

# CORPORATE GOVERNANCE

The company complies with the Code of Corporate Governance issued by the Financial Reporting Council (“the Combined Code”). The following specific disclosures are now made in accordance with the Combined Code 2006.

## 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 governance 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 2007 the board met on eleven occasions. Details of directors’ attendance at board and principal committee meetings are set out on page 56. The limited number of directors’ absences from meetings were due to unavoidable conflicting business commitments.

## 2. COMPOSITION OF THE BOARD

Information on directors is set out on page 51.

## 3. BOARD COMMITTEES

The board has reviewed and updated its governance procedures and practices including the terms of reference of the principal board committees. Following the appointment of additional non executive directors in 2008, the board will be reviewing the membership of principal board committees.

## AUDIT COMMITTEE

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 terms of reference of the committee (available at [www.rentokil-initial.com](http://www.rentokil-initial.com)) reflect the Smith Guidance which is appended to the Combined Code. The committee reviewed its terms of reference towards the end of 2007 and concluded that, subject to a minor amendment, they remained appropriate. The audit committee has reviewed its effectiveness during the year and concluded that it had continued to operate effectively.

The members of the committee at the end of the year were Duncan Tatton-Brown (chairman), chartered management accountant, (becoming chairman in July 2007 on the retirement of Ian Harley as a director), Peter Bamford and Alan Giles, all of whom are non-

executive directors. Of the members of the committee, Duncan Tatton-Brown has recent and relevant financial experience. The committee reviews, challenges and approves, as the case may be, presentations or reports from senior management, consulting as necessary with the external auditors, internal auditors and company executives. 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. The committee invites the chief executive, the chief financial officer, the director of corporate accounting and control, the director of internal audit and representatives of the external auditors to attend its meetings. The company secretary attends meetings in his role as secretary of the committee. The committee met the external auditors without executives present on three occasions.

During the year the committee met on five occasions and considered a range of matters in fulfilment of its terms of reference the principal matters being summarised below:

- The effectiveness of the group’s systems of internal control as well as compliance matters and risk management systems. The committee gains an appropriate level of assurance that the internal control environment was functioning effectively. However, in an environment of significant change there remained an on-going need to enhance processes in certain areas.
- Non-financial KPIs that relate to the group contract portfolio.
- The implementation of changes in the risk management framework and supporting processes which had been designed to focus to a greater extent on the more significant risk areas.
- Financial statements relating to the company’s annual report, interim report and quarterly trading updates were reviewed as well as reports from the external auditors on their audit or review of the financial statements.
- Activities of the internal audit department including resource plans, activity levels and objectives, the overall objective being to provide assurance as to the adequacy, effectiveness and quality of the company’s system of internal control, risk management and corporate governance. A new audit charter to better communicate internally the role of the internal audit function was reviewed and approved. In accordance with good practice a periodic external review of the effectiveness of the internal audit function was conducted by an external party, Independent Audit Limited, who reported to the committee on their generally favourable findings and recommendations which have been acted upon by the company.
- The fees for the 2007 audit and the audit strategy for 2008 incorporate various changes in audit scope and geographic coverage. The audit strategy would continue to consider the potential for fraud at different levels within the organisation. A fraud risk management awareness review was undertaken by internal audit during the year and reported on to the committee.
- The process of formally evaluating external auditor effectiveness which indicated that the external auditors had met company expectations for the 2006 audit. The evaluation had identified opportunities for both the company and the auditors to further enhance the effectiveness of the process.

- The provision of non-audit services by the company's auditors which were at a level well below that which would question the firm's independence as auditors. PwC assisted the company over two disposal transactions as well as providing assistance in relation to tax and other areas of technical support.
- The review of the effectiveness of the committee's activities and were satisfied that the committee was operating effectively.
- The committee reviewed the group tax policy approved by the committee in 2006 and key issues impacting on the group tax rate and tax payments and the level of tax risks within the group in the context of overall group tax policy.
- Various reports and written and oral updates on a number of control and reporting issues as part of its oversight of the internal control framework which neither individually nor collectively were material to the company.
- Half yearly reports on whistleblowing which did not contain any material matters of concern and approved and updated whistleblowing policy and related communication materials.
- Auditor independence was considered at a number of meetings.

#### 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 during 2007 were Brian McGowan, Doug Flynn and Peter Long. The nomination committee met on three occasions in 2007 to consider non-executive director appointments which ultimately led to the appointments of Richard Burrows and William Rucker as non-executive directors and to review succession planning for non-executive directors. In carrying out its duties the committee utilised the services of a specialist firm of search consultants. In 2008, a special nomination committee was established to conduct a recruitment process which ultimately led to the appointment by the board of Dr John McAdam, Alan Brown and Andy Ransom.

#### REMUNERATION COMMITTEE

The terms of reference of the remuneration committee reflect the Higgs Guidance. 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 directors' remuneration report is set out on pages 59 to 64.

#### ATTENDANCE AT MEETINGS

Director	Audit			Nomination Committee
	Board	Committee	Committee	
Brian McGowan	11	–	–	3
Doug Flynn	10	–	–	3
Andrew Macfarlane	11	–	–	–
Peter Bamford	9	4	–	–
Alan Giles	11	5	6	–
Ian Harley*	4	2	–	–
Peter Long	7	–	5	3
Duncan Tatton-Brown	10	5	6	–
Total number of meetings	11	5	6	3

\* Ian Harley retired from the board in July 2007.

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

#### 4. INDEPENDENT NON-EXECUTIVE DIRECTORS

The board regards Peter Long (senior independent director), Peter Bamford, Richard Burrows, Alan Giles, William Rucker 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 remained the same from his appointment as chairman in July 2004 until his resignation as a director of the company on 19 March 2008 during which period he continued to be chairman of UMECO plc and Catalyst Corporate Finance LLP.

#### 6. PERFORMANCE EVALUATION

The board has undertaken a formal evaluation of its own performance and that of its principal 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 had the appropriate range of skills and experience and constituted an effective and unified board. The review was conducted internally with the aid of a framework developed by external specialists.

Individual director evaluation showed that each director (including those seeking re-election at the annual general meeting in 2008) continued to demonstrate commitment to 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. The board is regularly provided with an analysis of the company's shareholder base and with commentary on market views and sentiment. The chairman, the senior independent director and other non-executive directors make themselves available for discussions with shareholders as required by circumstances or as 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 above.

## 9. GOING CONCERN

After reviewing group and company cash balances, borrowing facilities 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. The company has a formal policy on the provision of non-audit services provided by the company's auditors. There are no plans to replace PricewaterhouseCoopers LLP, whose reappointment 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 reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the annual general meeting to be held on 14 May 2008.

## INTERNAL CONTROLS

The annual report provides information on and an assessment of the company's business, operations, financial position and prospects. The board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance controls and risk management, and reviews the effectiveness of the system at least annually. In doing so the group has taken note of the guidance for directors as set out in the Turnbull Guidance. The system is designed to manage, rather than eliminate, risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

The audit committee assists the board in the performance of its responsibilities by reviewing the board procedures as they relate to internal controls and they consider internal and external auditors' reports on internal control issues and reports on internal controls and risk management systems. The risk identification and management process has been in place during the whole of 2007 (and up to 27 March 2008, the date of the approval of the audited 2007 accounts) and during that time the board, with the assistance of the committee, has reviewed the process.

The process used to review the effectiveness of the system of internal control involved: a review of the changes since the last assessment in the nature and extent of significant risks and the company's ability to respond to changes in its business; a review of the scope and quality of management's monitoring of risks and the system of internal control and the work of the internal audit function and other providers of assurance; the incidence of control failings or weakness and their impact on financial performance; and the effectiveness of the public reporting process. The audit committee reviews the scope of external audit, the half-yearly and annual financial statements (including compliance with legal and regulatory requirements) and trading updates and reports to the board on financial issues raised by both internal and external audit reports. The audit committee receives reports from the internal audit department covering financial, operational and information technology risks and controls and reviews the performance of the department against its terms of reference.

An increased level of delegated authority to the divisions and operating businesses (since 2005) introduced changes in the control environment which has been monitored and tested to ensure that the group's internal controls and risk management procedures continued to be effective. During 2006 a review was undertaken of the existing internal control framework which was found to be generally good, although capable of improvement in some areas and action plans were put in place to improve systems and procedures where appropriate which were put into effect during 2007. The process of refining the internal control framework is iterative and improvement measures are continually under review.

During ongoing review of the control environment additional areas for improvement were identified in 2007 which will be addressed in 2008. In addition, the integration of City Link and Target Express businesses exposed weaknesses in the risk management processes within the parcels business. These are described in the Board Review and in the Review of Performance, which are the subject of ongoing review.

By order of the board



**PAUL GRIFFITHS**  
**SECRETARY**  
**27 MARCH 2008**