

# DIRECTORS’ REMUNERATION REPORT

## INTRODUCTION

This remuneration report sets out the company’s policy on the remuneration of executive and non-executive directors together with details of directors remuneration, employment agreements, letters of appointment and interests in shares. The report was approved by the board on 27 March 2008. All information disclosed in the directors’ remuneration report is unaudited save where it is stated that the information is audited.

## 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 comprises Peter Long (chairman), Alan Giles and Duncan Tatton-Brown, all of whom are independent non-executive directors. The committee met six times in 2007 and in addition was consulted on various remuneration issues between formal meetings. Peter Long 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 until stepping down from those roles on 18 July 2007. His fees up to that date included an amount calculated at the rate 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. The chairman, chief executive and chief financial officer attend by invitation when appropriate.

The committee principally uses two independent external consultants, Deloitte LLP and Watson Wyatt Limited. 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 advise 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 in 2006. Deloitte also advised the company on acquisition, risk process and tax matters. An ordinary resolution to approve the directors’ remuneration report will be put to the annual general meeting on 14 May 2008.

## APPROACH TO REMUNERATION

The company’s current 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 reinvigorate and grow the business;

- by rewarding individual contributions 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.

As a result of the announcement on 20 March 2008 of the appointment of new leadership for the company, the remuneration policy of the board will be under review in 2008.

As an initial step, a share plan will be put to shareholders for approval at the 2008 annual general meeting under which awards are proposed to be made to the new senior leadership team and under which awards may at a later stage be provided to other senior executives. The current intention is for awards to be granted only in the year following the annual general meeting and to be subject to a share price growth target that allows shares to be delivered to executives in tranches after 3, 4 and 5 years. Full details of the plan and the proposed awards are set out in the explanatory notes accompanying the notice of the annual general meeting.

The Performance Share Plan, introduced during 2006, was developed in keeping with the current policy. Awards have been made under the plan to some 500 senior executives in over 40 countries around the world in 2006 and in 2007 enabling the company to bring together a large number of Rentokil Initial people under a global incentive structure. In 2008, the committee will be reviewing the performance conditions for future awards under the plan to ensure that they support the pursuit of shareholder value creation.

The following summarises the company’s current 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 below. 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 2007 remuneration for Doug Flynn (chief executive, resigned 19 March 2008) and Andrew MacFarlane (chief financial officer). The policy, currently and in future years, is that a significant proportion of the total remuneration should be performance-related.

	On-target performance	Chief financial officer	Maximum performance	Chief financial officer
2007	chief executive	officer	chief executive	officer
Base salary	45%	50%	25%	30%
Pensions	10%	10%	5%	5%
Annual incentive	20%	25%	25%	30%
Long-term incentive	25%	15%	45%	35%

**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. The committee also uses data from other providers.

**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 2007, 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 and the chief financial officer. Bonuses are typically awarded in March following the end of the financial year to which they relate.

**LONG-TERM INCENTIVES**

In 2006, 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 applied in 2006 and 2007 relate to Rentokil Initial’s relative total shareholder return (TSR) performance (50% of the award) and earnings per share (EPS) growth (50% of the award).
- The committee has, to date, considered that a combination of TSR and EPS is the most appropriate way to link potential rewards to company performance and the delivery of value to shareholders. The committee will be reviewing the performance conditions for future awards.

**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 2007, these companies are: Brambles Industries, The Capita Group, Compass Group, The Davis Service Group, Group 4 Securicor, Hays, MITIE Group, Prosegur Compañía 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 2007, 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.

In 2008, the committee will review the performance conditions to ensure they remain appropriately stretching in respect of each grant.

**CONTRACTUAL AWARDS ON APPOINTMENT (AS DISCLOSED IN 2005):**

Doug Flynn (appointed 4 April 2005; resigned 19 March 2008): An award of £2.4 million was made in compensation for awards forfeited on cessation with his previous employer. This was paid one-third in cash and two-thirds in Rentokil Initial shares. The unconditional cash element of the award (£0.8 million) was paid after 12 months in employment. The share element of the award (1,036,952 shares) vests, 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. The second tranche (over 345,650 shares) vested on 4 April 2007 when the share price was £1.7089. The third and final tranche vested on Doug Flynn’s resignation on 19 March 2008 when the share price was 72.8p. These contractual awards had no related performance conditions.

Andrew Macfarlane (appointed a director on 8 August 2005 becoming CFO on 9 September 2005): A one-off award was made to facilitate his recruitment over shares with a then 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) became exercisable on 8 August 2006 when the share price was £1.6288. The second tranche (over 106,370 shares) became exercisable on 8 August 2007 when the share price was £1.6713. These contractual awards have no related performance conditions.

**CHAIRMAN AND NON-EXECUTIVE DIRECTORS**

The former chairman, Brian McGowan, had a letter of appointment dated 28 March 2006. He resigned as a director and as chairman on 19 March 2008. No payments were made in connection with his resignation as a director. The chairman did not participate in any of the company’s incentive arrangements.

Dr John McAdam has entered into a letter of appointment dated 19 March 2008 under which and subject to shareholder approval he will become a director and chairman following the annual general meeting in 2008. He will receive fees of £350,000 per annum. Details of the proposed share incentive award to be made to him are set out in the notice of the annual general meeting. He will not be eligible for any other bonus or ongoing participation in share incentive plans.

The appointment policy for non-executive directors is that they should be appointed for an initial period of three years, which would be extended for two further periods of three years by mutual consent. 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. There are no provisions for notice periods or compensation in the event of termination of the appointment of a non-executive director and no element of their remuneration is performance related. No non-executive director has any personal interest (other than as a shareholder) in the matters under consideration, nor 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.

In addition to the arrangements concerning the chairman described above, all other 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. During the year up to 18 July 2007, Peter Long was 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 received fees at the rate of £25,000 per annum.

The chairman and non-executive directors’ fees are set out in the following table which has been audited:

	2007 £000	2006 £000
Brian McGowan (chairman), (resigned 19 March 2008)	350	350
Alan Giles (from 18 May 2006)	45	28
Peter Bamford (from 14 July 2006)	45	21
Ian Harley (retired 18 July 2007)	30	55
Peter Long (remuneration committee, pension trustee company chairman and senior independent director)	74	80
Paul Mason (to 18 May 2006)	–	19
Ron Spinney (to 18 May 2006)	–	27
Duncan Tatton-Brown	50	45
	<b>594</b>	<b>625</b>

No payments were made to Ian Harley on his retirement as a director.

Set out below are the interests in shares of non-executive directors who were directors at 31 December 2007. The following table has been audited:

	31 December 2007	1 January 2007
	Beneficial Interests number	Beneficial Interests number
Rentokil Initial plc ordinary shares of 1p each		
Brian McGowan	50,000	5,000
Alan Giles	12,000	2,000
Peter Bamford	38,000	50,000
Peter Long	2,000	2,000
Duncan Tatton-Brown	12,000	2,000

### 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 months’ notice by the relevant director and are dated as follows: Doug Flynn, 26 September 2005; Andrew Macfarlane, 17 August 2005.

The company’s policy in respect of the notice periods for the termination of executive directors’ contracts conforms to the Combined Code. The committee is fully aware that under the Combined Code and within the contractual framework it should take a robust line over payments to departing directors. On termination without notice, executive directors are entitled to a payment equal only to base pay and the value of benefits 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. Neither Doug Flynn nor Andrew Macfarlane held any external appointments during the year or at the date of this report.

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

Doug Flynn and Andrew Macfarlane participate in defined contribution pension arrangements and are entitled to receive contributions from the company into personal 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 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.

	2007 Pension contributions £000	2006 Pension contributions £000
Doug Flynn	225	185
Andrew Macfarlane	123	96
Total	<b>348</b>	<b>281</b>

There are no defined benefit pensions for current executive directors.

## BONUS

The chief executive and chief finance officer participate in cash bonus arrangements with a maximum entitlement of 100% of base salary. Based upon bonus criteria agreed at the beginning of 2007 and performance achieved. The chief executive and chief financial officer earned bonuses in respect of the year details of which are set out in the following table.

## 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	Benefits £000	Total £000	2006 £000
Doug Flynn	900	300	62	1,262	1,332
Andrew Macfarlane	490	150	25	665	693
2007	1,390	450	87	1,927	
2006	1,127	650	98		2,029

- Executive directors are provided with: life insurance, private health cover and a company car. The value of the benefits is included under “Benefits” in the above table.
- The “Benefits” referred to in the above table include the sum of £31,600 (exclusive of VAT) (2006: £36,000) in respect of fees for legal and tax advice which was paid by the company on behalf of Doug Flynn, in connection with the development of his service agreement and the structuring of his employment and pension arrangements.
- The company provides a car and driver for the business use of Doug Flynn, other directors and senior executives and for the limited private use of Doug Flynn. The cost of provision of the car and driver in the year ended 31 December 2007 was in the order of £96,600 (2006: £93,000) and is not included in the above table.
- In addition to the amounts shown in the table, Doug Flynn and Andrew Macfarlane, as a part of their employment terms, received shares the vesting arrangements in respect of which are set out in this report.
- The base salaries for Alan Brown (to be appointed a director and chief executive on 1 April 2008) and Andy Ransom (to be appointed a director on 1 May 2008) will be £775,000 and £450,000 respectively. Both executives will have a maximum annual bonus opportunity for 2008 of 100% of salary and a pension contribution of 25% of salary. Full details of the proposed share incentive award to be made to them is set out in the notice of the annual general meeting.

## SHARE INCENTIVE AWARDS

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 2007	Shares awarded during 2007	Market price of awarded shares	At 31 Dec 2007
Andrew Macfarlane	31/05/06	2006 PSP	143.25p	351,832	–	143.25p	351,832
Andrew Macfarlane	06/03/07	2007 PSP	146.50p	–	401,365	146.50p	753,197
Doug Flynn	04/04/05	On appointment	166.00p	2,609,263	–	n/a	2,609,263
Doug Flynn	06/03/07	2007 PSP	146.50p	–	921,502	146.50p	921,502

- Awards made under the 2006 and 2007 Performance Share Plan will vest on 1 June 2009 and 7 March 2010, respectively, subject to performance conditions described above.
- 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.
- Incentive awards made to Doug Flynn described above lapsed on his resignation on 19 March 2008.

**INTERESTS IN SHARES**

The following table sets out the interests of executive directors, who were directors on 31 December 2007, in the shares of the company – the table has been audited:

	31 December 2007	1 January 2007
	Beneficial Interests	Beneficial Interests
Rentokil Initial plc ordinary shares of 1p each	number	number
Doug Flynn	731,300	345,650
Andrew Macfarlane	162,741	59,984

1. Doug Flynn’s interest in shares shown above includes 691,300 shares being 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. As described above the third tranche of the share element of the compensatory award vested on the termination of his employment on 19 March 2008.
2. Andrew Macfarlane’s interest in shares shown above includes 122,741 shares being his vested beneficial interest in one half of his appointment award comprising 101,667 shares, acquired on 6 December 2006 less 41,683 disposed on the same day to meet the associated tax liability at a price of £1.4725 and 106,370 shares, acquired on 28 September 2007 less 43,613 shares disposed on the same day at a price of £1.661 to meet the related tax liability.

The following table sets out on an illustrative basis as at 31 December 2007 the total potential exposure of the executive directors to shares in the company:

Directors	Beneficial/Owned shares	Outstanding compensatory shares awards not subject to performance conditions	Performance incentive awards subject to performance conditions
Doug Flynn	731,300	345,650 <sup>(i)</sup>	3,530,765 <sup>(ii)</sup>
Andrew Macfarlane	162,741	192,554	1,105,029

- (i) Vested on termination of employment on 19 March 2008
- (ii) Lapsed on termination of employment on 19 March 2008

**SHARE OPTION SCHEMES**

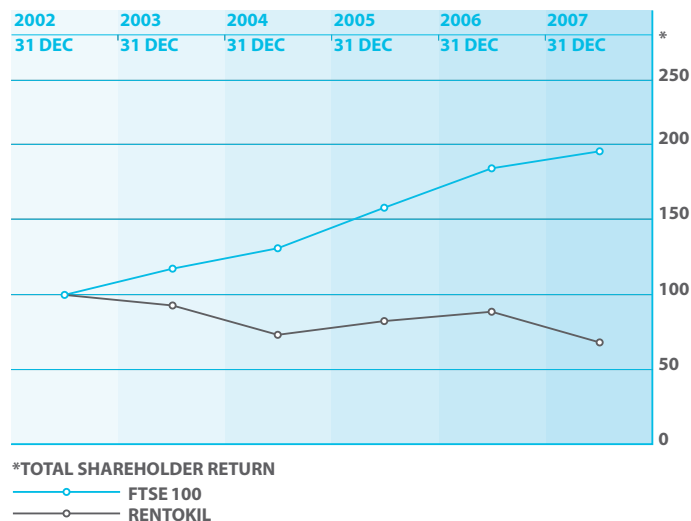
The introduction of the Performance Share Plan in 2006 replaced all previous long-term incentive schemes in the group, under which no further awards have been made since 2005. No serving director has interests in the company’s share option schemes. For further details of performance conditions attached to share option schemes see note 26 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 has been a constituent until September 2006 and since August 2007. The graph has been prepared in accordance with the requirements of Schedule 7A of the Companies Act 1985.

**RENTOKIL INITIAL VERSUS FTSE 100 INDEX**

Rentokil Initial’s total shareholder return compared against total shareholder return of the FTSE 100



**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 27 March 2008 and signed on its behalf by

**PETER LONG**  
**REMUNERATION COMMITTEE CHAIRMAN**