

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The company is the holding company of a group which through its operating businesses in some 50 countries provides a range of, principally, business to business support services. During the year under review the company disposed of its interests in the electronic security sector in Europe and the United States. A summary description of the group's activities is given on the inside front cover and a more detailed description is contained within the business review on pages 18 to 44. The principal subsidiary undertakings and joint ventures of the company are shown on page 122.

BUSINESS REVIEW

The business review, on pages 18 to 44 forms part of this report and reports 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.

RESULTS AND DIVIDEND

The consolidated profit before income tax for 2007 was £142.0 million (the tax on this was £30.3 million). Dividends declared and recommended out of 2007 profits amount to £133.4 million. Net consolidated capital employed is £58.3 million compared to negative £533.6 million last year.

An interim dividend of 2.13p per share, amounting to £38.5 million, was paid on 19 October 2007. The board recommends the declaration of a final dividend of 5.25p, amounting to £94.9 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 2007 would then be 7.38p per share (2006: 7.38p) amounting to £133.4 million. Subject to shareholders approving the recommended dividend at the annual general meeting, the dividend will be paid on 23 May 2008 to shareholders on the register at the close of business on 18 April 2008.

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 27 March 2008, the following shareholders had indicated that they were interested in 3% or more of the company's issued share capital. The total interests of such shareholders equals 32.38%.

Details of movements in the company's ordinary shares during the period are provided in note 9 to the parent company financial statements.

Authority for the company to make purchases of its own shares of up to 90.7 million was obtained at the annual general meeting on 3 May 2007. No purchases of its shares were made by the company in 2007.

The authority is normally renewable annually and approval will be sought from shareholders at the 2008 annual general meeting to renew the authority for a further year.

Substantial shareholdings	%	No. of ordinary shares	Nature of holding
Aviva plc (and subsidiaries)	3.11	56,498,478	Direct
Britel Fund Trustees Ltd	5.004	90,818,295	Indirect
Legal and General Group plc	4.19	76,211,543	Indirect
Lloyds TSB Group plc	8.686	157,633,447	Indirect
Silchester International Investors Ltd	5.29	96,039,752	Direct
ValueAct Capital Management LLC and its affiliates (i)	6.10	110,789,037	Indirect

1. (i) This notification has been reported on an aggregated basis and includes the 5.42% holding of Value Act Capital Master Fund LP (98,383,480 ordinary shares) and the 0.68% holding of ValueAct Capital Master Fund III, LP (12,405,557 ordinary shares).
- (ii) Franklin Resources, Inc (and affiliates) and UBS AG no longer hold disclosable interests in the Company.

ELECTRONIC COMMUNICATIONS

With the consent of shareholders at the annual general meeting in 2007, the company is authorised 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. Accordingly, the company will distribute its printed annual report only to shareholders who have indicated to the company that they wish to receive it in that form. The company will periodically canvas new shareholders on the form in which they wish to receive their shareholder communications. Further information on shareholder services is available on page 132.

BOARD

Biographical information on the current directors of the company, including their ages and their dates of appointment, is shown on page 51.

Ian Harley stepped down as a director on 18 July 2007 and at the same time was appointed a director and chairman of the trustee company of Rentokil Initial's UK pension schemes.

On the recommendation of the nomination committee, Richard Burrows was appointed a director on 14 January 2008 and William Rucker was appointed a director on 15 February 2008 and under the company's articles of association will offer themselves for re-appointment at the annual general meeting on 14 May 2008. Neither Richard Burrows nor William Rucker have a service contract with the company.

Following the resignation of Brian McGowan and Doug Flynn as Chairman and Chief Executive respectively on 19 March 2008, it was announced on 20 March 2008 that Dr John McAdam will be proposed for appointment as a director at the annual general meeting. Alan Brown will be appointed a director and Chief Executive

on 1 April 2008 and Andy Ransom will be appointed a director on 1 May 2008, both of whom will submit themselves for election at the annual general meeting.

The directors retiring by rotation will be Andrew Macfarlane and Duncan Tatton-Brown, who are eligible and offer themselves for re-election at the 2008 annual general meeting. Details of Andrew Macfarlane’s contractual arrangements with the company are set out in the remuneration report. Duncan Tatton-Brown does not have a service contract with the company.

DIRECTORS’ INTERESTS

The interests of the directors and their families in the share capital of the company on 1 January 2007, or their date of appointment if later, and 31 December 2007 are set out on pages 62 to 64. Doug Flynn and Andrew Macfarlane each received an award under the company’s performance share plan introduced in 2006, details of which are shown in the remuneration report on page 63. No director had any beneficial interest in the shares of any of the company’s subsidiaries on those dates. Any 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 27 March 2008 are described in the directors’ remuneration report. Richard Burrows holds a beneficial interest over 25,000 shares in the company purchased on 28 February 2008.

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 insurance cover for the directors against liabilities arising in relation to the company, as permitted by the Companies Act 2006. This insurance does not cover fraudulent activity.

INTERESTS OF DIRECTORS IN CONTRACTS

During 2007, 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 of directors, details of which are provided in the remuneration report, or as set out in note 34 to the consolidated financial statements on page 121 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 and a variety of structures exist for two way communications at all levels. 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 periodic electronic

magazine called “Horizons” which features interviews with senior executives about major initiatives and performance. A DVD of the 2007 leadership conference was made available to all businesses to support the communication of company strategy. In Europe, the company meets its European Forum (European Works Council) 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 business change. 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.

Applications for employment by disabled persons are always fully considered, taking into account the aptitudes of the applicants. 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 re-training is made available. 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 35 to the consolidated accounts on page 121.

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 in a timely manner and is not the subject of dispute. At 31 December 2007 the trade creditors of the group represented 57 days of annual purchases and the UK businesses’ trade creditors represented 56 days of purchases; UK trade debtors represented 55 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 45 to 49, the group seeks continually to identify best practices within the group in relation to employees, customers, suppliers and the communities on which we have an impact and to 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/csr.

The company takes account of social, environmental and ethical considerations when managing the business and when contemplating new activities. The company views the processes in place to manage risk and to motivate and incentivise managers described in the report as equally relevant and integral to an analysis of social, environmental and ethical matters.

In 2002 the board adopted a range of corporate responsibility policies. In addition to 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. In 2007 the company reviewed and updated its ethics policy and introduced new guidance for operating businesses worldwide on how their local business practices should conform to the group's business principles. The chief executive is the director responsible for corporate responsibility matters.

Donations for UK charitable purposes in 2007 amount to £51,000 and a further £56,000 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. The matched giving scheme whereby the company matches donations made by employees following employee fundraising has been reviewed by the board and a greater effort is now being placed upon ensuring that the scheme is better utilised by employees, particularly those outside the UK.

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, effectiveness and safety of the company's services and minimise their environmental impact. Where appropriate, work may be sponsored at universities with expertise in relevant areas. The company's total research and development expenditure in 2007 was £1.7 million (2006: £3.1 million).

FINANCIAL INSTRUMENTS

The company's financial risk management objectives and policies are set out within the Financial Review on pages 40 to 44, which includes the policy for hedging certain forecast financial transactions. The review and notes 16, 21 and 22 to the accounts also detail the company's exposure to price, credit and liquidity risks. The company is not materially exposed to foreign exchange risks arising from cross-border trading transactions, although it is significantly exposed to foreign exchange investment risks.

TAKEOVERS DIRECTIVE

Pursuant to section 992 of the Companies Act 2006, which implements the EU Takeovers Directive the Company is required to disclose certain additional information. Those further disclosures, which are not made elsewhere in this annual report, include the following:

The company's articles of association give power to the board to appoint directors, but also require directors to retire and submit themselves for re-election at the first annual general meeting

following the appointment and for re-election by rotation. The articles themselves may be amended by special resolution of the shareholders.

The board is 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 memorandum and articles of association. For example, the articles contain specific provisions and restrictions regarding the company's power to borrow money. Powers relating to the issuing and buying back of shares are also included in the articles of association and such authorities are renewed by shareholders each year at the annual general meeting. A copy of the articles of association is available to view on the company's website.

There are a number of agreements that take effect, alter or terminate upon a change of control of the company, such as some commercial agreements, financing arrangements and employee share plans. None of these are deemed to be significant in terms of their potential impact on the group as a whole. 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 Takeovers Directive. Copies of executive directors' service contracts are available for inspection by shareholders at the company's registered office and at the annual general meeting.

ANNUAL GENERAL MEETING

The annual general meeting of the company will be held at No. 4 Hamilton Place, London W1J 7BQ on 14 May 2008 at 11 a.m.

In addition to the adoption of the 2007 report and accounts, the declaration of a final dividend, resolutions dealing with the appointment and re-election of directors, incentive arrangements for new directors, and the resolution dealing with the approval of the directors' remuneration report, there are resolutions on the following matters: the re-appointment and remuneration of the auditors, a routine authority to repurchase the company's shares, authorities to allot shares and disapply pre-emption rights and a general authority to make donations to EU political organisations. In addition the company will be proposing changes to its articles of association that are consequential on the enactment of the Companies Act 2006.

A separate letter to shareholders containing the notice of the annual general meeting and explanatory information on the resolutions to be proposed as special business accompanies this annual report. This annual report and the notice of the annual general report can be found on the company's website, www.rentokil-initial.com.

By order of the board



PAUL GRIFFITHS
SECRETARY
27 MARCH 2008