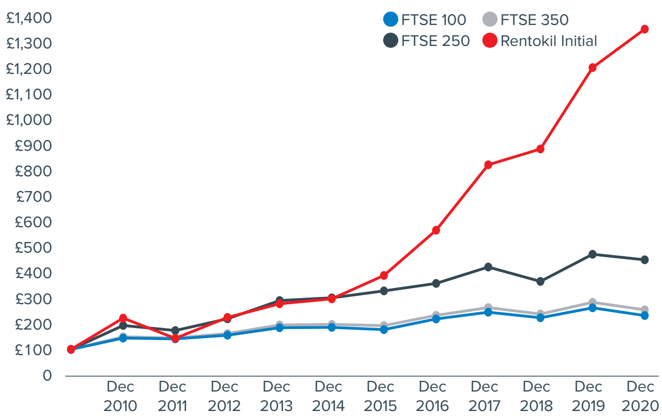
During 2020, the Remuneration Committee has addressed the factors set out in Provision 40 of the UK Corporate Governance Code as set out below:

- Clarity – When considering and structuring any element of remuneration the Remuneration Committee aims to be as straightforward and transparent as possible. It looks to ensure that the remuneration vehicles it uses are clear and understandable and the targets, outcomes and any other decisions are communicated in an open and detailed way. The Remuneration Committee has endeavoured to ensure that, in approving the Directors' Remuneration Report, they are providing an extensive and clear picture of the remuneration arrangements and decisions undertaken each year. For instance, although it was agreed no annual bonus would be payable for 2020, full details of the potential outcome are included for transparency (see page 128).
- Simplicity – When determining the structure and mechanisms of remuneration packages consideration is given to ensuring that complexity is avoided and that both our colleagues and our shareholders are able to understand the rationale for and the operation of any incentive easily. For instance, one of the proposed changes to the 2021 Policy is to remove the individual modifier element of the annual bonus which added complexity and was highlighted by shareholders as not being straightforward to understand.
- Risk – The Remuneration Committee has a history of restraint and closely monitors remuneration structures and outcomes in relation to the strategy and financial performance in order to ensure that only appropriate behaviour is incentivised and rewards are not excessive. The Committee has shown a willingness to apply discretion to adjust targets upwards where it has felt it is appropriate and outcomes could otherwise misalign with performance and therefore create a risk to the business and shareholders (see page 113). Risk is also considered in the context of the Group's wider risks (see Risks and Uncertainties on pages 67 to 73). In 2020, in response to COVID-19, the Executive Directors', Chairman's and Non-Executives' remuneration was adjusted.
- Predictability – The Remuneration Committee encourages and oversees the use and replication of our annual bonus and PSP schemes globally and deep into the organisation, ensuring employees understand and become familiar with how we recognise and reward performance, and that as many people as possible share in the success of the organisation. Remuneration structures, including grading and reward programmes, are consistently applied and appropriate at each level of the organisation.
- Proportionality – The Remuneration Committee seeks to ensure that remuneration payouts awarded to the Executive Directors, the Executive Leadership Team and the wider workforce are consistent with performance outcomes and with the experience felt by shareholders. The Committee considers carefully the stretch built into targets and ensures that outcomes linked to certain levels of performance are stretching, while achievable, and therefore motivating for colleagues, as well as satisfying shareholder expectations.
- Alignment to culture – The Remuneration Committee strives to ensure that remuneration arrangements drive both financial and non-financial performance, as well as behaviours consistent with our purpose, values and vision. A summary of our culture can be found on pages 49 to 51 and page 83. Our colleagues are integral to our business model as set out on pages 22 and 23 and as such the Remuneration Committee has regard to the balance of fixed and variable pay to ensure the right level of reward and incentive is available to both recruit and retain the talent needed to deliver our long-term strategic plan.

### TSR performance over a 10-year period relative to FTSE Index

The following graph shows total shareholder return (TSR) over a 10-year period reflecting the holding of the Company's shares, plotted against the FTSE 100 Index, the FTSE 250 Index and the FTSE 350 Index, on a consistent basis with the graph shown last year. The Company has been a constituent of one or more of these indices over the 10-year period that is shown. This chart is based on data sourced from Thomson Reuters DataStream and uses spot Return Index data at each year end.

### Rentokil Initial plc's TSR compared against the TSR of FTSE 100, FTSE 250 and FTSE 350 indices over a 10-year period



# Directors' Annual Remuneration Report – Looking forward 2021

**Executive Director base salaries from 1 January 2021**
Executive Director and ELT salaries are typically reviewed with effect from 1 January each year in accordance with the prevailing Policy. However, due to the level of uncertainty currently being experienced by the Company and the wider economy, the pay review has been moved to 1 July 2021.

When reviewing salary levels, the Remuneration Committee takes into account a number of internal and external factors, including Company performance during the year, external market data and the salary review principles applied to the rest of the organisation to ensure a consistent approach.

Salary increases are expected to be in line with increases applied to the wider workforce, with the exception of Stuart Ingall-Tombs, whose salary will increase to £550,000 once he has been in role for 12 months, assuming both his and the Company's performance is satisfactory, in line with his appointment announcement.

### Salary from 1 January 2021

| Executive Director | Salary | % increase | Effective date |
|---|---|---|---|
| Andy Ransom – Chief Executive | £875,000<br>TBC | 0%<br>TBC | 1 January 2021<br>1 July 2021 |
| Stuart Ingall-Tombs – Chief Financial Officer | £500,000<br>£550,000 | 0%<br>10% | 1 January 2021<br>15 August 2021 |

### Fixed pay for 2021 will be:

| | Estimated base salary £'000 | Estimated benefits £'000 | Estimated pension £'000 | Total fixed pay £'000 |
|---|---|---|---|---|
| Andy Ransom – Chief Executive | 875.0[1] | 19.7 | 191.3 | 1,086.0 |
| Stuart Ingall-Tombs – Chief Financial Officer | 519.0[2] | 16.4 | 13.7 | 549.1 |

1. Pay review has moved to 1 July 2021. Base salary may increase in line with the wider workforce.
2. Assumes salary increase to £550,000 from 15 August 2021, as per appointment announcement.

**2021 Non-Executive Director fees**
Non-Executive Director fees from 1 January 2021

| Position | Fee policy for year beginning 1 January 2021[1] |
|---|---|
| Chairman | £375,000 per annum |
| Non-Executive Director | £60,000 per annum |
| Senior Independent Director | Additional £10,000 per annum |
| Chair of Audit Committee | Additional £15,000 per annum |
| Chair of Remuneration Committee | Additional £15,000 per annum |

1. Non-Executive Director and Senior Independent Director fees were increased on 1 September 2017.

**How will incentives be aligned with the business strategy in 2021?**
The table below shows how the business strategy is reflected in the Executive Directors' remuneration in 2021.

| Strategic priorities | Link to remuneration |
|---|---|
| Employer of Choice/ retention | Through personal goals in the annual bonus and the Sales & Service colleague retention performance condition in the PSP. |
| Driving Organic Revenue growth in Pest Control | Revenue targets in the annual bonus and Organic Revenue growth targets in the PSP. |
| Building our Hygiene business | Revenue, profit targets and personal goals in the annual bonus. Organic Revenue growth targets in the PSP. |
| M&A execution | M&A is enabled through delivery of Free Cash Flow in the annual bonus and Free Cash Flow conversion in the PSP and its execution measured through personal goals in the annual bonus. |
| Creating value through product and service innovations and digital applications | Through personal goals in the annual bonus and through the customer satisfaction measure in the PSP. |
| Managing a responsible business | ESG is measured through goals in the annual bonus and through the performance conditions, vehicle fuel efficiency, customer satisfaction and Sales & Service colleague retention in the PSP. |

**2021 annual bonus structure**
The focus of the bonus is on rewarding sustainable profitable growth and Free Cash Flow in order to align Executive Directors' incentives with the Group's strategy.

Executive Directors have the following bonus opportunity as a percentage of base salary.

| | Threshold | Target | Maximum |
|---|---|---|---|
| Company performance | 15% | 75% | 150% |
| Personal performance | 0% | 15% | 30% |
| Total | 15% | 90% | 180% |

The Remuneration Committee has approved the following proposed structure for 2021.

### Company performance

- **Gateways:** 95% of the profit target and a Free Cash Flow gateway of £205m have to be reached at Group level before the financial performance element of the bonus can be paid.
- **Financial performance:** If both these profit and cash flow gateways are achieved, then Executive Directors can earn up to 150% of salary based on targets equally split 50% revenue and 50% profit.

### Personal performance

The Executive Directors can earn up to 30% of base salary based on their personal performance against objectives measured through the Company's performance and development review process.

40% of any bonus earned will be deferred into shares for three years.

Bonus targets have not been disclosed looking forward for 2021 as the Board believes that this information is commercially sensitive. Disclosing bonus targets could provide information about our business plans to our competitors which could be damaging to our business interests and therefore to shareholders. However, retrospective bonus targets for 2021 will be disclosed in next year's Annual Report.

**2021 PSP award**

Under the proposed Policy, the PSP award is up to a maximum of 375% of base salary for the Chief Executive and 300% of base salary for the Chief Financial Officer.

In 2021, these maximums will not be used and the transition to the new Policy level will be phased. Andy Ransom, Chief Executive, will receive an award of 325% of salary (subject to shareholder approval) and Stuart Ingall-Tombs, Chief Financial Officer, will receive an award of 200% of salary (previous Policy level). Stuart's level of award is to reflect that he is settling into his new role and continuing to gain experience.

Shares under the awards will be released no earlier than five years after grant (i.e. following a three-year vesting period and a two-year holding period). Vesting of this award will be determined by the Company's performance as follows and performance between targets will be calculated on a straight-line basis:

| Performance measures 2021–2024 | Weighting | Threshold: 25% vesting | Target: 50% vesting | Maximum: 100% vesting |
|---|---|---|---|---|
| Relative TSR[1] | 50% | TSR performance is median against comparator group | Straight-line vesting between threshold and maximum | Upper quartile TSR performance against comparator group |
| Organic Revenue growth | 15% | 2.25% per annum | 2.5% per annum | 2.75% per annum |
| Free Cash Flow conversion | 15% | 80% | 85% | 90% |
| Strategic measures[2]<br>– Sales and Service colleague retention<br>– Customer satisfaction<br>– Vehicle fuel intensity | 20%<br>(split equally) | Targets for these measures have not been disclosed as the Board believes that these measures are commercially sensitive. They will be based on straight-line vesting between threshold and target and target and maximum performance which will be reported at vesting. | | |

1. The TSR index of comparators for this cycle will be the constituents of the FTSE 350 Index, excluding financial services, property and primary resources sectors.
2. The strategic measures will be measured over the three-year performance period. Colleague retention will be measured on average overall Sales and Service colleague retention; customer satisfaction will be measured using average Customer Voice Counts scores (CATI methodology); and vehicle fuel efficiency will be measured against an average reduction across our key countries.

The Remuneration Committee is satisfied that these targets represent a stretching range in light of all relevant factors including the current business plan and analysts' forecasts.

When determining the level of vesting, the Remuneration Committee will also consider the underlying financial performance of the business, as well as the value added to shareholders during the performance periods, and may adjust the vesting outcome if it considers this to be appropriate.

# Independent Auditor's Report to the members of Rentokil Initial plc

KPMG

## 1. Our opinion is unmodified

We have audited the Financial Statements of Rentokil Initial plc (the Company) for the year ended 31 December 2020 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet and Company Statement of Changes in Equity, and the related notes, including the accounting policies in the General Accounting Policies.

**In our opinion:**

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS as adopted by the EU) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU);
- the Parent Company Financial Statements have been properly prepared in accordance with UK accounting standards, including FRS101 Reduced Disclosure Framework; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation to the extent applicable.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the shareholders in August 2009. The period of total uninterrupted engagement is for the 12 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

**Overview**

| | |
|---|---|
| **Materiality:** Group Financial Statements as a whole | £11m (2019: £12m)<br>4.8% (2019: 4.7%) of normalised profit before tax |
| **Coverage** | 76% (2019: 76%) of Group profit before tax |

| **Key audit matters** | | **vs 2019** |
|---|---|---|
| **Recurring risks** | **New:** Impact of credit note adjustments on revenue | ▲ |
| | **New:** Group overlay provision in respect of trade receivables | ▲ |
| | Impairment assessment and testing of cash-generated units that include goodwill | ▲ |
| | Provision for uncertain tax positions | ▲ |
| **Parent Company specific risk** | Recoverability of investments in subsidiary undertakings and inter-company receivables | – |

### More information


- Audit Committee Report on pages **99** to **106**
- Financial Statements from page **145**


**frc.org.uk/auditorsresponsibilities**

## 2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the Financial Statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

| | The risk | Our response |
|---|---|---|
| **Impact of credit note adjustments on revenue**<br>£2,823.5m<br>(2019: £2,714.4m)<br><br>**Read more:**<br>Audit Committee Report on pages **99** to **106**<br>Accounting policy on pages **154** to **155**<br>Financial disclosures on pages **156** to **158** | **Subjective estimate**<br>The Group offers pest and hygiene services which have bundled performance obligations which are delivered and recognised over time. These services are accounted for in line with the requirements of IFRS 15.<br>As the Group provides regular services to customers, the systems are such that automatic billing occurs. However, in response to increasing instances of missed service visits due to unavailability of customers as a result of COVID-19 lockdown restrictions, the Group updated their arrangements relating to services provided over time, providing the component finance teams the option to either suspend automatic billing over time and raise manual invoices or continue with the automatic billing process and recognise credit notes for invoices raised.<br>In the UK trading entities, management did not suspend invoicing for bundled services; however, due to the number of national lockdowns and restrictions, where the business was closed down, Rentokil Initial was unable to service its performance obligations and therefore credit notes were raised.<br>Due to system limitations, the credits could not be calculated at an individual transaction level and instead a credit note amount was estimated and adjusted to revenue. The computation and utilisation of the credit note adjustment is based on an analysis of available data as well as assumptions regarding the nature of the suspended service per customer and the number of credits already given. A wide range of estimation uncertainty exists due to limitations in the way the data has been collected and retained and the assumptions used, and results in a risk of misstatement of the Group's revenue.<br>This risk was not found to be significant in any other region apart from the UK. | Our procedures included:<br>▶ **test of detail:** reviewing of revenue contracts to identify performance obligations of the revenue contracts entered into in the year and testing revenue transactions by comparing to invoices and job completion documents in line with the specific elements of the contracts;<br>▶ **test of detail:** assessing the accuracy of the reports used to generate the credit note adjustment by testing underlying data supporting rebates and by testing the computations used to calculate the adjustment to revenue;<br>▶ **challenge of assumptions:** challenging assumptions made by management by the assessment of customer claims relating to missed visits and assessing trends on credit notes issued to customers both before and subsequent to the year end date; and<br>We performed an assessment of whether an overstatement of revenue identified through our procedures was material.<br>▶ **assessing transparency:** assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty involved in arriving at the provision.<br>**Our results**<br>As a result of our work we found the amount of revenue recognised to be acceptable. |
| **Group overlay provision for trade receivables**<br>£61.4m<br>(2019: £28.4m)<br><br>**Read more:**<br>Audit Committee Report on pages **99** to **106**<br>Accounting policy on pages **154** to **155**<br>Financial disclosures on pages **159** to **160** | **Subjective estimates**<br>The entity has significant trade receivables. During the year, the level of trade receivables has increased as well as an increase in the average age of trade receivable.<br>The entity has a policy and issues guidance to components on how to determine the expected credit losses in line with IFRS 9.<br>As a result of risks posed by economic distress due to COVID-19, a moderation exercise was carried out at Group level to determine whether provisions set at component level sufficiently addressed the risks and if further provision was required. As a result of this exercise, an additional provision was booked.<br>As part of our risk assessment, we determined the overlay provision for trade receivables had a high degree of judgement which results in a risk of error or fraud. | Our procedures included:<br>▶ **assess Group guidance:** evaluating the adequacy of the Group's expected credit loss guidance and assessing whether this policy has been correctly applied at a component level; and<br>▶ **benchmarking assumptions:** through discussions with component auditors, assessing the Directors' rationale for posting the central overlay provisions against available data on trade debtor exposures.<br>We performed an assessment of whether an overstatement of provision identified through our procedures was material.<br>**Our results**<br>As a result of our work we found the amount of provision for trade receivables to be acceptable. |

| | The risk | Our response |
|---|---|---|
| **Impairment assessment and testing of cash-generating units that include goodwill**<br>£1,608.4m<br>(2019: £1,342.5m)<br><br>**Read more:**<br>Audit Committee Report on pages **99** to **106**<br>Accounting policy on pages **154** to **155**<br>Financial disclosures on pages **171** to **173** | **Forecast-based valuation**<br>The Group has a significant carrying amount of goodwill which is spread across a range of cash-generating units (CGUs) in different countries. This is related to numerous past and recent acquisitions, spread across the Group's geography. The majority of the acquisitions are small and are integrated into the existing CGUs.<br><br>A value-in-use model is used for impairment testing for each CGU. The estimation of the value in use of the cash-generating units requires significant judgement due to the inherent uncertainty involved with forecasting and discounting future cash flows, particularly in relation to discount rates, long-term growth rates, and forecast cash flows. Changes to the assumptions applied to the model, for example a change in the discount rate or to forecast cash flows, have the potential to significantly affect the impairment testing results.<br><br>Some markets are more sensitive to changes in input than others, and could be negatively impacted by market events. We have found that the Indian market has experienced a lower than expected short-term growth rate which could impact the carrying amount of goodwill allocated to Rentokil PCI (India).<br><br>Similarly, other markets have also been subdued due to national lockdowns and economic downturn resulting from the COVID-19 pandemic.<br><br>Consequently, a significant risk has been identified over the carrying amount of goodwill allocated to Rentokil PCI (India). In addition to this, a significant risk has been identified over the carrying amount of goodwill for Peter Cox CGU, Brazil CGU and Norway CGU. These CGUs have relatively low headroom and combined have a material goodwill carrying value.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that the value in use of CGUs has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for Financial Statements as a whole. | Our procedures included:<br>▶ **review of impairment models:** evaluating the principles and integrity of the Group's discounted cash flow models and assumptions used, in particular those relating to forecast revenue growth and profit margins;<br>▶ **historical comparisons:** evaluating historical forecasting accuracy of key inputs including revenue growth and profit margins;<br>▶ **challenged assumptions:** challenging the Group's assumptions by comparing them to externally derived data in relation to key inputs such as long-term growth rates and discount rate assumptions;<br>▶ **sensitivity analysis:** performing sensitivity analysis over the key assumptions noted above to identify which assumptions have the most significant effect on the headroom available;<br>▶ **re-performance:** using our corporate finance specialists to recalculate and challenge the discount rates used by the Group in their impairment model, this is done using external and internal data;<br>▶ **test of details:** identifying specific CGUs with possible risks of impairment based on historical forecast accuracy, sensitivity to changes in key assumptions and market conditions where the businesses operate and specifically challenging the Group's valuations for these CGUs; and<br>▶ **assessing transparency:** considering whether the Group's disclosures of the effect of changes in key assumptions on the valuation of goodwill are appropriate.<br><br>**Our results**<br>As a result of our work we found the carrying amount of goodwill to be acceptable (2019 result: acceptable). |
| **Provision for uncertain tax positions**<br>£53.0m<br>(2019: £60.1m)<br><br>**Read more:**<br>Audit Committee Report on pages **99** to **106**<br>Accounting policy on pages **154** to **155**<br>Financial disclosures on page **168** | **Subjective estimate**<br>The Group holds a number of provisions for tax risks which arise in the normal course of business. The Group operates in a number of tax jurisdictions causing complexities in transfer pricing and other international tax legislation issues. In addition, tax matters usually take a significant length of time to be agreed with the tax authorities, and as such the recognition of these tax provisions requires judgements and estimates to be made in respect of the likely outcomes of the tax authority investigations.<br><br>The effect of these matters is that, as part of our risk assessment, we determined that provisions for tax risks have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statement as a whole. This risk has increased from prior year due to the possibility of greater challenges from tax authorities. | Our procedures included:<br>▶ **our tax expertise:** using our international and local tax team's knowledge and experience to assess the Group's tax position, its correspondence with relevant tax authorities, and to analyse and challenge the assumptions used to determine tax provisions based on our knowledge and experience of application of international and local legislation by the relevant authorities and courts;<br>▶ **impact of COVID-19:** assessing whether any temporary or permanent changes in local tax regulations in response to COVID-19 have been considered and adequately provided against if appropriate; and<br>▶ **assessing transparency:** assessing the adequacy of Group's disclosures in respect of tax liabilities and uncertain tax provisions.<br><br>**Our results**<br>We found the level of tax provisioning to be acceptable (2019 result: acceptable). |

| | The risk | Our response |
|---|---|---|
| **Parent Company risk: recoverability of investments in subsidiary undertakings and inter-company receivables**<br>£2,518.3m<br>(2019: £2,509.8m)<br>Investments:<br>£283.1m<br>(2019: £280.3m) | **Low risk, high value**<br>The carrying amount of the Company's investments in subsidiaries and inter-company receivables represent 67.4% of the Company's total assets.<br>We do not consider the recoverability of these investments and inter-company receivables to be a high risk of significant misstatement, or to be subject to a high level of judgement. However, due to their materiality in the context of the Company Financial Statements as a whole, this is considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our Company audit. | Our procedures included:<br>▸ **test of detail:** comparing the investment carrying value and inter-company receivable to the net assets of the relevant subsidiary to identify whether the net assets of the subsidiary, being an approximation of their minimum recoverable amount, were in excess of the carrying amount.<br>**Our results**<br>We found the carrying amount of investments and the intercompany receivables to be acceptable (2019 result: acceptable). |

## 3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group Financial Statements as a whole was set at £11m (2019: £12m) determined with reference to a benchmark of Group profit before tax, normalised by averaging over the last three years due to fluctuations in the business cycle due to the impact of COVID-19 related restrictions on profitability (2019: profit before tax, normalised to exclude profits on the sale of Haniel and losses on disposal of MPCL and Cannon of £251.3m), of which it represents 4.8% (2019: 4.7%). Materiality for the Parent Company Financial Statements as a whole was set at £2m (2019: £2m), determined with reference to a benchmark of total assets, of which it represents 0.1% (2019: 0.1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the Financial Statements as a whole. Performance materiality was set at 75% (2019: 75%) of materiality for the Financial Statements as a whole, which equates to £8.25m (2019: £9.0m) for the Group and £1.5m (2019: £1.5m) for the Parent Company. We applied this percentage in our determination of the performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.55m (2019: £0.35m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit work was performed by 14 audit teams in 13 different countries covering 100 (2019: 94) reporting components. We subjected 60 (2019: 58) reporting components to full-scope audits for Group purposes and 40 (2019: 36) reporting components to specified risk-focused audit procedures.

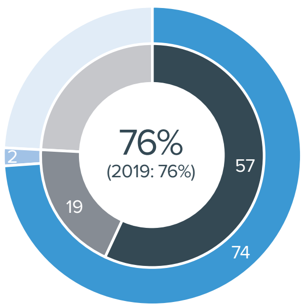
The reporting components within the scope of our work accounted for the percentages illustrated opposite.

The remaining reporting components not in scope for Group audit purposes (24% of total Group revenue, 24% of Group loss/profit before tax and 21% of total Group assets) were individually insignificant reporting components, none of which individually represented more than 4% of any of total Group revenue, Group loss/profit before tax or total Group assets. We performed analysis at a Group level to re-examine our assessment that there were no significant risks of material misstatement within these remaining components.

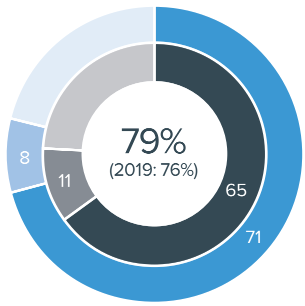
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.3m to £6.3m (2019: £0.2m to £7.0m), having regard to the mix of size and risk profile of the Group across the components. The work on 58 of the 104 components (2019: 58 of the 94 components) was performed by component auditors, and the rest, including the audit of the Parent Company, was performed by the Group team.

Due to COVID-19 restrictions, the Group team did not physically visit any components. Video and telephone conference meetings were held with these component auditors. At these meetings, the findings reported to the Group team were discussed in more detail. The Group audit team performed audit file reviews of all component auditors and any further work required by the Group team was then performed by the component auditors.

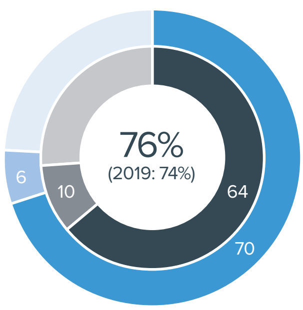
**Group profit before tax**




**Group total assets**




**Group revenue**




**2020 2019**

- Full scope for Group audit purposes
- Specified risk-focused audit procedures
- Residual components

## 4. Going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the Financial Statements (the going concern period).

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to debt covenants over this period were:

- impact of economic downturn due to the COVID-19 pandemic and its impact on the Group's revenue and cash flows.

We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

Our procedures also included:

- critically assessing assumptions in base and severe but plausible downside scenarios relevant to liquidity, in particular in relation to continuing impact of COVID-related restrictions and economic slowdown on the Group's revenue generation against our knowledge of the entity and the sector in which it operates;
- assessing the working capital assumptions inherent in the forecasts to actual recent experience and cash collection from customers;
- comparing past budgets to actual results to assess the Directors' track record of budgeting accurately;
- inspecting the confirmation from lender of the level of committed financing, and the covenant requirements associated with the credit facilities;
- evaluating the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, including cost reduction initiative, taking into account the extent to which the Directors can control the timing and outcome of these; and
- assessing the completeness of the going concern disclosures.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the Directors' statement in the General Accounting Policies Note to the Financial Statements on the use of the going concern basis of accounting, with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in the Directors' Report to be acceptable; and
- the related statement under the Listing Rules set out on page 203 is materially consistent with the Financial Statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

## 5. Fraud and breaches of laws and regulations – ability to detect

**Identifying and responding to risks of material misstatement due to fraud**

To identify risks of material misstatement due to fraud (fraud risks), we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of Directors, the Audit Committee, Internal Audit and Group General Counsel as to the Group's high-level policies and procedures to prevent and detect fraud, including the Internal Audit function, and the Group's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud;
- reading Board and Audit Committee minutes; and
- considering remuneration incentive schemes and performance targets for management including the EPS target for management remuneration.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to full-scope component audit teams of relevant fraud risks identified at the Group level and request to full-scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because the nature of services tendered being high volume and low value, which have limited complexity in relation in relation to the recognition principles of IFRS 15.

Further detail in respect of fraud risk associated with central overlay provision for trade receivables is set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Group-wide fraud risk management controls.

We also performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management; those posted and approved by the same user; and those posted to unusual accounts; and
- assessing significant accounting estimates for bias.

**Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Financial Statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full-scope component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the Financial Statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the Financial Statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Financial Statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, environmental law and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

**Context of the ability of the audit to detect fraud or breaches of law or regulation**
Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Financial Statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

## 6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

**Strategic Report and Directors' Report**
Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic Report and the Directors' Report;
- in our opinion, the information given in those reports for the financial year is consistent with the Financial Statements; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**Directors' Remuneration Report**
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

**Disclosures of emerging and principal risks and longer-term viability**
We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the Viability Statement, and the Financial Statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Directors' Viability Statement on page 74 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Directors' Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the Directors' Viability Statement, set out on page 74 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the Financial Statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our Financial Statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

**Corporate governance disclosures**
We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the Financial Statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the Financial Statements and our audit knowledge:

- the Directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the Annual Report describing the work of the Audit Committee, including the significant issues that the Audit Committee considered in relation to the Financial Statements, and how these issues were addressed; and
- the section of the Annual Report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

## 7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## 8. Respective responsibilities

**Directors' responsibilities**
As explained more fully in their statement set out on page 203, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities**
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**.

## 9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and the terms of our engagement by the Company. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and the further matters we are required to state to them in accordance with the terms agreed with the Company, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

M Maloney

**Michael Maloney (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
15 Canada Square
London E14 5GL

3 March 2021

# Financial Statements



# Financial Review

We have grown revenue, operating profit and cash in 2020, reflecting strong sales from disinfection services, a return to growth in Pest Control from Q3 and steady performance improvements from our core Hygiene business in H2.

**Stuart Ingall-Tombs**
Chief Financial Officer

## Summary of financial performance (at CER)

Ongoing Revenue rose by 6.3% to £2,845.6m (H1: +1.0%, H2: +11.2%). Total revenue of £2,859.5m grew by 5.3% and by 4.0% at actual exchange rates. Ongoing Operating Profit rose by 5.4% during the year to £388.1m, reflecting swift action to mitigate lower revenues, and despite an increased bad debt provision of £34m and additional costs of personal protective equipment of £25m. We delivered a very strong Free Cash Flow performance for the year of £336.8m reflecting tight control over costs, capex and working capital.

Our Pest Control category was designated as an essential service in the majority of our markets and demonstrated resilience in 2020, growing Ongoing Revenue by 1.0%. Performance has varied by geography and reflects the severity and duration of local, regional and country lockdowns. Customer segments have been impacted differently by the crisis – while offices and the HORECA segment have been the most affected, demand from others, including food retail, pharmaceutical companies, transport and residential customers, has increased. At the end of December, service provision to c.0.7% of Pest Control customer premises remained suspended, versus c.7% at the peak of the crisis in April, reflecting improving trends in Q3 and Q4, albeit with some markets deteriorating at the end of the year and into early 2021, particularly in the UK and Ireland. Jobbing work was strong in 2020, aided in part by warmer weather in the northern hemisphere and also by residential customers seeking swift resolution to pest issues during lockdowns.

Hygiene revenues grew by 36.8% in 2020, driven by £225.1m of revenue from disinfection services. Our core global Hygiene operations have been negatively impacted by the crisis, principally due to an inability to deliver regular washroom services to customers (particularly in the HORECA sector) which have been forced to temporarily close their operations. Excluding disinfection services, Ongoing Revenue declined by 4.6%. Like Pest Control, performance has varied by geography and lockdown regime and performance improvements in the second half can be attributed to an easing of lockdown conditions in certain, but not all, countries. By year end, service provision to c.4.4% of Hygiene customer premises remained suspended, versus c.22% in April.

Ongoing Revenue in our Protect & Enhance category declined by 12.0% in 2020 (H1: -12.9%, H2: -11.1%), principally driven by France Workwear which was significantly impacted by disruption in the HORECA sector, and which delivered a revenue decline of 10.4% for the year. By December, service provision to c.6% of France Workwear customers remained closed, versus c.30% in April. Our Ambius and Property Care businesses also declined during the period by 15.5% and 16.1% respectively, reflecting the more discretionary nature of Ambius products and the continued weakness in the UK commercial housing market impacting our Property Care business.

## Profit (at CER)

Profits were impacted this year by COVID-19 related net revenue reductions, particularly in Q2, however we still achieved growth in a very challenging year, with Ongoing Operating Profit increasing by 5.4% in 2020. Significant actions were taken to mitigate the revenue reductions with cost savings for the full year of £121.8m (H1: £87m, H2: £34.8m). These savings were offset however by an increased bad debt provision of £34m (£23m in H1 and £11m in H2), increased costs of personal protective equipment of £25m (predominantly driven by the need for comprehensive PPE during the provision of disinfection services) and increased restructuring costs (£13.3m versus £7.7m in the prior year). While we have not seen any major customer insolvencies to date, we continue to adopt a prudent approach with regard to ongoing risk, and our increased bad debt provision of £34m in 2020 (£4m lower than guidance at the half year) reflects the increased risk of bad debts as a result of the COVID-19 crisis.

Adjusted profit before tax at actual exchange rates of £355.2m, which excludes the impact of one-off items, increased by 4.2%. Net adjusted interest payable of £37.1m at actual exchange rates was £5.0m lower than in the prior year, reflecting the impact of our 2019 refinancing, despite the impact of temporarily drawing down our RCF in full at the start of the COVID-19 pandemic.

One-off items (operating) of £7.7m includes £14.7m of acquisition and integration costs, a cash receipt of £2.2m related to a prior year disposal, a non-cash credit of £7.3m relating to the closure of a pension scheme in North America, profit on the sale and leaseback of a property of £2.0m, a charge for disposal of faulty PPE stock of £2.9m and a charge for legacy payroll costs in France of £3.3m, partially offset by release of smaller legacy provisions of £3.0m.

## Cost reduction, cash preservation and liquidity (at AER)

Our key financial priority at the peak of the crisis was the preservation of cash flow and the measures we took have enabled us to be highly cash generative in 2020. Given the resilience of our trading position in the first half and our strong balance sheet, we reinstated our capital allocation model in Q3 to invest in the Recovery phase of the crisis, steadily increasing our levels of capex and resuming M&A. Cash spent on current and prior year acquisitions totalled £201.9m, excluding Environmental Pest Service (EPS LLC) (2019: £316.5m), with proceeds from disposals of £2.2m (2019: £391.9m).

Cost savings of £121.8m in the year (H1: £87m, H2: £34.8m) included salary reductions across management in Q2, cancellation of H1 bonus schemes and postponement of the 2020 LTIP grant to the second half of the year, as well as tight control over discretionary spend. Cash savings included withdrawal of dividend payments and suspension of our M&A programme, reduced cash tax payments in accordance with local statutory schemes and reduced capital expenditure. In line with local schemes, we deferred £88.0m of payments for taxes and social security costs in H1, but the majority of these amounts were paid in H2. Going forward, while we are likely to generate some savings in respect of our property footprint and reduced travel and accommodation costs, the majority of cost savings in 2020 will not repeat in 2021.

As outlined in our interim statement, we heightened our focus this year on working capital management in order to optimise inventory levels and to try to mitigate the increased risk around the delay and non-payment of receivables. Collection of receivables has remained strong during the crisis due to significant focus at all levels and our collection rate by the end of 2020 was up 30% on the prior year, with some variation across the regions.

The full year impact of trading, as well as the additional measures, delivered Free Cash Flow of £336.8m (2019: £250.7m), leading to an underlying decrease in net debt of £137.1m after net M&A spend of £199.7m. Adverse foreign exchange translation and other items of £58.4m are primarily due to the weakening impact of sterling against the euro and dollar, as well as the impact of the closure of an instrument designed to reduce US interest rates on our US dollar debt. Combined, these movements led to a decrease in net debt of £78.7m and closing net debt of £994.3m.

## Dividend policy

The Group adopts a progressive dividend policy with dividend payments related to the level of Free Cash Flow available. The Group aims to pay dividends twice a year and the level of each dividend is decided by the Board. When determining the level of dividend each year, the Board considers the following:

- cash generation in the year and forecast;
- future cash generation;
- cash availability at the point of dividend;
- distribution;
- cash required to invest in capital; and
- expenditure and acquisitions.

In view of our performance in 2020, and our confidence for 2021 and beyond, the Board is recommending resuming dividends with a dividend payment of 5.41p, payable to shareholders on the register at the close of business on 9 April 2021.

## Funding

On 7 October 2020, the Group raised €600m at 0.50% for eight years in the euro-bond market. The proceeds of the bond will be used partly for liquidity headroom and partly for the repayment of the €350m bond that matures in 2021. In November 2020, the Group announced a tender offer for the early repurchase of the 2021 €350m bond and 49.8% of the outstanding bond was repurchased leaving c.€175m for settlement in July 2021 when the bond can be settled at par. As at 31 December 2020, the Group had liquidity headroom in excess of £1.2bn, including £550m of undrawn RCF, with a maturity date of August 2025. The net debt to EBITDA ratio was 1.6x at 31 December 2020, below both the 1.8x ratio reported at 31 December 2019 and the 1.9x reported at 30 June 2020. We remain committed to maintaining a BBB investment grade and are confident of doing so.

## M&A

While the COVID-19 pandemic is ongoing, we moved from Crisis phase in Q2 to Recovery phase in Q3, reinstating our capital allocation model and recommencing M&A. We acquired 23 businesses in 2020 – 21 in Pest Control, one in Hygiene and one in Protect & Enhance (Ambius) – generating annualised revenues of c.£158m in the year prior to purchase. This includes the acquisition in December of EPS LLC in Florida. Total spend, including prior year acquisitions, was £201.9m (excluding the consideration for EPS LLC which was paid in January 2021). Countries in which we have acquired new businesses include Australia, Canada, Chile, Colombia, Ghana, the Netherlands, Peru, Singapore, Spain, Tanzania and the US. Peru and Ghana were new country entries in 2020.

M&A remains central to our strategy for growth. We will continue to seek attractive bolt-on deals, both in Pest Control and with an increased focus on Hygiene, to build density in existing markets, pursue acquisitions in new markets and the megacities of the future, and seek medium-sized transactions. Our pipeline of prospects remains strong and we have made a good start to 2021. Our anticipated spend on M&A in the coming year is expected to be in the region of c.£400m (including the consideration for EPS LLC which was paid in January 2021).

## Regional performance (at CER)

North America was our best performing region in 2020, with revenues supported by high sales of disinfection services launched in Q2 (amounting to £144.4m) and a good performance from Pest Control. Demand for Residential pest control (which accounts for 40% of Pest services revenue) has been good throughout the crisis, but Commercial pest services have been impacted to an extent by temporary business closures. While Q2 was the most challenging quarter for Commercial pest control, performance improved from Q3 and into Q4. Ambius and Brand Standards have also seen significant disruption to services, reflecting the more discretionary nature of Ambius products and Brand Standards' exposure to the fast food sector, which has also suffered from temporary business suspensions.

Ongoing Revenue in the region grew by 14.5% to £1,239.8m in 2020 ($1,585.7m). Revenues from total Pest Control (including Distribution and Lake Management) increased by 3.1% to £1,018.4m, with Pest services revenue increasing by 6.5%, reflecting good demand from Residential customers. Ongoing Operating Profit growth of 39.9% reflects revenue growth in Pest Control, the launch of new disinfection services and rapid and effective cost control to offset the impact of the COVID-19 crisis. Despite suspension of M&A activity during Q2, the region acquired 15 businesses (14 Pest Control and one Ambius) in the region with combined annualised revenues of c.£142m (including EPS LLC) in the year prior to purchase.

Our stated ambition for our North America business has been for it to surpass $1.5bn revenues in 2020 and to achieve 18% Net Operating Margins by the end of 2021. Despite the impact from the pandemic on our overall regional performance, we have nevertheless exceeded our target revenue of $1.5bn by $85.7m this year, delivering North America revenues of $1,585.7m.

We have also made good progress towards 18% margins, growing this by 310 basis points in 2020 to 17.3%. This is a result of short-term cost actions taken to mitigate the revenue impact of COVID-19, additional revenues from new disinfection sales launched in Q2, the mix effect due to a lower contribution from our lower-margin Ambius and Brand Standards operations, and benefits from our IT-enabled Best of Breed Programme, which we restarted in Q3. Although suspension of this programme resulted in a pause to a number of IT initiatives designed to improve sales and service productivity, as well as the migration of acquisitions onto the core operating system, we were pleased with the progress made in the second half.

Looking ahead to 2021, we are expecting a gradual return to more normal levels of growth from our core North America Pest Control operations and a recovery of the Brand Standards and lower-margin Ambius businesses. While we anticipate revenues from disinfection to continue in 2021, we expect volumes and prices to progressively unwind throughout the year. We expect to see margin improvements from cost savings and the implementation of our core Best of Breed Programme, which is on track to complete by the end of 2021. In addition, margins of acquired businesses are typically lower than those of our existing operations and, as such, the businesses acquired in 2020 will have a short-term dilutive impact on margins for the region. Taking the above into account, we would expect North America margins for 2021 to be within the range of 16.5% and 17%, leaving us on track to achieve our 18% margin target by the end of 2022.

Our Europe region has seen a mixed impact from the COVID-19 crisis. While some countries were less impacted by the crisis due to early and effective lockdowns, such as Germany, other countries including France and parts of Southern Europe were more severely impacted. In Latin America, while revenues in Pest Control declined, overall performance for the year was aided by disinfection sales. Hygiene was the region's best performing category, with good contributions from disinfection and products. Pest Control delivered a resilient performance in 2020, while France Workwear was most impacted by the crisis, being particularly affected by temporary business closures in the HORECA sector.

Regional Ongoing Revenue rose by 2.5% in 2020, reflecting revenue growth in Germany (+10.7%), Latin America (+15.2%), Southern Europe (+5.3%) and Benelux (+0.5%), but held back by revenue decline of 3.2% in France (principally France Workwear, which declined by 10.4%). Hygiene grew by 22.3% in 2020, while Pest Control declined by 0.4%. Ongoing Operating Profit declined by 4.1%, with good growth in Germany (+24.5%) offset by declines elsewhere, most notably France. The region acquired two businesses in Europe in 2020 (one in Pest Control and one in Hygiene) and two businesses in Latin America (both Pest Control) with annualised revenues of c.£6m and c.£3.5m respectively in the year prior to purchase.

Our UK & Rest of World region was significantly impacted by the crisis, particularly in April, which was the peak of the crisis for the Group as a whole. Our UK and Ireland Hygiene businesses have been unable to service customers within many sectors, but primarily the HORECA sector which has been subjected to government restrictions and lockdowns throughout the year. UK Pest Control also saw revenue declines in 2020, reflecting temporary business closures and suspensions. In contrast, our Specialist Hygiene, Medical and Products businesses have performed well, benefiting from increased disinfection services. Ambius and Property Care were the most severely impacted of all our regional operations as a result of customers cutting their spend on more discretionary services such as interior landscaping and plants, with Property Care being impacted by weakness in the UK commercial housing market.

Ongoing Revenue for the UK & Rest of World region fell by 2.2%, with declines in UK and Ireland Hygiene and Pest Control (down 20.2% and 8.5% respectively) partially offset by growth in our Rest of World operations, which grew by 5.3% in the year (Nordics: +8.7%, MENAT: +12.8% and sub-Saharan South Africa: +4.4%) reflecting the benefit of disinfection sales. In the UK, revenues have been supported by new products and services and contract wins for provision of connected pest control systems as customers have sought to minimise physical interaction with service providers. This includes our largest PestConnect contract to date for Tesco, for whom we have installed units across the majority of its UK footprint. Regional Ongoing Operating Profit declined by 16.2% in 2020, reflecting bad debt provisions and the costs of increased PPE for frontline technicians. Our Rest of World operations acquired two small pest control business in Dar es Salaam (Tanzania) and Accra (Ghana) with annualised revenues in the year prior to purchase of c.£2m.

In our Asia region, China, Hong Kong and South Korea were among the first countries to be impacted by the COVID-19 crisis and, as a result, were the first to recover, with strong demand for disinfection and hygiene product sales offsetting falls in contract revenue from other countries. Country performance across Asia was mixed in 2020, with Singapore, Indonesia, Thailand, South Korea and Sri Lanka performing well, but with India and Malaysia experiencing the worst impacts from the crisis.

Regional Ongoing Revenue rose by 3.7% in 2020, aided by very strong performances from Indonesia (+28.1%), Hong Kong (+18.4%) and South Korea (+21.9%), but held back by India (down 15.8%) and Malaysia (down 5.2%). Ongoing Operating Profit increased by 10.1%. The region made one acquisition during H1, acquiring a pest control business in Singapore with annualised revenues in the year prior to purchase of c.£3.5m.

In the Pacific region, Ongoing Revenue fell by 2.6%, with all operations impacted by the crisis as a result of government restrictions, particularly in New Zealand, which entered into extreme lockdown in late March. Pest Control in the region fell by 1.3% in the year, while Hygiene declined by 2.6%. Ongoing Operating Profit in the region fell by 8.7%, reflecting lower revenues. The region acquired one small pest control business in Australia in 2020 with annualised revenues of c.£0.5m.

Our share of Profits from Associates at AER amounted to £8.3m (2019: £15.2m) related to our Japanese associate (2019 included £8.2m related to our stake in the CWS-boco joint venture, which was disposed in July 2019).

## Central and regional overheads

Central and regional overheads of £91.1m at CER were £12.6m higher than the prior year (2019: £78.5m), due to increased bad debt provisions and centrally sourced PPE costs.

## Restructuring costs

With the exception of integration costs for significant acquisitions, the Company reports restructuring costs within adjusted operating profit. Costs associated with significant acquisitions are reported as one-off items and excluded from adjusted profit.

Restructuring costs of £13.3m at CER (2019: £7.7m) consisted mainly of costs in respect of initiatives focused on our North America transformation programme from Q1, together with severance costs as a result of the COVID-19 crisis.

## One-off items and amortisation (at CER)

One-off items (operating) of £7.7m includes £14.7m of acquisition and integration costs, a cash receipt of £2.2m related to a prior year disposal, a non-cash credit of £7.3m relating to the closure of a pension scheme in North America, profit on the sale and leaseback of a property of £2.0m, a charge for disposal of faulty PPE stock of £2.9m and a charge for legacy payroll costs in France of £3.3m, partially offset by release of smaller legacy provisions of £3.0m.

The amortisation charge of £82.5m for the period includes goodwill impairments of £8.1m related to the Rentokil PCI cash generating unit (CGU) and £2.5m related to the Brazil CGU. Both impairments arose mainly due to an increase in the discount rates used as a result of toughening economic conditions in each country due to the COVID-19 pandemic.

## UK defined benefit pension scheme buy-out

In December 2018, the Company reached agreement for a bulk annuity insurance buy-in for its UK Defined Benefit Pension Scheme ('the Scheme') with Pensions Insurance Corporation. The buy-in had been secured in contemplation of a full buy-out and wind-up of the Scheme with an expected pre-tax cash surplus of c.£30m. The timing of the wind-up is uncertain, following the recent High Court judgement that ruled that trustees of defined benefit schemes that provided Guaranteed Minimum Pensions should revisit and, where necessary, top up historical cash equivalent transfer values paid since 1990. The Trustee may therefore need to revisit these before the wind-up can be completed. This may mean that the wind-up is delayed until 2022.

However, following consultation with members, the Trustee agreed a pre-tax partial refund of surplus of £13m, which was paid in December 2020. The balance of the refund of the surplus will be paid when the buy-out is complete.

## Interest (at AER)

Net adjusted interest payable of £37.1m was £5.0m lower than in the prior year, reflecting the impact of our 2019 refinancing, and despite the impact of temporarily drawing down our RCF at the start of the COVID-19 pandemic.

## Tax

The income tax charge for the year at actual exchange rates was £43.5m on the reported profit before tax of £229.8m. After adjusting the reported profit before tax for the amortisation and impairment of intangible assets (excluding computer software), one-off items and net interest adjustments, the Adjusted Effective Tax Rate for 2020 at AER was 19.7% (2019: 21.6%). This compares with a blended rate of tax for the countries in which the Group operates of 24% (2019: 23%).

## Going concern

The Directors continue to adopt the going concern basis in preparing the accounts on the basis that the Group's strong liquidity position and ability to reduce capital expenditure or expenditure on bolt-on acquisitions are sufficient to meet the Group's forecast funding needs, including those modelled in a severe but plausible downside case. Further detail can be found in the General accounting policies section on page 154.

## Net debt and cash flow

Operating cash flow (£442.7m at AER for continuing operations) was £99.6m higher than in 2019, driven by a £18.6m increase in Adjusted Operating Profit, favourable working capital of £48.0m and reduced capex of £20.4m as a result of a freeze on any non-essential capex from Q2 onwards.

Interest payments of £41.0m are £7.1m lower than in the prior year, due to the 2019 bond refinancing. Tax increased by £21.2m, due to higher US tax payments, a payment relating to a legacy issue in the UK and the non-repeat of certain tax repayments received in 2019.

The full year impact of trading, as well as additional measures, is Free Cash Flow delivery of £336.8m (2019: £250.7m), leading to an underlying decrease in net debt of £137.1m after net M&A spend of £199.7m. Adverse foreign exchange translation and other items of £58.4m are primarily due to the weakening impact of sterling against the euro and dollar, as well as the impact of the closure of an instrument designed to reduce US interest rates on our US dollar debt. Combined, these movements led to a decrease in net debt of £78.7m and closing net debt of £994.3m.

**Stuart Ingall-Tombs**
Chief Financial Officer

3 March 2021

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

| | Notes | 2020 £m | 2019 £m |
|---|---|---|---|
| **Revenue** | A1 | **2,823.5** | 2,714.4 |
| **Operating profit** | A1 | **293.8** | 265.6 |
| Net gain on disposals | | **–** | 103.8 |
| **Profit before interest and income tax** | | **293.8** | 369.4 |
| Finance income | C8 | **6.2** | 10.7 |
| Finance cost | C7 | **(78.5)** | (56.8) |
| Share of profit from associates, net of tax of £4.8m (2019: £7.0m) | B6 | **8.3** | 15.2 |
| **Profit before income tax** | | **229.8** | 338.5 |
| Income tax expense[1] | A12 | **(43.5)** | (54.7) |
| **Profit for the year attributable to the Company's equity holders (including profit from non-controlling interests of £0.4m (2019: £0.3m))** | | **186.3** | 283.8 |
| **Other comprehensive income:** | | | |
| Items that are not reclassified subsequently to the income statement: | | | |
| Remeasurement of net defined benefit liability | A10 | **(13.1)** | (5.9) |
| Tax related to items taken to other comprehensive income | A14 | **3.9** | 0.1 |
| Items that may be reclassified subsequently to the income statement: | | | |
| Net exchange adjustments offset in reserves | | **(52.6)** | (38.9) |
| Cost of hedging | | **(1.0)** | – |
| Cumulative exchange recycled to income statement on disposal of foreign operations | | **–** | (4.1) |
| Effective portion of changes in fair value of cash flow hedge | | **(4.9)** | (0.5) |
| **Total comprehensive income for the year (including profit from non-controlling interests of £0.4m (2019: £0.3m))** | | **118.6** | 234.5 |
| **Earnings per share attributable to the Company's equity holders:** | | | |
| Basic | A2 | **10.03p** | 15.33p |
| Diluted | A2 | **9.98p** | 15.24p |

All profit is from continuing operations.

1. Taxation includes £40.0m (2019: £48.1m) in respect of overseas taxation.

Non-GAAP measures shown below are explained in further detail in Section E: Alternative Performance Measures.

| **Non-GAAP measures** | | | |
|---|---|---|---|
| **Operating profit** | | **293.8** | 265.6 |
| Adjusted for: | | | |
| Amortisation and impairment of intangible assets (excluding computer software) | A1 | **82.5** | 85.2 |
| One-off items – operating | A1 | **7.7** | 14.6 |
| **Adjusted operating profit** | | **384.0** | 365.4 |
| Finance income | C8 | **6.2** | 10.7 |
| Finance cost | C7 | **(78.5)** | (56.8) |
| Net interest adjustments | | **35.2** | 4.0 |
| Share of profit from associates, net of tax of £4.8m (2018: £7.0m) | B6 | **8.3** | 15.2 |
| One-off items – associates | | **–** | 2.4 |
| **Adjusted profit before income tax** | | **355.2** | 340.9 |
| Basic adjusted earnings per share attributable to the Company's equity holders | A2 | **15.37p** | 14.43p |
| Diluted adjusted earnings per share attributable to the Company's equity holders | A2 | **15.29p** | 14.34p |

# Consolidated Balance Sheet
At 31 December

| | Notes | 2020<br>£m | 2019[1]<br>£m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | B2 | **1,922.1** | 1,673.4 |
| Property, plant and equipment | B3 | **402.7** | 391.7 |
| Right-of-use assets | B4 | **217.5** | 221.2 |
| Investments in associated undertakings | B6 | **27.2** | 29.7 |
| Other investments | C4 | **0.2** | 0.3 |
| Deferred tax assets | A14 | **37.7** | 29.3 |
| Contract costs | A1 | **67.8** | 65.4 |
| Retirement benefit assets | A10 | **19.0** | 37.4 |
| Other receivables | A3 | **13.1** | 12.7 |
| Derivative financial instruments | C5 | **37.0** | 7.6 |
| | | **2,744.3** | 2,468.7 |
| **Current assets** | | | |
| Other investments | C4 | **172.2** | 1.7 |
| Inventories | A4 | **131.3** | 106.5 |
| Trade and other receivables | A3 | **548.6** | 500.7 |
| Current tax assets | | **10.6** | 7.0 |
| Derivative financial instruments | C5 | **5.6** | 0.2 |
| Cash and cash equivalents[1] | C3 | **2,225.6** | 1,169.2 |
| | | **3,093.9** | 1,785.3 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | A5 | **(925.0)** | (660.7) |
| Current tax liabilities | | **(80.0)** | (72.9) |
| Provisions for liabilities and charges | A6 | **(30.1)** | (25.1) |
| Bank and other short-term borrowings[1] | C2 | **(1,846.6)** | (944.2) |
| Lease liabilities | B4 | **(72.7)** | (72.0) |
| Derivative financial instruments | C5 | **(3.5)** | (0.5) |
| | | **(2,957.9)** | (1,775.4) |
| **Net current assets** | | **136.0** | 9.9 |
| **Non-current liabilities** | | | |
| Other payables | A5 | **(70.4)** | (57.7) |
| Bank and other long-term borrowings | C2 | **(1,337.6)** | (1,059.3) |
| Lease liabilities | B4 | **(141.8)** | (144.7) |
| Deferred tax liabilities | A14 | **(94.7)** | (110.8) |
| Retirement benefit obligations | A10 | **(38.8)** | (37.5) |
| Provisions for liabilities and charges | A6 | **(34.1)** | (34.0) |
| Derivative financial instruments | C5 | **(32.3)** | (32.3) |
| | | **(1,749.7)** | (1,476.3) |
| **Net assets** | | **1,130.6** | 1,002.3 |
| **Equity** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | D2 | **18.5** | 18.5 |
| Share premium | | **6.8** | 6.8 |
| Other reserves | | **(1,926.2)** | (1,867.7) |
| Retained earnings | | **3,030.6** | 2,844.1 |
| | | **1,129.7** | 1,001.7 |
| Non-controlling interests | | **0.9** | 0.6 |
| **Total equity** | | **1,130.6** | 1,002.3 |

1. Both cash and cash equivalents and bank and other short-term borrowings have been restated in 2019 to gross up the effect of overdrafts (£859.6m) and cash (£859.6m) (Note C2 and C3).

The Financial Statements on pages 149 to 194 were approved by the Board of Directors on 3 March 2021 and were signed on its behalf by:

**Andy Ransom**
Chief Executive

**Stuart Ingall-Tombs**
Chief Financial Officer

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

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Non-controlling interests £m | Total equity £m |
| At 1 January 2019 | 18.4 | 6.8 | (1,824.2) | 2,631.2 | 0.4 | 832.6 |
| Profit for the year | – | – | – | 283.5 | 0.3 | 283.8 |
| **Other comprehensive income:** | | | | | | |
| Net exchange adjustments offset in reserves | – | – | (38.9) | – | – | (38.9) |
| Remeasurement of net defined benefit liability | – | – | – | (5.9) | – | (5.9) |
| Effective portion of changes in fair value of cash flow hedge | – | – | (0.5) | – | – | (0.5) |
| Cumulative exchange recycled to income statement on disposal of foreign operations | – | – | (4.1) | – | – | (4.1) |
| Tax related to items taken directly to other comprehensive income | – | – | – | 0.1 | – | 0.1 |
| Total comprehensive income for the year | – | – | (43.5) | 277.7 | 0.3 | 234.5 |
| **Transactions with owners:** | | | | | | |
| Shares issued in the year | 0.1 | – | – | (0.1) | – | – |
| Dividends paid to equity shareholders | – | – | – | (85.8) | – | (85.8) |
| Dividends paid to non-controlling interests | – | – | – | – | (0.1) | (0.1) |
| Cost of equity-settled share-based payment plans | – | – | – | 5.3 | – | 5.3 |
| Tax related to items taken directly to equity | – | – | – | 2.4 | – | 2.4 |
| Movement in the carrying value of put options | – | – | – | 13.4 | – | 13.4 |
| **At 31 December 2019** | **18.5** | **6.8** | **(1,867.7)** | **2,844.1** | **0.6** | **1,002.3** |
| Profit for the year | **–** | **–** | **–** | **185.9** | **0.4** | **186.3** |
| **Other comprehensive income:** | | | | | | |
| Net exchange adjustments offset in reserves | **–** | **–** | **(52.6)** | **–** | **–** | **(52.6)** |
| Cost of hedging | **–** | **–** | **(1.0)** | **–** | **–** | **(1.0)** |
| Remeasurement of net defined benefit liability | **–** | **–** | **–** | **(13.1)** | **–** | **(13.1)** |
| Effective portion of changes in fair value of cash flow hedge | **–** | **–** | **(4.9)** | **–** | **–** | **(4.9)** |
| Tax related to items taken directly to other comprehensive income | **–** | **–** | **–** | **3.9** | **–** | **3.9** |
| Total comprehensive income for the year | **–** | **–** | **(58.5)** | **176.7** | **0.4** | **118.6** |
| **Transactions with owners:** | | | | | | |
| Dividends paid to non-controlling interests | **–** | **–** | **–** | **–** | **(0.1)** | **(0.1)** |
| Cost of equity-settled share-based payment plans | **–** | **–** | **–** | **5.5** | **–** | **5.5** |
| Tax related to items taken directly to equity | **–** | **–** | **–** | **3.2** | **–** | **3.2** |
| Movement in the carrying value of put options | **–** | **–** | **–** | **1.1** | **–** | **1.1** |
| **At 31 December 2020** | **18.5** | **6.8** | **(1,926.2)** | **3,030.6** | **0.9** | **1,130.6** |

Shares of £0.1m (2019: £0.1m) have been netted against retained earnings. This represents 7.7m (2019: 7.7m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2019 was £39.0m (2019: £35.1m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

# Consolidated Statement of Changes in Equity

For the year ended 31 December continued

## Analysis of other reserves

| | Capital reduction reserve £m | Legal reserve £m | Cash flow hedge reserve £m | Translation reserve £m | Cost of hedging £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2019 | (1,722.7) | 10.4 | 1.0 | (112.9) | – | (1,824.2) |
| Net exchange adjustments offset in reserves | – | – | – | (38.9) | – | (38.9) |
| Effective portion of changes in fair value of cash flow hedge | – | – | (0.5) | – | – | (0.5) |
| Cumulative exchange recycled to income statement on disposal of foreign operations | – | – | – | (4.1) | – | (4.1) |
| Total comprehensive income for the year | – | – | (0.5) | (43.0) | – | (43.5) |
| **At 31 December 2019** | **(1,722.7)** | **10.4** | **0.5** | **(155.9)** | – | **(1,867.7)** |
| Net exchange adjustments offset in reserves | **–** | **–** | **–** | **(52.6)** | **–** | **(52.6)** |
| Effective portion of changes in fair value of cash flow hedge | **–** | **–** | **(4.9)** | **–** | **–** | **(4.9)** |
| Cost of hedging | **–** | **–** | **–** | **–** | **(1.0)** | **(1.0)** |
| Total comprehensive income for the year | **–** | **–** | **(4.9)** | **(52.6)** | **(1.0)** | **(58.5)** |
| **At 31 December 2020** | **(1,722.7)** | **10.4** | **(4.4)** | **(208.5)** | **(1.0)** | **(1,926.2)** |

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

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

# Consolidated Cash Flow Statement

## For the year ended 31 December

| | Notes | 2020 £m | 2019 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operating activities | C9 | **649.6** | 554.2 |
| Interest received | | **7.6** | 10.8 |
| Interest paid[1] | | **(48.6)** | (58.9) |
| Income tax paid | A13 | **(64.4)** | (43.2) |
| Net cash flows from operating activities | | **544.2** | 462.9 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(129.9)** | (140.1) |
| Purchase of intangible fixed assets | | **(22.6)** | (30.8) |
| Proceeds from sale of property, plant and equipment | | **6.3** | 3.2 |
| Acquisition of companies and businesses, net of cash acquired | B1 | **(194.7)** | (315.7) |
| Disposal of companies and businesses | | **2.2** | 391.9 |
| Dividends received from associates | B6 | **11.7** | 30.4 |
| Net cash flows from investing activities | | **(327.0)** | (61.1) |
| **Cash flows from financing activities** | | | |
| Dividends paid to equity shareholders | D1 | **–** | (85.8) |
| Capital element of lease payments | | **(85.4)** | (86.3) |
| Cash outflow on settlement of debt-related foreign exchange forward contracts | | **(23.7)** | (11.7) |
| Net change to cash flow from investment in term deposits | | **(170.5)** | 0.7 |
| Proceeds from new debt | | **1,694.0** | 433.8 |
| Debt repayments | | **(1,352.2)** | (472.0) |
| Net cash flows from financing activities | | **62.2** | (221.3) |
| Net increase in cash and cash equivalents | | **279.4** | 180.5 |
| Cash and cash equivalents at beginning of year | | **273.9** | 100.9 |
| Exchange losses on cash and cash equivalents | | **(2.5)** | (7.5) |
| **Cash and cash equivalents at end of the financial year** | C3 | **550.8** | 273.9 |

1. Interest paid includes the interest element of lease payments of £6.8m (2019: £8.1m).

# Notes to the Financial Statements

## General accounting policies

**Basis of preparation**
These Consolidated Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, and in compliance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee interpretations as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('IFRSs as adopted by the EU'). The Consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments).

The Group uses a number of non-GAAP measures to present the financial performance of the business which are not defined under IFRS. An explanation of these Alternative Performance Measures (APMs), along with reconciliation to the nearest equivalent IFRS measure, can be found in Section E on page 184.

As noted in the Financial Review, the Group performed well during 2020 despite the challenges placed on colleagues and customers by the global impact of COVID-19. The Directors have prepared board-approved cash flow forecasts that demonstrate that the Group has sufficient liquidity to meet its obligations as they fall due and that it remains compliant with all relevant covenants for the period of at least 12 months from the date of approval of these Financial Statements.

Additionally, the Directors have assessed severe but plausible downside scenarios, including the impact of further COVID-19 lockdowns. This downside scenario assumes a revenue decline of 30% against base budget, which is considerably worse than the Group's actual performance in 2020. Under this scenario the Group would not breach any covenants on its drawn debts but would breach the Net Debt/EBITDA covenant related to its available undrawn revolving credit facility. Were the Group to need to access this additional facility it would be able to maintain covenant compliance by managing cash outflows through cost savings, adjusting the level of M&A activity and/or dividends paid which are all within the Group's control.

The Directors have therefore concluded that the Group will have sufficient liquidity to continue to meet its liabilities as they fall due for this period and therefore have prepared the Financial Statements on a going concern basis (see the Directors' Report on page 201).

**Consolidation**
**(a) Subsidiaries**
Subsidiaries are entities controlled by the Group. The Group controls an entity when it (i) has power over the entity; (ii) is exposed or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through its power over the entity. The Group reassesses whether or not it controls a subsidiary if facts and circumstances indicate that there are changes to one or more of these three elements of control.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. Inter-company transactions, balances, and gains and losses on transactions between Group companies are eliminated on consolidation.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, which may cause the non-controlling interests to have a deficit balance. Consideration in excess of net identifiable assets acquired in respect of non-controlling interests in existing subsidiary undertakings is taken directly to reserves.

**(b) Associates**
Associates are those entities in which the Group has significant influence over the financial and operating policies, but not control. Significant influence is usually presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the total comprehensive income and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee.

Gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

**Foreign currency translation**
**(a) Functional and presentation currency**
Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Consolidated Financial Statements are presented in sterling, which is the Group's functional and presentation currency.

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

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

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

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

**(c) Transactions and balances**
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, or from the translation of monetary assets and liabilities denominated in foreign currencies at reporting period end exchange rates, are recognised under the appropriate heading in the income statement; except when deferred in equity as qualifying net investment hedges or where certain intra-group loans are determined to be quasi-equity (normally not expected to be repaid).

**Financial instruments**
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument, and derecognised when it ceases to be a party to such provisions. Section C page 176 of these notes discusses accounting for financial instruments.

**Financial assets**
The Group classifies its financial assets depending on the purpose for which the financial assets were acquired. At initial recognition the Group carries out a solely payment of principal and interest (SPPI) test and a business model test to establish the classification and measurement of its financial assets. Financial assets are classified in the following categories:

**(a) Amortised cost**
Financial assets under this classification are non-derivative financial assets held to collect the contractual cash flows until maturity and the cash flows are SPPI. Assets measured at amortised cost include trade and other receivables, cash and cash equivalents.

**(b) Fair value through other comprehensive income (FVTOCI)**
These are non-derivative financial assets which can be for sale with cash flows that are SPPI. These assets are measured at fair value and changes to market values are recognised in other comprehensive income. The Group has no assets classified under this category.

**(c) Fair value through profit and loss (FVTPL)**
Financial assets under this classification are assets that cannot be classified in any of the other categories. These assets are measured at fair value and changes to market values are recognised in profit and loss.

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

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

**Critical accounting estimates and judgements**
**Assumptions and estimation uncertainties**
The Group makes estimates and assumptions concerning the future. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and revisions to estimates are recognised prospectively.

Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant notes to the Financial Statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below (please refer to the notes for further detail):

- impairment of goodwill: growth rate and discount rate assumptions and forecast cash flow estimates (Note B2);
- income taxes and deferred tax asset: key assumptions about the likelihood and magnitude of outflows in relation to tax provisions, and availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised (Notes A12 and A14);
- UK revenue recognition: assumptions related to incomplete performance obligations affecting the magnitude of the charge for credit notes (Note A1);
- provision for impairment of trade receivables: key assumptions about the likelihood and magnitude of losses in relation to the trade receivables balance (Note A3);
- retirement benefits: key actuarial assumptions and estimates over future costs of winding up a scheme (Note A10); and
- put option: growth and discount rate assumptions used to calculate the value of the PCI put option (Note A5).

**Judgements**
Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following notes:

- IFRS 16 length of each lease: whether to include options to extend and/or termination options when calculating the lease liability (Note B4).

**Standards, amendments and interpretations to published standards that are mandatorily effective for the current year**
Except as described below, the accounting policies applied in these Financial Statements are the same as those applied in the Group's Consolidated Financial Statements as at and for the year ended 31 December 2019.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with effect from 1 January 2020:

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates;
- Amendment to IFRS 3 Business Combinations;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform.

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 2019.

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

# A. Operating

## A1. Revenue recognition and operating segments

**Revenue recognition**
Revenue represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled. All revenue is considered revenue from contracts with customers as defined by IFRS 15, including job work and sales of goods. Under IFRS 15, revenue is recognised when a customer obtains control of goods or services in line with identifiable performance obligations. In the majority of cases the Group considers that the contracts it enters into are contracts for bundled services which are accounted for as a single performance obligation. Accordingly the majority of revenue across the Group is recognised on an output basis evenly over the course of the contract because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs. Job work is short-term contract revenue whereby the period of service is typically less than one month in duration. The performance obligations linked to this revenue type are individual to each job due to their nature, with revenue being recognised at a point in time on completion. Where consumables are supplied separately from the service contract, revenue is recognised at the point the goods transfer.

The transaction price reported for all contracts is the price agreed in the contract and there are no material elements of variable consideration, financing component or non-cash consideration. The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations because the Group has a right to consideration from customers in an amount that corresponds directly with the value to the customer of the performance obligations completed to date.

There are no circumstances in which the Group acts as an agent.

Disaggregation of revenue into category, region and major type of revenue stream is shown below under segmental reporting and in Section E on page 184.

**Performance obligations**
**Revenue recognised over time – contract service revenue**
These are mainly full service contracts, inclusive of equipment, maintenance and consumables as required. The inclusive service is treated as a single performance obligation.

- **Pest Control:** the Group offers a range of services with by far the most common being General Pest Maintenance Contracts. Under this type of contract the Group promises to provide a pest control service for the duration of the contract. In order to fulfil this promise, equipment is supplied (such as bait boxes) and a technician maintains and monitors the equipment at a set number of visits per year, plus any additional call-outs as required; so there is a stand-ready element to the service as well as an ongoing service. The Group considers that this type of contract is a bundled service as the goods and services are not distinct in the context of the contract; equipment is not supplied without the service.
- **Hygiene:** the Group offers a similar type of service to Pest Control, providing washroom equipment, consumables and a technician to service the washroom. This type of contract will include a set number of visits. Dispensers are replenished by the technician. Management considers that the supply of goods and services are not distinct in the context of the contract. Dispensers and other equipment would not be supplied without providing the full service; the equipment is controlled by the Group and ownership does not transfer to the customer.
- **Protect & Enhance:** contracts in this business category mainly relate to Ambius (interior landscaping) and Workwear. In Ambius the major types of contract are for supply and maintenance of interior plants. Maintenance is only offered for plants that were supplied by the Group and therefore the services are not distinct in the context of the contract. The assets are positioned and situated by our technicians and the customer is not permitted to relocate them. At the end of the contract any assets on the customer's site are recovered. In Workwear the main type of contract is for supply and laundering of garments for commercial organisations. Supply and laundry are not offered separately, therefore management considers the services not to be distinct in the context of the contract. The service is treated as a bundle and a single performance obligation. Any equipment remains under ownership and control of the Group.

**Revenue recognised at a point in time – job work**
These services are short term in nature and only an immaterial amount would straddle an accounting period end. There is usually only one performance obligation with revenue recognised at the point of completion of the work.

- **Pest Control:** an example of this type of revenue in the Pest Control category is bird-proofing which is a one-off installation that, depending on the size of the site, may take between a few days and several weeks to complete. There is a single performance obligation (to install bird-proofing) and the customer is billed, and revenue recognised, at the end of the job.
- **Hygiene:** this type of revenue is generated by our Specialist Hygiene team which performs specialist cleaning services such as graffiti removal, deep cleaning of kitchens and washrooms, trauma cleaning, flood or fire damage cleaning, and during the pandemic has been providing specialist deep cleaning and disinfection services. These are usually short-term jobs (under one week) and usually there is a single performance obligation with revenue recognised on completion of the job.
- **Protect & Enhance:** this type of revenue is generated in our Ambius and Property Care businesses and includes work such as Christmas installations (trees and decorations), woodworm treatment and damp-proofing. There is usually a single performance obligation with revenue recognised at a point in time. The value of this work is immaterial.

**Revenue recognised at a point in time – sale of goods**
Sale of products and consumables relates mainly to the pest distribution businesses which sell pest control products to retailers and the pest control industry. In the Hygiene business there are some sales of consumables to customers. In all cases, revenue is recognised at the point in time that ownership transfers to the customer.

The Group does not consider that any judgements were made that would have a significant impact on the amount or timing of revenue recognised. The contracts in the business where revenue is recognised over time are repetitive and are based on short cycles that repeat many times per year. Therefore if revenue had been considered to be recognised at a point in time rather than over time the in-year impact would be immaterial.

The Group makes a charge against revenue for credit notes not yet issued at the balance sheet date. Due to prolonged government lockdowns in the year where customer sites could not be accessed, the charge for credit notes related to the UK (which makes up a significant part of the Group credit note charge) has increased significantly. This charge has been estimated using data on incomplete service visits and credit notes already issued in the year. The range of estimation uncertainty affecting the reported UK & Ireland revenue of £287.5m is estimated to be between £(0.6)m and £4.7m. As the pandemic subsides during 2021 and lockdowns in the UK are lifted, the estimate of the level of credit notes required will become certain which will affect the amount of revenue recognised in 2021.

**Contract costs**
Contract costs are mainly incremental costs of obtaining contracts (primarily sales commissions directly related to contracts obtained), and to a lesser extent costs to fulfil contracts which are not within the scope of other standards (mainly incremental costs of putting resources in place to fulfil contracts).

It is anticipated that these costs are recoverable over the life of the contract to which they relate. Accordingly the Group capitalises them as contract costs and amortises them over the expected life of the contracts. The expected length of contracts across the Group and associated amortisation periods are between three and six years.

The contract costs recognised in the balance sheet at the period end amounted to £67.8m (2019: £65.4m). The amount of amortisation recognised in the period was £28.1m (2019: £25.9m) and impairment losses were £nil (2019: £nil).

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

**Contract assets**
Contract assets relate to the Group's right to consideration for performance obligations satisfied but where the customer has yet to be invoiced. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. All opening balances have been invoiced in the year.

**Contract liabilities**
Contract liabilities relate to advance consideration received from customers where the performance obligations have yet to be satisfied. All opening balances have subsequently been satisfied in the year. In most business categories where revenue is recognised over time customers are invoiced in advance or simultaneously with performance obligations being satisfied.

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

Disaggregated revenue under IFRS 15 is the same as the segmental analysis below. Restructuring costs and central and regional costs are presented at a Group level as they are not targeted or managed at reportable segment level. The basis of presentation is consistent with the information reviewed by internal management. Revenue and profit are from Ongoing operations which is defined and reconciled to the nearest equivalent GAAP measure in Section E on page 184.

**Revenue and profit from continuing operations**

| | **Revenue 2020 £m** | Revenue 2019 £m | **Operating profit 2020 £m** | Operating profit 2019 £m |
|---|---|---|---|---|
| France | **303.2** | 310.4 | **33.7** | 46.0 |
| Benelux | **96.7** | 95.3 | **27.9** | 27.9 |
| Germany | **120.6** | 107.5 | **42.1** | 33.4 |
| Southern Europe | **143.0** | 134.6 | **21.8** | 22.2 |
| Latin America | **57.7** | 57.7 | **5.5** | 6.6 |
| **Europe** | **721.2** | 705.5 | **131.0** | 136.1 |
| UK & Ireland | **287.5** | 305.6 | **50.1** | 65.6 |
| Rest of World | **157.3** | 156.6 | **33.7** | 35.7 |
| **UK & Rest of World** | **444.8** | 462.2 | **83.8** | 101.3 |
| **Asia** | **242.0** | 240.2 | **26.9** | 24.9 |
| **North America** | **1,224.1** | 1,082.5 | **211.9** | 153.4 |
| **Pacific** | **177.5** | 185.8 | **34.5** | 38.6 |
| **Central and regional costs** | **–** | – | **(91.1)** | (78.5) |
| **Restructuring costs** | **–** | – | **(13.2)** | (7.7) |
| **Ongoing operations at AER** | **2,809.6** | 2,676.2 | **383.8** | 368.1 |
| Disposed businesses[1,2] | **13.9** | 38.2 | **0.2** | (2.7) |
| **Continuing operations at AER** | **2,823.5** | 2,714.4 | **384.0** | 365.4 |
| One-off items – operating | | | **(7.7)** | (14.6) |
| Amortisation and impairment of intangible assets[3] | | | **(82.5)** | (85.2) |
| **Operating profit** | | | **293.8** | 265.6 |

1. Includes revenue of £7.1m (2019: £10.7m) from product sales by the Group to CWS-boco International GmbH. Prior to 30 June 2017, this revenue was classified as intra-group revenue and eliminated on consolidation.
2. Disposed businesses for 2019 is restated to include businesses that were disposed in 2020 to aid year-on-year comparability.
3. Excluding computer software.

Revenue and operating profit relate to the main groups of business category and activity, as described on page 2: Pest Control, Hygiene and Protect & Enhance. Central and regional overheads represent corporate expenses that are not directly attributable to any reportable segment.

Revenue from external customers attributed to the UK amounted to £260.0m (2019: £295.7m), with overseas countries accounting for the balance of £2,563.5m (2019: £2,418.7m). The only countries accounting for more than 10% of revenue from external customers are the US, totalling £1,173.0m (2019: £1,033.9m), and France, totalling £310.0m (2019: £315.6m). No customer accounts for more than 10% of total revenue.

**One-off items – operating**

| | One-off cost/(income) 2020 £m | One-off tax impact 2020 £m | One-off cash inflow/(outflow) 2020 £m |
|---|---|---|---|
| Acquisition and integration costs | **14.7** | **(3.0)** | **(14.7)** |
| Additional proceeds from prior year disposal – cash receipt | **(2.2)** | **–** | **2.2** |
| Pension scheme closure in North America | **(7.3)** | **2.0** | **–** |
| Profit on property sale and leaseback | **(2.0)** | **0.5** | **4.4** |
| Disposal charge for faulty PPE | **2.9** | **(0.5)** | **–** |
| Legacy payroll costs | **3.3** | **(1.1)** | **(1.1)** |
| Release of legacy provisions | **(3.0)** | **–** | **–** |
| UK pension scheme – partial return of surplus | **–** | **–** | **8.5** |
| Other | **1.3** | **(0.3)** | **(1.6)** |
| **At 31 December** | **7.7** | **(2.4)** | **(2.3)** |

**Analysis of revenue by business category**

| | Revenue 2020 £m | Revenue 2019 £m |
|---|---|---|
| Pest Control | **1,724.1** | 1,734.8 |
| Hygiene | **735.0** | 543.7 |
| Protect & Enhance | **350.5** | 397.7 |
| Disposed businesses | **13.9** | 38.2 |
| **Total** | **2,823.5** | 2,714.4 |

**Analysis of revenue by type**

| | Revenue 2020 £m | Revenue 2019 £m |
|---|---|---|
| **Recognised over time** | | |
| Contract service revenue | **1,877.8** | 1,880.9 |
| **Recognised at a point in time** | | |
| Job work | **651.5** | 533.0 |
| Sales of goods | **294.2** | 300.5 |
| **Total** | **2,823.5** | 2,714.4 |

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

| | Amortisation and impairment of intangibles[1] 2020 £m | Amortisation and impairment of intangibles[1] 2019 £m |
|---|---|---|
| Europe | **13.3** | 10.1 |
| UK & Rest of World | **12.4** | 19.6 |
| Asia | **15.1** | 8.6 |
| North America | **30.9** | 35.0 |
| Pacific | **3.6** | 3.9 |
| Central and regional | **7.2** | 6.0 |
| Disposed businesses | – | 2.0 |
| **Total** | **82.5** | 85.2 |
| Tax effect | **(17.5)** | (19.6) |
| **Total after tax effect** | **65.0** | 65.6 |

1. Excluding computer software.

## A2. Earnings per share

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

Adjusted earnings per share is earnings per share adjusted for the after-tax effects of one-off items (including the net gain on disposal of businesses), amortisation and impairment of intangibles, and net interest adjustments. Adjusted profit and earnings per share measures are explained further in Section E on page 184.

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 plans (LTIPs) to the extent the performance conditions have been met at the end of the period. These share options are issued for nil consideration to employees if performance conditions are met.

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

| | 2020 £m | 2019 £m |
|---|---|---|
| **Profit from continuing operations attributable to equity holders of the Company** | **185.9** | 283.5 |
| One-off items – operating | **7.7** | 14.6 |
| One-off items – associates | **–** | 2.4 |
| Net gain on disposals | **–** | (103.8) |
| Amortisation and impairment of intangibles[1] | **82.5** | 85.2 |
| Net interest adjustments | **35.2** | 4.0 |
| Tax on above items[2] | **(26.4)** | (19.1) |
| **Adjusted profit from continuing operations attributable to equity holders of the Company** | **284.9** | 266.8 |

| | 2020 | 2019 |
|---|---|---|
| **Weighted average number of ordinary shares in issue** | **1,853.2** | 1,849.0 |
| Adjustment for potentially dilutive shares | **9.7** | 11.5 |
| **Weighted average number of ordinary shares for diluted earnings per share** | **1,862.9** | 1,860.5 |

| | 2020 | 2019 |
|---|---|---|
| Basic earnings per share | **10.03p** | 15.33p |
| Diluted earnings per share | **9.98p** | 15.24p |
| Basic adjusted earnings per share | **15.37p** | 14.43p |
| Diluted adjusted earnings per share | **15.29p** | 14.34p |

1. Excluding computer software.
2. One-off items – operating £2.4m (2019: £(1.1)m), amortisation and impairment of intangibles £17.5m (2019: £19.6m), net interest adjustments £6.5m (2019: £0.6m).

## A3. Trade and other receivables

The Group's trade receivables are recognised at the transaction price less provision for impairment. The amount of the provision is recognised in the income statement and movements on provisions for impaired trade receivables are recognised within operating expenses in the income statement. Amounts are generally charged to the provision for impairment of trade receivables when there is no expectation of recovering additional cash.

Expected credit loss (ECL) calculations are performed quarterly and are used to calculate the provision. ECL calculations are a probability weighted estimate of credit losses and are performed at country level. The Group applies the simplified method of applying lifetime ECLs to trade receivables using an allowance matrix to measure the ECLs of trade receivables from its customers, which comprise customer portfolios across several countries. Credit risk factors that are considered as part of ECL calculations may include, but are not limited to: payment history, customer size, customer type (national/residential/commercial/government), age of debt, industry strength, economy, product or service provided.

There is limited concentration of credit risk with respect to trade receivables due to the Group's customer base being large and diverse. The amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet. The Group policy is that credit facilities for new customers are approved by designated managers at regional level. Credit limits are set with reference to trading history and reports from credit rating agencies where they are available. Where this is not feasible the Group may request payment in advance of work being carried out, or settlement by credit card on completion of the work. There are no trade receivables that would otherwise be past due or impaired whose terms have been renegotiated.

Due to the COVID-19 pandemic the risk of impairment of trade receivables has increased significantly in the year. ECL calculations reflect management's estimate of the increased risk that some customers will be unable to settle their debts. As the pandemic subsides the situation will become clearer and these estimates will change, which may mean a reduction or a further increase in the provision over the next 12 months.

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade receivables | **525.8** | 441.4 |
| Less: provision for impairment of trade receivables | **(61.4)** | (28.4) |
| **Trade receivables – net** | **464.4** | 413.0 |
| Other receivables | **48.8** | 48.5 |
| Prepayments | **29.3** | 30.1 |
| Contract assets[1] | **19.2** | 21.8 |
| **Total** | **561.7** | 513.4 |

| | 2020 | 2019 |
|---|---|---|
| Analysed as follows: | | |
| Non-current | **13.1** | 12.7 |
| Current | **548.6** | 500.7 |
| **Total** | **561.7** | 513.4 |

1. Contract assets represents revenue that has been recognised for performance obligations satisfied but where the customer has yet to be invoiced. All opening balances have subsequently been invoiced in the year. In most business categories our customers are invoiced in advance or simultaneously with performance obligations being satisfied. No provision for impairment has been recognised against contract assets (2019: £nil).

Analysis of the Group's provision for impairment of trade receivables is as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| At 1 January | **28.4** | 25.1 |
| Exchange differences | **(0.1)** | (1.4) |
| Acquisition of companies and businesses | **1.7** | 0.4 |
| Additional provision | **54.1** | 14.9 |
| Receivables written off as uncollectable | **(19.9)** | (9.1) |
| Unused amounts reversed | **(2.8)** | (1.5) |
| **At 31 December** | **61.4** | 28.4 |

The ageing of trade receivables and provision for impairment is as follows:

| | Trade receivables 2020 £m | Provision for impairment 2020 £m | Trade receivables 2019 £m | Provision for impairment 2019 £m |
|---|---|---|---|---|
| Not due | **254.6** | **(1.0)** | 202.4 | (0.3) |
| Overdue by less than 1 month | **107.0** | **(2.3)** | 104.6 | (0.4) |
| Overdue by between 1 and 3 months | **69.9** | **(5.9)** | 54.6 | (0.8) |
| Overdue by between 3 and 6 months | **34.0** | **(10.5)** | 31.7 | (1.8) |
| Overdue by between 6 and 12 months | **33.5** | **(14.9)** | 25.2 | (6.5) |
| Overdue by more than 12 months | **26.8** | **(26.8)** | 22.9 | (18.6) |
| **At 31 December** | **525.8** | **(61.4)** | 441.4 | (28.4) |

Due to the increased risk of business failures as a result of the COVID-19 pandemic and the increase in trade receivable balances over three months old, the provision for impairment against these receivables has been adjusted to reflect management's view of the increased risk of impairment.

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Pound sterling | **59.9** | 54.1 |
| Euro | **147.0** | 125.6 |
| US dollar | **177.4** | 133.5 |
| Other currencies | **141.5** | 128.2 |
| **Carrying value** | **525.8** | 441.4 |

Fair value is considered to be equal to carrying value for all trade and other receivables.

## A4. Inventories

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Raw materials | **10.8** | 8.4 |
| Work in progress | **1.8** | 1.5 |
| Finished goods | **118.7** | 96.6 |
| | **131.3** | 106.5 |

An inventory impairment charge of £10.5m was taken in 2020 (2019: £3.5m).

## A5. Trade and other payables

| | 2020 £m | 2019 £m |
|---|---|---|
| Trade payables | **182.3** | 187.9 |
| Social security and other taxes | **84.2** | 64.2 |
| Other payables | **112.2** | 66.1 |
| Accruals | **216.9** | 169.1 |
| Contract liabilities[1] | **159.3** | 144.6 |
| Deferred and contingent consideration (including put option liability of £34.3m (2019: £37.3m)) | **240.5** | 86.5 |
| **Total** | **995.4** | 718.4 |
| Analysed as follows: | | |
| Other payables | **23.4** | 17.6 |
| Deferred and contingent consideration (including put option liability of £34.3m (2019: £37.3m)) | **47.0** | 40.1 |
| Total non-current portion | **70.4** | 57.7 |
| Current portion | **925.0** | 660.7 |
| **Total** | **995.4** | 718.4 |

1. Contract liabilities represents customer invoices where performance obligations have not yet been satisfied. All opening balances have subsequently been satisfied in the year. In most business categories our customers are invoiced in advance or simultaneously with performance obligations being satisfied.

Put options are held following the acquisition of PCI in 2017 where the seller may require the Group to purchase the remaining shares of the business in stages over a fixed term between 2023 and 2027. The put options are accounted for as an anticipated acquisition of the remaining shares and no non-controlling interest is recognised. The Group recognised a put option liability for the anticipated acquisition of these shares in deferred and contingent consideration, and any movements in the carrying value are recognised through equity.

The assumptions that are made in estimating the value of this put option liability are option price and discount rate. A 5% reduction in the estimated option price would result in a £1.7m decrease in the liability, and a 1% decrease in the discount rate would result in a £1.3m increase in the liability.

Other than the put options, there are no liabilities in the table above that bear interest and therefore the cash flows are equal to the carrying value of the liabilities. Cash is due to flow between one and five years for all non-current liabilities and not beyond. Fair value is equal to carrying value for all trade and other payables.

The currency split of trade and other payables is as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Pound sterling | **154.4** | 131.9 |
| Euro | **205.6** | 190.5 |
| US dollar | **442.0** | 207.4 |
| Other currencies | **193.4** | 188.6 |
| **Carrying value** | **995.4** | 718.4 |

## A6. Provisions for liabilities and charges

The Group has environmental, self-insurance and other provisions. Provisions are recognised when the Group has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount is capable of being reliably estimated. If such an obligation is not capable of being reliably estimated it is classified as a contingent liability (Note D3).

Future cash flows relating to these obligations are discounted when the effect is material. This year the US is the only country where the effect of discounting is material. The discount rates used are based on government bond rates in the country of the cash flows, and were 0.9% (2019: 0.9%) for the US.

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

| | Environmental £m | Self-insurance £m | Other £m | 2020 Total £m | 2019 Total £m |
|---|---|---|---|---|---|
| At 1 January | 14.2 | 29.3 | 15.6 | 59.1 | 71.2 |
| Adjustment on initial application of IFRS 16 | – | – | – | – | (6.4) |
| Exchange differences | 0.7 | (0.9) | 0.3 | 0.1 | (2.1) |
| Additional provisions | 0.4 | 14.7 | 13.0 | 28.1 | 18.8 |
| Used during the year | (1.8) | (10.7) | (6.7) | (19.2) | (21.2) |
| Unused amounts reversed | – | (0.2) | (4.1) | (4.3) | (1.6) |
| Acquisition of companies and businesses | 0.1 | – | – | 0.1 | 0.2 |
| Unwinding of discount on provisions | – | 0.3 | – | 0.3 | 0.2 |
| **At 31 December** | 13.6 | 32.5 | 18.1 | 64.2 | 59.1 |

| | 2020 £m | 2019 £m |
|---|---|---|
| Analysed as follows: | | |
| Non-current | 34.1 | 34.0 |
| Current | 30.1 | 25.1 |
| **Total** | 64.2 | 59.1 |

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

**Self-insurance**
The Group purchases external insurance from a portfolio of international insurers for its key insurable risks, mainly employee-related risks. Self-insured deductibles within these insurance policies have changed over time due to external market conditions and scale of operations. These provisions represent obligations for open claims and are estimated based on actuarial/management's assessment at the balance sheet date. The Group expects to continue self-insuring the same level of risks and estimates that 50% to 75% of claims should settle within the next five years.

**Other**
Other provisions principally comprise amounts required to cover obligations arising and costs relating to disposed businesses and restructuring costs. Other provisions also includes costs relating to onerous contracts for properties it no longer occupies such as security, utilities and insurance. Existing provisions are expected to be substantially utilised within the next five years.

## A7. Operating expenses by nature

Operating expenses from continuing operations include the following items:

| | Notes | 2020 £m | 2019 £m |
|---|---|---|---|
| Employee costs | A9 | 1,298.7 | 1,312.2 |
| Direct materials and services | | 603.7 | 565.7 |
| Vehicle costs | | 133.9 | 142.3 |
| Property costs | | 63.8 | 64.9 |
| Depreciation and impairment of property, plant and equipment | B3 | 132.3 | 127.3 |
| Amortisation and impairment of intangible assets | B2 | 101.0 | 98.8 |
| Restructuring costs | | 13.2 | 7.7 |
| One-off items – operating | A1 | 7.7 | 14.6 |
| Other operating expenses[1] | | 175.4 | 115.3 |
| **Total operating expenses** | | 2,529.7 | 2,448.8 |

1. Other operating expenses includes professional fees, marketing costs, amortisation of contract assets and movements in bad debt provision.

## A8. Audit services

| | 2020 £m | 2019 £m |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Parent Company and Group accounts | 0.9 | 0.6 |
| Audit of accounts of subsidiaries of the Group | 2.3 | 2.0 |
| Audit-related assurance services | 0.1 | 0.2 |
| **Total audit and audit-related assurance services** | **3.3** | 2.8 |

## A9. Employee benefit expense

**Profit-sharing and bonus plans**
The Group recognises a liability and an expense for bonuses and profit-sharing, based on calculations of achievements of financial performance targets and based on the best estimate of the obligation to employees related to personal performance criteria being achieved. A liability is recognised where a contractual obligation exists or where past practice indicates that there is a constructive obligation to make such payments in the future.

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

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Wages and salaries[1] | 1,135.0 | 1,142.3 |
| Social security costs | 128.8 | 129.4 |
| Share-based payments | 5.5 | 5.3 |
| Pension costs: | | |
| – defined contribution plans | 27.0 | 33.7 |
| – defined benefit plans | 2.4 | 1.5 |
| | **1,298.7** | 1,312.2 |

1. Wages and salaries are disclosed net of any local government wage-related grants as disclosed in Note D5.

Average number of people employed by the Group during the year:

| | 2020 Number | 2019 Number |
|---|---|---|
| Processing and service delivery | 33,174 | 31,863 |
| Sales and marketing | 5,272 | 5,169 |
| Administration and overheads | 6,142 | 5,901 |
| | **44,588** | 42,933 |

Emoluments of the Directors of Rentokil Initial plc are detailed below. Further details are also given in the Directors' Remuneration Report on pages 111 to 137.

| | Highest paid Director 2020 £000 | Other Directors 2020 £000 | Highest paid Director 2019 £000 | Other Directors 2019 £000 |
|---|---|---|---|---|
| Aggregate emoluments excluding share options | 867.3 | 575.6 | 2,045.4 | 1,178.2 |
| Aggregate gains made by Directors on exercise of share options | – | – | – | – |
| Aggregate amount receivable under long-term incentive schemes | 3,187.9 | 1,325.6 | 2,512.3 | 1,615.1 |
| Aggregate value of Company contributions to defined contribution pension schemes | – | – | – | – |
| | **4,055.2** | **1,901.2** | 4,557.7 | 2,793.3 |

| | 2020 Number | 2019 Number |
|---|---|---|
| Number of Directors accruing retirement benefits | | |
| – defined contribution schemes | 3 | 2 |
| – defined benefit schemes | – | – |
| Number of Directors exercising share options | 2 | – |
| Number of Directors receiving shares as part of long-term incentive schemes | 3 | 2 |

## A10. Retirement benefit obligations

Apart from contributions to legally required social security state schemes, the Group operates a number of pension schemes around the world covering many of its employees.

The principal pension scheme in the Group is the UK Rentokil Initial 2015 Pension Scheme (RIPS) which has a defined contribution section, and a number of defined benefit sections which are now closed to new entrants and future accrual of benefits. On 4 December 2018 the Group signed an agreement with Pension Insurance Corporation plc (PIC) to take over the payment of the liabilities in the scheme via a buy-in, which is anticipated to convert to a full buy-out before the end of 2022. This is discussed in further detail below.

A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee-administered funds or insurance companies.

Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions. Judgement is required in determining these actuarial assumptions.

**Defined benefit pension plans**
A defined benefit pension plan is a plan that estimates the amount of future pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service, compensation and age.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the balance sheet date. The Group determines the net interest on the net defined benefit asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit asset. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have a credit rating of at least AA, are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The Group will recognise a pension surplus as an asset where there is an unconditional right to a refund or where the Group has a right to reduce future pension contributions, taking into account the adverse effect of any minimum funding requirements.

Current and past service costs, to the extent they have vested, and curtailments are recognised as charges or credits against operating profit in the income statement. Interest income on the net defined benefit asset is recognised in finance income. Remeasurement gains and losses arising from experience adjustments, return on plan assets and changes in actuarial assumptions are charged or credited to the Consolidated Statement of Comprehensive Income.

**Defined contribution pension plans**
A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

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

**Rentokil Initial 2015 Pension Scheme (RIPS)**
The assets of the RIPS are legally separated from the Group. The Trustee of the pension fund is Rentokil Initial Pension Trustee Limited. The board comprises five company-nominated directors and three member-nominated directors. The Trustee is required by law to act in the best interests of the plan participants and is responsible for setting certain policies (e.g. investment, contribution and indexation policies) of the RIPS.

On 4 December 2018 the Trustee entered into a binding agreement with PIC to insure the liabilities of the Scheme, known as a buy-in. The full buy-out which had been anticipated to complete in 2020 may now not complete until 2022 due to delays caused by the COVID-19 pandemic and the recent High Court judgement which ruled that defined benefit schemes that provided Guaranteed Minimum Pensions should revisit and, where necessary, top up historical cash equivalent transfer values paid since 1990. The Trustee will need to revisit these cases before the wind-up can be completed.

The Group achieved buy-in within the value of the assets held by the scheme and was not required to make any further contributions. There is still some uncertainty regarding the final adjustments to the price that will be paid to PIC on full buy-out of the scheme, and therefore the final surplus that will be available to the Group. However, in December 2020 the Trustee made a partial refund of surplus to the Group of £13.0m. The remaining surplus is recognised as a retirement benefit asset at management's estimate of the value that will be returned to the Group on wind-up of the Scheme.

The defined benefit schemes of the RIPS are reappraised semi-annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19R requirements (including schemes which are insured under a buy-in contract). The assumptions used for the RIPS are shown below:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| **Weighted average %** | | |
| Discount rate | **1.4%** | 2.0% |
| Future salary increases | **n/a** | n/a |
| Future pension increases | **3.0%** | 3.1% |
| RPI inflation | **3.0%** | 3.2% |
| CPI inflation | **2.3%** | 2.2% |

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Approximately 35% of the liabilities are attributable to current and former employees and 65% to current pensioners. There have been no significant changes to the membership of the scheme over the year. The scheme duration is an indicator of the weighted-average time until benefit payments are made. For the RIPS as a whole, the duration is around 17 years.

The assets in the scheme consist of cash held in liquidity funds, and the fair value of the insurance policy. The fair value of the insurance policy asset is deemed to be equal to the present value of the related obligations that it covers at the balance sheet date.

**Risks**
As noted above, the Trustee purchased an insurance policy that covers all retirement benefit obligations within the Scheme, thereby removing exposure to the significant risks within the Scheme (including changes in bond yields, inflation and longevity). The Scheme's insurer (PIC) is now responsible for ensuring there are sufficient assets to meet all future pension obligations, and is subject to EU solvency regulations. There is no volatility associated with the insurance policy asset as under IAS 19 its value is deemed to match the scheme liabilities. Asset volatility is limited only to the assets remaining in the Scheme following this transaction which are expected to be returned to the Company on wind-up of the Scheme. The surplus recognised of £18.2m is management's estimate of the asset that will return to the Company on wind-up (subject to tax at 35%).

**Mortality assumptions**
The mortality assumptions are based on the recent actual mortality experience of Scheme members, and allow for expected future improvements in mortality rates. The mortality tables used are:

- 98% of the SAPS S2 All base tables for male pensioners;
- 107% of the SAPS S2 All base tables for female pensioners;
- 108% of the SAPS S2 All base tables for male and female non-pensioners; and
- 96% of the SAPS S2 All base tables for male and female dependent pensioners.

Future improvements are made in line with CMI_2018 Core Projections with a long-term rate of future improvement of 1.25% p.a.

**Sensitivity of significant assumptions**
The purchase of an insurance policy to cover all future benefits means that the sensitivity of the balance sheet and income statement to key assumptions is removed.

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

| | **Present value of obligation 2020 £m** | **Fair value of plan assets 2020 £m** | **Total 2020 £m** | Present value of obligation 2019 £m | Fair value of plan assets 2019 £m | Total 2019 £m |
|---|---|---|---|---|---|---|
| At 1 January | **(1,443.9)** | **1,443.8** | **(0.1)** | (1,342.0) | 1,337.3 | (4.7) |
| Current service costs[1] | **(1.6)** | **–** | **(1.6)** | (1.2) | – | (1.2) |
| Past service costs[1] | **7.1** | **–** | **7.1** | 0.6 | – | 0.6 |
| Settlement of defined benefit obligation[1] | **–** | **–** | **–** | – | 17.4 | 17.4 |
| Administration expenses[1] | **(0.1)** | **–** | **(0.1)** | (0.4) | – | (0.4) |
| Interest on defined benefit obligation/asset[1] | **(28.2)** | **28.7** | **0.5** | (35.6) | 36.3 | 0.7 |
| Exchange difference | **(0.1)** | **(0.4)** | **(0.5)** | 3.6 | (2.3) | 1.3 |
| **Total pension income/(expense)** | **(22.9)** | **28.3** | **5.4** | (33.0) | 51.4 | 18.4 |
| **Remeasurements:** | | | | | | |
| – Remeasurement gain on scheme assets | **–** | **70.2** | **70.2** | – | 90.8 | 90.8 |
| – Remeasurement loss on obligation[2] | **(83.3)** | **–** | **(83.3)** | (96.7) | – | (96.7) |
| **Transfers:** | | | | | | |
| – Transferred on acquisition of business | **–** | **–** | **–** | (46.0) | 35.2 | (10.8) |
| **Contributions:** | | | | | | |
| – Employers | **(0.3)** | **0.5** | **0.2** | – | 1.2 | 1.2 |
| – Participants | **(0.2)** | **0.2** | **–** | (0.2) | 0.1 | (0.1) |
| – Benefit payments | **69.4** | **(68.7)** | **0.7** | 73.6 | (72.2) | 1.4 |
| – Refund of surplus | **–** | **(13.0)** | **(13.0)** | – | – | – |
| – Administration costs | **0.1** | **–** | **0.1** | 0.4 | – | 0.4 |
| At 31 December | **(1,481.1)** | **1,461.3** | **(19.8)** | (1,443.9) | 1,443.8 | (0.1) |
| Retirement benefit obligation schemes[3] | **(110.6)** | **71.8** | **(38.8)** | (106.6) | 69.1 | (37.5) |
| Retirement benefit asset schemes[4] | **(1,370.5)** | **1,389.5** | **19.0** | (1,337.3) | 1,374.7 | 37.4 |

1. Service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to finance cost and finance income.
2. The actuarial movement on the UK RIPS comprises remeasurement gain arising from changes in demographic assumptions of £16.1m (2019: gain of £16.5m), remeasurement loss arising from changes in financial assumptions of £117.1m (2019: loss of £129.3m) and a remeasurement gain arising from experience of £25.0m (2019: gain of £20.9m).
3. Benefit plans in an obligation position include plans situated in Ireland, the UK, Martinique, Barbados, Trinidad and Tobago, Norway, South Africa, Germany, Austria, France, Italy, South Korea, Philippines, India, Hong Kong and the US.
4. Benefit plans in an asset position include plans situated in the UK and Australia.

Included in the table above is a net defined benefit surplus in relation to the UK RIPS of £18.2m (2019: £36.6m) recognised as defined benefit obligation of £1,369.3m (2019: £1,333.3m) and plan assets of £1,387.5m (2019: £1,369.9m). Of the £1,481.1m (2019: £1,443.9m) of obligations, £18.3m (2019: £16.7m) is unfunded.

Total contributions payable to defined benefit pension schemes in 2021 are expected to be less than £1m.

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Equity instruments | **37.3** | 38.6 |
| Debt instruments – unquoted | **16.7** | 14.8 |
| Property | **0.7** | 0.6 |
| Insurance policies | **1,343.6** | 1,335.6 |
| Other | **63.0** | 54.2 |
| **Total plan assets** | **1,461.3** | 1,443.8 |

Where available the fair values of assets are quoted prices (e.g. listed equity, sovereign debt and corporate bonds). In other cases the market value as provided by the fund managers has been used in accordance with IFRS 13 Fair Value Measurement:

- unquoted debt instruments (Level 2);
- interest and inflation rate hedging instruments (Level 2); and
- pooled investment funds (Level 3).

Other significant assets are valued based on observable market inputs. Insurance policies are valued at the present value of the related obligations. Other assets primarily consist of cash.

The cumulative actuarial gain recognised in the Consolidated Statement of Comprehensive Income was £31.2m (2019: £44.3m). A remeasurement loss of £13.1m (2019: £5.9m loss) was recognised during the year.

## A11. Share-based payments

**Share-based compensation**

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

**Performance Share Plan**

The Company introduced a share-based performance plan in 2006 for senior managers worldwide. The main features of the scheme are as follows:

- For awards made in 2012 and 2013, the performance conditions are total shareholder return (TSR) performance and an individual performance modifier. No shares will vest or options become exercisable if the share price does not reach median TSR performance at the end of the three-year performance period relative to the constituents of a comparator group, made up of FTSE 350 companies excluding financial services, primary resource and property sector companies. If TSR performance is above the upper quartile and all participants attain their maximum bonus target over the performance period, the full award will vest or become exercisable.
- For awards made between 2014 and 2018, one-third of the award is based on EPS growth targets as outlined in the relevant year's Directors' Remuneration Report, and two-thirds of the award is based on TSR over the three-year performance period as explained above.
- For awards made in 2019, 50% of the award is based on TSR and 25% is based on EPS growth targets as explained above. The remaining 25% is based on performance against certain strategic and financial measures over the vesting period as set out in the relevant year's Directors' Remuneration Report.
- For awards made in 2020, 60% of the award is based on TSR and 40% is based on performance against certain strategic and financial measures over the vesting period as set out in the Directors' Remuneration Report.
- The value of dividends paid during the vesting period is paid on the number of shares that ultimately vest in the form of additional shares (for awards that are nil-cost options, this is the value of dividends between grant and exercise).

The total net charge for the year relating to equity-settled share-based payment plans was £5.5m (2019: £5.3m).

A summary of the number of shares in active share option plans is shown below:

| | | Share options outstanding | | | | | Share options exercisable | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year of grant | Vesting year | Scheme interest at 1 January 2020 | Shares awarded during 2020 | Shares lapsed during 2020 | Shares vested during 2020 | Shares outstanding at 31 December 2020 | Shares exercisable at 1 January 2020 | Shares vested during 2020 | Shares exercised during 2020 | Shares lapsed during 2020 | Shares exercisable at 31 December 2020 |
| 2012 | 2015 | – | – | – | – | – | 214,132 | – | (34,613) | – | 179,519 |
| 2013 | 2016 | – | – | – | – | – | 1,266,153 | – | (180,975) | – | 1,085,178 |
| 2014 | 2017 | – | – | – | – | – | 1,382,204 | – | (181,214) | – | 1,200,990 |
| 2015 | 2018 | – | – | – | – | – | 2,178,655 | – | (777,521) | (2,899) | 1,398,235 |
| 2016 | 2019 | – | – | – | – | – | 3,117,476 | – | (1,047,232) | (18,231) | 2,052,013 |
| 2017 | 2020 | 4,717,888 | 157,880 | (528,405) | (4,347,363) | – | – | 4,347,363 | (2,562,473) | – | 1,784,890 |
| 2018 | 2021 | 6,601,097 | 6,545 | (324,013) | (259,438) | 6,024,191 | – | 259,438 | (259,438) | – | – |
| 2019 | 2022 | 5,326,306 | – | (333,287) | – | 4,993,019 | – | – | – | – | – |
| 2020 | 2023 | – | 3,561,710 | – | – | 3,561,710 | – | – | – | – | – |

The fair value of the 2020 awards made under the 2006 Performance Share Plan is charged to the income statement over the vesting period based on values derived from a Monte Carlo model prepared by external remuneration consultants. This is a closed-form solution which takes account of the correlation between share price performance and the likelihood of a TSR performance condition being met. For the shares awarded in September 2020, the significant inputs into the model were a share price of 536.8p (2019: 347.0p), an expected share price volatility of 22.0% (2019: 19.4%), a median share price correlation between the companies in the comparator group of 83.0% (2019: 28.0%), and an expected life commensurate with the three-year performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices. As the awards are nil-cost (i.e. there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards. Similarly, as dividend equivalents are paid on the vesting portion of awards, the fair value of these awards is not reduced to reflect dividends paid during the vesting period.

The fair value of awards granted during 2020 was £14.1m (2019: £15.0m).

## A12. Income tax expense

Income tax expense for the period comprises both current and deferred tax. Current tax expense represents the amount payable on this year's taxable profits and any adjustment relating to prior years. Taxable profits differ from accounting profits as some items of income or expenditure are not taxable or deductible or may be taxable or deductible in a different accounting period. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries and associates operate and generate taxable income.

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. Deferred tax is determined using tax rates that are expected to apply when the timing difference reverses based on tax rates which are enacted or substantively enacted at the balance sheet date. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or equity. In this case the tax is also recognised in other comprehensive income or equity as appropriate.

Analysis of charge in the year:

| | 2020 £m | 2019 £m |
|---|---|---|
| UK corporation tax at 19.0% (2019: 19.0%) | **8.8** | 8.3 |
| Overseas taxation | **60.9** | 41.6 |
| Adjustment in respect of previous periods | **(3.1)** | 8.8 |
| **Total current tax** | **66.6** | 58.7 |
| Deferred tax (credit)/expense | **(17.0)** | 0.7 |
| Deferred tax adjustment in respect of previous periods | **(6.1)** | (4.7) |
| **Total deferred tax** | **(23.1)** | (4.0) |
| **Total income tax expense** | **43.5** | 54.7 |

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Profit before income tax | **229.8** | 338.5 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | **55.7** | 82.6 |
| Adjustment in respect of previous periods | **(9.2)** | 4.1 |
| Deferred tax recognised on losses | **(2.1)** | (7.7) |
| Expenses not deductible for tax purposes – restructuring costs and one-off items | **0.2** | 8.0 |
| Expenses not deductible for tax purposes – interest payable | **0.1** | 2.0 |
| Expenses not deductible for tax purposes – other | **1.8** | 2.4 |
| Impairment of goodwill | **3.2** | 1.0 |
| Goodwill deductions | **(0.9)** | (1.3) |
| Income not subject to tax | **(1.3)** | (0.7) |
| Utilisation of previously unrecognised tax losses | **(0.7)** | (5.7) |
| Losses not relieved | **0.3** | 1.0 |
| Deferred tax impact of change in tax rates | **(8.9)** | 0.2 |
| Provisions utilised for which no deferred tax assets were recognised | **(1.4)** | (2.2) |
| Overseas withholding tax suffered | **0.7** | 0.5 |
| Deferred tax on unremitted earnings | **–** | 0.8 |
| Tax on overseas dividends | **–** | 1.0 |
| Local business taxes | **1.8** | 1.6 |
| Foreign exchange differences | **0.7** | (3.5) |
| Disposal gain not subject to tax | **–** | (31.6) |
| US BEAT liability | **3.1** | 2.2 |
| Other | **0.4** | – |
| **Total tax expense** | **43.5** | 54.7 |

The Group's Effective Tax Rate (ETR) before amortisation of intangible assets (excluding computer software), one-off items and the net interest adjustments for 2020 was 19.8% (2019: 21.6%). This compares with a blended rate of tax for the countries in which the Group operates of 24% (2019: 23%). The ETR for 2020 is low compared with the prior year mainly due to the impact of deferred tax rate changes in the UK and France.

The Group's tax charge and ETR will be influenced by the global mix and level of profits, changes in future tax rates and other tax legislation, foreign exchange rates, the utilisation of brought-forward tax losses on which no deferred tax asset has been recognised, the resolution of open issues with various tax authorities, acquisitions and disposals.

The Group's ETR is expected to remain above the UK tax rate due to the proportion of overseas profits which are taxed at a higher rate than UK profits. The low ETR for 2020 is a one off and we expect our ETR for 2021 to be similar to 2019. In the medium term the Group's Adjusted ETR is likely to increase towards the blended tax rate.

## A13. Current tax liabilities

Tax liabilities are classified as current liabilities unless there is a right to defer the payment of the liability for at least one year after the balance sheet date. As at 31 December 2020 all the Group's tax liabilities have been classified as current as there is no legally enforceable right to defer payment for more than 12 months.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the asset and liability.

The Group is subject to income taxes in numerous jurisdictions. There are various uncertainties relating to the determination of its tax liabilities where the ultimate tax liability cannot be known until a resolution has been reached with the relevant tax authority, or the issue becomes time barred. Issues can take many years to resolve and therefore assumptions on the likely outcome have to be made by management.

Where considered appropriate, management establishes provisions for uncertain tax positions on the basis of amounts expected to be paid to the tax authorities. The Group's current tax liabilities reflect management's best estimate of the future amounts of corporation tax that will be settled. This is based on management's interpretation of relevant tax rules, external advice obtained, the status of the negotiations and past experience. Uncertain tax positions are assessed on an issue-by-issue basis within the countries in which we operate. Total uncertain tax provisions (including interest thereon) amounted to £64.6m as at 31 December 2020 (2019: £72.8m). Included within this amount is £11.5m (2019: £12.7m) in respect of interest arising on tax provisions which is included within other payables. These tax provisions relate to multiple issues across the countries in which the Group operates. The net decrease in the provisions for the year is mainly attributable to payments in respect of potential tax and interest liabilities.

Tax provisions can be built up over a number of years but in the year of resolution there could be adjustments to these provisions which could have a material positive or negative impact on the tax charge for a particular year. The settlement of a significant issue could also have a material impact on the amount of cash tax payable in any one year. Significant judgement is required in determining the worldwide provision for income taxes particularly in relation to the pricing of intra-group goods and services as well as debt financing.

The majority of the tax provisions relate to transfer pricing exposures where the Group faces a number of risks in jurisdictions around the world, and is subject to audits by tax authorities in the territories in which it operates. These tax audits have an uncertain outcome and can take several years to resolve, which in some cases may be dependent on litigation. The actual outcome could vary from management's estimates, but these are updated at each reporting period in the light of the latest available information.

Apart from transfer pricing exposures the largest single provision relates to a financing structure where the amount provided is now £10.9m. This is a legacy issue going back to the years 2002 to 2005. The Group is fully provided for the potential tax and interest payable so there is not expected to be an adverse impact on the income statement. It is unclear when this issue will be resolved and therefore the timing of any payment is uncertain, but it is probable that it will be in the next two years.

The cash tax paid for the year was £64.4m (2019: £43.2m). The increase was attributable to tax repayments received in the prior period, payments on account for historic exposures and tax paid on the receipt of part of the UK pension scheme surplus. The cash tax paid is expected to increase in future periods as open issues are resolved although it is not possible to estimate the exact timing of tax cash flows.

## A14. Deferred income tax

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

Deferred tax assets and liabilities are offset against each other when the timing differences relate to income taxes levied by the same tax authority on an entity or different entities which are part of a tax consolidation and there would be the intention to settle on a net basis.

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. The amount of deferred tax assets recognised at each balance sheet date is adjusted to reflect changes in management's assessment of future taxable profits that will enable the tax losses to be recovered. In recognising the deferred tax asset in respect of UK losses, management has estimated the quantum of future UK taxable profits over the period which it is considered that profits can be reasonably estimated.

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

| | 2020 £m | 2019 £m |
|---|---|---|
| At 1 January | **(81.5)** | (92.5) |
| Exchange differences | **(0.6)** | 4.7 |
| Acquisition of companies and businesses | **(5.1)** | (1.6) |
| Net impact of disposals | **–** | 1.4 |
| Credited to the income statement | **23.1** | 4.0 |
| Credited to other comprehensive income | **3.9** | 0.1 |
| Credited to equity | **3.2** | 2.4 |
| **At 31 December** | **(57.0)** | (81.5) |
| Deferred taxation has been presented on the balance sheet as follows: | | |
| Deferred tax asset within non-current assets | **37.7** | 29.3 |
| Deferred tax liability within non-current liabilities | **(94.7)** | (110.8) |
| | **(57.0)** | (81.5) |

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

| | Customer lists/ intangibles £m | Accelerated tax depreciation £m | Retirement benefits £m | Unremitted earnings from subsidiaries £m | Tax losses £m | Share-based payments £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2020 | **72.6** | **42.0** | **4.5** | **4.2** | **(23.0)** | **(8.3)** | **(10.5)** | **81.5** |
| Exchange differences | **(1.8)** | **1.4** | **–** | **–** | **–** | **–** | **1.0** | **0.6** |
| Recognised in income statement | **0.3** | **0.4** | **(4.1)** | **0.1** | **5.5** | **2.1** | **(27.4)** | **(23.1)** |
| Recognised in other comprehensive income | **–** | **–** | **(3.9)** | **–** | **–** | **–** | **–** | **(3.9)** |
| Recognised in equity | **–** | **–** | **–** | **–** | **–** | **(3.2)** | **–** | **(3.2)** |
| Acquired in business combinations | **5.1** | **–** | **–** | **–** | **–** | **–** | **–** | **5.1** |
| **At 31 December 2020** | **76.2** | **43.8** | **(3.5)** | **4.3** | **(17.5)** | **(9.4)** | **(36.9)** | **57.0** |

A deferred tax asset of £17.5m has been recognised in respect of losses, of which £16.0m (2019: £14.4m) relates to UK losses carried forward at 31 December 2020. This amount has been calculated by estimating the future UK taxable profits, against which the UK tax losses will be utilised, and applying the tax rates (substantively enacted as at the balance sheet date) applicable for each year. Remaining UK tax losses of £48.6m have not been recognised as at 31 December 2020 as it is not considered probable that future taxable profits will be available against which the tax losses can be offset. The increase in the deferred tax asset recognised on the UK tax losses is due to the UK corporate tax rate reduction from 19% to 17% not coming into effect.

At the balance sheet date the Group had tax losses of £105.0m (2019: £120.4m) on which no deferred tax asset is recognised because it is not considered probable that future taxable profits will be available in certain jurisdictions to be able to benefit from those tax losses. Of the losses, £14.6m (2019: £15.5m) will expire at various dates between 2021 and 2031.

In addition, the Group has UK capital losses carried forward of £276.3m (2019: £276.9m) on which no deferred tax asset is recognised. These losses have no expiry date but management considers the future utilisation of these losses to be unlikely.

Dividends received from subsidiaries are largely exempt from UK taxation but may be subject to dividend withholding taxes levied by the overseas tax jurisdictions in which the subsidiaries operate. A deferred tax liability of £4.3m (2019: £4.2m) has been recognised in respect of this liability as it is anticipated that these profits will be distributed to the UK. At the balance sheet date there is no material unprovided deferred tax liability were overseas earnings to be distributed to the UK.

# B. Investing

## B1. Business combinations

All business combinations are accounted for using the purchase method (acquisition accounting) in accordance with IFRS 3 Business Combinations. The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

An intangible asset is recognised if it meets the definition of an intangible asset under IAS 38 Intangible Assets. The intangible assets arising on acquisition are goodwill, customer lists and relationships, and brands. Goodwill represents the synergies, workforce and other benefits expected as a result of combining the respective businesses. Customer lists and relationships and brands are recognised at their fair value at the date of acquisition using an income-based approach, which involves the use of assumptions including customer termination rates, profit margins and discount rates. The use of these assumptions requires estimation in the valuation approach; however, it is not considered that these estimates carry a significant risk of material adjustment. There is not considered to be any likely scenario where the asset would be adjusted after the measurement period due to a change in the estimate or assumptions made. Any change to these assumptions would only apply to future acquisitions and the existing intangibles would only ever be reviewed if there was an indicator of impairment.

At the date of acquisition, deferred and contingent consideration represents its fair value, with subsequent changes being recognised in the Consolidated Statement of Profit or Loss.

Costs directly attributable to business combinations are charged to the income statement as incurred and presented as one-off items.

During the year the Group purchased 100% of the share capital or trade and assets of 23 companies and businesses. The total consideration in respect of these acquisitions was £367.3m and the cash outflow from current and past period acquisitions, net of cash acquired, was £194.7m. Individual acquisitions are not disclosed separately as they are not considered material. An overview of the acquisitions in the year can be found in the Financial Review on page 146.

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

| | 2020 £m | 2019 £m |
|---|---|---|
| **Purchase consideration** | | |
| – Cash paid | **156.9** | 290.3 |
| – Deferred and contingent consideration | **210.4** | 38.3 |
| Total purchase consideration | **367.3** | 328.6 |
| Fair value of net assets acquired | **(49.9)** | (62.8) |
| **Goodwill from current year acquisitions** | **317.4** | 265.8 |

Deferred consideration of £192.3m and contingent consideration of £18.1m are payable in respect of the above acquisitions. Contingent consideration is payable based on a variety of conditions including revenue and profit targets being met. Both deferred and contingent consideration are payable over the next five years. The Group has recognised the contingent and deferred consideration based on the fair value of the consideration at the acquisition date. A range of outcomes for contingent consideration payments cannot be estimated due to the variety of performance conditions and the volume of businesses the Group acquires. During the year there were releases of deferred consideration liabilities not paid of £1.6m (2019: £1.1m).

The provisional fair values[1] of assets and liabilities arising from acquisitions in the year are as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| **Non-current assets** | | |
| – Intangible assets[2] | **56.9** | 70.5 |
| – Property, plant and equipment[3] | **9.9** | 17.0 |
| Current assets[4] | **20.4** | 14.3 |
| Current liabilities | **(20.0)** | (20.8) |
| Non-current liabilities[5] | **(17.3)** | (18.2) |
| **Net assets acquired** | **49.9** | 62.8 |

1. The provisional fair values will be finalised in the 2021 Financial Statements. The fair values are provisional since the acquisition accounting has not yet been finalised, primarily due to the proximity of many acquisitions to the year end.
2. Includes £56.8m (2019: £67.9m) of customer lists and relationships and £0.1m (2019: £2.6m) of other intangibles.
3. Includes £4.2m (2019: £0.7m) of right-of-use assets.
4. Includes trade and other receivables of £11.2m (2019: £5.9m) which represents the gross and fair value of the assets acquired.
5. Includes £(5.1)m of deferred tax relating to acquired intangibles (2019: £(4.2)m).

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Total purchase consideration | **367.3** | 328.6 |
| Consideration payable in future periods | **(210.4)** | (38.3) |
| Purchase consideration paid in cash | **156.9** | 290.3 |
| Cash and cash equivalents in acquired companies and businesses | **(6.1)** | (6.0) |
| Cash outflow on current period acquisitions | **150.8** | 284.3 |
| Deferred consideration paid | **43.9** | 31.4 |
| **Cash outflow on current and past acquisitions** | **194.7** | 315.7 |

From the dates of acquisition to 31 December 2020, these acquisitions contributed £22.2m to revenue and £2.3m to operating profit.

If the acquisitions had occurred on 1 January 2020, the revenue and operating profit of the Group would have amounted to £2,961.6m and £303.1m respectively.

## B2. Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, where applicable.

A breakdown of intangible assets is as shown below:

| | Goodwill £m | Customer lists and relationships £m | Brands £m | Product development £m | Computer software £m | 2020 Total £m | 2019 Total £m |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January | **1,376.7** | **782.8** | **66.7** | **33.7** | **135.1** | **2,395.0** | 2,170.3 |
| Exchange differences | **(45.2)** | **(5.5)** | **(0.7)** | **–** | **0.5** | **(50.9)** | (93.2) |
| Additions | **–** | **–** | **–** | **5.7** | **16.8** | **22.5** | 30.8 |
| Disposals/retirements | **–** | **(7.7)** | **–** | **–** | **(7.4)** | **(15.1)** | (3.2) |
| Acquisition of companies and businesses[1] | **322.3** | **56.7** | **0.1** | **–** | **–** | **379.1** | 331.6 |
| Disposal of companies and businesses | **(0.4)** | **(1.9)** | **–** | **–** | **(0.2)** | **(2.5)** | (44.8) |
| Transfers | **–** | **–** | **–** | **–** | **–** | **–** | 3.5 |
| **At 31 December** | **1,653.4** | **824.4** | **66.1** | **39.4** | **144.8** | **2,728.1** | 2,395.0 |
| **Accumulated amortisation and impairment** | | | | | | | |
| At 1 January | **(34.2)** | **(534.1)** | **(42.9)** | **(20.0)** | **(90.4)** | **(721.6)** | (661.2) |
| Exchange differences | **(0.2)** | **(0.3)** | **0.9** | **–** | **(0.4)** | **–** | 27.0 |
| Disposals/retirements | **–** | **7.7** | **–** | **–** | **6.8** | **14.5** | 3.1 |
| Disposal of companies and businesses | **–** | **1.9** | **–** | **–** | **0.2** | **2.1** | 8.3 |
| Impairment charge | **(10.6)** | **–** | **–** | **(0.5)** | **(1.9)** | **(13.0)** | (5.0) |
| Amortisation charge | **–** | **(60.5)** | **(4.6)** | **(6.3)** | **(16.6)** | **(88.0)** | (93.8) |
| **At 31 December** | **(45.0)** | **(585.3)** | **(46.6)** | **(26.8)** | **(102.3)** | **(806.0)** | (721.6) |
| **Net book value** | | | | | | | |
| At 1 January | **1,342.5** | **248.7** | **23.8** | **13.7** | **44.7** | **1,673.4** | 1,509.1 |
| **At 31 December** | **1,608.4** | **239.1** | **19.5** | **12.6** | **42.5** | **1,922.1** | 1,673.4 |

1. Includes current year acquisitions of £374.3m as well as adjustments to prior year acquisitions within the measurement period.

The main categories of intangible assets are as follows:

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

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

| | |
|---|---|
| Customer lists and relationships: | 3 to 15 years |
| Brands: | 2 to 15 years |
| Product development: | 2 to 5 years |
| Computer software: | 3 to 5 years |

The following are the main categories of intangible assets with finite useful lives:

**(a) Customer lists and relationships**
Customer lists and relationships are acquired as part of business combinations. No value is attributed to internally generated customer lists or relationships.

**(b) Brands**
Brands are acquired as part of business combinations. No value is attributed to internally generated brands as expenditure incurred to develop, maintain and renew brands internally is recognised as an expense in the period incurred.

**(c) Product development**
Costs incurred in the design and testing of new or improved products are recognised as intangible assets only if the cost can be measured reliably, and it is probable that the project will be a success considering its commercial and technological feasibility. Capitalised product development expenditure is measured at cost less accumulated amortisation.

Other development expenditure and all research expenditure are recognised as an expense as incurred. This expense was £1.6m (2019: £2.2m).

Development costs recognised as an expense are never reclassified as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is made available.

**(d) Computer software**
Costs that are directly associated with the production of identifiable and unique software products that are controlled by the Group (including employee costs and external software development costs) are recognised as intangible assets if they are expected to generate economic benefits beyond one year, in excess of their cost. Purchased computer software is initially recognised based on the costs incurred to acquire and bring it into use.

Costs associated with maintaining computer software are recognised as an expense in the period in which they are incurred.

**Intangible assets – indefinite useful lives**
**(a) Goodwill**
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. It is recognised as an intangible asset. Goodwill arising on the acquisition of an associate is included in investments in associates.

| | 2020 £m | 2019 £m |
|---|---|---|
| France | 9.6 | 9.5 |
| Benelux | 6.2 | 5.8 |
| Germany | 13.4 | 12.5 |
| Southern Europe | 32.3 | 26.9 |
| Latin America | 18.6 | 21.7 |
| **Europe** | **80.1** | 76.4 |
| UK & Ireland | 61.7 | 61.3 |
| Rest of World | 34.9 | 35.3 |
| **UK & Rest of World** | **96.6** | 96.6 |
| Asia | 125.3 | 137.8 |
| North America[1] | 1,231.5 | 961.3 |
| Pacific | 74.9 | 70.4 |
| **Total** | **1,608.4** | 1,342.5 |

1. Includes £996.0m (2019: £894.0m) relating to the US Pest Control CGU.

**Impairment tests for goodwill**
Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Due to the unprecedented global situation brought about by the COVID-19 pandemic and the global economic impact, the Group took the decision to perform additional goodwill impairment reviews at the half year for selected CGUs. Therefore the majority of the goodwill balance has been tested twice this year. For the purpose of impairment testing, goodwill is allocated to CGUs identified according to country of operation and reportable business unit. The way in which CGUs are identified has not changed from prior periods. Newly acquired entities might be a single CGU until such time that they can be integrated. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The recoverable amount of a CGU is determined based on the higher of value-in-use calculations using cash flow projections and fair value less costs to sell if appropriate. The cash flow projections in year one are based on financial budgets approved by management, which are prepared as part of the Group's normal planning process. Cash flows for years two to five use management's expectation of sales growth, operating costs and margin, based on past experience and expectations regarding future performance and profitability for each CGU. Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates (LTGR).

For the Rentokil PCI CGU in India the assumptions made in estimating the value of the future cash flows are an LTGR of 5.0%, a pre-tax discount rate of 13.9% and a terminal operating margin of 15.1%. The impairment assessment at half year revealed an impairment of £8.1m with no further impairment required at the year end. The headroom for the Rentokil PCI CGU is £3.4m at 31 December 2020.

For the Brazil CGU the assumptions made in estimating the value of the future cash flows are an LTGR of 4.0%, a pre-tax discount rate of 18.5% and a terminal operating margin of 13.0%. The impairment assessment has revealed an impairment of £2.5m.

| | Rentokil PCI | | Brazil | |
|---|---|---|---|---|
| **Sensitivity analysis** | Rate used | Increase in impairment £m | Rate used | Increase in impairment £m |
| **Assumption** | | | | |
| Long-term growth rate – 1% decrease | 5.0% | 3.5 | 4.0% | 0.3 |
| Terminal operating margin – 1% decrease | 15.1% | 1.4 | 13.0% | 0.5 |
| Pre-tax discount rate – 1% increase | 13.9% | 5.6 | 18.5% | 0.5 |

For all other goodwill balances it can be demonstrated that there is sufficient headroom in the recoverable amount of the CGU goodwill balances based on the assumptions made, and there is not considered to be any reasonably likely scenario under which material impairment could be expected to occur based on the testing performed.

The key assumptions used by individual CGUs for value-in-use calculations were:

| | 2020 long-term growth rate[1] | 2020 pre-tax discount rate | 2019 long-term growth rate[1] | 2019 pre-tax discount rate |
|---|---|---|---|---|
| France | **1.7%** | **11.1–11.9%** | 1.6% | 11.3–11.7% |
| Benelux | **2.0%** | **10.7–11.7%** | 1.5% | 10.4–11.2% |
| Germany | **1.9–2.1%** | **10.3–11.1%** | 1.2% | 12.6–12.8% |
| Southern Europe | **1.5–1.8%** | **11.5–12.8%** | 0.7–1.6% | 10.5–11.5% |
| Latin America | **3.0–4.0%** | **13.0–18.5%** | 2.2–2.7% | 12.1–13.9% |
| UK & Ireland | **2.0%** | **9.4–11.8%** | 1.6–2.7% | 9.4–9.6% |
| Rest of World | **2.0–5.3%** | **9.4–12.1%** | 1.1–2.7% | 9.1–18.9% |
| Asia | **1.5–5.0%** | **10.0–13.9%** | 3.0–5.0% | 9.2–12.0% |
| North America[2] | **1.2–2.3%** | **11.6–16.2%** | (0.8)–1.6% | 10.5–16.6% |
| Pacific | **2.0-2.5%** | **12.8–13.3%** | 2.5–2.6% | 9.5–11.1% |

1. Source: www.imf.org.
2. Key assumptions used by the US Pest Control CGU were a long-term growth rate of 2.3% (2019: 1.6%) and a pre-tax discount rate of 11.6% (2019: 10.8%).

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

## B3. Property, plant and equipment

Property, plant and equipment is stated at historic cost less depreciation with the exception of freehold land and assets under construction which are not depreciated. Historic cost includes expenditure that is directly attributable to the acquisition of the items.

A breakdown of property, plant and equipment is shown below:

| | Land and buildings £m | Service contract equipment £m | Other plant and equipment £m | Vehicles and office equipment £m | 2020 Total £m | 2019 Total £m |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January | **84.1** | **485.3** | **169.6** | **185.3** | **924.3** | 984.6 |
| IAS 17 finance leases transferred to IFRS 16 ROU assets | **–** | **–** | **–** | **–** | **–** | (60.1) |
| Exchange differences | **3.0** | **19.6** | **6.6** | **(0.4)** | **28.8** | (49.3) |
| Additions | **2.0** | **93.0** | **11.5** | **20.6** | **127.1** | 141.9 |
| Disposals | **(1.8)** | **(74.8)** | **(1.8)** | **(13.2)** | **(91.6)** | (109.1) |
| Acquisition of companies and businesses[1] | **–** | **0.4** | **0.3** | **4.9** | **5.6** | 16.5 |
| Disposal of companies and businesses | **–** | **–** | **(0.1)** | **(0.1)** | **(0.2)** | (0.2) |
| Reclassification from IFRS 16 ROU assets[2] | **–** | **–** | **–** | **3.3** | **3.3** | – |
| **At 31 December** | **87.3** | **523.5** | **186.1** | **200.4** | **997.3** | 924.3 |
| **Accumulated depreciation and impairment** | | | | | | |
| At 1 January | **(27.1)** | **(273.2)** | **(116.7)** | **(115.6)** | **(532.6)** | (547.7) |
| IAS 17 finance leases transferred to IFRS 16 ROU assets | **–** | **–** | **–** | **–** | **–** | 18.4 |
| Exchange differences | **(1.1)** | **(11.9)** | **(4.7)** | **(0.1)** | **(17.8)** | 29.6 |
| Disposals | **1.1** | **73.4** | **1.6** | **11.9** | **88.0** | 94.4 |
| Disposal of companies and businesses | **–** | **–** | **–** | **0.1** | **0.1** | – |
| Impairment charge | **(0.1)** | **(0.3)** | – | – | **(0.4)** | – |
| Depreciation charge | **(3.0)** | **(97.6)** | **(12.3)** | **(19.0)** | **(131.9)** | (127.3) |
| **At 31 December** | **(30.2)** | **(309.6)** | **(132.1)** | **(122.7)** | **(594.6)** | (532.6) |
| **Net book value** | | | | | | |
| At 1 January | **57.0** | **212.1** | **52.9** | **69.7** | **391.7** | 436.9 |
| **At 31 December** | **57.1** | **213.9** | **54.0** | **77.7** | **402.7** | 391.7 |

1. Includes current year acquisitions of £5.7m as well as adjustments to prior year acquisitions within the measurement period.
2. Certain leased assets become owned assets at the end of their lease period and are therefore reclassified from ROU assets (Note B4).

Depreciation of assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Freehold buildings: | 50 to 100 years |
| Leasehold improvements: | shorter of the lease term or estimated useful life |
| Vehicles: | 4 to 10 years |
| Plant and equipment (including service contract equipment): | 3 to 10 years |
| Office equipment, furniture and fittings: | 3 to 10 years |

Residual values and useful lives of assets are reviewed annually and amended as necessary. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may exceed its recoverable amount. There were £0.4m of impairments in the year (2019: £nil).

When assets are sold, the gain or loss between sale proceeds and net book value is recognised in the income statement.

The category of service contract equipment represents the pool of assets used by the Group in delivering contracted services to customers. Land and buildings comprise mainly factories and offices.

## B4. Leases

The Group leases land and buildings, vehicles and other equipment. The lease durations vary from lease to lease according to the asset leased and local practices. Some of the Group's leases have extension and termination options attached to them. Lease extension options and lease termination options are only included in the calculation of the lease liability if there is reasonable certainty that they will be exercised. Judgement is required to determine the level of certainty.

The value of leases to which the Group is committed but have not yet commenced is not material.

The Group has exercised one sale and leaseback transaction in the year which resulted in a net cash inflow of £4.4m and a gain in the year of £2.0m. The new lease term is 10 years with a total lease liability at the start of the lease of £2.3m.

A breakdown of the right-of-use (ROU) assets is shown below:

| | Land and buildings £m | Vehicles £m | Other equipment £m | 2020 Total £m | 2019 Total £m |
|---|---|---|---|---|---|
| **Net book value** | | | | | |
| At 1 January | 104.6 | 114.9 | 1.7 | 221.2 | 176.3 |
| IAS 17 finance leases (transferred from property, plant and equipment) | – | – | – | – | 41.7 |
| Exchange differences | 0.7 | (0.1) | – | 0.6 | (1.8) |
| Additions | 29.1 | 44.8 | 1.5 | 75.4 | 83.6 |
| Disposals | (2.4) | – | – | (2.4) | (0.4) |
| Acquisition of companies and businesses[1] | 0.1 | 4.1 | – | 4.2 | 0.7 |
| Disposal of companies and businesses | – | (0.1) | – | (0.1) | – |
| Impairment charge | (1.4) | – | – | (1.4) | – |
| Depreciation charge | (35.5) | (40.2) | (1.0) | (76.7) | (78.9) |
| Reclassification to property, plant and equipment[2] | – | (3.3) | – | (3.3) | – |
| **At 31 December** | 95.2 | 120.1 | 2.2 | 217.5 | 221.2 |

1. Includes current year acquisitions of £4.2m as well as adjustments to prior year acquisitions within the measurement period.
2. Certain leased assets become owned assets at the end of their lease period and are therefore reclassified to property, plant and equipment (Note B3).

Analysis of the Group's lease liabilities is shown below:

| | 2020 £m | 2019 £m |
|---|---|---|
| **Lease liabilities under IFRS 16** | | |
| At 1 January | 216.7 | 184.0 |
| IAS 17 finance leases at 1 January 2019 | – | 41.7 |
| Exchange differences | 1.1 | (1.3) |
| Cash outflow | (92.3) | (93.9) |
| Interest | 6.8 | 8.1 |
| Additions | 75.5 | 77.4 |
| Acquisition of companies and businesses | 6.8 | 0.7 |
| Disposal of companies and businesses | (0.1) | – |
| **At 31 December** | 214.5 | 216.7 |
| Analysed as follows: | | |
| Non-current | 141.8 | 144.7 |
| Current | 72.7 | 72.0 |
| **Total** | 214.5 | 216.7 |

Lease liabilities analysed by currency:

| | 2020 £m | 2019 £m |
|---|---|---|
| Pound sterling | 30.7 | 33.5 |
| Euro | 61.1 | 57.3 |
| US dollar | 76.9 | 76.3 |
| Other currencies | 45.8 | 49.6 |
| **At 31 December** | 214.5 | 216.7 |

Lease liabilities are payable as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| **Lease liabilities under IFRS 16** | | |
| Less than one year | **79.8** | 78.6 |
| Between one and five years | **137.0** | 143.9 |
| More than five years | **16.5** | 14.2 |
| **Future minimum payments** | **233.3** | 236.7 |
| Effect of discounting | **(18.8)** | (20.0) |
| **Carrying value** | **214.5** | 216.7 |

Fair value is considered to be equal to carrying value for all lease liabilities.

Other lease costs not already described are set out below:

| | 2020 £m | 2019 £m |
|---|---|---|
| Expenses relating to short-term leases | **11.5** | 10.2 |
| Expenses relating to leases of low-value assets | **5.1** | 4.8 |
| Expenses relating to variable lease payments | **0.2** | 1.0 |
| **At 31 December** | **16.8** | 16.0 |

The Group has no material arrangements where it acts as a lessor.

## B5. Capital commitments

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

| | 2020 £m | 2019 £m |
|---|---|---|
| Property, plant and equipment | **11.7** | 6.5 |
| Intangible assets | **1.2** | 1.3 |
| **Total** | **12.9** | 7.8 |

## B6. Investments in associated undertakings

Nippon Calmic Ltd is an associated undertaking in Japan in which the Group has a 49% interest. The associate is unlisted and the investment value is shown below.

| | 2020 £m | 2019 £m |
|---|---|---|
| At 1 January | **29.7** | 26.3 |
| Exchange differences | **0.9** | (0.8) |
| Share of profit[1] | **8.3** | 8.2 |
| Dividends received | **(11.7)** | (4.0) |
| **At 31 December** | **27.2** | 29.7 |

1. Share of profit is net of tax of £4.8m (2019: £3.9m).

The Group's interest of 49% in its principal associate was as follows:

| | Assets 2020 £m | Liabilities 2020 £m | Revenue 2020 £m | Profit 2020 £m | Assets 2019 £m | Liabilities 2019 £m | Revenue 2019 £m | Profit 2019 £m |
|---|---|---|---|---|---|---|---|---|
| Nippon Calmic Ltd | **55.1** | **(27.5)** | **56.3** | **8.3** | 56.2 | (26.3) | 54.2 | 8.2 |

# C. Financing

## C1. Financial risk management

The Group's central treasury function manages cash, borrows on behalf of the Group and provides finance to Group companies in their local currencies. Treasury activity is governed by a Treasury Committee which is chaired by the Chief Financial Officer.

The main financial risks faced by the Group are set out below.

**(a) Liquidity risk**

The Group is committed to ensuring it has sufficient liquidity to meet its business needs, and appropriate reserves to cover operational underperformance or dislocation in the financial markets. During the year the Group changed its policy from having headroom of unrestricted cash and available committed facilities of at least £150m to £600m. The Treasury Committee manages financing requirements and associated headroom at least 12 months forward.

The Group has a revolving credit facility (RCF) with 17 relationship banks (Note C6). All of these facilities contain covenants that require EBITDA:net interest to be at least 4.0:1.0 and that net debt:adjusted EBITDA should be no greater than 3.5:1.0. Compliance with financial and other covenants is reviewed regularly and financial covenants are reported to the lenders semi-annually in line with the requirements under the facility. The Group remains compliant with its covenants.

The Group targets an S&P Global (S&P) investment grade credit rating for debt issuance of BBB over the medium term. In line with S&P liquidity ratio requirements, debt maturities are financed at least 12 months in advance using available cash or committed facilities, or by issuance of new debt. Management maintains an active dialogue with S&P, as well as the Group's relationship banks, to ensure that any changes to the Group's financing and acquisition strategies are understood.

In March 2020 in response to the COVID-19 pandemic, the Group drew down the full £550m available under its RCF. After establishing a £1bn Commercial Paper Programme, the Group drew down £600m on the Bank of England's Covid Commercial Financing Facility (CCFF) in April 2020. Both the RCF and the CCFF were repaid in full in June and July respectively. The Group repaid its two fixed interest perpetual debentures for £1.3m and £0.3m in May 2020. These were originally issued in 1898 and 1904 respectively. The $50m term loan was repaid on maturity on 19 June 2020. In August 2020 the second of the two one-year extension options on the RCF was exercised and granted resulting in a new maturity date of 22 August 2025. In October 2020 the Group issued an eight-year €600m bond with a coupon of 0.50% under its Euro Medium Term Note (EMTN) Programme. Part of the bond proceeds were used to repay c.50% of the €350m bond that matures in October 2021 following a successful tender offer in November 2020. Available commitments of £550m under the RCF together with unrestricted cash of £716.3m gives the Group combined headroom of £1,266.3m at 31 December 2020 (2019: £816.7m) to meet the maturity of the remaining c.50% of the October 2021 €350m bond. The Group has no other maturities falling due in 2021.

All of the Group's bonds issued under its EMTN Programme contain a coupon step-up which increases the coupon payable by 1.25% in the event that the Group is downgraded to BB+ or below (sub-investment grade). The Group's bonds may be called by their investors at par in the event of a change of control of the Group. They may also be called within 120 days if the Group's debt is downgraded below investment grade, or if the rating is withdrawn and the rating agency confirms in writing, either publicly or to the Group or the Trustee, that the rating action occurred either wholly or in part due to a change of control.

**(b) Credit risk**

The Group has no significant concentration of credit risk. Sales are typically low-value, high-volume, spreading the risk across a large number of customers and geographies. Policies are in place to ensure that credit sales are only made to customers with an appropriate credit history. The Group operates in some territories where there is increased exposure to trade credit risks and in those territories the Group puts in place appropriate measures to manage its credit risk exposure.

In order to protect the liquid assets and funding relationships of the Group, management aims to maintain banking relationships with counterparties that carry a long-term credit rating of at least A-. In countries where no banks are rated A- or above, balances are monitored monthly and kept to a minimum. In addition, funds held with all counterparties are subject to limits. All exposures are monitored and reported to the Treasury Committee each month. The Group also monitors the creditworthiness of its lenders to ensure available commitments under its facilities are available as needed.

At 31 December 2020 the Group had a total of £10.0m of cash held on bank accounts with banks rated below A- by S&P (2019: £16.0m). The highest concentration with any single bank rated below A- was £1.8m (2019: £3.1m).

**(c) Market risk**

**Foreign exchange risk**

The Group's worldwide operations generate profits and cash flows in foreign currencies. Sales and purchases are typically denominated in the currency of the country in which they are transacted, and the Group's cross-border procurement is considered insignificant. Sterling procurement and central costs mean that foreign currencies constitute more than 100% of Group adjusted operating profit at approximately 117%.

The Group's primary exposure to foreign exchange risk is in relation to the translation of assets and liabilities, and the Group aims to hold debt in currencies in proportion to its forecast foreign currency profits and investments. FX derivatives are used to manage foreign currency exposures in excess of £0.5m that are not covered by debt or assets in the same (or another highly correlated) currency, as long as it makes sense from an economic perspective to do so. The Treasury Committee monitors foreign exchange exposures on a monthly basis. Dealing in foreign exchange products is controlled by dealing mandates approved by the Treasury Committee and all FX transactions are covered by ISDA documentation.

The most significant foreign currency groups are US dollars and euros, which make up 46.7% and 41.0% of Group adjusted operating profit respectively.

At 31 December 2020 the Group's net debt was approximately 52% euro (2019: 64%), reflecting that it is the Group's principal cash flow exposure; and 48% US dollars (2019: 36%), reflecting the size of the US market and the Group's strong growth and investment in this region. The translation of the interest element of euro and US dollar debt provides a partial income statement offset to the translation of earnings.

The Group calculates the impact on the income statement and other comprehensive income of a 10% movement in foreign exchange rates. The Group's principal foreign currency exposure is the euro. A 10% movement in £/€ would result in a £15.6m increase/decrease (2019: £16.0m) in adjusted operating profit, offset by a £1.5m decrease/increase (2019: £2.3m) in interest payable. For US dollars, a 10% movement in £/$ would result in a £17.8m increase/decrease (2019: £12.2m) in adjusted operating profit, offset by a £1.2m decrease/increase (2019: £1.1m) in interest payable.

Where possible, currency cash flows are used to settle liabilities in the same currency in preference to selling currency in the market.

### Interest rate risk

The Group seeks to manage interest rate risk to ensure reasonable certainty of its interest charge while allowing an element of risk exposure consistent with the variability of its cash flows. Interest rate risk is managed by the use of fixed interest debt and interest rate derivatives, which are approved in advance by the Treasury Committee. The Group policy is to fix a minimum of 50% of its estimated future interest rate exposures (excluding pensions) for a minimum period of 12 months forward. The Treasury Committee reviews this exposure monthly.

A hypothetical 1.0% increase in euro interest rates would reduce the market value of the Group's bond liabilities by £79.8m at 31 December 2020 (2019: £45.9m). The income statement impact is £nil as changes in interest rates do not change the expected cash flows on the bonds.

The Group had outstanding bond debt issues at 31 December 2020 with a market value of £1,537.3m (2019: £1,082.7m). This exceeds the book value of £1,487.8m (2019: £1,051.5m) as a result of reductions in interest rates in Europe. There are no circumstances where the Group would be obliged to pay the fair market value. The Group could however decide to redeem some or all of its bonds early and the fair market value is indicative of the price that would be required to do so.

In 2019, to manage its US dollar interest cost, the Group entered into a low volatility Synthetic Borrowing Unit (SBU) instrument for $335m that yielded 1.90%. The SBU instrument effectively hedged the £/$ movement but at a lower cost of debt. Due to a reduction in US base rate a decision was made to trade out of the SBU in August 2020. The interest benefit generated by the SBU for 2020 was £3.1m (2019: £3.6m).

### (d) Capital risk

The Group is committed to maintaining a debt/equity structure that allows continued access to a broad range of financing sources and sufficient flexibility to pursue commercial opportunities as they present themselves, without onerous financing terms and conditions. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to support the Group's strategy. Capital consists of ordinary shares, retained earnings and non-controlling interests in the Group. Management monitors the return on capital as well as the level of dividends to ordinary shareholders.

### (e) Treasury risk

The Group's treasury activities are governed by a treasury policy, which is reviewed and approved by the Board on an annual basis. The treasury policy covers all activities associated with managing the above risks. The policy requires that financial instruments are only utilised to manage known financial exposures and speculative derivative contracts are not entered into. The treasury policy requires that treasury must approve opening and closing of all bank accounts, and that funds transfers and other payments are only made in accordance with bank mandates. To ensure an appropriate control environment exists in the treasury function, duties are segregated between front and back office teams. In addition a number of controls are in place to protect against potential cyber security and other risks.

## C2. Net debt

Closing net debt comprises:

| | Notes | 2020 £m | 2019[1] £m |
|---|---|---|---|
| **Current** | | | |
| Cash and cash equivalents in the Consolidated Balance Sheet | C3 | **2,225.6** | 1,169.2 |
| Other investments | C4 | **172.2** | 1.7 |
| Fair value of debt-related derivatives | | **1.9** | (0.3) |
| Bank and other short-term borrowings[2] | | **(1,846.6)** | (944.2) |
| Lease liabilities | B4 | **(72.7)** | (72.0) |
| **Non-current** | | | |
| Other investments | C4 | **–** | 0.1 |
| Fair value of debt-related derivatives | | **4.7** | (23.5) |
| Bank and other long-term borrowings[3] | | **(1,337.6)** | (1,059.3) |
| Lease liabilities | B4 | **(141.8)** | (144.7) |
| **Total net debt** | | **(994.3)** | (1,073.0) |

1. Both cash and cash equivalents in the consolidated balance sheet and bank and other short-term borrowings have been restated in 2019 to gross up the effects of overdrafts (£859.6m) and cash (£859.6m) (Note C3).
2. Bank and other short-term borrowings consists of £156.5m bond debt (2019: £nil), £1,674.8m overdraft (2019: £895.3m), £nil term loan (2019: £37.7m), £10.8m other overseas loans (2019: £6.4m) and £4.5m bond accruals (2019: £4.8m).
3. Bank and other long-term borrowings consists of £1,331.3m bond debt (2019: £1,051.5m) and £6.3m other overseas loans (2019: £7.8m).

The currency split and cash flows of bank, other borrowings and debt-related derivatives are as follows:

| | 2020 £m | 2019 £m |
|---|---|---|
| Pound sterling | **517.9** | 230.3 |
| Euro | **2,084.1** | 1,295.6 |
| US dollar | **530.7** | 450.8 |
| Other currencies | **44.9** | 50.6 |
| **Carrying value** | **3,177.6** | 2,027.3 |
| Interest | **57.5** | 33.6 |
| **Undiscounted value** | **3,235.1** | 2,060.9 |
| Analysis of undiscounted cash flows: | | |
| Less than one year | **1,846.8** | 955.9 |
| Between one and five years | **393.8** | 678.8 |
| Over five years | **994.5** | 426.2 |
| **Future minimum payments** | **3,235.1** | 2,060.9 |

Reconciliation of net change in cash and cash equivalents to net debt:

| | Notes | Opening 2020[1] £m | Cash flows £m | Non-cash (fair value changes) £m | Non-cash (foreign exchange and other) £m | Closing 2020 £m |
|---|---|---|---|---|---|---|
| Cash and cash equivalents in the Consolidated Balance Sheet | | **1,169.2** | **1,058.9** | **–** | **(2.5)** | **2,225.6** |
| Other investments – loans and receivables | | **1.8** | **170.5** | **–** | **(0.1)** | **172.2** |
| Fair value of debt-related derivatives | | **(23.8)** | **30.3** | **(39.7)** | **39.8** | **6.6** |
| Bank and other short-term borrowings | | **(944.2)** | **(565.3)** | **(21.1)** | **(316.0)** | **(1,846.6)** |
| Bank and other long-term borrowings | | **(1,059.3)** | **(537.7)** | **(1.3)** | **260.7** | **(1,337.6)** |
| Lease liabilities | B4 | **(216.7)** | **92.3** | **–** | **(90.1)** | **(214.5)** |
| **Net debt** | | **(1,073.0)** | **249.0** | **(62.1)** | **(108.2)** | **(994.3)** |

1. Both cash and cash equivalents in the consolidated balance sheet and bank and other short-term borrowings have been restated in 2019 to gross up the effects of overdrafts (£859.6m) and cash (£859.6m) (Note C3).

Foreign exchange loss on debt and derivatives amounted to £15.5m in 2020 (2019: gain of £69.7m). The loss primarily resulted from a strengthening of the euro by 6 cents offset by a weakening of the US dollar by 4 cents. Included within the net decrease in cash and cash equivalents is £4.2m cash received on debt-related foreign exchange forward contracts (2019: £11.7m), and £27.9m settlement paid on the SBU closed out in August 2020.

The total borrowings cash increase of £1,103.0m includes a £341.8m net bond and loans increase, and a £779.5m overdraft increase, offset by a £18.3m settlement of interest accrued.

Fair value is equal to carrying value for all elements of net debt with the exception of bond debt which has a carrying value of £1,487.8m (2019: £1,051.5m) and a fair value of £1,537.3m (2019: £1,082.7m).

## C3. Cash and cash equivalents

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

Cash at bank and in hand includes £6.7m (2019: £9.0m) of restricted cash. This cash is held in respect of specific contracts and can only be utilised in line with terms under the contractual arrangements.

Cash at bank and in hand also includes £51.0m (2019: £45.6m) of cash held in countries with foreign exchange regulations. This cash is repatriated to the UK where possible, if not required for operational purposes in country.

Fair value is equal to carrying value for all cash and cash equivalents.

The Group operates notional pooling arrangements whereby cash balances and overdrafts held within the same bank have a legal right of offset. However the Group did not net down the year end balances after the reporting date in the prior period and therefore has restated both the cash and cash equivalents in the Consolidated Balance Sheet and the bank and other short-term borrowings for 2019 to show these amounts gross. This £859.6m restatement has no effect on the profit or loss, net assets or the cash flow statement. These cash and bank overdraft figures are shown in the table below:

**Cash and cash equivalents**

| | Gross amounts £m |
|---|---|
| **At 31 December 2020** | |
| Cash at bank and in hand | **2,219.5** |
| Short-term bank deposits | **6.1** |
| Cash and cash equivalents in the Consolidated Balance Sheet | **2,225.6** |
| Bank overdraft | **(1,674.8)** |
| **Cash and cash equivalents in the Consolidated Cash Flow Statement** | **550.8** |
| At 31 December 2019 | |
| Cash at bank and in hand | 1,099.1 |
| Short-term bank deposits | 70.1 |
| Cash and cash equivalents in the Consolidated Balance Sheet | 1,169.2 |
| Bank overdraft | (895.3) |
| **Cash and cash equivalents in the Consolidated Cash Flow Statement** | 273.9 |

Credit interest rates on bank balances range between 0.07% and 6.25% and debit interest rates range between (2.725)% and 9.25%.

As far as it is practical to do so, cash balances are held centrally and are used first to repay borrowings under the Group's RCF before being placed on deposit.

## C4. Other investments

Other investments held at year end mainly comprised term deposits maturing in more than three months from the date that the deposit was placed. The weighted average effective interest rate earned is 0.2% (2019: 0.9%) with £170.6m fixed for six months and the remaining balance fixed for one year (2019: one year). Fair value is equal to carrying value for all other investments.

Financial assets are denominated in the following currencies:

| | **2020 £m** | 2019 £m |
|---|---|---|
| Pound sterling | **172.2** | 1.6 |
| Other[1] | **0.2** | 0.4 |
| | **172.4** | 2.0 |
| Analysed as follows: | | |
| Current portion | **172.2** | 1.7 |
| Non-current portion[1] | **0.2** | 0.3 |
| | **172.4** | 2.0 |

1. Includes a direct investment of £0.2m (2019: £0.2m) in a solar energy company in the US. This investment is classified as available for sale.

In October 2020 the Group issued a €600m bond which would in part be used to repay the €350m bond that matures in October 2021. Following a successful tender offer €175m of the bond was repaid early. Part of the proceeds (£172.2m) were swapped into sterling and deposited. On maturity in July 2021 the funds will be converted back to euros and will be used to repay the remaining €175m outstanding under the €350m bond using the three months at par call option.

None of the financial assets are either past due or impaired in 2020.

## C5. Derivative financial instruments

**Accounting for derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values of hedged items.

Certain financial instruments are not designated or do not qualify for hedge accounting. Typically the Group will not designate financial instruments for hedge accounting where a perfect or near perfect offset is expected between the change in value of assets and liabilities. Changes in the fair value of any derivative instruments in this category are immediately recognised in the income statement. Where financial instruments are designated for hedge accounting they are designated as either fair value hedge, net investment hedge or cash flow hedge. When designating cross-currency swaps, the cost of hedging has been excluded from the relationship and any movement in the fair value related to the cost of hedging is deferred in equity and amortised over the life of the hedged item.

**(a) Fair value hedge**

These instruments are used to hedge exposure to changes in the fair value of recognised assets or liabilities. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

**(b) Net investment hedge**

These instruments are used to hedge exposure on translation of net investments in foreign operations. Any gain or loss on the hedging instrument related to the effective portion of the hedge is recognised in other comprehensive income; the gain or loss related to the ineffective portion is recognised immediately in the income statement. In the event of disposal of a foreign operation, the gains and losses accumulated in other comprehensive income are recycled through the income statement. All currencies were directly hedged therefore the hedge ratio is considered to be 1:1.

**(c) Cash flow hedge**

These instruments are used to hedge a highly probable forecast transaction or a change in the cash flows of a recognised asset or liability. The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. Any ineffective portion is immediately recognised in the income statement. The gains or losses that are recognised in comprehensive income are transferred to the income statement in the same period in which the hedged cash flows affect the income statement. In the event that the hedged item occurs or is no longer expected to occur, accumulated gains or losses held in the cash flow hedge reserve are immediately recognised in the income statement. In the event that the hedged item is expected to occur but no longer meets the requirements of hedge accounting, accumulated gains or losses remain in other comprehensive income and are only recognised in the income statement when the forecast transaction occurs or is no longer expected to occur. All cash flow hedge relationships are hedges of a foreign currency risk and all currencies were directly hedged therefore the hedge ratio is considered to be 1:1.

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge' in the table on page 180) in accordance with IFRS 9. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedge is taken directly to finance costs. During the year there was a gain of £0.7m (2019: £1.0m) relating to ineffectiveness of net investment in foreign entity hedges and a loss of £(0.7)m (2019: £(0.1)m) from those derivatives in a cash flow hedge relationship. The main source of ineffectiveness of the net investment hedge is the off-market value of the derivatives hedging the €400m bond maturing in 2024 at the inception of the hedge relationship. Cash flow hedge accounting has been applied to €340.0m of the €400m 2024 bond and €179.4m of the €500m 2026 bond, hedging the changes in cash flow due to volatility in the £/€ exchange rate. Cash flow hedge accounting was also applied to the floating interest of the $50m term loan that has been swapped to a fixed rate. The term loan matured in June 2020. As at 31 December 2020, the amount in comprehensive income related to cash flow hedge accounting was a loss of £4.9m (2019: £0.5m loss).

**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; and
**Level 3** – inputs for the asset or liability that are not based on observable market data. Fair value was equal to carrying value for all instruments at level 3.

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

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

| | **Fair value assets 2020 £m** | **Fair value liabilities 2020 £m** | Fair value assets 2019 £m | Fair value liabilities 2019 £m |
|---|---|---|---|---|
| **Interest rate swaps (level 2):** | | | | |
| – non-hedge | **–** | **(0.7)** | – | (3.1) |
| – cash flow hedge | **–** | **(8.3)** | 0.1 | (20.5) |
| – net investment hedge | **37.0** | **(23.3)** | 7.6 | (9.1) |
| **Foreign exchange swaps (level 2):** | | | | |
| – non-hedge | **4.2** | **(3.5)** | 0.1 | (0.1) |
| – net investment hedge | **1.2** | **–** | – | – |
| **Metal hedging option (level 1):** | | | | |
| – non-hedge | **0.2** | **–** | – | – |
| | **42.6** | **(35.8)** | 7.8 | (32.8) |
| Analysed as follows: | | | | |
| Current portion | **5.6** | **(3.5)** | 0.2 | (0.5) |
| Non-current portion | **37.0** | **(32.3)** | 7.6 | (32.3) |
| | **42.6** | **(35.8)** | 7.8 | (32.8) |

The effective nominal value of foreign exchange swaps is £192.6m (2019: £19.4m) and foreign exchange forwards is £nil (2019: £nil).

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis, into relevant maturity groupings based on the remaining period to the contractual maturity date at the balance sheet date.

| | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m | Total £m |
|---|---|---|---|---|---|
| **At 31 December 2020** | | | | | |
| **Cross-currency interest rate swaps:** | | | | | |
| – outflow | **(13.2)** | **(20.7)** | **(322.6)** | **(148.4)** | **(504.9)** |
| – inflow | **4.3** | **11.6** | **313.7** | **161.7** | **491.3** |
| **Foreign exchange swaps:** | | | | | |
| – outflow | **(619.9)** | **–** | **–** | **–** | **(619.9)** |
| – inflow | **619.4** | **–** | **–** | **–** | **619.4** |
| **Net inflow/(outflow)** | **(9.4)** | **(9.1)** | **(8.9)** | **13.3** | **(14.1)** |
| At 31 December 2019 | | | | | |
| **Cross-currency interest rate swaps:** | | | | | |
| – outflow | (20.0) | (11.7) | (337.6) | (59.2) | (428.5) |
| – inflow | 11.1 | 3.2 | 297.0 | 58.2 | 369.5 |
| **Foreign exchange swaps:** | | | | | |
| – outflow | (17.1) | – | – | – | (17.1) |
| – inflow | 17.1 | – | – | – | 17.1 |
| **Net outflow** | (8.9) | (8.5) | (40.6) | (1.0) | (59.0) |

## C6. Analysis of bank and bond debt

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

The Group's bank debt comprises:

| | Facility amount £m | Drawn at year end £m | Headroom £m | Interest rate at year end % |
|---|---|---|---|---|
| **Non-current** | | | | |
| £550m RCF due August 2025 | 550.0 | – | 550.0 | 0.14 |

In August 2020 the Group extended its RCF until August 2025 with a one-year extension option. At the year end the RCF was undrawn.

Medium-term notes and bond debt comprises:

| | Bond interest coupon | Effective hedged interest rate |
|---|---|---|
| **Current** | | |
| €175m bond due October 2021 | Fixed 3.25% | Fixed 3.41% |
| **Non-current** | | |
| €400m bond due November 2024 | Fixed 0.95% | Fixed 2.31% |
| €500m bond due May 2026 | Fixed 0.875% | Fixed 1.40% |
| €600m bond due October 2028 | Fixed 0.50% | Fixed 0.58% |
| **Average cost of bond debt at year-end rates** | | 1.72% |

The effective hedged interest rate reflects the interest rate payable after the impact of interest due from currency swaps. The Group's hedging strategy is to hold foreign currency debt in proportion to foreign currency profit and cash flows, which are mainly in euro and US dollar. As a result, the Group has swapped a portion of the bonds it has issued into US dollars, thus increasing the effective hedged interest rate.

In November, following a successful tender offer, the Group repaid 49.8% of the €350m bond that is due in October 2021. The bond has a three months at par call option, which means that the bond can be repaid on 7 July 2021 without additional premium. In October 2020, the Group issued a new €600m eight-year bond with a coupon of 0.50% under its EMTN Programme.

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

## C7. Finance cost

| | Notes | 2020 £m | 2019 £m |
|---|---|---|---|
| Hedged interest payable on medium-term notes issued[1] | | **15.6** | 23.8 |
| Interest payable on bank loans and overdrafts[1] | | **3.0** | 2.7 |
| Interest payable on RCF[1] | | **5.4** | 3.6 |
| Interest payable on foreign exchange swaps | | **13.8** | 16.1 |
| Interest payable on leases | B4 | **6.8** | 8.1 |
| Amortisation of discount on provisions | | **0.3** | 0.2 |
| Fair value loss on hedge ineffectiveness[2] | | **3.6** | – |
| Fair value adjustment on debt repayment | | **4.1** | – |
| Fair value loss on other derivatives[3] | | **25.9** | 2.3 |
| **Total finance cost** | | **78.5** | 56.8 |

1. Interest expense on financial liabilities held at amortised cost.
2. Fair value loss on hedge ineffectiveness includes £7.6m foreign exchange loss on euro bonds not reclassified to reserves due to book value of the euro subsidiaries' net assets being lower than the designated bond liability (2019: £3.1m loss). The fair value gain on hedge ineffectiveness also includes £4.0m of interest on the net investment hedge accounting of the €400m bond hedge reported in the interest payable of foreign exchange (2019: £4.1m).
3. Fair value loss on other derivatives relates to $335m SBU entered into since February 2019 ($170m in February 2019 and $165m in July 2019) which did not qualify for hedge accounting. The instrument provided an annual interest benefit of 1.9% of the outstanding principal and was closed out in August 2020 with a full year loss of £26.2m excluding interest accrued.

## C8. Finance income

| | Notes | 2020 £m | 2019 £m |
|---|---|---|---|
| Bank interest | | **2.3** | 4.1 |
| Interest receivable on foreign exchange swaps | | **3.4** | 5.1 |
| Fair value gain on hedge ineffectiveness | | **–** | 0.8 |
| Interest on net defined benefit asset | A10 | **0.5** | 0.7 |
| **Total finance income** | | **6.2** | 10.7 |

## C9. Operating cash and Free Cash Flow

| | 2020 £m | 2019 £m |
|---|---|---|
| Operating profit | **293.7** | 369.4 |
| **Adjustments for:** | | |
| – Depreciation of property, plant and equipment | **132.3** | 127.3 |
| – Depreciation of leased assets | **78.0** | 78.9 |
| – Amortisation and impairment of intangible assets (excluding computer software) | **82.5** | 85.2 |
| – Amortisation and impairment of computer software | **18.5** | 13.6 |
| – Other non-cash items | **(0.5)** | (4.3) |
| – Net gain on disposals | **–** | (103.8) |
| **Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):** | | |
| – Inventories | **(23.3)** | (3.6) |
| – Contract costs | **(1.9)** | (6.3) |
| – Trade and other receivables | **(22.5)** | (32.4) |
| – Contract assets | **2.4** | (5.8) |
| – Trade and other payables and provisions | **78.2** | 20.2 |
| – Contract liabilities | **12.7** | 16.9 |
| Cash generated from operating activities before special pension contributions | **650.1** | 555.3 |
| Special pension contributions | **(0.5)** | (1.1) |
| **Cash generated from operating activities** | **649.6** | 554.2 |
| Add back: special pension contributions | **0.5** | 1.1 |
| Purchase of property, plant and equipment | **(129.9)** | (140.1) |
| Purchase of intangible fixed assets | **(22.6)** | (30.8) |
| Additions of ROU assets | **(75.4)** | (74.9) |
| Disposals of ROU assets | **2.5** | – |
| Proceeds from sale of property, plant and equipment | **6.3** | 3.2 |
| Dividends received from associates | **11.7** | 30.4 |
| | **442.7** | 343.1 |
| Interest received | **7.6** | 10.8 |
| Interest paid | **(48.6)** | (58.9) |
| Income tax paid | **(64.4)** | (43.2) |
| Special pension contributions | **(0.5)** | (1.1) |
| **Free Cash Flow from continuing operations** | **336.8** | 250.7 |

# D. Other

## D1. Dividends

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

| | **2020 £m** | 2019 £m |
|---|---|---|
| 2018 final dividend paid – 3.16p per share | **–** | 58.1 |
| 2019 interim dividend paid – 1.51p per share | **–** | 27.7 |
| | **–** | 85.8 |

No interim dividend was declared for 2020 due to temporary suspension of the progressive dividend policy as a result of the global COVID-19 pandemic. A final dividend in respect of 2020 of 5.41p per share, amounting to £100.3m, is to be proposed at the Annual General Meeting on 12 May 2021. These Financial Statements do not reflect this recommended dividend.

## D2. Share capital

The Company's share capital is made up of the shares that have been issued to its members, whether on, or subsequent to, its incorporation. At the year end the Company's issued share capital consisted of ordinary shares of 1p each, with one voting right per share, as detailed below.

During the year five million new shares were issued in relation to employee share schemes. The Company does not hold any shares in treasury.

| | **2020 £m** | 2019 £m |
|---|---|---|
| **Issued and fully paid** | | |
| At 31 December – 1,854,332,965 shares (2019: 1,849,332,965) | **18.5** | 18.5 |

## D3. Contingent liabilities

The Group has contingent liabilities relating to guarantees in respect of leasehold properties, pensions, third parties, environmental issues, tax and litigation. The possibility of any significant outflows in respect of these items is considered to be remote.

## D4. Related party transactions

**Subsidiaries**
Related party transactions and outstanding balances between subsidiaries within the Group are eliminated in the preparation of the Consolidated Financial Statements and accordingly are not disclosed in this note.

**Key management personnel**
The Group's strategy and policy are managed by the Executive Leadership Board (Executive Directors and senior management as shown on pages 78 to 81). Their compensation and the compensation payable to the Non-Executive Directors is shown below:

| | **2020 £m** | 2019 £m |
|---|---|---|
| Salaries and other short-term employee benefits | **8.2** | 7.0 |
| Post-employment benefits | **0.3** | 0.3 |
| Share-based payments | **1.7** | 1.7 |
| | **10.2** | 9.0 |

**Joint ventures and associate entities**
The Group operates in a number of joint ventures which the Group controls and includes in its Consolidated Financial Statements. All transactions between these entities and the Group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation. Nippon Calmic Ltd (49%) was an associate during 2019 and 2020 and its balances are disclosed in Note B6. There are no significant transactions between Nippon Calmic Ltd and other Group companies.

**Pension scheme**
The Group bears some costs of administration and independent pension advice of the Rentokil Initial 2015 Pension Scheme. The total amount of costs in the year ended 31 December 2020 was £0.2m (2019: £0.3m) of which £0.2m (2019: £0.3m) was recharged to the Scheme. At 31 December 2020, £nil (2019: £0.1m) remained outstanding.

## D5. Government grants

During 2020, in response to the global COVID-19 pandemic there were a number of government schemes made available providing wage subsidies for companies that had to shut or scale down operations. The government schemes have different conditions attached to them depending on the country in which they are available. The Group presents the grants by deducting from the related expense, which in this case is the employee benefit expense. The Group received a total wage subsidy of £14.2m in 2020 (2019: £nil).

## D6. Post balance sheet events

There were no significant post balance sheet events affecting the Group since 31 December 2020.

## E. Alternative Performance 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 currency of the Group). In order to help understand the underlying trading performance of the business, revenue and profit measures are often presented at CER. CER is calculated by translating current year reported numbers at the full year average exchange rates for the prior year, in order to give management and other users of the accounts better visibility of underlying trading performance against the prior period. The major exchange rates used are £/$ FY 2020 1.2951 (FY 2019 1.2790) and £/€ FY 2020 1.1315 (FY 2019 1.1419). Comparisons are with the year ended 31 December 2019 unless otherwise stated.

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

Ongoing measures enable the users of the accounts to focus on the performance of the businesses retained by the Group and that will therefore contribute to future performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. A reconciliation of Ongoing Revenue and Ongoing Operating Profit measures to the equivalent GAAP measure is provided in the following table and in the segmental analysis in Note A1.

**Adjusted profit and earnings per share measures**
Adjusted profit measures are used to give management and other users of the accounts a clear understanding of the underlying profitability of the business over time. Adjusted profit measures are calculated by adding the following items back to the equivalent GAAP profit measure:

- amortisation and impairment of intangible assets (excluding computer software);
- one-off items (operating and associates); and
- net interest adjustments.

Intangible assets (excluding computer software) are recognised on 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 understanding the underlying trading performance of the business and to allow comparability across regions and categories.

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

Other non-cash gains and losses that can cause material fluctuations and distort understanding of the performance of the business are net interest on pension schemes, interest fair value adjustments and the excess IFRS 16 interest above the operating profit benefit reported in the year. These adjustments are made to aid year-on-year comparability.

Adjusted earnings per share is calculated by dividing adjusted profit from continuing operations attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. Note A2 shows the adjustments made in arriving at adjusted profit from continuing operations attributable to equity holders of the Company.

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

| | 2020 AER £m | 2020 CER £m | 2019 £m | % change AER | % change CER |
|---|---|---|---|---|---|
| Ongoing Revenue | **2,809.6** | **2,845.6** | 2,676.2 | 5.0% | 6.3% |
| Revenue – disposed and closed businesses[1] | **13.9** | **13.9** | 38.2 | (63.5%) | (63.7%) |
| **Revenue** | **2,823.5** | **2,859.5** | 2,714.4 | 4.0% | 5.3% |
| Ongoing Operating Profit | **383.8** | **388.1** | 368.1 | 4.3% | 5.4% |
| Operating Profit – disposed and closed businesses | **0.2** | **0.2** | (2.7) | 107.1% | 106.9% |
| **Adjusted operating profit** | **384.0** | **388.3** | 365.4 | 5.1% | 6.3% |
| One-off items – operating | **(7.7)** | **(7.7)** | (14.6) | 47.5% | 47.5% |
| Amortisation and impairment of intangible assets[2] | **(82.5)** | **(85.3)** | (85.2) | 3.2% | 0.0% |
| **Operating profit** | **293.8** | **295.3** | 265.6 | 10.6% | 11.2% |
| Net gain on disposals | **–** | **–** | 103.8 | (100.0%) | (100.0%) |
| Share of profit from associates (net of tax) | **8.3** | **8.2** | 15.2 | (45.6%) | (46.2%) |
| Net adjusted interest payable | **(37.1)** | **(37.3)** | (42.1) | 11.9% | 11.4% |
| Net interest adjustments | **(35.2)** | **(35.6)** | (4.0) | (785.5%) | (795.2%) |
| **Profit before tax** | **229.8** | **230.6** | 338.5 | (32.1%) | (31.9%) |
| Net interest adjustments | **35.2** | **35.6** | 4.0 | 785.5% | 795.2% |
| One-off items – operating | **7.7** | **7.7** | 14.6 | (47.5%) | (47.5%) |
| One-off items – associates[3] | **–** | **–** | 2.4 | (100.0%) | (100.0%) |
| Net gain on disposals | **–** | **–** | (103.8) | 100.0% | 100.0% |
| Amortisation and impairment of intangible assets[2] | **82.5** | **85.3** | 85.2 | (3.2%) | (0.0%) |
| **Adjusted Profit Before Tax** | **355.2** | **359.2** | 340.9 | 4.2% | 5.3% |
| Basic earnings per share | **10.03p** | **10.07p** | 15.33p | (34.6%) | (34.3%) |
| Basic adjusted earnings per share | **15.37p** | **15.56p** | 14.43p | 6.5% | 7.8% |

1. Includes revenue of £7.1m (2019: £10.7m) from product sales by the Group to CWS-boco International GmbH.
2. Excluding computer software.
3. Rentokil Initial Group's post-tax share of one-off items and amortisation of intangibles of the CWS-boco International GmbH associated undertaking.

**Regional analysis**

| | Ongoing Revenue 2020 AER £m | Ongoing Revenue 2020 CER £m | Change from FY 2019 AER % | Change from FY 2019 CER % | Ongoing Operating Profit 2020 AER £m | Ongoing Operating Profit 2020 CER £m | Change from FY 2019 AER % | Change from FY 2019 CER % |
|---|---|---|---|---|---|---|---|---|
| France | **303.2** | **300.4** | (2.3) | (3.2) | **33.7** | **33.4** | (26.8) | (27.5) |
| Benelux | **96.7** | **95.8** | 1.4 | 0.5 | **27.9** | **27.6** | (0.2) | (1.1) |
| Germany | **120.6** | **119.0** | 12.1 | 10.7 | **42.1** | **41.5** | 26.3 | 24.5 |
| Southern Europe | **143.0** | **141.7** | 6.3 | 5.3 | **21.8** | **21.6** | (1.7) | (2.6) |
| Latin America | **57.7** | **66.5** | (0.1) | 15.2 | **5.5** | **6.3** | (16.8) | (4.2) |
| **Total Europe** | **721.2** | **723.4** | 2.2 | 2.5 | **131.0** | **130.4** | (3.7) | (4.1) |
| UK & Ireland | **287.5** | **287.3** | (5.9) | (6.0) | **50.1** | **49.6** | (23.7) | (24.5) |
| Rest of World | **157.3** | **164.9** | 0.4 | 5.3 | **33.7** | **35.3** | (5.4) | (1.0) |
| **UK & Rest of World** | **444.8** | **452.2** | (3.8) | (2.2) | **83.8** | **84.9** | (17.3) | (16.2) |
| **Asia** | **242.0** | **249.2** | 0.8 | 3.7 | **26.9** | **27.4** | 7.9 | 10.1 |
| **North America** | **1,224.1** | **1,239.8** | 13.1 | 14.5 | **211.9** | **214.6** | 38.1 | 39.9 |
| **Pacific** | **177.5** | **181.0** | (4.5) | (2.6) | **34.5** | **35.2** | (10.5) | (8.7) |
| **Central and regional overheads** | **–** | **–** | – | – | **(91.1)** | **(91.1)** | (16.0) | (16.0) |
| **Restructuring costs** | **–** | **–** | – | – | **(13.2)** | **(13.3)** | (72.5) | (74.4) |
| **Ongoing operations** | **2,809.6** | **2,845.6** | 5.0 | 6.3 | **383.8** | **388.1** | 4.3 | 5.4 |
| Disposed businesses | **13.9** | **13.9** | (63.5) | (63.7) | **0.2** | **0.2** | 107.1 | 106.9 |
| **Continuing operations** | **2,823.5** | **2,859.5** | 4.0 | 5.3 | **384.0** | **388.3** | 5.1 | 6.3 |

# Notes to the Financial Statements
continued

### Category analysis

| | Ongoing Revenue 2020 | | Change from FY 2019 | | Ongoing Operating Profit 2020 | | Change from FY 2019 | |
|---|---|---|---|---|---|---|---|---|
| | AER £m | CER £m | AER % | CER % | AER £m | CER £m | AER % | CER % |
| Pest Control | 1,724.1 | 1,751.7 | (0.6) | 1.0 | 281.7 | 283.7 | (9.2) | (8.5) |
| – Growth | 1,492.2 | 1,506.6 | 0.6 | 1.6 | 257.5 | 259.1 | (6.6) | (6.0) |
| – Emerging | 231.9 | 245.1 | (7.6) | (2.4) | 24.2 | 24.6 | (29.5) | (28.4) |
| Hygiene | 735.0 | 743.8 | 35.2 | 36.8 | 172.8 | 175.5 | 78.5 | 81.4 |
| – Core Hygiene | 513.6 | 518.7 | (5.5) | (4.6) | | | | |
| – Disinfection[1] | 221.4 | 225.1 | – | – | | | | |
| Protect & Enhance | 350.5 | 350.1 | (11.9) | (12.0) | 33.6 | 33.3 | (29.1) | (29.7) |
| Central and regional overheads | – | – | – | – | (91.1) | (91.1) | (16.0) | (16.0) |
| Restructuring costs | – | – | – | – | (13.2) | (13.3) | (72.5) | (74.4) |
| **Ongoing operations** | 2,809.6 | 2,845.6 | 5.0 | 6.3 | 383.8 | 388.1 | 4.3 | 5.4 |
| Disposed businesses | 13.9 | 13.9 | (63.5) | (63.7) | 0.2 | 0.2 | 107.1 | 106.9 |
| **Continuing operations** | 2,823.5 | 2,859.5 | 4.0 | 5.3 | 384.0 | 388.3 | 5.1 | 6.3 |

1. Sales of disinfection in 2019 were immaterial.

### Operating Margin

Operating Margin is calculated by dividing Ongoing Operating Profit by Ongoing Revenue, expressed as a percentage. Net Operating Margin by region and category is shown in the tables below (on a trailing 12-month basis):

| | 2020 % | 2019 % | Variance % points |
|---|---|---|---|
| France | 11.1 | 14.8 | (3.7) |
| Benelux | 28.8 | 29.3 | (0.5) |
| Germany | 34.9 | 31.0 | 3.9 |
| Southern Europe | 15.3 | 16.5 | (1.2) |
| Latin America | 9.4 | 11.4 | (2.0) |
| **Total Europe** | 18.0 | 19.3 | (1.3) |
| UK & Ireland | 17.2 | 21.5 | (4.3) |
| Rest of World | 21.4 | 22.8 | (1.4) |
| **UK & Rest of World** | 18.8 | 21.9 | (3.1) |
| **Asia** | 11.0 | 10.4 | 0.6 |
| **North America** | 17.3 | 14.2 | 3.1 |
| **Pacific** | 19.5 | 20.8 | (1.3) |
| **Ongoing operations[1]** | 13.6 | 13.8 | (0.2) |
| Disposed businesses | 1.3 | (7.0) | 8.3 |
| **Continuing operations[1]** | 13.6 | 13.5 | 0.1 |

| | 2020 % | 2019 % | Variance % points |
|---|---|---|---|
| Pest Control | 16.2 | 17.9 | (1.7) |
| – Growth | 17.2 | 18.6 | (1.4) |
| – Emerging | 10.0 | 13.7 | (3.7) |
| Hygiene | 23.6 | 17.8 | 5.8 |
| Protect & Enhance | 9.5 | 11.9 | (2.4) |
| **Ongoing operations[1]** | 13.6 | 13.8 | (0.2) |
| Disposed businesses | 1.3 | (7.0) | 8.3 |
| **Continuing operations[1]** | 13.6 | 13.5 | 0.1 |

1. 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:

| | 2020 AER £m | 2019 AER £m |
|---|---|---|
| Net cash from operating activities | 544.2 | 462.9 |
| Purchase of property, plant, equipment and intangible fixed assets | (152.5) | (170.9) |
| Additions of ROU assets | (75.4) | (74.9) |
| Disposals of ROU assets | 2.5 | – |
| Proceeds from sale of property, plant, equipment and software | 6.3 | 3.2 |
| Dividends received from associates | 11.7 | 30.4 |
| **Free Cash Flow** | 336.8 | 250.7 |

**Free Cash Flow conversion**

Free Cash Flow conversion is calculated by dividing Adjusted Free Cash Flow by Adjusted Profit from continuing operations attributable to equity holders of the Company, expressed as a percentage. Adjusted Free Cash Flow is measured as Free Cash Flow adjusted for one-off items – operating and product development additions.

| | 2020 AER £m | 2019 AER £m |
|---|---|---|
| Adjusted profit after tax from continuing operations attributable to equity holders of the Company | 284.9 | 266.8 |
| Share of profit of CWS-boco International GmbH associate (net of tax) | – | (7.0) |
| One-off items – associates | – | (2.4) |
| | 284.9 | 257.4 |
| Free Cash Flow from continuing operations | 336.8 | 250.7 |
| Dividend received from CWS-boco International GmbH | – | (26.4) |
| One-off items – operating[1] | 6.7 | 23.9 |
| Product development additions | 5.7 | 5.6 |
| **Adjusted Free Cash Flow** | 349.2 | 253.8 |
| **Free Cash Flow conversion** | 122.6% | 98.6% |

1. A breakdown of one-off items – operating is shown in Note A1. Excludes £4.4m related to gain on sale and leaseback which is already included in Free Cash Flow from continuing operations.

**Effective Tax Rate**

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

| | Notes | 2020 AER £m | 2020 CER £m | 2019 £m |
|---|---|---|---|---|
| Unadjusted income tax expense | A12 | 43.5 | 43.7 | 54.7 |
| **Tax adjustments on:** | | | | |
| Amortisation and impairment of intangible assets (excluding computer software) | | 17.5 | 17.9 | 19.6 |
| One-off items – operating | | 2.4 | 2.2 | (1.1) |
| Net interest adjustments | | 6.5 | 6.6 | 0.6 |
| **Adjusted income tax expense (a)** | | 69.9 | 70.4 | 73.8 |
| Adjusted profit before income tax (b) | | 355.2 | 359.2 | 340.9 |
| **Effective Tax Rate (a/b)** | | 19.7% | 19.6% | 21.6% |

# Related Undertakings

Subsidiaries and other associated undertakings at 31 December 2020

Subsidiaries:

| Company name | Share class | % held by Group companies |
|---|---|---|
| **Australia** | | |
| Unit A1, Lidcombe Business Park, 3-29 Birnie Avenue 2141 Australia | | |
| Cannon Hygiene Australia Pty Limited | Ordinary | 100% |
| Green Fingers Plant Hire Pty Limited | Ordinary | 100% |
| Knock Out Pest Control Pty Limited | Ordinary | 100% |
| Pest Away Australia Pty Limited | Ordinary | 100% |
| Rentokil Australia Pty Limited | Ordinary | 100% |
| Rentokil Initial Asia Pacific Pty Limited | Ordinary | 100% |
| Rentokil Initial Pty Limited | Ordinary | 100% |
| Rentokil Pest Control (QLD) Pty Limited | Ordinary | 100% |
| Rentokil Pest Holdings Pty Limited | Ordinary | 100% |
| Rentokil Pty Limited | Ordinary | 100% |
| | Preference | 100% |
| **Austria** | | |
| Brown-Boveri-Straße 8/2/8, 2351, Wiener Neudorf, Austria | | |
| Rentokil Initial GmbH | Ordinary | 100% |
| **Bahamas** | | |
| Corporate Services International, 308 East Bay Street, Nassau, PO Box N-7527, Bahamas | | |
| Rentokil Initial (Bahamas) Limited | Ordinary | 100% |
| 5th Terrace Centreville, PO Box N-1388 Nassau, New Providence, Bahamas | | |
| Tropical Exterminators Limited | Common | 100% |
| Tropical Exterminators (Holdings) Limited | Common | 100% |
| **Barbados** | | |
| One Welches, Welches St. Thomas, Barbados | | |
| Rentokil Initial (Barbados) Limited | Ordinary | 100% |
| **Belgium** | | |
| Ingberthoeveweg, 17, Aartselaar 2630, Belgium | | |
| Ambius N.V. | Ordinary | 100% |
| Rentokil N.V. | Ordinary | 100% |
| **Brazil** | | |
| Estrado de Gabinal, 957, Bairro da Freguesia Rio de Janeiro, CEP 22760-151, Brazil | | |
| Asa Rio Saneamento Ambiental Limitada | Ordinary | 100% |
| Avenida Ceci 348 Predio Anexo, Tamboré, São Paulo, Brazil | | |
| Asseio Saneamento Ambiental Limitada | Ordinary | 100% |
| Rua Professor José Vieira de Mendonça, 770 Sala 308, Belo Horizonte, Estado de Minas Gerais, Brazil | | |
| Ecovec Comércio e Licenciamento de Tecnologias ltda | Ordinary | 100% |
| Rua Marques Amorim, 99, Boa Vista, Pernambuco, Recife, CEP 50070-355, Brazil | | |
| F Genes & Cia Limitada | Ordinary | 100% |
| SHC/Norte, Comercio Local, Quadra 115, Bloco A, Loja 45 S Subsolo 49 S, Asa Norte, Brazil | | |
| MP – Saneamento Ambiental Limitada | Ordinary | 100% |
| Rua Vitor Valpirio, 789 Bairro Anchieta, Porto Alegre, Rio Grande Do Sul, CEP 90200-230, Brazil | | |
| Multicontrole Controle De Pragas E Servicos Ltda | Ordinary | 100% |

| Company name | Share class | % held by Group companies |
|---|---|---|
| **Brunei** | | |
| Unit D1 & D1-1 Block D, Bangunan Hj Lajim & Anak-anak, Kg Kiarong Bandar Seri Begawan Brunei Darussalam, BE1318, Brunei Darussalam | | |
| Rentokil Initial (B) Sdn Bhd | Ordinary | 90% |
| **Canada** | | |
| 3325 North Service Road, Burlington, ON L7N 3G2, Canada | | |
| Direct Line Sales Limited | Class A | 100% |
| | Class B | 100% |
| 8699 Escarpment Way, Milton, ON L9T 0J5, Canada | | |
| Residex Canada Inc. | Common | 100% |
| Suite 900, 1959 Upper Water Street, Halifax, NS B3J 2X2, Canada | | |
| Rentokil Canada Corporation | Class A | 100% |
| | Class B | 100% |
| **Chile** | | |
| Galvarino 8481, Bodega 3, Quilicura, Santiago, Chile | | |
| Comercializadora de Insumos y Servicios Mauco Limitada | Social Rights | 100% |
| El Trapiche No.1322, Galpón No 4, Codominio Pacific, Coquimbo, Chile | | |
| Control de Plagas Hidalgo Y Rodriguez Limitada | Ordinary | 100% |
| Lote Numero 1, Cancha de Rescoldo, Sagrada Familia, Curico, Chile | | |
| Fumigaciones del Maule Limitada | Social Rights | 100% |
| El Salto 4001, piso 9, Huechuraba, Santiago, Chile | | |
| Comercial e Industrial Premasec Limitada | Social Rights | 100% |
| Ingeclean S.A | Ordinary | 100% |
| Ingeniería en Sanitización S.A | Ordinary | 100% |
| Rentokil Initial Chile SpA | Ordinary | 100% |
| Sociedad Comercial Cleantech SpA | Ordinary | 100% |
| **Colombia** | | |
| Calle 33, No 56 36 Bello, Antioquia, Colombia | | |
| Fumigax SAS | Ordinary | 100% |
| Calle 93# 11A – 28 office 303, Bogotá, Colombia | | |
| Rentokil Initial Colombia SAS | Common | 100% |
| Calle 169 # 19 A 26, Bogotá, Colombia | | |
| Vida Fresh Limitada | Ordinary | 100% |
| Calle 73 No 69 K 36, Colombia | | |
| Excel Gestion Ambiental SAS | Ordinary | 100% |
| Carrera 69A, No. 65-75, Bogota, Colombia | | |
| Representaciones Fumigamb SAS | Ordinary | 100% |
| **Costa Rica** | | |
| Avenida 18, calles 17 y 19, edificio 47, Barrio Luján, San José, Costa Rica | | |
| Fumigadora Control Tecnico De Plagas S.A. | Common | 100% |
| **Curaçao** | | |
| Parke Comersial Korsau, A 24 Veeris, 102077, Curaçao | | |
| Chuchubi Pest Control N.V. | Ordinary | 100% |
| Dr. MJ Hugenhotz weg 25, Curaçao | | |
| Sanicare B.V. | Ordinary | 100% |

| Company name | Share class | % held by Group companies |
|---|---|---|
| **Czech Republic** | | |
| Praha 2, Vyšehradská 1349/2, Prague, PSČ 12800, Czech Republic | | |
| Rentokil Initial s.r.o. | Ordinary | 100% |
| **Denmark** | | |
| Paul Bergsøes Vej 22, 2600 Glostrup, Denmark | | |
| Rentokil Initial A/S | Ordinary | 100% |
| **Dominican Republic** | | |
| 1125 Berkshire Blvd, Suite 150, Reading, PA 19610, United States | | |
| Oliver Exterminating Dominicana Corp. | Common | 100% |
| **El Salvador** | | |
| Avenida Calzada Guarda Barranco Urbanizacion, Lomas de Altamira, #14 Pasaje Clarineros, Central America, El Salvador | | |
| Sagrip SA de C.V. | Ordinary | 100% |
| **Estonia** | | |
| Turi Str. 3/1, 11313, Tallinn, Estonia | | |
| Rentokil Oü | Ordinary | 100% |
| **Fiji** | | |
| Lot 15, Kaua Road, Laucala Beach Estate, Suva, Fiji Islands, Fiji | | |
| Rentokil Initial Limited | Ordinary | 100% |
| **Finland** | | |
| Valuraudankuja 3, 00700 Helsinki, Finland | | |
| Rentokil Initial Oy | Ordinary | 100% |
| **France** | | |
| 191 rue des Docks, 76120 Le Gran Quevilly, France | | |
| Agronet SAS | Ordinary | 100% |
| 6 Rue Livio, 67100 Strasbourg, France | | |
| CAFI SAS | Ordinary | 100% |
| CAWE FTB Group SAS | Ordinary | 100% |
| 13-27 avenue Jean Moulin, 93240 Stains, France | | |
| Ambius SAS | Ordinary | 100% |
| Rentokil Initial Environmental Services SAS | Ordinary | 100% |
| Rentokil Initial SAS | Ordinary | 100% |
| 145, rue de Billancourt, 92100 Boulogne Billancourt, France | | |
| Initial Hygiene Services | Ordinary | 100% |
| Initial SAS | Ordinary | 100% |
| Rentokil Initial Holdings (France) SA | Ordinary | 100% |
| SCI Gravigny | Ordinary | 100% |
| SCI Vargan | Ordinary | 100% |
| Z.A. des Quatre Chemins, BP 21, 95540 Mery-sur-Oise, France | | |
| Technivap SAS | Ordinary | 100% |
| **French Guiana** | | |
| PAE de Degrad des cannes, Remire-Montjoly, 97354, French Guiana | | |
| Rentokil Initial Guyane Sarl | Ordinary | 100% |

| Company name | Share class | % held by Group companies |
|---|---|---|
| **Germany** | | |
| An der Ziegelei, 47 27383, Scheeßel-Westerholz, Germany | | |
| S & A Service und Anwendungstechnik GmbH | Ordinary | 100% |
| S & A Vertriebs GmbH | Ordinary | 100% |
| Heuesch 1, 49808 Lingen (Ems), Germany | | |
| Mc Clean Küchenabluftservice GmbH | Ordinary | 100% |
| Rentokil Holdings GmbH | Ordinary | 100% |
| Rentokil Initial GmbH & Co. KG | Ordinary | 100% |
| Rentokil Initial Beteiligungs GmbH | Ordinary | 100% |
| Piderits Bleiche 11, 33689, Bielefeld, Germany | | |
| Medentex GmbH | Ordinary | 100% |
| Rentokil Dental GmbH | Ordinary | 100% |
| **Ghana** | | |
| 43 Cashew Road, Okpoi, Accra, Ghana | | |
| Rentokil Initial (Ghana) Limited | Ordinary | 100% |
| **Greece** | | |
| 7 Aristotelous Street, Tavros, Athens 177 78, Greece | | |
| Rentokil Initial Hellas EPE | Ordinary | 100% |
| **Guadeloupe** | | |
| 7 Allée des Papillon, Dothemare, 97139 Abymes, Guadeloupe | | |
| Rentokil Initial Guadeloupe Sarl | Ordinary | 100% |
| **Guatemala** | | |
| 9 Av. 39-97, Zona 8, Ciudad Guatemala, Guatemala | | |
| Servicios Agricolas Profesionales S.A. | Ordinary | 100% |
| **Guernsey** | | |
| PO Box 155, Mill Court, La Charroterie, St Peter Port, GY1 4ET, Guernsey | | |
| Felcourt Insurance Company Limited | Ordinary | 100% |
| **Guyana** | | |
| Lot 8, Charles and Drysdale Streets, Charlestown, Georgetown, Guyana | | |
| Rentokil Initial Guyana Limited | Ordinary | 100% |
| **Honduras** | | |
| Departamento de Cortes, San Pedro Sula, Honduras | | |
| Sagrip Honduras S.A. | Nominative | 100% |
| **Hong Kong** | | |
| 23/F Westin Centre, 26 Hung To Rd, Kwun Tong, Hong Kong | | |
| Rentokil Hong Kong Investment Limited | Ordinary | 100% |
| Rentokil Initial Hong Kong Limited | Ordinary | 100% |
| **India** | | |
| 2nd floor, Narayani, Ambabai Temple Compound, Aarey Road, Goregaon (West), Mumbai 400104, India | | |
| Rentokil Initial Hygiene India Private Limited | Ordinary | 100% |
| Villa No.3, Crescent Village, Candolim, Goa, 403515, India | | |
| PCI Pest Control Private Limited | Ordinary | 57% |
| Ground Floor, Gala No.4, Bldg No.18B, Sagedpool, Andheri Kurla Road, Andheri East, Mumbai, Maharashtra 400072, India | | |
| Corporate Millennium Hygiene Solutions Private Limited | Ordinary | 100% |

# Related Undertakings
continued

| Company name | Share class | % held by Group companies |
|---|---|---|
| **Indonesia** | | |
| South Quarter Tower B, Lantai 21, Unit E,F,G,H. Jl. R.A., Kartini Kav. 8, RT. 010/RW. 004 Kel. Cilandak Barat, Kec Cilandak, Jakarta Selatan, Indonesia | | |
| PT Calmic Indonesia | Common | 100% |
| PT Rentokil Indonesia | Common | 100% |
| Gedung JDC Lt.6, Jl. Gatot Subroto Kav. 53 Petamburan, Tanah Abang, Jakarta, Pusat, Indonesia | | |
| PT Wesen Indonesia | Ordinary | 100% |
| **Italy** | | |
| Via Laurentina, km. 26, 500 157 a/c 00071 Pomezia, Italy | | |
| Rentokil Initial Italia SpA | Ordinary | 100% |
| **Jamaica** | | |
| 8 Terrence Avenue, Kingston 10, Jamaica | | |
| Rentokil Initial (Jamaica) Limited | Ordinary | 100% |
| **Jordan** | | |
| Amman, Jabal AlHussien, Al Lud Str. 37 – 1st floor, Jordan | | |
| Arena Public Health Co. | Ordinary | 100% |
| **Kenya** | | |
| Unit 5 Sameer Industrial Park, Road C, Off Enterprise Road Industrial Area, Nairobi, Kenya | | |
| Rentokil Initial Kenya Limited | Ordinary | 100% |
| **Lesotho** | | |
| No 7 Arrival Centre, Kofi Annan Road, Maseru, Lesotho | | |
| Rentokil Initial (Pty) Limited | Ordinary | 100% |
| **Libya** | | |
| Janzour, Tripoli, Libya | | |
| Rentokil Delta Libya for Environmental Protection JSCO | Ordinary | 65% |
| **Lithuania** | | |
| A. Smetonos al. 67B, Kaunas 45309, Lithuania | | |
| UAB Dezinfa | Ordinary | 100% |
| **Luxembourg** | | |
| Rue de la Chapelle 47, 4967 Clemency, Luxembourg | | |
| R-Control Désinfections SA | Ordinary | 100% |
| Rentokil Luxembourg Sàrl | Ordinary | 100% |
| **Malawi** | | |
| Plot No. LE 377, Patridge Avenue, Limbe, PO Box 5135, Malawi | | |
| Rentokil Initial Limited | Ordinary | 100% |
| **Malaysia** | | |
| Level 8 Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, Petaling Jaya, 47301 Selangor Darul, Selangor, Malaysia | | |
| Rentokil Initial (M) Sdn Bhd | Ordinary | 100% |
| UFTC Sdn Bhd | Ordinary | 100% |
| **Martinique** | | |
| Soudon, Le Lamentin 97232, Martinique | | |
| Rentokil Initial Martinique Sarl | Ordinary | 100% |
| **Mexico** | | |
| Juan Álvarez 482, Centro, 64000 Monterrey, N.L., Mexico | | |
| Balance Urbano Control de Plagas SA de CV | Ordinary | 100% |

| Company name | Share class | % held by Group companies |
|---|---|---|
| **Mozambique** | | |
| Avenida da Namaacha, kilometro 6, Residencial Mutateia, Cidade da Matola, Mozambique | | |
| Rentokil Initial Mozambique Limitada | Ordinary | 100% |
| **Netherlands** | | |
| Impact 6, 6921 RZ Duiven, Netherlands | | |
| Ambius B.V. | Ordinary | 100% |
| Oude Middenweg 75, 2491 AC Den Haag, 1191 BN Ouderkerk, Den Haag, Netherlands | | |
| BET Finance B.V. | Ordinary | 100% |
| BET (Properties) B.V. | Ordinary | 100% |
| Rentokil Initial International B.V. | Ordinary | 100% |
| Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB, UK | | |
| Rentokil Initial Overseas (Holdings) B.V. | Ordinary | 100% |
| B.V. Rentokil Funding | Ordinary | 100% |
| Ravenswade 54-s, 3439 Nieuwengein, LD, Netherlands | | |
| Rentokil Initial B.V. | Ordinary | 100% |
| Frontstraat 1a, 5405 AK Uden, Netherlands | | |
| Holland Reconditionering B.V. | Ordinary | 100% |
| **New Zealand** | | |
| Level 1, 89 Carbine Road Mount Wellington, Auckland 1060, New Zealand | | |
| Rentokil Initial Limited | Ordinary | 100% |
| **Norway** | | |
| Sanitetsveien 17, Postboks 84, SKJETTEN 2026, Norway | | |
| Rentokil Initial Norge AS | Ordinary | 100% |
| **People's Republic of China** | | |
| Room 103, Building 2, Yuzhongxili#42, Beijing, China | | |
| Rentokil Initial (China) Limited | Ordinary | 100% |
| **Peru** | | |
| Calle 23 Mza. Z-1 Lote 9 Villa El Salvador | | |
| Ingeclean Peru Sociedad Anonima Cerrada | Ordinary | 100% |
| **Philippines** | | |
| No. 73 Elisco Road, Bo, Kalawaan, Pasig City 1600, Philippines | | |
| Rentokil Initial (Philippines) Inc | Ordinary | 100% |
| **Poland** | | |
| Ul. Jana Pawla Woronicza, Nr 31, Lok. 78, 02-640 Warszawa, Poland | | |
| Rentokil Polska Sp. z.o.o. | Ordinary | 100% |
| **Portugal** | | |
| Complexo Industrial de Vialonga, Fracção C-1 e C-21, Granja Alpriate 2626-501, Vialonga, Portugal | | |
| Rentokil Initial Portugal – Serviços de Protecção Ambiental Limitada | Ordinary | 100% |
| **Puerto Rico** | | |
| 1125 Berkshire Blvd, Suite 150, Reading, PA 19610, United States | | |
| Rentokil of Puerto Rico, Inc | Common | 100% |

| Company name | Share class | % held by Group companies |
|---|---|---|
| **Republic of Ireland[1]** | | |
| Hazel House, Millennium Park, Naas, County Kildare W91P XP3, Ireland | | |
| Cannon Hygiene International Limited | Ordinary | 100% |
| Initial Medical Services (Ireland) Limited | Ordinary | 100% |
| Rentokil Initial Holdings (Ireland) Limited | Ordinary | 100% |
| Rentokil Initial Limited | Ordinary | 100% |
| RTO Investments (Ireland) Limited | Ordinary | 100% |
| **Saudi Arabia** | | |
| PO Box 30164, Office No. 401, 4th Floor, Al Tamimi Building, Al Khobar, North Al Khobar 31952, Saudi Arabia | | |
| Rentokil Saudi Arabia Limited | Ordinary | 60% |
| **Singapore** | | |
| No. 16 & 18 Jalan Mesin, 368815, Singapore | | |
| Pesterminator Pte Limited | Ordinary | 100% |
| Rentokil Initial Asia Pacific Management Pte Limited | Ordinary | 100% |
| Rentokil Initial Singapore Private Limited | Ordinary | 100% |
| Rentokil Pest Management Pte. Limited | Ordinary | 100% |
| **Slovakia** | | |
| Kopcianska 10, 851 01 Bratislava, Slovakia | | |
| Rentokil Initial s.r.o. | Ordinary | 100% |
| **South Africa** | | |
| 2 Stignant Road, Claremont 7708, South Africa | | |
| Newshelf 1232 Pty Limited | Preference | 100% |
| Rentokil Initial (Dikapi) JV Pty Limited | Ordinary | 59% |
| Rentokil Initial (Proprietary) Limited | Ordinary | 100% |
| Unit D12 Connaught Park, Riley Road, Beaconvale, Parow 7000, South Africa | | |
| Cannon Hygiene (SA) Proprietary Limited | Ordinary | 100% |
| **South Korea** | | |
| 2nd Floor, Korea Disaster Relief Association, 371-19 Sinsu-Dong, Mapo-Gu, Seoul 121-856, Republic of Korea | | |
| Rentokil Initial Korea Limited | Common | 100% |
| **Spain** | | |
| Cta. Recalde a Larrasquito No.35 Bilbao, Spain | | |
| Europea De Servicios E Higiene Euro Servhi SA | Ordinary | 100% |
| Calle Mar Mediiterráneo 1, 28830 San Fernando de Henares (Madrid), Spain | | |
| Initial Gaviota SAU | Ordinary | 100% |
| Rentokil Initial España S.A. | Ordinary A | 100% |
| | Ordinary B | 100% |
| | Ordinary C | 100% |
| C/Temple 15 – 28760 Tres Cantos (Madrid) Spain | | |
| Tratamientos Medioambientales Hermo, S.L. | Ordinary | 100% |
| **Sri Lanka** | | |
| No. 307, Negombo Road, Peliyagoda, Sri Lanka | | |
| Rentokil Initial Ceylon (Private) Limited | Ordinary | 100% |
| **Swaziland** | | |
| Umkhiwa House, Lot 195, Kal Grant Street, Mbabane, Swaziland | | |
| RI Swaziland (Pty) Limited | Ordinary | 100% |

| Company name | Share class | % held by Group companies |
|---|---|---|
| **Sweden** | | |
| Avestagatan 61, 163 53 Spånga, Sweden | | |
| Ambius AB | Ordinary | 100% |
| Rent a Plant Interessenter AB | Ordinary | 100% |
| Rentokil AB | Ordinary | 100% |
| Sweden Recycling AB | Ordinary | 100% |
| Verkstadsvägen 3, 24534 Staffanstrop, Sweden | | |
| PreventiQ AB | Ordinary | 100% |
| **Switzerland** | | |
| Hauptstrasse 181, 4625 Oberbuchsiten, Switzerland | | |
| Rentokil Schweiz AG | Ordinary | 100% |
| Bertschenackerstrasse 15, 4104 Oberwil, Switzerland | | |
| Medentex GmbH | Ordinary | 100% |
| **Taiwan** | | |
| 7F No.56 Lane 258, Rueiguang Rd, Neihu District, Taipei, 114 Taiwan, Province of China | | |
| Initial Hygiene Co Limited | Ordinary | 100% |
| Rentokil Ding Sharn Co Limited | Ordinary | 100% |
| **Tanzania** | | |
| 1st Floor, Opal Place, 77 Haile Selassie Road, Masaki, P.O. Box 79651, Dar es Salaam, Tanzania | | |
| Initial Hygiene (T) Limited | Ordinary | 100% |
| **Thailand** | | |
| 160 Vibhavadi Rangsit Road, Khwaeng Ratchadapisek, Khat Dindaeng, 10400, Thailand | | |
| Cannon Pest Management Co. Limited | Ordinary | 100% |
| Rentokil Initial (Thailand) Limited | Ordinary | 100% |
| **Trinidad and Tobago** | | |
| Field no. 82, KK-LL Aranguez South, Trinidad and Tobago | | |
| Rentokil Initial (Trinidad) Limited | Ordinary | 100% |
| **Tunisia** | | |
| Zone Industrielle route de Moknine, 5080 Teboulba, Tunisia | | |
| CAP Tunis | Ordinary | 100% |
| **Turkey** | | |
| 1201, 1 Sokak No:2 K:3 D:301-302 Su Plaza Yenişehir, Konak, İzmir, Turkey | | |
| Rentokil Initial Çevre Sağlığı Sistemleri Ticaret ve Sanayi AŞ | Ordinary | 100% |
| **Uganda** | | |
| Plot No 2012, Kalinabiri Road, Ntinda Kampala, Uganda | | |
| Rentokil Initial Uganda Limited | Ordinary | 100% |
| **United Arab Emirates** | | |
| 4th Floor, Suite No. 401, Oud Metha Office Building, Umm Hurair 2, Dubai, UAE | | |
| National Pest Control LLC | Ordinary | 100% |
| Rentokil Initial Pest Control LLC | Ordinary | 100% |

# Related Undertakings
continued

| Company name | Share class | % held by Group companies |
|---|---|---|
| **United Kingdom** | | |
| Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB, UK | | |
| Anzak Landscapes Ltd | Ordinary | 100% |
| AW Limited | Ordinary | 100% |
| B.E.T. Building Services Limited | Ordinary | 100% |
| BET Environmental Services Ltd | Ordinary | 100% |
| BET (No.18) Limited | Ordinary | 100% |
| | Deferred Ordinary | 100% |
| BET (No.68) Limited | Ordinary | 100% |
| BET Pension Trust Limited | Ordinary | 100% |
| BPS Offshore Services Limited[2] | Ordinary | 100% |
| Broadcast Relay Service (Overseas) Limited[2] | Ordinary | 100% |
| Castlefield House Limited | Ordinary | 100% |
| Chard Services Limited | Ordinary | 100% |
| CHL Legacy Limited[2] | Ordinary | 100% |
| Dudley Industries Limited | Ordinary | 100% |
| Enigma Laundries Limited | Ordinary | 100% |
| Enigma Services Group Limited | Ordinary | 100% |
| Enviro-Fresh Limited | Ordinary | 100% |
| Environmental Contract Services Limited[2] | Ordinary | 100% |
| Euroguard Technical Services Limited | Ordinary | 100% |
| Grayston Central Services Limited | Ordinary | 100% |
| Hometrust Limited | Ordinary | 100% |
| Initial Limited | Ordinary | 100% |
| Initial Medical Services Limited[2] | Ordinary | 100% |
| Opel Transport & Trading Company Limited | Ordinary | 100% |
| Peter Cox Limited | Ordinary-A | 100% |
| Plant Nominees Limited | Ordinary | 100% |
| Prokill (UK) Limited | Ordinary-A | 100% |
| | Ordinary-B | 100% |
| | Ordinary-C | 100% |
| | Ordinary-D | 100% |
| Prokill Limited | Ordinary-A | 100% |
| | Ordinary-B | 100% |
| | Ordinary-C | 100% |
| | Ordinary-D | 100% |
| Rapid Washrooms Limited[2] | Ordinary-A | 100% |
| | Ordinary-B | 100% |
| | Ordinary-C | 100% |
| Rentokil Dormant (No. 6) Limited | Ordinary | 100% |
| Rentokil Initial (1896) Limited | Ordinary | 100% |
| Rentokil Initial (1993) Limited[2] | Ordinary | 100% |
| | 6% Non-Redeemable Preference | 100% |
| Rentokil Initial 1927 plc | Ordinary | 100% |
| | AUD Redeemable Preference | 100% |
| | CAD Redeemable Preference | 100% |
| | CLP Redeemable Preference | 100% |
| | DKK Redeemable Preference | 100% |
| | EUR Cumulative Preference (Non-Redeemable) | 100% |
| | IDR Redeemable Preference | 100% |
| | NOK Redeemable Preference | 100% |
| | NZD Redeemable Preference | 100% |
| | USD Redeemable Preference | 100% |
| Rentokil Initial Americas Limited[2] | Ordinary | 100% |
| Rentokil Initial Asia Pacific Limited[2] | Ordinary | 100% |
| Rentokil Initial Brazil Limited[2] | Ordinary | 100% |
| Rentokil Initial Finance Limited[2] | Ordinary | 100% |
| Rentokil Initial Holdings Limited[2] | Ordinary | 100% |
| Rentokil Initial Investments Limited | Ordinary | 100% |
| Rentokil Initial Investments South Africa[2] | Ordinary | 100% |
| Rentokil Initial Pension Trustee Limited | Ordinary | 100% |
| Rentokil Initial Services Limited | Ordinary | 100% |
| Rentokil Initial UK Limited | Ordinary | 100% |
| Rentokil Insurance Limited | Ordinary | 100% |
| Rentokil Limited[2] | Ordinary | 100% |
| Rentokil Overseas Holdings Limited[2] | Ordinary | 100% |
| Rentokil Property Care Limited | Ordinary | 100% |
| Rentokil Property Holdings Limited[2] | Ordinary | 100% |
| RI Dormant No.18 Limited | Ordinary | 100% |
| RI Dormant No.20 Limited | Ordinary | 100% |
| Stratton House Leasing Limited | Ordinary | 100% |
| Target Express Holdings Limited | Ordinary | 100% |
| Target Express Limited | Ordinary | 100% |
| Target Express Parcels Limited | Ordinary | 100% |
| TEB Cleaning Services Limited | Ordinary | 100% |
| The Ca'D'Oro, 45 Gordon Street, Glasgow, G1 3PE, UK | | |
| Industrial Clothing Services Limited | Ordinary | 100% |
| | Convertible Participating Preference | 100% |
| Pest Protection Services (East) Limited | Ordinary | 100% |
| Pest Protection Services (Scotland) Limited[2] | Ordinary-A | 100% |
| RI Dormant No.12 Limited | Ordinary | 100% |
| Wise Property Care Limited | Ordinary | 100% |
| **United States** | | |
| 1201 Peachtree Street, NE Suite 1240, Atlanta, GA 30361, United States | | |
| Initial Contract Services LLC | US$ Interests | 100% |
| 1125 Berkshire Blvd, Suite 150, Reading, PA 19610, United States | | |
| Advanced Pest Management of CO, LLC | Common | 100% |
| Cygnet Enterprises, Inc (North Carolina) | Common | 100% |
| Cygnet Enterprises, Inc (Michigan) | Common | 100% |
| Cygnet Enterprises Northwest, Inc | Common | 100% |
| Cygnet Enterprises West, Inc | Common | 100% |
| Medentex LLC | Common | 100% |
| Mississippi Mosquito Control, LLC | Interests | 100% |
| Mosquito Control of Lafourche, LLC | Interests | 100% |
| Mosquito Control Services, L.L.C. | Interests | 100% |
| Mosquito Control Services of Florida, LLC | Interests | 100% |
| Mosquito Control Services of Georgia, LLC | Interests | 100% |
| Rentokil Initial Environmental Services LLC | Interests | 100% |
| Rentokil North America, Inc. | Ordinary | 100% |
| Rittiner Group, L.L.C. | Interests | 100% |
| Solitude Lake Management, LLC | Common | 100% |
| St. Charles Mosquito Control, L.L.C. | Interests | 100% |
| St. John Mosquito Control, L.L.C. | Interests | 100% |
| Terrebonne Mosquito Control, LLC | Interests | 100% |
| Vector Disease Acquisition, LLC | Common | 100% |
| | Series A | 100% |
| | Series B | 100% |
| Vector Disease Control International, LLC | Common | 100% |

| Company name | Share class | % held by Group companies |
|---|---|---|
| **United States continued** | | |
| 2540 Lawrenceville Hwy, Lawrenceville, GA 30044, United States | | |
| Asiatic Holdings LLC | Ordinary | 100% |
| Creative Plantings Inc | Ordinary | 100% |
| Steritech-Canada Inc. | Common | 100% |
| United Transport America LLC | Interests | 100% |
| Virginia Properties Inc | Ordinary | 100% |
| 5670 W. Cypress Street, Suite B, Tampa, Florida, 33607, United States | | |
| Arrow Environmental Services, LLC | Common | 100% |
| Bug-Out Acquisition, LLC | Common | 100% |
| Environmental Pest Service Holdings, LLC | Common | 100% |
| Environmental Pest Service Management Company, LLC | Common | 100% |
| Skyline Pest Solutions, LLC | Common | 100% |
| State Pest Control, LLC | Common | 100% |
| PO Box 4510, 10 Free Street, Portland, ME 04112, United States | | |
| Asiatic Investments Inc | Ordinary | 100% |
| **Uruguay** | | |
| La Paz, 1227, Departamento de Montevideo, Uruguay | | |
| Livelux S.A. | Ordinary | 100% |
| Chana, 2033, Departmento de Montevideo, Uruguay | | |
| La Sanitaria S.A. | Ordinary | 100% |
| **Vietnam** | | |
| 68 Hong Ha, Ward 2, Tan Banh District, Ho Chi Minh City, Vietnam | | |
| Rentokil Initial (Vietnam) Company Limited | Ordinary | 100% |

## Associated undertakings:

| Company name | Share class | % held by Group companies |
|---|---|---|
| **France** | | |
| 41 Avenue de La Porte de Villiers, 92200 Neuilly-Sur-Seine, France | | |
| SCI Pierre Brossolette | Ordinary | 26.247% |
| **Japan** | | |
| Kyoritsu Seiyaku Building, 1-5-10 Kudan, Minami Chiyoda-Ku, Tokyo, Japan | | |
| Nippon Calmic Limited | Ordinary | 49% |
| **United Kingdom** | | |
| Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB, UK | | |
| Hometrust Kitchens Limited | Ordinary | 25% |
| Torchsound Properties Limited | Ordinary | 50% |

1. As permitted under section 357 of the Companies Act 2014, the Company intends to take advantage of the exemption to file individual accounts for its Irish subsidiary companies listed on page 191.
2. As permitted by section 479A of the Companies Act 2006, the Company intends to take advantage of the audit exemption in relation to the individual accounts of these companies.

# Five-Year Summary

| | 2020 £m | 2019[1] £m | 2018[1] £m | 2017[1] £m | 2016[1] £m |
|---|---|---|---|---|---|
| Revenue from continuing operations | **2,823.5** | 2,714.4 | 2,472.3 | 2,412.3 | 2,168.1 |
| Operating profit from continuing operations | **293.8** | 265.6 | 245.5 | 292.4 | 232.4 |
| Adjusted operating profit from continuing operations | **384.0** | 365.4 | 329.3 | 314.5 | 284.4 |
| Profit/(loss) before income tax from continuing operations | **229.8** | 338.5 | (114.1) | 713.6 | 208.5 |
| Profit/(loss) for the year from continuing operations | **186.3** | 283.8 | (98.3) | 683.0 | 167.8 |
| Profit/(loss) attributable to equity holders of the Company | **185.9** | 283.5 | (98.5) | 682.8 | 167.5 |
| Profit attributable to non-controlling interests | **0.4** | 0.3 | 0.2 | 0.2 | 0.3 |
| | **186.3** | 283.8 | (98.3) | 683.0 | 167.8 |
| Basic earnings per share | **10.03p** | 15.33p | (5.35)p | 37.21p | 9.19p |
| Adjusted earnings per share | **15.37p** | 14.43p | 13.07p | 12.19p | 10.73p |
| Dividends for the period per 1p share | **5.41p** | 5.15p | 4.471p | 3.88p | 3.37p |
| Gross assets | **5,838.2** | 4,254.0 | 3,635.4 | 3,805.2 | 3,152.5 |
| Gross liabilities | **(4,707.6)** | (3,251.7) | (2,802.8) | (2,871.2) | (2,791.8) |
| Net assets | **1,130.6** | 1,002.3 | 832.6 | 934.0 | 360.7 |
| Share capital | **18.5** | 18.5 | 18.4 | 18.4 | 18.3 |
| Reserves | **1,111.2** | 983.2 | 813.8 | 915.3 | 342.3 |
| Non-controlling interests | **0.9** | 0.6 | 0.4 | 0.3 | 0.1 |
| Capital employed | **1,130.6** | 1,002.3 | 832.6 | 934.0 | 360.7 |

1. Due to the restatement of cash and cash equivalents and bank and other short-term borrowings (see Note C3), gross assets and gross liabilities have been restated in the table above for 2016 to 2019.

# Parent Company Balance Sheet

At 31 December

| | Notes | 2020 £m | 2019 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 4 | **283.1** | 280.3 |
| Debtors – amounts falling due after more than one year | 5 | **–** | 2,457.9 |
| Deferred tax assets | 6 | **25.5** | 22.7 |
| Retirement benefit assets | 7 | **18.2** | 36.6 |
| Derivative financial instruments | 8 | **37.0** | 7.6 |
| | | **363.8** | 2,805.1 |
| **Current assets** | | | |
| Debtors – amounts falling due within one year | 5 | **2,520.4** | 54.5 |
| Cash and cash equivalents | | **856.0** | 154.6 |
| Derivative financial instruments | 8 | **–** | 0.1 |
| | | **3,376.4** | 209.2 |
| **Current liabilities** | | | |
| Creditors – amounts falling due within one year | 9 | **(806.7)** | (714.6) |
| Bank and other borrowings | 10 | **(475.1)** | (142.9) |
| Derivative financial instruments | 8 | **–** | (0.4) |
| | | **(1,281.8)** | (857.9) |
| **Net current assets/(liabilities)** | | **2,094.6** | (648.7) |
| **Non-current liabilities** | | | |
| Bank and other borrowings | 10 | **(1,331.3)** | (1,050.5) |
| Deferred tax liabilities | 6 | **(6.4)** | (12.8) |
| Derivative financial instruments | 8 | **(32.3)** | (32.3) |
| | | **(1,370.0)** | (1,095.6) |
| **Net assets** | | **1,088.4** | 1,060.8 |
| **Equity capital and reserves** | | | |
| Share capital | 11 | **18.5** | 18.5 |
| Share premium | 12 | **6.8** | 6.8 |
| Retained earnings | | **1,063.1** | 1,035.5 |
| **Capital employed** | | **1,088.4** | 1,060.8 |

The Financial Statements on pages 195 to 200 were approved by the Board of Directors on 3 March 2021 and were signed on its behalf by:

**Andy Ransom**
Chief Executive

**Stuart Ingall-Tombs**
Chief Financial Officer

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

| | Called up share capital £m | Share premium account £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|
| At 1 January 2019 | 18.4 | 6.8 | 1,004.7 | 1,029.9 |
| Profit for the year | – | – | 118.3 | 118.3 |
| **Other comprehensive income:** | | | | |
| Remeasurement of net defined benefit asset | – | – | (2.3) | (2.3) |
| Net exchange adjustments offset in reserves | – | – | (2.4) | (2.4) |
| Movement on cash flow hedge | – | – | (0.5) | (0.5) |
| Tax related to items taken directly to other comprehensive income | – | – | 0.7 | 0.7 |
| Total comprehensive income for the year | – | – | 113.8 | 113.8 |
| **Transactions with owners:** | | | | |
| Shares issued in the year | 0.1 | – | (0.1) | – |
| Dividends paid to equity shareholders | – | – | (85.8) | (85.8) |
| Share-based payments charged to profit and loss | – | – | 2.6 | 2.6 |
| Share-based payments debited to investments | – | – | 2.7 | 2.7 |
| Tax related to items taken directly to equity | – | – | (2.4) | (2.4) |
| **At 31 December 2019** | **18.5** | **6.8** | **1,035.5** | **1,060.8** |
| Profit for the year | **–** | **–** | **29.6** | **29.6** |
| **Other comprehensive income:** | | | | |
| Remeasurement of net defined benefit asset | **–** | **–** | **(6.4)** | **(6.4)** |
| Net exchange adjustments offset in reserves | **–** | **–** | **(1.6)** | **(1.6)** |
| Movement on cash flow hedge | **–** | **–** | **(4.9)** | **(4.9)** |
| Tax related to items taken directly to other comprehensive income | **–** | **–** | **2.2** | **2.2** |
| Total comprehensive income for the year | **–** | **–** | **18.9** | **18.9** |
| **Transactions with owners:** | | | | |
| Share-based payments charged to profit and loss | **–** | **–** | **2.7** | **2.7** |
| Share-based payments debited to investments | **–** | **–** | **2.8** | **2.8** |
| Tax related to items taken directly to equity | **–** | **–** | **3.2** | **3.2** |
| **At 31 December 2020** | **18.5** | **6.8** | **1,063.1** | **1,088.4** |

Shares of £0.1m (2019: £0.1m) have been netted against retained earnings. This represents 7.7m (2019: 7.7m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2019 was £39.0m (2019: £35.1m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

# Notes to the Parent Company Accounts

## 1. Accounting convention

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRSs'), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. The results of Rentokil Initial plc are included in the Consolidated Financial Statements of Rentokil Initial plc which are presented on pages 149 to 194.

The Company has taken advantage of the following disclosure exemptions under FRS 101, all of which have equivalent disclosures included in the Consolidated Financial Statements:

- the requirements of paragraphs 45(b) and 46–52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64 (o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91–99 of IFRS 13 Fair Value Measurement;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; (iii) paragraph 118(e) of IAS 38 Intangible Assets; (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property; and (v) paragraph 50 of IAS 41 Agriculture;
- the requirements of paragraphs 10(d), 10(f), 39(c) and 134–136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)–134(f) and 135(c)–135(e) of IAS 36 Impairment of Assets.

## 2. Principal accounting policies

**Judgements and key areas of estimation**
The preparation of Financial Statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the Company's Directors to exercise judgement in applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the Financial Statements and their effect are disclosed in Note 3 and the Consolidated Financial Statements.

**Investments**
Investments held as fixed assets are stated at cost less provision for any impairment. In the opinion of the Directors, the value of such investments are not less than shown at the balance sheet date.

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

Borrowings are classified as current liabilities unless the Company has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date under its committed bank credit facility.

**Deferred tax**
Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax assets/liabilities are settled/recovered.

**Financial instruments and risk management**
The Company policy in respect of financial instruments and risk management is disclosed in Section C of the Notes to the Consolidated Financial Statements. Disclosures have been made on financial instruments as required by the Companies Act 2006.

ECL calculations are performed annually for intercompany debtors and are a probability weighted estimate of credit losses based on the Company's historical credit loss experience adjusted for debt specific factors.

**Share capital**
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity.

**Share-based compensation**
The Company operates one equity-settled, share-based compensation plan. The economic cost of awarding shares and share options to employees is recognised as an expense in the profit and loss account equivalent to the fair value of the benefit awarded. The fair value of options over the Company's shares awarded to employees of subsidiary companies is treated as a capital contribution, resulting in an increase in investments. The fair value is determined by reference to option pricing models, principally Monte Carlo and adjusted Black-Scholes models. The charge is recognised in the profit and loss account over the vesting period of the award. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimates is reflected in the profit and loss account with a corresponding adjustment to equity immediately to the extent it relates to past service and the remainder over the rest of the vesting period.

**Dividend distribution**
Dividend distribution to the Company's shareholders is recognised as a liability in the Financial Statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid. See Note D1 of the Consolidated Financial Statements for details of dividends proposed in the year.

## 3. Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are shown below (please refer to the notes to the Consolidated Financial Statements for further detail). Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant notes to the consolidated accounts.

- income taxes and deferred tax asset: key assumptions about the likelihood and magnitude of outflows in relation to tax provisions, and availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised (Notes A12 and A14).
- retirement benefits: key actuarial assumptions and estimates over future costs of winding up the scheme (Note A10 and Note 6).

## 4. Investments

| | 2020 £m | 2019 £m |
|---|---|---|
| At 1 January | **280.3** | 277.6 |
| Share-based payments to employees of subsidiaries | **2.8** | 2.7 |
| **At 31 December** | **283.1** | 280.3 |

The Company's sole direct subsidiary undertaking is Rentokil Initial Holdings Ltd. All other indirect subsidiary undertakings are listed on pages 188 to 193.

## 5. Debtors

| | 2020 £m | 2019 £m |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Amounts owed by subsidiary undertakings (non-interest bearing loans repayable on demand) | **60.4** | 51.9 |
| Amounts owed by subsidiary undertakings (interest bearing loan with effective interest rate of 5%) | **2,457.9** | – |
| Other debtors | **2.1** | 2.6 |
| | **2,520.4** | 54.5 |
| **Amounts falling due after more than one year:** | | |
| Amounts owed by subsidiary undertakings (interest bearing loan with effective interest rate of 5%) | **–** | 2,457.9 |

Amounts owed by subsidiary undertakings relates to an interest bearing loan that matures in July 2021.

## 6. Deferred taxation

| | 2020 £m | 2019 £m |
|---|---|---|
| **The deferred tax asset is made up as follows:** | | |
| Tax losses | **16.0** | 14.4 |
| Long-term incentive plan | **9.5** | 8.3 |
| | **25.5** | 22.7 |
| **The deferred tax liability is made up as follows:** | | |
| Defined benefit pension scheme | **(6.4)** | (12.8) |
| | **(6.4)** | (12.8) |

## 7. Pension commitments

At 31 December 2020 the Rentokil Initial 2015 Pension Scheme (RIPS) pension asset amounted to £18.2m (2019: £36.6m). As there is no contractual agreement or stated policy for charging the net defined benefit cost of RIPS to participating entities, the net defined benefit cost is recognised fully by the Company. On 4 December 2018 the Group signed an agreement with Pension Insurance Corporation plc (PIC) to take over the payment of the liabilities in the scheme via a buy-in, which is anticipated to convert to a full buy-out. The full buy-out which had been anticipated to complete in 2020 may now not complete until 2022 due to delays caused by the COVID-19 pandemic and the recent High Court judgements in the Lloyds case. For more information on pension commitments and the pension settlement, see Note A10 of the Consolidated Financial Statements.

The movement in the net defined benefit asset for the RIPS over the accounting period is as follows:

| | **Present value of obligation 2020 £m** | **Fair value of plan assets 2020 £m** | **Total 2020 £m** | Present value of obligation 2019 £m | Fair value of plan assets 2019 £m | Total 2019 £m |
|---|---|---|---|---|---|---|
| At 1 January | **(1,333.3)** | **1,369.9** | **36.6** | (1,277.6) | 1,298.1 | 20.5 |
| Settlement of defined benefit obligation[1] | **–** | **–** | **–** | – | 17.4 | 17.4 |
| Interest on net defined benefit asset[1] | **(25.7)** | **26.7** | **1.0** | (34.0) | 35.0 | 1.0 |
| **Total pension income/(expense)** | **(25.7)** | **26.7** | **1.0** | (34.0) | 52.4 | 18.4 |
| **Remeasurements:** | | | | | | |
| – Remeasurement gain on scheme assets | **–** | **69.6** | **69.6** | – | 89.6 | 89.6 |
| – Remeasurement loss on obligation[2] | **(76.0)** | **–** | **(76.0)** | (91.9) | – | (91.9) |
| **Contributions:** | | | | | | |
| – Benefit payments | **65.7** | **(65.7)** | **–** | 70.2 | (70.2) | – |
| – Refund of surplus | **–** | **(13.0)** | **(13.0)** | | | |
| **At 31 December** | **(1,369.3)** | **1,387.5** | **18.2** | (1,333.3) | 1,369.9 | 36.6 |

1. Service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to finance cost and income.
2. The remeasurement loss on the defined benefit obligation comprises remeasurement gain arising from changes in demographic assumptions of £16.1m (2019: remeasurement gain of £16.5m), remeasurement loss arising from changes in financial assumptions of £117.1m (2019: loss of £129.3m) and remeasurement gains arising from experience of £25.0m (2019: gain of £20.9m).

## 8. Derivative financial instruments

| | **Fair value assets 2020 £m** | Fair value assets 2019 £m | **Fair value liabilities 2020 £m** | Fair value liabilities 2019 £m |
|---|---|---|---|---|
| **Interest rate swaps (level 2):** | | | | |
| – non-hedge | **–** | – | **(0.7)** | (3.1) |
| – cash flow hedge | **–** | 0.1 | **(8.3)** | (20.5) |
| – net investment hedge | **37.0** | 7.6 | **(23.3)** | (9.1) |
| | **37.0** | 7.7 | **(32.3)** | (32.7) |
| **Analysed as follows:** | | | | |
| Current portion | **–** | 0.1 | **–** | (0.4) |
| Non-current portion | **37.0** | 7.6 | **(32.3)** | (32.3) |
| | **37.0** | 7.7 | **(32.3)** | (32.7) |

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge' in the table above) in accordance with IFRS 9. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedge is taken directly to finance costs. During the year there was a gain of £0.7m (2019: £1.0m) relating to ineffectiveness of net investment in foreign entity hedges and a loss of £(0.7)m (2019: £(0.1)m) from those derivatives in a cash flow hedge relationship. Cash flow hedge accounting has been applied to €340.0m of the €400m 2024 bond and €179.4m of the €500m 2026 bond, hedging the changes in cash flow due to volatility in the £/€ exchange rate. Cash flow hedge accounting has also been applied to the floating interest of the $50m term loan maturing in 2020 that was swapped to a fixed rate. The term loan matured in 2020.

## 9. Creditors

| | **2020 £m** | 2019 £m |
|---|---|---|
| Amounts due to subsidiary undertakings (non-interest bearing loans repayable on demand) | **796.5** | 704.4 |
| Other creditors | **10.2** | 10.2 |
| | **806.7** | 714.6 |

## 10. Bank and other borrowings

| | 2020 £m | 2019 £m |
|---|---|---|
| Amounts falling due within one year | **475.1** | 142.9 |
| Amounts falling due after one year | **1,331.3** | 1,050.5 |

Medium-term notes and bond debt comprises:

| | Bond interest coupon | Effective hedged interest rate |
|---|---|---|
| **Current** | | |
| €175m bond due October 2021 | Fixed 3.25% | Fixed 3.41% |
| **Non-current** | | |
| €400m bond due November 2024 | Fixed 0.95% | Fixed 2.31% |
| €500m bond due May 2026 | Fixed 0.875% | Fixed 1.40% |
| €600m bond due October 2028 | Fixed 0.50% | Fixed 0.58% |
| **Average cost of bond debt at year-end rates** | | 1.72% |

In November, following a successful tender offer, the Group repaid 49.8% of the €350m bond that is due in October 2021. The bond has a three months at par call option, which means that the bond can be repaid on 7 July 2021 without additional premium. In October 2020, the Group issued a new €600m eight-year bond with a coupon of 0.50% under its EMTN Programme.

The Company bank debt comprises:

| | Facility amount £m | Drawn at year end £m | Headroom £m | Interest rate at year end % |
|---|---|---|---|---|
| **Non-current** | | | | |
| £550m RCF due August 2025 | 550.0 | – | 550.0 | 0.14 |

In August 2020 the Company extended its revolving credit facility (RCF) until August 2025 with a one-year extension option. At the year end the RCF was undrawn.

## 11. Share capital

During the year five million new shares were issued in relation to employee share schemes.

| | 2020 £m | 2019 £m |
|---|---|---|
| **Issued and fully paid:** | | |
| At 31 December – 1,854,332,965 shares of 1p each (2019: 1,849,332,965) | **18.5** | 18.5 |

## 12. Share premium

| | 2020 £m | 2019 £m |
|---|---|---|
| At 1 January and 31 December | **6.8** | 6.8 |

## 13. Contingent liabilities

The Company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings. In addition, there are contingent liabilities in respect of litigation, pensions and tax, none of which are expected to give rise to any material outflow.

## 14. Employees

The Company has 11 employees (2019: 11 employees). Details on employee costs are in Note D4 of the Consolidated Financial Statements. Services for finance, taxation, treasury, legal, HR and IT are provided by Rentokil Initial 1927 plc and recharged to the Company.

## 15. Share-based payments

Share-based payments for the financial period were £5.5m (2019: £5.3m) of which £2.7m (2019: £2.6m) was charged to the profit and loss account and £2.8m (2019: £2.7m) was debited to investments. Share options relating to the Board of Directors are disclosed in the Directors' Remuneration Report and detailed share-based payment disclosures are shown in Note A11 of the Consolidated Financial Statements.

## 16. Related party transactions

The Company has not undertaken any transactions with related parties during the year, other than transactions with wholly owned related parties of Rentokil Initial plc. Such transactions are exempt from disclosure under FRS 101. There were no transactions with non-wholly owned related parties of Rentokil Initial plc.

## 17. Post balance sheet events

There were no significant post balance sheet events affecting the Company since 31 December 2020.

# Directors' Report

The Directors submit their report and audited Financial Statements of the Company and the Group to the members of Rentokil Initial plc (the Company) for the year ended 31 December 2020. Details of the Directors of the Company during 2020 can be found on pages 78 and 79.

The Corporate Governance Report for the year on pages 76 to 137 forms part of the Directors' Report, together with the sections of the Annual Report incorporated by reference.

The Company has chosen to disclose the following information in the Strategic Report on pages 1 to 74 and 146 to 148:

- particulars of any important events affecting the Company which have occurred since the end of the financial year;
- an indication of likely future developments in the business of the Company;
- an indication of the Company's research and development activities (digital technology and innovation solutions are referred to throughout the Strategic Report but particularly on pages 34, 43, 58 and 59);
- details of our colleagues and human rights (Responsible Business, pages 47 to 66);
- engagement with colleagues, customers, suppliers and others (pages 24 and 90);
- information on greenhouse gas emissions and energy use (Responsible Business, pages 52 to 57); and
- principal risks and uncertainties (Risks and Uncertainties, pages 67 to 73).

The Strategic Report and the Directors' Report constitute the management report as required under the Disclosure and Transparency Rule 4.1.8R. Information to be disclosed under Listing Rule 9.8.4 in relation to directors' emoluments waived during the period (Listing Rule 9.8.4(5)) is set out on page 112, and the allotment of shares for cash (Listing Rule 9.8.4(7)) and waiver of dividends (Listing Rule 9.8.4(12)) is set out on page 202. No other paragraphs under Listing Rule 9.8.4 apply.

## Company constitution

Rentokil Initial plc is a company incorporated in England and Wales, with company number 5393279. The Company is a holding company with limited trading in its own right and with subsidiary undertakings in 77 countries (the Group operates in 83 countries). The Company's related undertakings are listed on pages 188 to 193.

## Articles of association

The articles of association set out the internal regulations of the Company and cover such matters as the rights of shareholders, the conduct of the Board and general meetings. The articles themselves may be amended by special resolution of the shareholders (by at least 75% of the votes cast by those voting in person or by proxy). Subject to company law and the articles of association, the Directors may exercise all the powers of the Company and may delegate authority to Committees and day-to-day management and decision making to individual Executive Directors. The articles of association are available upon request and are displayed on our website at **rentokil-initial.com**.

## Re-election of Directors and service contracts

In accordance with the articles of association, Directors can be appointed by the Board and must be subsequently elected by shareholders at a general meeting. In accordance with the articles of association and the UK Corporate Governance Code 2018 (the Code), Directors submit themselves for re-election annually. Directors can be removed, and their replacements appointed, by shareholders in a general meeting.

Information on our Board of Directors, including their biographical details, and changes during 2020, can be found in the Corporate Governance Report on pages 78 and 79. Having served for a period of nine years, Angela Seymour-Jackson will not stand for re-election at the 2020 Annual General Meeting (AGM). All other Board members will seek re-election at the AGM, except Stuart Ingall-Tombs and Sarosh Mistry who will stand for election for the first time.

The notice periods given in service contracts are: Andy Ransom, 12 months by either party; Stuart Ingall-Tombs, 12 months by either party; and Richard Solomons, six months by either party. A pro-forma of the Non-Executive Directors' letter of appointment is available on our website along with the Chairman's letter of appointment.

The appointment dates of the Board of Directors are set out below.

| Director | Date of appointment |
|---|---|
| Stuart Ingall-Tombs | 15 August 2020 |
| John Pettigrew | 1 January 2018 |
| Andy Ransom | 1 May 2008 |
| Angela Seymour-Jackson | 5 March 2012 |
| Richard Solomons | 1 March 2019 |
| Julie Southern | 21 July 2014 |
| Cathy Turner | 1 April 2020 |
| Linda Yueh | 1 November 2017 |

## Directors' powers

Under the articles of association, the Directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes and the Company's articles of association. For example, the articles contain specific provisions and restrictions regarding the Company's power to borrow money. The articles of association also give power to the Board to appoint and replace Directors as detailed above.

Powers relating to the issuing of shares are also included in the articles of association and such authorities are renewed by shareholders each year at the AGM, as detailed on page 202.

## Directors' interests

The beneficial interests of the Directors, including the interests of any connected persons, in the share capital of the Company are shown on page 132. During the year, no Director had any material interest in any contract of significance to the Group's business.

## Dividend

The Directors have recommended a final dividend of 5.41p per share for the 52 weeks ended 31 December 2020. Payment of this dividend is subject to shareholder approval at the 2021 AGM. Further information on the Company's dividend policy can be found on page 147 and the key dates for the final dividend can be found on page 205.

## Share capital

The Company has a premium listing on the London Stock Exchange and an over-the-counter American Depositary Receipt (ADR) listing to facilitate shareholding in the US. All ordinary shares carry the same rights and no shareholder enjoys any preferential rights, regardless of the size of their holding.

The Company's share capital during the year consisted of ordinary shares of 1p each. There were 1,854,322,965 shares in issue at 31 December 2020, which represents 100% of the Company's issued share capital (2019: 1,849,322,965). Each ordinary share (other than treasury shares, which have no voting rights) carries the right to vote at a general meeting of the Company. The Company did not hold any treasury shares between 31 December 2019 and 31 December 2020 and accordingly the Company did not sell any treasury shares. The Company's articles of association provide that, on a show of hands, every member who is present in person or by proxy at a general meeting of the Company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder.

The articles do not contain special control rights or restrictions on transfer or limitations on the holding of ordinary shares and no requirements for the prior approval of any transfers. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

The Company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements which may at a subsequent date result in a change in control of the Company.

Authority for the Company to allot shares or grant rights to subscribe for shares up to an aggregate nominal amount of £12,328,000 was obtained at the AGM on 13 May 2020. The authority remains in force and approval will be sought from shareholders at the 2021 AGM to renew the authority for a further year.

During the year, a total of five million ordinary shares with an aggregate nominal value of £50,000 were issued and allotted to Computershare Nominees (Channel Islands) Limited, the account nominee of Computershare Trustees (Jersey) Limited which acts as trustee for the Rentokil Initial Employee Share Trust (the Trustee). These shares were issued to satisfy awards that vested in 2020 under the Company's Performance Share Plan.

Details of the shares held by the Trustee are contained beneath the Consolidated Statement of Changes in Equity table on page 151. As at 31 December 2020, the Trustee holds on trust 0.41% of the issued share capital of the Company to satisfy awards that vest under the Company's Performance Share Plan and Deferred Bonus Plan. The Trustee has agreed to waive any right to all dividend payments on shares held by it, and the voting rights in relation to these shares are exercised by the Trustee. The Trustee may vote or abstain from voting with the shares or accept or reject any offer relating to the shares, in any way it sees fit, without incurring any liability and without being required to give reasons for its decision.

## Repurchase of shares

Authority for the Company to make purchases of its own shares of up to 184,900,000 shares was obtained at the AGM on 13 May 2020 and such authority will be valid until the 2021 AGM. No purchases of its shares were made by the Company during 2020. The authority is normally renewed annually and approval will be sought from shareholders at the 2021 AGM to renew the authority for a further year.

## Change of control provisions

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as some financial and commercial agreements and employee long-term incentive or share plans. None of these are deemed to be significant in terms of their potential impact on the Group as a whole. A description of the Group's debt funding arrangements is set out in Note C6 to the Financial Statements. Note C1 describes the change of control provisions relating to the Group's Euro Medium-Term Note Programme.

## Substantial shareholders

The Company has been notified pursuant to the Disclosure Guidance and Transparency Rules (DTR 5) that the following shareholders held, or were beneficially interested in, 3% or more of the Company's issued share capital at 31 December 2020. The information provided below was correct at the date of notification; however, this may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

**Substantial interests in shares as at 31 December 2020**

| | % | No. of ordinary shares | Nature of holding |
|---|---|---|---|
| Ameriprise Financial, Inc.[1] | 9.99 | 182,682,307 | Indirect |
| Majedie Asset Management Ltd | 5.61 | 101,963,126 | Indirect |
| T Rowe Price International Limited | 5.16 | 95,136,762 | Indirect |
| The Capital Group Companies, Inc. | 5.06 | 93,388,121 | Indirect |
| BlackRock, Inc. | 5.05 | 93,128,464 | Indirect |
| Schroders plc | 4.91 | 89,878,920 | Indirect |
| Invesco Ltd | 4.89 | 89,477,118 | Indirect |
| AXA SA | 4.80 | 87,093,421 | Indirect |

1. Ameriprise Financial, Inc. includes Threadneedle Asset Management Holdings Ltd.

No other interests have been disclosed to the Company in accordance with DTR 5 between 31 December 2020 and 3 March 2021.

## Financial risk management

Details of financial risk management and the relevant policies and certain exposures of the Company are disclosed in Note C1 on pages 176 and 177 of the Financial Statements.

## Key contracts

The Group does not have any dominant customer or supplier relationships.

## Post balance sheet events

There were no significant post balance sheet events affecting the Group since 31 December 2020.

## Political donations

It is the Company's policy not to make payments to political organisations. The Company does however maintain a shareholder authority to make payments of a political nature but does so only in order to ensure that the Company has authority from shareholders for the limited number of activities associated with the operation of the business which might be caught by the broad definition of payments of a political nature contained within current legislation. There were no payments to political organisations during 2020 (2019: £nil).

## Equal opportunities

The Company regards equality and fairness as a fundamental right of all of its colleagues. Every colleague is required to support the Company to meet its commitment to provide equal opportunities in employment and avoid unlawful discrimination. People with disabilities should have full and fair consideration for all vacancies, and disability is not seen to be an inhibitor to employment or career development. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. In the event of any colleague becoming disabled while with the Company, their needs and abilities would be assessed and, where possible, we would work to retain them and seek to offer alternative employment to them if they were no longer able to continue in their current role.

## Engagement with employees, suppliers, customers and others

We have approximately 44,500 colleagues in our workforce. We consider our workforce to be those colleagues who are employed directly by us, and we do not include contractors or agency workers in this group. We employ our colleagues directly wherever possible in order to invest in their training, to ensure their full understanding and compliance with our policies, including health and safety procedures, to allow them to build relationships with our customers and to become more efficient. The number of contractors or agency workers throughout the business is not sufficiently material to identify and engage with them as a separate stakeholder group. However, like our colleagues, our contractors and agency workers must operate under our Code of Conduct and we will engage with them wherever practicable.

A summary of the methods we use to engage with our colleagues, including UK employees, suppliers, customers and our other key stakeholders, is provided on pages 24 and 25, while details of Board engagement is provided throughout the Corporate Governance Report, principally on pages 90 and 91. The section 172(1) statement can be found on page 66 and details of principal decisions taken by the Board during 2020 can be found on pages 88 and 89. Examples of how the Board had regard for stakeholders in its decisions and the effect of that regard are shown on pages 88 to 91. Over 750 managers and technical experts participate in our Performance Share Plan (see page 129). We do not currently offer an all employee share scheme but will continue to keep this under review.

## Branches

The Company, through various subsidiaries, has branches in several different jurisdictions in which the business operates outside the UK.

## Directors' indemnity and insurance

The Directors are ultimately responsible for most aspects of the Company's business dealings. They can face significant personal liability under criminal or civil law, or the UK Listing, Prospectus, Disclosure Guidance and Transparency Rules, and can face a range of penalties, including censure, fines and imprisonment. The Company considers that it is in its best interests to protect individuals who serve as Directors from the consequences of innocent error or omission, since this enables the Company to continue to attract prudent, appropriately qualified individuals to act as Directors.

The Company maintained at its expense a directors' and officers' liability insurance policy throughout the year to afford an indemnity in certain circumstances for the benefit of Group personnel including, as recommended by the Code, the Directors. This insurance cover remains in place. The policy does not provide cover where the Director or officer has acted fraudulently or dishonestly.

In addition, the Company has granted indemnities in favour of Directors, as permitted by sections 232 to 235 of the Companies Act 2006. In general terms, the indemnities protect Directors to the extent permissible by law from all costs and expenses incurred in the defence of any civil or criminal proceedings in which judgement is given in their favour or the proceedings or otherwise disposed of without finding fault or where there is a successful application to court for relief from liability. The indemnity operates to the extent that the Director is not able to recover the relevant amounts under the Company's directors' and officers' liability insurance.

## Related party transactions

Other than in respect of arrangements relating to the employment of Directors, details of which are provided in the Directors' Remuneration Report, or as set out in Note D4 on page 183 of the Financial Statements, which also provides details of transactions with joint ventures and associate entities, there is no indebtedness owed to or by the Company to any colleague or any other person considered to be a related party.

## Disclosure of information to the auditor

The Directors confirm that, insofar as each of them is aware, there is no relevant audit information (as defined by section 418(3) of the Companies Act 2006) of which the Company's auditor is unaware; and each Director has taken all of the steps that should have been taken to ensure that they are each aware of any relevant audit information (as defined by section 418(3) of the Companies Act 2006) and to establish that the Company's auditors are aware of that information.

## Going concern

The Directors, having made enquiries as set out on page 154, consider that the Company and the Group have adequate resources to continue in operation for a period of at least 12 months from the date of approval of these annual Financial Statements. For this reason, they consider it appropriate to adopt the going concern basis in preparing the Financial Statements.

Further details on the Group's net debt, borrowing facilities and financial risk management policies is provided in Section C Financing of the Notes to the Financial Statements on pages 176 to 182.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework. In addition, the Group Financial Statements are required under the UK Disclosure and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU).

Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- for the Group Financial Statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU);
- for the Parent Company Financial Statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company Financial Statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Each of the Directors, whose names and functions are set out on pages 78 and 79, confirms that, to the best of their knowledge:

- the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Each Director considers the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and to provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

The Directors' Report on pages 76 to 137 and pages 201 to 204 and the Strategic Report on pages 1 to 74 and 146 to 148 were approved by a duly authorised Committee of the Board of Directors on 3 March 2021 and signed on its behalf by Daragh Fagan, the Company Secretary.

**Daragh Fagan**
Company Secretary

3 March 2021

Registered office:
Riverbank, Meadows Business Park, Blackwater,
Camberley, Surrey, GU17 9AB.
Registered in England and Wales No: 5393279

# Additional Shareholder Information

## Registrar

The Company's Registrar is Equiniti Limited (Equiniti or EQ). All enquiries relating to the administration of shareholdings, dividends, change of address and lost share certificates should be directed to Equiniti. Information and advice can be found on its website.

Contacting Equiniti:

**help.shareview.co.uk**
0333 207 6581 (+44 (0)121 415 0077 if calling from outside the UK). Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).
Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, UK.

### Shareview Portfolio service

You can manage your shareholding online via Equiniti's Shareview Portfolio at **shareview.co.uk**. This allows shareholders to access a range of information about their shareholdings on registers maintained by Equiniti and includes shareholding details (such as name and address), indicative share prices, recent balance changes and dividend information.

### Share dealing services

Equiniti offers shareholders a dealing service which allows you to buy or sell Rentokil Initial plc shares.

**shareview.co.uk**
0371 384 2233 (+44 (0)121 415 7065 if calling from outside the UK).

Calls are charged at standard national and international rates. Please note that both the internet share dealing and telephone share dealing services are subject to commission charges. Full details can be found on **shareview.co.uk**.

## ShareGift

Shareholders with small holdings in shares, whose value makes them uneconomical to sell, may wish to donate them to ShareGift (registered charity no. 1052686).

For further information, contact:

**sharegift.org**
help@sharegift.org
+44 (0)20 7930 3737
ShareGift, PO Box 72253, London, SW1P 9LQ

## Share price information and history

The current price of the Company's shares can be found at **rentokil-initial.com/investors**.

Mid-market price 31 March 1982 – 7.5375p*

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

Mid-market price 31 December 2020 – 509.6p

2020 high/low – 571p /340.1p

## Dividends

### 2020 final dividend

The Directors have recommended a final dividend of 5.41p per share, for the 52 weeks ended 31 December 2020. Payment of this dividend is subject to approval at the 2021 AGM. No interim dividend has been paid in 2020 and as such the total dividend will be 5.41p (2019: 1.51p; as a result of COVID-19 no final dividend was paid for the year ended 31 December 2019 and only an interim dividend was paid).

Key dates relating to this dividend are given below.

| | |
|---|---|
| Ex-dividend date | 8 April 2021 |
| Record date | 9 April 2021 |
| Last day for DRIP elections | 27 April 2021 |
| Annual General Meeting | 12 May 2021 |
| Payment date | 19 May 2021 |

For further dividend information, please see page 147 or go to **rentokil-initial.com/investors**.

### Dividend payments

It is important to note that we will no longer be paying dividends by cheque and the dividend on 19 May 2021, and all subsequent dividends, will be credited directly into a shareholder's UK bank or building society account. Shareholders who historically received dividends by cheque and have not yet completed a Dividend Mandate Form will need to contact our Registrar (see above for contact details) to request a form for completion. For any shareholder who has not submitted their dividend mandate by the deadline of 9 April 2021, cash will be held in an account and they will need to contact our Registrar for the cash to be distributed to their UK bank or building society account. If you do not have a UK bank or building society account you may be able to arrange for payments to be converted and paid in your local currency. Please contact our Registrar for more information.

### Dividend reinvestment plan (DRIP)

The Company has a DRIP provided by Equiniti Financial Services Limited (Equiniti FS), which is a convenient, easy and cost-effective way to build a shareholding by using cash dividends to buy additional shares. Rather than having a bank account credited with a cash dividend, Equiniti FS will use the dividends payable to DRIP participants to purchase shares on your behalf in the market. Please go to **shareview.co.uk** for further information.

### Dividend history

Details of the Company's dividend history can be found on our website at **rentokil-initial.com/investors**.

## American Depositary Receipt (ADR)

The Company has an ADR programme that trades on the over-the-counter market in the United States. This is a sponsored Level 1 ADR programme for which the Bank of New York Mellon acts as depositary. Each ADR is equivalent to five Rentokil Initial plc ordinary shares.

For enquiries relating to ADRs, please contact:

**mybnymdr.com**
shrrelations@cpushareownerservices.com
Freephone from the US: +1 888 269 2377
International calls: +1 201 680 6825
BNY Mellon Shareowner Services, P.O. Box 30170, College Station, TX 77842-3170, USA.

Exchange: OTC (over the counter)
Symbol: RTOKY
CUSIP: 760125104
Ratio (ADR: Ord) 1:5

## Indirect owners of shares with information rights

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to Equiniti.

## How to avoid share fraud

**Reject cold calls:** If you've been cold called with an offer to buy or sell shares, the chances are it's a high-risk investment or a scam. You should treat the call with extreme caution. The safest thing to do is to hang up.

**Check the firm on the Financial Conduct Authority (FCA) register at fca.org.uk/register.** The Financial Services Register is a public record of all the firms and individuals in the financial services industry that are regulated by the FCA.

**Get impartial advice:** Think about getting impartial financial advice before you hand over any money. Seek advice from someone unconnected to the firm that has approached you.

If you suspect that you have been approached by fraudsters, please tell the FCA using the share fraud reporting form at **fca.org.uk/scams**, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have lost money to investment fraud, you should report it to Action Fraud on 0300 123 2040 or online at **actionfraud.police.uk**.

Find out more at **fca.org.uk/scamsmart**.

**ALWAYS REMEMBER: If it seems too good to be true, it probably is!**

## Unsolicited mail

The Company is legally obliged to make its register of members available to the public, subject to a proper purpose test. As a consequence of this, some shareholders may receive unsolicited mail. Shareholders wishing to limit the amount of such mail should contact the Mailing Preference Service (MPS) at:

**mpsonline.org.uk**
+44 (0)20 7291 3310
MPS FREEPOST LON20771, London, W1E 0ZT

## Annual General Meeting

The 2021 AGM will be held at, and be broadcast via live webcast from, the Company's offices at the Power Centre, A1 & A2, Link 10, Napier Way, Crawley, RH10 9RA from 2.00pm on 12 May 2021 (see page 98 for more information). The Notice of Meeting is available on our website.

## Published information

If you would like to receive a hard copy of this Annual Report, please contact the Company Secretariat at the Company's registered office below. A PDF copy of this report can also be downloaded from our website.

## Registered office and headquarters

Rentokil Initial plc

Registered in England and Wales; Company Number: 5393279

Registered Office: Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB

**rentokil-initial.com**
secretariat@rentokil-initial.com
+44 (0)1276 607444

Please note that the registered office for Rentokil Initial plc is due to change to Compass House, Manor Royal, Crawley, West Sussex, RH10 9PY. This is expected to take effect from 1 April 2021.

# Glossary

| | |
|---|---|
| AER | Actual exchange rates |
| AGM | Annual General Meeting |
| APM | Alternative Performance Measure |
| Benelux | Belgium, the Netherlands and Luxembourg |
| Board | The Board of Directors of Rentokil Initial plc |
| BPS | Basis points |
| CAGR | Compound annual growth rate |
| CCFF | Covid Corporate Financing Facility |
| CER | Constant exchange rates |
| CGU | Cash-generating unit |
| CJRS | Coronavirus Job Retention Scheme |
| Company | Rentokil Initial plc |
| CVC | Customer Voice Counts |
| Director | A Director of Rentokil Initial plc |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| ELT | Executive Leadership Team |
| EMTN | Euro Medium-Term Note |
| EPS | Earnings per share |
| EPS LLC | Environmental Pest Service Holdings, LLC |
| ESG | Environmental, social and governance |
| ETR | Effective Tax Rate |
| FRC | Financial Reporting Council |
| FRS | Financial Reporting Standards |
| GAAP | Generally Accepted Accounting Practice |
| Group | Rentokil Initial plc and its subsidiaries |
| Growth and Emerging markets | Rentokil Initial defined markets for Pest Control operations (see pages 30 and 31) |
| HORECA | The food service and hotel industries (hotel/restaurant/cafe) |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| IRR | Internal rate of return |
| ISDA | International Swaps and Derivatives Association |
| JV | Joint venture |
| KPI | Key performance indicator |
| LTA | Lost time accident |
| LTIP | Long-term incentive plan |
| M&A | Mergers and acquisitions |
| MENAT | Middle East, North Africa and Turkey |
| NED | Non-Executive Director |
| NPS | Net Promoter Score |
| Parent Company | Rentokil Initial plc |
| PCI | PCI Pest Control Private Ltd (trading as Rentokil PCI) |
| PPE | Personal protective equipment |
| PSP | Rentokil Initial plc Performance Share Plan |
| PwC | PricewaterhouseCoopers LLP |
| R&D | Research and development |
| RCF | Revolving credit facility |
| RIPS | Rentokil Initial 2015 Pension Scheme |
| ROU | Right-of-use |
| SHE | Safety, health and environment |
| SID | Senior Independent Director |
| SLF | Senior Leadership Forum |
| TSR | Total shareholder return |
| UK & RoW | United Kingdom and Rest of World |
| WDL | Working days lost |
| YVC | Your Voice Counts (our colleague engagement survey) |

## About us

Rentokil Initial is a global leader in the provision of route-based services which protect people and enhance lives. Our services include pest control, hygiene and workwear, as well as a range of other smaller specialist services including plants, medical services, property care and specialist hygiene.

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

Rentokil is the world's leading commercial pest control company and our engine for growth. Initial Hygiene is a global leader in hygiene services.

Our local service teams across the world cover over 90% of global GDP in 92 of the world's 100 largest cities across North America, Europe, UK & Rest of World, Asia and the Pacific. Operating in 83 countries, approximately 90% of our revenues are derived from outside the UK.

We have over a million customers to service from the largest multi-national pharmaceutical, industrial and food production companies to local shops, restaurants and homes. With high levels of customer service and retention rates, we continue to build our portfolio.

**Find out more at rentokil-initial.com.**

**Cautionary statement** This report contains statements that are, or may be, forward-looking regarding the Group's financial position and results, business strategy, plans and objectives. Such statements involve risk and uncertainty because they relate to future events and circumstances and there are accordingly a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements. Forward-looking statements speak only as of the date they are made and no representation or warranty, whether expressed or implied, is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Other than in accordance with the Company's legal or regulatory obligations (including under the Listing Rules and the Disclosure Guidance and Transparency Rules), the Company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Information contained in this 2020 Annual Report relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing in this 2020 Annual Report should be construed as a profit forecast.

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