Directors' Remuneration Report

Remuneration Committee

The company's remuneration committee is responsible for making recommendations to the board on the company's remuneration policy and, within the terms of the policy, determining the individual remuneration packages of the executive directors and other members of the Company Executive Board ("CEB") comprising certain divisional managing directors and functional heads. The terms of reference of the committee are available on the company's website or from the company secretary.

The committee consists wholly of independent non-executive directors. Ron Spinney and Paul Mason ceased to be directors and members of the committee on 18 May 2006 on which date Duncan Tatton-Brown joined the committee as did Alan Giles on his appointment as a director. Peter Long replaced Ron Spinney as chairman of the committee. The committee met five times in 2006 and in addition was consulted on various remuneration issues between formal meetings. Meetings were fully attended, except on three occasions when Messrs. Mason, Giles and Tatton-Brown were each unable to attend a meeting due to an unavoidable prior commitment.

None of the members of the committee participates in company incentive arrangements or has any personal interest (other than as shareholders) in the matters under consideration, any conflicts of interest arising from cross-directorships or any day-to-day involvement in running the business. No director plays a part in any discussion about his own remuneration. Throughout the year, Peter Long has acted as chairman of Rentokil Initial Pension Trustee Limited and in addition has participated in the activities of the pension trustee company's investment committee. His fees include an amount of £25,000 per annum in respect of his participation in pension scheme trustee matters.

The company secretary, Paul Griffiths, is secretary to the committee and the group human resources director, Andy Kemp, is invited to attend meetings of the committee to provide views and advice on remuneration matters. Both the chairman and chief executive attend by invitation when appropriate.

The committee principally uses two independent external consultants, Watson Wyatt Limited and Deloitte LLP. Watson Wyatt was appointed by the committee to provide advice on the measurement of the company's total shareholder return for historic awards under the old discretionary share option schemes. Watson Wyatt also advised the company on its UK pension arrangements. Deloitte has been retained by the committee to provide advice on executive remuneration and on the Performance Share Plan approved by shareholders at the annual general meeting in May 2006. Deloitte also advised the company on acquisition and risk process consulting and tax matters. During the year, the committee has also received advice from Hewitt Bacon & Woodrow Limited who are the actuaries appointed by the pension scheme trustees.

A resolution to approve the directors' remuneration report will be put to the annual general meeting on 3 May 2007.

Approach to remuneration

The company's remuneration policy is designed to support the strategic objectives of the business. The remuneration and incentive arrangements seek to achieve this in a number of ways:

- by enabling the company to attract and retain the leadership talent necessary to turn around and grow the business;
- by rewarding individual contribution and company financial performance; and
- by aligning executives' interests with those of shareholders.

The company periodically reviews the effectiveness and competitiveness of the total remuneration and benefit packages of executive directors and senior executives, with assistance from Deloitte.

The new Performance Share Plan, introduced during 2006, was developed in keeping with this policy. Awards have been made under the plan to some 500 key senior executives in over 40 countries around the world, enabling us to bring together a large number of Rentokil Initial people under a new global incentive structure. The pursuit of shareholder value creation is supported by the performance conditions attached to these awards, the development of performance management processes internationally and the increased level of share ownership through the plan.

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

Components of remuneration

Components of remuneration	Commentary
Base salary	Set at a competitive level by reference to the market median, taking into account individual skills and experience.
Annual bonus	Set at a competitive level assuming financial and other targets are met. Links pay to the achievement of financial and strategic performance goals.
Long-term incentive	Awards under the Performance Share Plan are designed to deliver market competitive pay relative to companies of comparable size and complexity. Performance conditions attached to these awards ensure that the value from incentives is closely linked to the financial success of the business and the creation of shareholder value.
Pension	Defined contribution arrangements, set at market levels.

Each executive director's total remuneration consists of the above elements and other benefits described on page 52. The total remuneration of each executive director should comprise a balance between fixed and variable performance-related remuneration, the latter comprising elements of both short-term financial performance and long-term shareholder value creation.

The table below shows the approximate mix between fixed and variable pay for on-target performance in respect of 2006 remuneration for the current executive directors. The policy, currently and in future years, is that a significant proportion of the total remuneration should be performance-related.

	On-target performance	
	Chief executive	Chief financial officer
Base salary	45%	50%
Pensions	10%	10%
Annual incentive	20%	25%
Long-term incentive	25%	15%

Base Salaries

Executive directors' base salaries are reviewed with effect from 1 January each year. The committee takes into account company performance and the experience and contribution of individuals. Deloitte has been appointed by the committee and provides the committee with market analysis, using data for companies of comparable size and complexity.

Bonuses

At the start of each financial year, the committee sets the performance measures and targets that must be met if a bonus is to be paid under the Senior Executives' Bonus Scheme. The performance measures are designed to focus senior management on the business priorities for the coming financial year and align executives' interests with those of shareholders.

With regard to the Senior Executive Bonus Scheme 2006, approximately 500 senior executives were eligible to participate in the scheme. The performance measures related to group/divisional/business profit and turnover, as appropriate, as well as non-financial personal objectives. Threshold performance levels must be achieved for bonuses to be payable. Cash bonus entitlements under this scheme were subject to a maximum of 50% of basic salary; 80% for members of the CEB; and 100% for the chief executive. Bonuses are typically awarded in March following the end of the financial year to which they relate. The maximum bonus for the chief financial officer, who is an executive director, has been increased for 2007 to 100% of basic salary.

Long-term Incentives

At the 2006 annual general meeting, shareholders approved a new Performance Share Plan designed to enable executive directors and other employees selected on a discretionary basis to earn shares in the company based on achieving stretching performance targets. The principal features of the plan are as follows:

- Awards are made over shares with a face value set by reference to a multiple of base salary, which vest subject to the achievement of performance conditions over a three year period.
- Under normal circumstances, awards will be granted annually with the face value of awards ranging between 25% and 200% of base salary depending on seniority. In exceptional circumstances, a grant of up to 250% of base salary may be made to a participant in any year.
- The performance conditions that apply relate to Rentokil Initial's relative total shareholder return (TSR) performance (50% of the award) and growth in earnings per share (EPS) growth (50% of the award).
- The committee decided upon a combination of TSR and EPS as the most appropriate way to link potential rewards to company performance and the delivery of value to shareholders. The committee views a split between TSR and EPS as providing a clear focus on financial performance of the company and the creation of shareholder value.

TSR performance conditions:

- Rentokil Initial's TSR performance is compared against two different groups of companies established at the date of the award:
  – 75% of the TSR part of the award is based on a comparison against the constituents of the FTSE 100, excluding financial services and resources companies.
  – 25% of the TSR part is based on a comparison with a selected group of international support services companies. For awards made in 2006, these companies are: Brambles Industries, The Capita Group, Compass Group, The Davis Service Group, Group 4 Securicor, Hays, MITIE Group, Prosegur Compañia de Seguridad SA, Rexam, Serco Group, Securitas AB, SGS SA and Sodexho Alliance SA.
- TSR will be calculated in accordance with the rules of the plan by the committee's advisers and approved by the committee.
- The TSR part of an award is subject to the following vesting schedule:

TSR against relevant comparator group	% vesting of relevant part of award
TSR performance at or above upper quartile	100%
Pro-rating between these points	
TSR performance at median	25%
TSR performance below median	0%

EPS performance conditions:

- For awards made in 2006, and for awards made in future years unless the committee decides otherwise, the EPS part of awards will vest depending on the cumulative annual growth in EPS over a three year period as follows:

Cumulative EPS growth over performance period	% vesting of EPS part of award
8% per annum	100%
Pro-rating between these points	
5% per annum	33.3%
Below 5% per annum	0%

- EPS will be calculated on a normalised, pre-exceptional earnings per share basis, as determined by the committee, to ensure consistency for comparative purposes, and may be adjusted to take account of matters such as material acquisitions and disposals to reflect the business structure properly.

The committee will periodically review the performance conditions when making new awards to ensure they remain appropriately stretching in respect of each grant.

Share incentive awards have been made to executive directors as follows - the table has been audited:

	Date of award	Plan	Market price at award	At 1 Jan 2006 or appointment date	Shares awarded during 2006	Market price of awarded shares	**At 31 Dec 2006**
Andrew Macfarlane	31/05/06	2006 PSP	143.25p	Nil	351,832	143.25p	**351,832**
Doug Flynn	4/04/05	On appointment	166p	2,609,263	nil	n/a	**2,609,263**

1 Awards made under the 2006 Performance Share Plan will vest on 1 June 2009, subject to performance conditions described above.
2 An award over shares with a value of five times base salary was made as a "transformation incentive award" on Doug Flynn's appointment as chief executive (as disclosed in the 2005 remuneration report). The award was made on the basis that TSR performance will be measured from 1 January 2005 and the award would vest in three equal tranches based on performance to 31 December 2007, 2008 and 2009. Following the introduction of the PSP in 2006, the vesting horizon for this award has been extended to coincide with the performance cycles that will apply for other participants and the award will therefore vest in three tranches, subject to TSR performance over the periods 1 January 2006 – 31 December 2008; 1 January 2007 – 31 December 2009; and 1 January 2008 – 31 December 2010. The TSR comparator groups and vesting schedule that apply are consistent with those disclosed in relation to the PSP described above. If Mr Flynn ceases employment as a 'good leaver' (broadly defined as compassionate circumstances), then awards would vest at that time, pro-rated for time and performance. In the event of a change of control, the award would vest to the extent that performance conditions have been satisfied.
3 On 6 March 2007, awards were made under the 2007 Performance Share Plan under which Mr Flynn received an award of 921,502 and Mr Macfarlane an award of 401,365. The market price at the date of award was £1.465.

Contractual awards on appointment (as disclosed in 2005):

Chief executive (appointed 4 April 2005): An award of £2.4 million was made in compensation for awards forfeited on cessation with his previous employer. This has been paid one third in cash and two thirds in Rentokil Initial shares. The unconditional cash element of the award (£0.8 million) was paid in two equal amounts, with the first due after six months in employment and the second due after 12 months in employment. The share element of the award (1,036,952 shares) vests, subject to continued employment, in three equal tranches, on the first, second and third anniversaries of the award being made. The first tranche (over 345,650 shares) vested on 4 April 2006 when the share price was £1.595.

Chief financial officer (appointed 9 September 2005): A one-off award was made to facilitate his recruitment over shares with a value of £600,000, vesting (subject to continued employment) in three annual tranches of one quarter, one quarter and one half on the first, second and third anniversaries of the award being made. The first tranche (over 101,667 shares) vested on 9 September 2006 when the share price was £1.506.

These contractual awards have no related performance conditions.

Pensions

The company announced on 19 December 2005 that, subject to consultation with active members, it proposed to close the defined benefit sections of the Rentokil Initial Pension Scheme in the UK to future accrual for active members. The committee approved a proposal for a new defined contribution structure which was the subject of consultation.

Following consultation with active members, the UK defined benefit scheme was closed to future accrual for all active members (other than those subject to TUPE provisions) on 31 August 2006. All active members were invited to join a replacement defined contribution scheme. The costs to the company are broadly similar to the costs of the defined benefit scheme. The new defined contribution scheme was introduced on 1 September 2006.

Chairman and non-executive directors

The chairman, Brian McGowan, has a letter of appointment dated 24 August 2004. He assumed the position of executive chairman in August 2004. In 2005, he received fees in that capacity at the annual rate of £750,000. At the beginning of May 2005, Doug Flynn took day-to-day responsibility for the running of the company, at which time Brian McGowan reverted to a non-executive role at an annual rate of £350,000. Mr McGowan's appointment as chairman may be ended by the giving of six months' notice by either party. Mr McGowan will be offering himself for re-election at the annual general meeting and information on this is provided in the directors' report.

All non-executive directors have specific terms of engagement and their remuneration is determined by the board on the recommendation of the non-executive directors' fees committee of the board within the limits set by the articles of association and based on independent surveys of fees paid to non-executive directors of similar companies. The level of fees was reviewed with the benefit of the advice of Deloitte in 2005. The basic fee paid to each non-executive director is £45,000 which is considered to remain competitive. The chairmen of the remuneration and audit committees are each paid an additional £10,000 per annum. Peter Long is chairman of the board of Rentokil Initial Pension Trustee Limited, a subsidiary, which acts as trustee of the UK pension schemes and as such he receives fees at the rate of £25,000 per annum. Non-executive directors do not have service contracts and they do not participate in any of the company's incentive schemes nor are they eligible to join the company's pension scheme.

Non-executive directors fees are set out below. The following table has been audited.

	2006 £000	2005 £000
Brian McGowan (chairman)	350	483
Alan Giles (from 18 May 2006)	28	–
Peter Bamford (from 10 July 2006)	21	–
Ian Harley (audit committee chairman)	55	48
Peter Long (remuneration committee, pension trustee company chairman and senior independent director)	80	48
Paul Mason (to 18 May 2006)	19	40
Ron Spinney (to 18 May 2006)	27	58
Duncan Tatton-Brown	45	21
	625	698

Set out below are the interests in shares of non-executive directors who were directors at 31 December 2006. The following table has been audited.

Rentokil Initial plc ordinary shares of 1p each	31 December 2006 Beneficial Interests number	1 January 2006 Beneficial Interests number
Brian McGowan	5,000*	5,000
Alan Giles	2,000	–
Peter Bamford	50,000	–
Ian Harley	2,000	2,000
Peter Long	2,000	–
Duncan Tatton-Brown	2,000	–

*Since the end of the year Mr McGowan has acquired a further 20,000 shares at a price of 148.25p

Executive directors

Contracts

It is the company's policy that executive directors should have rolling contracts subject to one year's notice by the company. The executive directors have rolling contracts which are subject to one year's notice by the company and six month's notice by the relevant director and are dated as follows: Doug Flynn, 26 September 2005; and Andrew Macfarlane, 17 August 2005.

The company's policy in respect of the notice periods for the termination of executive directors' contracts conforms with the Combined Code. The committee is fully aware that under the Combined Code it should take a robust line in reducing compensation to reflect departing directors' obligations to mitigate loss. On termination, executive directors are entitled to base pay and the value of benefits only, for the duration of the notice period.

Executive directors are entitled to accept one non-executive directorship or similar appointment outside the company, provided that the board's permission is obtained and to retain the fees in connection with such appointment. Mr Flynn does not hold any external appointments. Mr Macfarlane was a non-executive director of Invensys plc until August 2006 when he relinquished the appointment. During the year he received and retained fees of £33,442.

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

Pensions

Defined contribution arrangements

Doug Flynn and Andrew Macfarlane participate in defined contribution pension arrangements and are entitled to receive contributions from the company into pension arrangements which were increased from 22% to 25% of base salaries at the beginning of 2007, in line with the contribution rates for other senior executives participating in the company's new UK defined contribution pension scheme.

The table below details pension contributions paid during the year in respect of defined contribution schemes for directors. The pension contributions are paid by the relevant group employer. The following table has been audited.

	2006 Pension contributions £000	2005 Pension contributions £000
Doug Flynn	**185**	132
Andrew Macfarlane	**96**	35
Total	**281**	167

Defined benefit arrangements

Edward Brown, who was a director until 5 January 2006, accrued benefits under the defined benefit scheme during the year details of which are set out below. The following table has been audited.

	Additional accrued benefits earned in the year £000 pa	Accrued entitlement at 31 December 2006 £000 pa	Transfer value at 31 December 2006 £000	Transfer value at 31 December 2005 £000	Increase in transfer value less director's contributions £000
Edward Brown	7	244	4,339	3,504	816

	Additional accrued pension earned in the year (excluding inflation) £000 pa	Accumulated total accrued pension at 31 December 2006 £000 pa	Transfer value of increase in accrued pension less director's contributions £000
Edward Brown	(3)	244	(63)

Notes on defined benefit arrangements

1 The additional accrued benefit earned over the year is the difference between the total accrued benefit at the end of the year and the equivalent amount at the beginning of the year. The figures in brackets have been adjusted to allow for inflation during the year.

2 The above transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values represent the value of the assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the director's pension benefits.

3 The figures under Increase in transfer value less director's contributions are compliant with the Listing Rules and are the transfer value of the increase in each director's benefit over the year to 31 December 2006 (again net of the director's contributions).

4 Members also have the option to pay additional voluntary contributions. Neither these contributions nor resulting benefits are included in the above table.

5 Mr Brown ceased to be a member of the defined benefit section of the company's pension scheme on when it closed to future accrual on 31 August 2006. He then became a member of the company sponsored money purchase scheme and the contributions to this during the period 1 August 2006 to 31 December 2006 were £39,105.67.

Bonus

The chief executive participates in a cash bonus arrangement with a maximum bonus entitlement of 100% of base salary. The chief financial officer's maximum for 2006 is 80% of base salary. The committee has reviewed and assessed performance in 2006 based on the progress that has been made against the strategy for the business formulated in 2005. In particular, the committee (and the board) is pleased with progress that has been made in respect of: the significant acquisitions and disposals programme from which we are building both strong and integrated market positions; progress in restructuring the UK pest control and UK washrooms businesses which brings greater operational efficiency and renewed focus on our customers; and improved customer relations and contract portfolio growth which have, in turn, led to strong revenue growth. These achievements are discussed in greater detail in the letter to shareholders on pages 1 to 7.

The committee recognises that there is more to do, but considers that the achievements in the year merit bonus payments at 'target' levels. The chief executive and chief financial officer have therefore both been allocated a bonus payment at 50% of base salary (in 2005, maximum bonus payments were made).

Total pay and benefits for executive directors

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

	Salary £000	**Bonus £000**	**Compensatory award £000**	**Benefits £000**	**Total £000**	2005 £000
Doug Flynn	**840**	**420**	**–**	**72**	**1,332**	2,151
Andrew Macfarlane	**437**	**230**	**–**	**26**	**693**	319
Edward Brown	**4**	**–**	**–**	**–**	**4**	377
2006	**1,127**	**650**	**–**	**98**	**2,029**	–
2005	1,467	740	800	213	–	3,220

Notes

1 Executive directors are provided with private health cover and a company car. The value of the benefits is included under "Benefits" in the above table.

2 The "Benefits" referred to in the above table include the sum of £36,000 (exclusive of VAT) in respect of fees for legal and tax advice which was paid by the company on behalf of Mr Flynn, in connection with the development of his service agreement and the structuring of his employment and pension arrangements.

3 The company provides a car and driver for the business use of Mr Flynn, other directors and senior executives and for the limited private use of Mr Flynn. The cost of provision of the car and driver in the year ended 31 December 2006 was in the order of £93,000 (2005: £42,000 - 8 months) and is not included in the above table.

4 In addition to the amounts shown in the table, Doug Flynn and Andrew Macfarlane, as a part of their employment terms, have received shares the vesting of which is conditional upon their continued employment. Further details are set out above.

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

Interests in shares

The following table sets out the interests of executive directors, who were directors on 31 December 2006, in the shares of the company – the table has been audited:

Rentokil Initial plc ordinary shares of 1p each	**31 December 2006 Beneficial Interests number**	1 January 2006 Beneficial Interests number
Doug Flynn	**345,650**	–
Andrew Macfarlane	**59,984**	–

Notes

1 Mr Flynn's interest in shares shown above represents his vested beneficial interest in a total of 1,036,952 shares which comprises the share element of the compensatory award which vests in three equal tranches, on the first, second and third anniversary of the award being made. The vesting of the remainder of the award is dependent on continued employment.

2 Mr Macfarlane's interest in shares shown above represents his vested beneficial interest in one quarter of his appointment award comprising 101,667 shares, acquired on 6 December 2006, less 41,683 disposed on the same day at a price of £1.4725, to meet the related tax liability.

3 Since the end of the year Mr Flynn and Mr Macfarlane have each acquired a further 20,000 shares at a price of 148.25p.

4 Mr Edward Brown resigned as a director on 5 January 2006 and had an interest in 392,203 shares on 1 January 2006 and as at the date of his resignation.

Share option schemes

The introduction of the Performance Share Plan in 2006 replaced all previous long-term incentive schemes, under which no further awards will be made. Edward Brown received an award in 2005 and the details of his awards held at the time of his cessation as a director are as follows. This table has been audited:

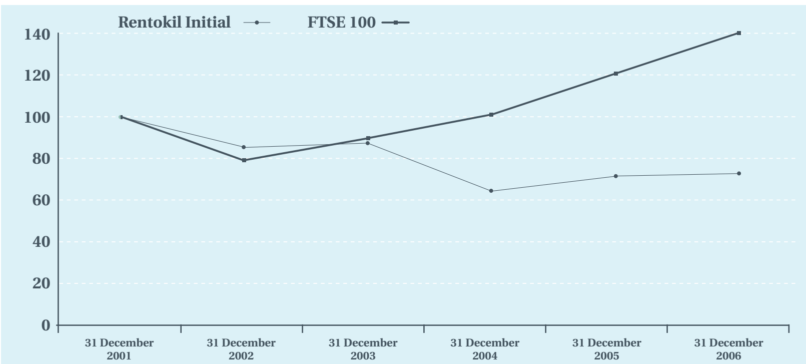
	Date of grant	Earliest exercise date	Expiry date	Price per share	Number at 1 January 2006	Granted/ lapsed in the year	Exercised	Number at 31 December 2006*
Edward Brown*	29.05.96	29.05.99	28.05.06	201.135	60,674	(60,674)	0	0
	18.04.97	18.04.00	17.04.07	204.634	96,824	0	0	96,824
	20.04.98	20.04.01	19.04.08	371.670	145,000	0	0	145,000
	14.05.99	14.05.02	13.05.09	270.000	250,000	0	0	250,000
	10.05.00	10.05.03	09.05.10	156.500	425,299	0	0	425,299
	01.03.01	01.03.04	28.02.11	205.250	355,318	0	0	355,318
	01.03.02	01.03.05	28.02.12	266.750	170,571	0	0	170,571
	29.08.03	29.08.06	28.08.13	204.500	155,169	0	0	155,169
	31.08.04	31.08.07	30.08.14	152.000	215,027	0	0	215,027
	24.03.05	24.03.08	23.03.15	160.500	203,639	0	0	203,639
					2,077,521	**(60,674)**	**0**	**2,016,847**

*Mr Brown ceased to be a director on 5 January 2006 and information on his interests in share options did not change between 1 January 2006 and 5 January 2006. In accordance with the rules of the schemes, the interests shown above will lapse on 30 June 2008 unless previously exercised.

For further details of performance conditions attached to share option schemes see note 28 of the financial statements.

TSR performance graph

The following graph shows the company's total shareholder return (TSR) performance relative to the FTSE 100 Index, of which the company was a constituent until September 2006. The graph has been prepared in accordance with the requirements of Schedule 7A of the Companies Act 1985.



Preparation

The directors' remuneration report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002) ("Schedule 7A") and to comply with the provisions of the Combined Code. The company's auditors, PricewaterhouseCoopers LLP, are required to report to the company's members on the matters set out in part 3 of Schedule 7A and to state, in their opinion, whether that part of the report has been properly prepared in accordance with the Companies Act 1985. In accordance with Schedule 7A, the elements of the report which have been audited are highlighted.

Approval

Approved by the board of directors on 14 March 2007 and signed on its behalf by

Peter Long
Remuneration committee chairman