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## Statement by the Chairman and the Chief Executive

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### Introduction

2008 has been a challenging year for Rentokil Initial and the group has undergone a period of significant change. Although our overall financial performance has been unsatisfactory, we are making progress on fixing our operational problems and improving the predictability of profits. We are particularly pleased with the remarkable improvement in customer service in our turnaround businesses which is testament to the loyalty and commitment of our front-line colleagues.

Your company had a difficult start to the year and following its second profits warning on 28 February 2008 and subsequent 23% fall in share price, it became clear to the senior independent director and the non-executive directors of the board that radical action was required if better value was to be created for shareholders. On 20 March the company announced the resignations of Doug Flynn as Chief Executive and Brian McGowan as Chairman, and the proposed appointments of ourselves as Chairman and Chief Executive and our former ICI colleague, Andy Ransom, as Executive Director, Corporate Development. While recognising the many challenges that lie ahead, we were delighted to have been given the opportunity to join the Rentokil Initial board and were excited at the prospect of working together with the wider Rentokil Initial team to deliver a turnaround in the fortunes of the business.

### Overview of performance in 2008

Overall the group's financial performance in 2008 has been disappointing, with all divisions other than Facilities Services posting year-on-year declines. Adjusted group operating profit fell 48.9% on revenue up 2.2%. In general this has been caused by poor performances in five businesses. These are City Link, UK Washrooms, UK Pest Control, Australia Washrooms and Australia Pest Control. Excluding these turnaround businesses and central cost comparatives for 2007 which benefited from one-off gains, adjusted operating profit in the remainder of the group was down 4.0% on revenue up 5.7%. The bulk of this 4% decline occurred in the European Textiles and Washrooms business where cost management was unsatisfactory, though revenue growth was strong.

Improving the profitability of these turnaround businesses is the key to restoring the profitability of the group. In 2007, they had combined revenues and adjusted operating profits of £631.6 million and £95.1 million respectively. In 2008, these figures were £590.9 million and a loss of £22.2 million.

### Three-year plan

After an initial 100-day period the group's operations were reviewed and an assessment was presented to the board. We concluded that while the group comprises businesses which operate in leading market positions, overall performance has been undermined by major operational weaknesses. These include lack of focus on customer service, insufficient focus on operational excellence and consistent failure to successfully execute major change and acquisition integration programmes.

Between June and October 2008 the Company's Executive Board (CEB) developed a three-year plan to address these issues. The simple, robust and operationally focused strategic plan is designed over time to achieve sustainable profitable growth by delivering outstanding customer service while at the same time driving down the cost of doing business. We believe the progress we have made this year represents a creditable start but there is still much to be done.

- **Our Mission** is to deliver added value services to our customers in our existing portfolio of businesses through our network of over 1,000 branches.
- **Our Vision** is to be the best at what we do by doing what is best for our customers, colleagues and shareholders.
- **Our Values** focus on **Service, Relationships** and **Teamwork** underpinned by complementary **Behaviours** – we keep our promises, we communicate and we support our colleagues.

The major part of the three-year plan focuses on five strategic thrusts:

- **Delivering outstanding customer service**

We will drive customer service across all our businesses with the goal of achieving 95%+ State of Service (98.5% for City Link, 99%+ for Textiles), ensuring personal accountability for customer relationships and instilling our common values and behaviours across the group.

- **Developing the capability of our organisation and people**

This involves establishing category capability in the Pest Control, Washrooms and Ambius businesses, further development of information systems and processes (for example, the roll out of the iCABS contract management system and key performance indicators), driving HR initiatives (including performance management and global grading) and upgrading functional and operational management. In 2009, the company intends to invest circa £20 million on service, systems and processes and sales capability improvements.

- **Delivering operational excellence in all our processes and functions**

We will introduce consistent goals and performance measures across the group, establish a standard operating framework, drive common systems across all businesses and geographies and fix those businesses with operational difficulties, notably City Link, UK Pest Control, UK Washrooms and our Australian Pest Control and Washrooms businesses.

- **Operating at lowest possible cost consistent with our service objectives**

There is a requirement across the group to drive down administration costs, increase service agent productivity, deliver procurement savings, increase European Textiles' processing productivity, streamline the City Link infrastructure, maximise route optimisation and reduce days sales outstanding. In 2009, the company plans to reduce costs by some £50 million and develop a plan to reduce administration costs which are currently 20% of group revenue.

- **Delivering profitable growth through organic actions and bolt-on acquisitions**

We aim to achieve greater sales productivity through targeting the right customers, increasing penetration of existing customers as well as adding new ones, appointing talented sales teams and developing their skill sets. We will improve our business marketing through product and service development, lead generation and brand development. Finally, we will continue to acquire smaller companies and enter new and developing markets.

We are pleased to report that excellent progress has been made on the first thrust – customer service. In City Link our 98.5% internal customer service target was reached during the second quarter and has remained almost consistently high throughout the year despite handling record consignments in the week before Christmas. Following management changes to strengthen the business in the first half, customer service has been restored in the UK Washrooms business – now at 95% – resulting in a slowing trend in customer terminations and service credits. Although revenue progression remains unsatisfactory at our UK Pest Control business, service is now being maintained at very high levels, reaching 98.9% at the end of the year. Service levels have also been restored within our Australian Pest Control and Washrooms operations.

There remains much more to do with the remaining thrusts and we will provide progress updates to shareholders.

### **Goals**

We have also established a number of goals, full details of which can be found in the business review on page 15. We have identified 18 key performance indicators (KPIs) under three categories: Colleagues, Customers and Shareholders. We will update shareholders on our progress on these KPIs from time to time during the financial year.

### **Funding**

At 31 December 2008 the group had net debt of £1,362.2 million. Although this represents a £415.1 million increase over the year, £227.5 million of this increase was due to foreign exchange translation movements and £39.5 million due to IAS 39 debt valuation moves. £952.6 million of our debt is represented by capital market notes, of which the earliest maturity of any of these instruments is 2013. Of the balance of £409.6 million, £436.2 million is drawn under our central committed bank facilities and the balance comprises net cash and is made up of cash in the businesses and offset by other borrowings.

We have two committed bank lines – a £500 million revolving credit facility which expires in October 2012 and a £125 million revolving credit facility extendable, at our option, to 30 September 2010. These bank lines provide the group's principal source of day-to-day liquidity. At 18 March 2009 the group had undrawn headroom in its committed bank facilities of £245 million. Having reviewed carefully group and company cash balances, borrowing facilities and projected cash flows, we believe we have adequate resources to continue operations for the foreseeable future. Our budget for 2009 shows profitability and cash flow improving compared to 2008, substantially assisted by the cost reduction measures already taken at City Link.

Full details of the make up of the group's net debt are set out in note 21 to the financial statements.

### **Cash generation and dividend**

Given the extremely difficult economic environment, cash generation is receiving high priority. The group is pursuing a number of measures to achieve this and they include a continuation of the drive on working capital, optimisation of capital expenditure and the implementation of cost reduction programmes across the group. In addition, the board has decided not to pay a final dividend for 2008. We regret that our shareholders will not receive a final dividend but we firmly believe it is the right course of action given the economic uncertainty.

## People

During the year the board was strengthened further by the non-executive appointments of Richard Burrows and William Rucker, who joined the board in January and February 2008 respectively. Richard Burrows is Governor of the Bank of Ireland. William Rucker is Chief Executive of Lazard & Co. Ltd. in the UK. On 28 November 2008 we announced the appointment of Michael Murray as a director and Chief Financial Officer with effect from 5 January 2009. Michael Murray joined the company from GSL, a private equity owned support services company, recently acquired by G4S, and prior to that was chief financial officer of TNT Express, TNT's global express parcels division.


Andrew Macfarlane stepped down as a director on 31 December 2008 and left the company on 20 February 2009.

## Outlook

We expect performance improvements in 2009 as we implement our three-year plan. In many businesses it will be necessary to reinvest these gains back into the business to develop the group's capability and cost savings agenda. As a result the bulk of improvement in operating profit in the coming year is likely to come from the cost saving actions we have undertaken at City Link. At the pre-tax level we also expect to benefit from current interest rates. On a quarterly basis profit is likely to decline year-on-year during the first quarter but we expect incremental profit growth in Q3 and Q4. Our outlook for 2009 is not without risk however. Trading conditions remain challenging, particularly in the UK and US, though we will benefit from our strong Euro profit stream.

Our shareholders, employees and customers have given strong support to Rentokil Initial during a difficult year and we thank them for their patience, trust and loyalty. We are fully cognisant of our fiduciary responsibility to all shareholders and the need to act with the highest standards of integrity and transparency. We remain committed and motivated to both as we develop the business.

Yours faithfully,



**John McAdam**

Chairman

20 March 2009



**Alan Brown**

Chief Executive