

## DEAR SHAREHOLDERS,

Despite satisfactory performances delivered by five of our six divisions, the unexpected and unacceptable fourth quarter performance from City Link, our parcels business, has marred the progress made by the rest of the group during 2007. Looking forward, the trends City Link experienced at the end of 2007 appear to be continuing and point to a difficult year ahead for the business. Our full year outcome for 2008 will be heavily dependent on how quickly we are able to return City Link to profitability over the coming months.

This situation is all the more disappointing given that at the half year the group appeared to have reached an inflection point in terms of profit. Having delivered a first half performance in line with expectation and with profit expected to move strongly ahead in the second half, the board was confident in the group's ability to deliver ongoing improvements. Indeed, operating profit from all our divisions with the exception of City Link moved ahead in the second half as a result of improved performances.

The issues experienced at City Link are specific to that business and they do not impact trading elsewhere in the group. Whilst the full details of what happened at City Link are documented in the business review, in summary we tried to do too much too quickly with the integration of the enlarged business and as a result, account management and service was compromised in the short-term. Since December we have undertaken a detailed analysis to understand what went wrong. It is now clear that a number of factors combined to cause a rapid deterioration in the fourth quarter.

As it had done in 2006, City Link's performance tracked budget until the end of the third quarter and regular business reviews and forecasts gave us no cause for concern. Clearly we have to improve greatly the visibility we have on future expected performance. We have taken action to address recent problems and have changed the leadership of City Link. We have also decided to pause the depot integration programme and are putting in place a recovery plan to ensure that we can continue to provide exemplary levels of service for our customers.



#### **MORE THAN A NEW SHIRT**

In Belgium the company's new state-of-the-art laundry processing plant in Lokeren entered operation on time and on budget in 2007. It features an environmentally friendly water treatment installation that re-uses up to 50% of pumped water; uses automatically measured amounts of biodegradable detergents in energy-saving automatic washing systems; and uses natural gas as the sole energy source for the complex. This modern facility is ideally located to maximise route efficiency and is expected to improve divisional profits by £0.7 million per annum from 2008.

City Link's problems have inevitably detracted from the progress achieved elsewhere and it would be a great disservice to the other divisions were we not to acknowledge their performance here. We are pleased to report that our Textiles and Washroom Services, Pest Control, Asia Pacific, Facilities Services and Ambius divisions all made progress against plan in 2007. Their priorities during the year were to generate growth in revenue and customer retention, improve sales and marketing effectiveness and exploit the power of our brands. Efficiency and productivity improvements were a focus during 2007 and all divisions were tasked with driving sales and service improvements, taking cost out of the business where appropriate and improving processes. In addition, within these businesses work undertaken during the year on integrating acquisitions made in 2006 began to deliver synergy benefits.

We announced our 2007 results to the stock market at the end of February. The situation at City Link and its implications for 2008 profitability caused our share price to fall 23% on the day; our earlier trading statement in December had already caused a 22% fall in the share price. It was clear to us that radical action was required if we are to create better value for shareholders.

We were therefore delighted to be able to announce on 20 March that we are appointing Dr John McAdam as Chairman, Alan Brown as Chief Executive and Andy Ransom as Executive Director, Corporate Development. Together with Andrew Macfarlane, Chief Financial Officer, and other members of the senior management, they will form a new leadership team for the group. Doug Flynn, Chief Executive, resigned with immediate effect. Brian McGowan, the Chairman, had already announced his intention to step down no later than the annual general meeting and also resigned on 19 March. Brian has been Director for 11 years and Chairman for four. We thank him for his commitment to the group.

John, Alan and Andy were respectively CEO, Finance Director and Executive Vice President, Mergers & Acquisitions, General Counsel and Company Secretary at ICI. Their track records speak for themselves. We are in no doubt that their proven skills, in particular the operational and strategic rigour which they applied so successfully to the remarkable turnaround at ICI will be brought to bear, alongside those of the existing Rentokil Initial team, on the many and complex issues facing the group.

Alan Brown will take up his position as Chief Executive on 1 April 2008 and Andy Ransom will become an executive director and join the board with effect from 1 May 2008. Subject to approval by shareholders, Dr John McAdam will join the board as Chairman immediately after the company's annual general meeting on 14 May 2008. Until the annual general meeting, Peter Long, the Senior Independent Director, will fulfil the duties of Chairman.

Earlier this year we made two new senior non executive director appointments and were pleased to welcome Richard Burrows and William Rucker to the board in 2008. Richard is the Governor of the Bank of Ireland and is a former joint CEO of Pernod Ricard. William is the Chief Executive of Lazard, London and is also Deputy Chief Executive of Lazard's European Investment Banking business and a Deputy Chairman of the worldwide firm.

During 2007 Ian Harley stood down from the board but keeps an association with the group by chairing the UK pension fund trustee company. Ian has been a board member for the past eight years and was due to retire at the company's AGM in May. The board thanks Ian for his contribution over that time.

As we look ahead into 2008, our priorities are clear. We must:

- 1. RETURN CITY LINK TO PROFIT AND THEN PROFIT GROWTH**
- 2. BUILD ON THE MOMENTUM THAT WE HAVE NOW ESTABLISHED ACROSS THE REST OF OUR BUSINESSES AND DRIVE OPERATIONAL EXCELLENCE**
- 3. CREATE VALUE FOR SHAREHOLDERS BY IMPROVING PERFORMANCE**

Our company has seen significant changes in management over the past two years and great demands have been put on all our people. We have more than our share of outstanding talent and it is this talent, commitment and dedication that will ensure a strong future for Rentokil Initial, despite the current challenges. Throughout the group our employees have shown a full appreciation of the need to change and improve upon our service delivery and to restore the company's performance. We thank them all for their hard work and enthusiasm.

With the recent board appointments and the existing talent in the group, we now have a team in place which we are convinced has the right combination of skills to lead Rentokil Initial forward over the next few years.

Yours faithfully,



**PETER LONG, ON BEHALF OF THE BOARD OF RENTOKIL INITIAL PLC**

**27 MARCH 2008**