

DIRECTORS' REPORT

Principal activities

The company is the holding company of a group which through its operating businesses in some 44 countries provides a range of, principally, business to business support services. During the year under review the company disposed of its interests in manned guarding. In 2007, the company has indicated that it is seeking to exit the electronic security sector in Europe and the United States. A summary description of the company's activities is given on the inside front cover and a more detailed description is contained within the review of performance on pages 8 to 28. The principal subsidiary undertakings and joint ventures of the company are shown on page 116.

Business review

The business review, which is contained within the letter to shareholders on pages 1 to 7 forms part of this report, and the review of performance on pages 8 to 28 report on the group's activities during the year and on likely future developments. The business review describes the key performance indicators used by the board to monitor progress against strategy, together with disclosures of the principal risks and uncertainties affecting the business. The review of performance does not seek to comply with the Accounting Standards Board's reporting statement on operating and financial reviews.

Results and dividend

The consolidated profit before income tax for 2006 was £199.1 million (the tax on this was £44.8 million). Dividends declared and recommended out of 2006 profits amount to £133.3 million. Net consolidated capital employed is negative £533.6 million compared to negative £659.6 million last year.

An interim dividend of 2.13p per share, amounting to £38.5 million, was paid on 27 October 2006. The board recommends the declaration of a final dividend of 5.25p, amounting to £94.8 million (adjusted for the waiver of dividend in respect of the shares held by the trustee of the Rentokil Initial Employee Share Trust). The total distribution for 2006 would then be 7.38p per share (2005: 7.38p) amounting to £133.3 million. Subject to shareholders approving the recommended dividend at the annual general meeting, the dividend will be paid on 18 May 2007 to shareholders on the register at the close of business on 13 April 2007.

Substantial interests and share capital

The company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements in operation which may at a subsequent date result in a change in control of the company. As at 14 March 2007, the following shareholders had indicated that they were interested in 3% or more of the company's issued share capital. The interests of 3% or more total 26.90% (March 2006: 26.72% excluding Silchester and UBS).

Britel Fund Trustees Ltd.	4.29%
Franklin Resources Inc.	8.74%
Legal and General Investment Management Ltd.	3.51%
Silchester International Investors Ltd.	*4.39%
UBS AG	*5.97%

* previously an interest not required to be disclosed

Details of movements in the company's ordinary shares during the period are provided in note 27 to the consolidated financial statements.

Authority for the company to make purchases of its own shares of up to 90.69 million was obtained at the annual general meeting on 18 May 2006. No purchases of its shares were made by the company in 2006. The authority is normally renewable annually and approval will be sought from shareholders at the 2007 annual general meeting to renew the authority for a further year.

Electronic communications

The consent of shareholders will be sought at the annual general meeting in 2007 to give the company authority under the Companies Act 2006 to communicate with shareholders or anyone with an indirect interest in shares by making such communication available on its website, in accordance with Schedule 5 of the Act.

Board

Biographical information on the current directors of the company, including their ages and their dates of appointment, is shown on page 39.

Edward Brown, an executive director, resigned from the board on 5 January 2006. On 18 May 2006, Ron Spinney retired as deputy chairman and as a director and Paul Mason resigned as a non-executive director upon his becoming chief executive of Somerfield plc.

Alan Giles and Peter Bamford were appointed to the board on 18 May 2006 and 10 July 2006, respectively, and under the company's articles of association will offer themselves for re-appointment at the annual general meeting on 3 May 2007. Neither has a service contract with the company.

The directors retiring by rotation will be the chairman Brian McGowan and Ian Harley, who are eligible and offer themselves for re-election at the 2007 annual general meeting. Details of the chairman's contractual arrangements with the company are set out in the remuneration report. Ian Harley does not have a service contract with the company.

Board committees

The board has reviewed its procedures and practices and, in particular, the terms of reference of the board committees. The principal board committees are as follows:

Audit committee

The terms of reference of the committee reflect the Smith Guidance which is appended to the Combined Code. Its members are Ian Harley (chairman), Duncan Tatton-Brown, Peter Bamford and Alan Giles, all of whom are independent non-executive directors. A report on its activities is set out below.

Nomination committee

This committee is responsible for recommending board appointments. Its terms of reference reflect the Higgs Guidance which is appended to the Combined Code. Its members are Brian McGowan, Doug Flynn, Peter Long and Ian Harley. The nomination committee met on two occasions in 2006 to consider non-executive director appointments which ultimately led to the appointments of Alan Giles and Peter Bamford as non-executive directors. It also met at the end of the year to review succession planning for non-executive directors.

Remuneration committee

The terms of reference of the remuneration committee reflect the Higgs Guidance. The directors' remuneration report is set out on pages 46 to 53. The members of the remuneration committee are Peter Long (chairman), Duncan Tatton-Brown and Alan Giles, all of whom are independent non-executive directors.

The remuneration committee has reviewed its effectiveness during the year and concluded that it had continued to operate effectively.

The terms of reference of the board committees may be found on the company's website, www.rentokil-initial.com, or if a hard copy is required by application to the company secretary at the head office.

Directors' interests

The interests of the directors and their families in the share capital of the company on 1 January 2006, or their date of appointment if later, and 31 December 2006 are set out on pages 50 and 52. The only director who has received an award under the company's performance share plan introduced during the year is Andrew Macfarlane, details of which are shown in the remuneration report on page 49. No director had any beneficial interest in the shares of any of the company's subsidiaries on those dates.

Changes in the interests of the directors and their families in the company and its subsidiary companies during the period from the end of the financial year to 14 March 2007 are described in the directors' remuneration report.

Directors' indemnity and insurance

The company has granted indemnities in favour of its directors as is permitted by the Companies (Audit Investigations and Community Enterprise) Act 2004. It has also purchased cover for the directors against liabilities arising in relation to the company, as permitted by the Companies Act 1985.

Interests of directors in contracts

During 2006, no director had any material interest in any significant contract to which the company or any subsidiary was a party.

Related party transactions

Other than in respect of arrangements relating to employment, details of which are provided in the remuneration report, or as set out in note 36 to the consolidated financial statements on page 115 there is no material indebtedness owed to or by the company to any employee or any other person considered to be a related party.

Employees

The company attaches considerable importance to communicating with employees. Internal communications take place at a group, divisional, business and team level in order to ensure that employees receive accurate information in a timely manner.

At a corporate level, the group intranet is used to announce company news with the support of direct email communication from the executive team. This is supplemented by a quarterly electronic magazine called "The Bigger Picture" which features interviews with senior executives about major initiatives and performance. A DVD of the 2006 leadership conference was made available to all businesses to support the communication of company strategy.

Divisional communications use a wide range of channels such as email, divisional intranets, electronic newsletters and quarterly magazines. Great importance is placed on face-to-face team meetings.

The Asia Pacific division has developed its own magazine called "Rising" as a means of drawing together its entire staff across the region. This includes insights into business activities, examples of building service excellence, information about community initiatives and introductions of new employees.

In Europe, the company meets its European Forum (EWC) at least once a year to communicate with employee representatives from across the continent. It maintains an open dialogue with the Forum at times of change.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with Rentokil Initial continues and that appropriate training is arranged. It is the policy of Rentokil Initial that the training, career development and promotion of disabled persons should, as far as possible, be identical with those of other employees.

Post balance sheet events

Post balance sheet events are shown in note 37 to the accounts on page 115.

Policy in relation to payment of suppliers

Rentokil Initial has a variety of payment terms with its suppliers in various countries. These are either negotiated along with other contract terms or conform to standard terms applied either by the relevant group company or by the supplier. It is the company's policy to pay suppliers in accordance with either negotiated or standard terms, provided that the relevant invoice is properly presented and is not the subject of dispute.

At 31 December 2006 the trade creditors of the group represented 59 days of annual purchases and the UK businesses' trade creditors represented 58 days of purchases; UK trade debtors represented 58 days of turnover. During the year the parent company did not have any trade creditors.

Corporate responsibility and charitable donations

As described in the corporate responsibility review on pages 34 to 37, the group seeks continually to identify best corporate practices within the group in relation to employees, customers, suppliers and the communities on which we have an impact and to celebrate and encourage the highest standard of responsible behaviour as well as continually to seek to operate the business in ways which are most sympathetic to our environment. The company publishes a corporate responsibility report annually which is available to download from the company's website, www.rentokil-initial.com.

The company takes account of social, environmental and ethical considerations when managing the business and when contemplating new activities. In 2002 the board adopted a range of corporate responsibility

policies. In addition to the existing policies and procedures in respect of the environment and health and safety, they comprise policies on ethics, the fundamental rights of employees, equal opportunities and diversity, employee remuneration, training and employee development, job security and wealth creation, relationships with customers and suppliers and community involvement. The chief executive, Doug Flynn, is the director responsible for corporate responsibility matters.

The company views the processes in place to manage risk and to motivate and incentivise managers described in the report as equally relevant to an analysis of social, environmental and ethical matters. The ongoing evaluation of systems and procedures is intended to ensure that the management system (including the internal control framework) is effective in ensuring that issues of a social, environmental or ethical nature are identified and acted upon. The company's internal control verification systems cover corporate responsibility matters to ensure that businesses report periodically on their progress towards compliance with the company's corporate responsibility policies.

Donations for UK charitable purposes in 2006 amount to £116,000 and a further £82,000 was donated in other countries. There were no payments to political organisations. Payments are made to a wide range of charitable organisations both in the UK and overseas. Encouragement is given to a matched giving scheme whereby the company matches donations made by employees.

Research and development

The company invests in an active programme of research and development in support of its major international business streams. This programme includes the conception, design, testing and manufacture of new products to enhance the quality and safety of the company's services and minimise their environmental impact. Where appropriate, work is sponsored at universities with expertise in specific relevant areas. The company's total research and development expenditure in 2006 was £3.1 million (2005: £3.0 million).

Financial instruments

The company's financial risk management objectives and policies are set out within the financial review on pages 29 to 33, which includes the policy for hedging certain forecast financial transactions. The review and notes 17, 22, 23 and 24 to the accounts also detail the company's exposure to price, credit and liquidity risks. The company is not materially exposed to cash flow risks arising from cross-border trading transactions.

Corporate governance

The company complies with the Code of Corporate Governance issued by the Financial Reporting Council on 23 July 2003 ("the Combined Code") save insofar as an explanation of a failure to do so is given below. The following specific disclosures are now made in accordance with Schedule C to the Combined Code.

1. Effective board

The board is responsible to shareholders for the overall direction and control of the company and specifically reserves certain matters for its consideration (such as approval of the company's financial statements, major capital expenditure and major acquisitions and disposals) in the standing board procedures and practices, which are reviewed annually. The chief executive has delegated authority from the board to manage the company, subject to the strategic direction of the board. He is also responsible for the achievement of the objectives set by the board and preparing an overall strategy for the company to achieve such objectives and the implementation of the overall strategy decided by the board through the management and organisation of the company.

The board meets routinely eight times a year and additionally when necessary and follows an agreed formal schedule of matters which are considered at individual meetings. In 2006 the board met on ten occasions. Peter Bamford, Alan Giles, Ian Harley, Peter Long and Paul Mason were each unable to attend one meeting during the year because of other unavoidable commitments.

2. Composition of the board

Information on directors is set out on page 39.

3. Board committees

Details on the audit, nomination and remuneration committees are set out on page 41.

4. Independent non-executive directors

The board regards Peter Long (senior independent director), Peter Bamford, Alan Giles, Ian Harley and Duncan Tatton-Brown as independent non-executive directors within the tests set out in the Combined Code.

5. Further significant commitments of the chairman

The external commitments of Brian McGowan have remained the same since his appointment as chairman in July 2004.

6. Performance evaluation

The board has undertaken a formal evaluation of its own performance and that of its committees and individual directors. The directors completed appraisals on matters relevant to board, committee and director performance. A report was presented to and reviewed by the board. The board concluded that the evaluation exercise had confirmed that the directors have the appropriate range of skills and experience and constituted an effective and unified board. The review was conducted internally but with the aid of a framework developed by external specialists.

Individual director evaluation showed that each director (including those seeking election or re-election at the AGM in 2007) continues

to demonstrate commitment to and effectiveness in the role. The non-executive directors, led by the senior independent director, carried out a performance evaluation of the chairman after taking account of the views of the executive directors. The board intends to carry out further performance evaluations but will keep under review the method and frequency.

7. Dialogue with major shareholders

The chief executive and chief financial officer hold regular meetings with analysts and institutional shareholders to discuss the company's strategy and financial performance. In the first half of the year the board commissioned Makinson Cowell to conduct an audit of leading shareholders in the UK, continental Europe and the USA to gauge their views on strategy, performance, future expectations and corporate governance. In November 2006, the company held a series of presentations and question and answer sessions for shareholders over a full day which involved senior managers from operating businesses. Feedback from this and other more routine meetings with major shareholders is reported to other members of the board. The board is regularly provided with an analysis of the company's shareholder base and with commentary on market views and sentiment. The company has sought the views of major UK-based shareholders on how members of the board and, in particular, the non-executive directors, should develop an understanding of the views of major shareholders about the company. As a result the chairman and, if so requested, non-executive directors will make themselves available for discussions with shareholders at the time of the release of the preliminary results and on other occasions if requested by shareholders.

8. Accountability and audit

The audit committee assists the board on matters concerning accountability and audit, information on which is contained within the audit committee report on pages 44 and 45.

9. Going concern

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

10. Auditors' independence

The company has reviewed its relationship with its auditors, PricewaterhouseCoopers LLP, and concluded that there are sufficient controls and processes in place to ensure the required level of independence. Consequently there are no plans to replace PricewaterhouseCoopers LLP, whose re-appointment is proposed as set out in the notice of AGM which accompanies the annual report.

Auditors and disclosure of information to auditors

Insofar as each of the directors is aware, there is no relevant audit information (as defined by section 234 of the Companies Act 1985) of which the company's auditors are unaware; and each of the directors has taken all of the steps that he should have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the annual general meeting to be held on 3 May 2007.

Statement of Directors' Responsibilities

Company law requires the directors to take responsibility for preparing the annual report, including the remuneration report, and the financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit and loss and cash flows of the group for that period. In preparing these financial statements, the directors are required to adopt suitable accounting policies and to apply them consistently, making judgements and estimates that are reasonable and prudent and following applicable accounting standards. These standards are: (a) UK Generally Accepted Accounting Principles (UK GAAP) for the company; and (b) International Financial Reporting Standards (IFRS) as adopted for use in the EU and implemented in the UK for the group.

The directors are responsible for ensuring that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the remuneration report comply with the Companies Act 1985 and as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Rentokil Initial plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Safe Harbour Statement

The directors' report and certain other sections of this annual report and accounts include statements that constitute "forward-looking statements". Forward-looking statements include information concerning possible, estimated or assumed future results of our operations, earnings, liquidity, cash flow and capital expenditures, industry or market conditions, acquisition

activities and the effect of completed acquisitions, gearing, debt levels and the ability to obtain additional financing or make payments on our debt, legal, regulatory or fiscal developments, demand for and pricing of our products and other aspects of our business or general economic conditions. Forward-looking statements are not guarantees of performance. By their nature, forward-looking statements involve risks, uncertainties and assumptions because they relate to events and depend on circumstances that will or may occur in the future. Although we make such statements based on assumptions that we believe to be reasonable, there can be, and we give, no assurance, whether express or implied, that actual results will not differ materially or significantly from our expectations or estimations.

Annual general meeting

The annual general meeting of the company will be held at No 4 Hamilton Place, London W1J 7BQ on 3 May 2007 at 11 a.m. A separate letter to shareholders containing the notice of the annual general meeting and information on the resolutions to be proposed as special business accompanies this annual report.

By order of the board.



Paul Griffiths
Secretary
14 March 2007

AUDIT COMMITTEE REPORT

The audit committee's terms of reference are available on the company's website and were updated at the beginning of 2004 to reflect the Smith Guidance. The principal oversight responsibilities of the committee cover: financial reporting, internal control and risk management, various matters concerning the external auditors including their appointment, scope of their duties, their independence and monitoring and receiving reports from the internal audit function. The committee reviewed its terms of reference towards the end of 2006 and concluded that they remain appropriate.

The members of the committee at the end of the year were Ian Harley (chairman), chartered accountant, Duncan Tatton-Brown, chartered management accountant, Peter Bamford and Alan Giles. In order to fulfil its terms of reference, the committee reviews, challenges and approves, as the case may be, presentations or reports from senior management, consulting as necessary with the external auditors. During the year the committee had a satisfactory level of dialogue with the company's auditors and did not find it necessary to seek external advice.