

Directors' report

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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. A summary description of the group's activities is given on pages 6 and 7 and a more detailed description is contained within the business review on pages 8 to 21. The principal subsidiary undertakings and joint ventures of the company are shown on page 97.

Business review

The business review, on pages 8 to 21 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 2008 was £22.8 million (the tax on this was £6.4 million). Dividends declared out of 2008 profits amount to £11.8 million. Net consolidated capital employed is £(61.9) million compared to £58.3 million last year.

An interim dividend of 0.65p per share, amounting to £11.8 million, was paid on 17 October 2008. As announced in the preliminary results for 2008 the company is not paying a final dividend on 2008 profits.

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 19 March 2009 the following shareholders had indicated that they were interested in 3% or more of the company's issued share capital. There were no movements in the company's ordinary shares during the period.

Authority for the company to make purchases of its own shares of up to 181.5 million was obtained at the annual general meeting on 14 May 2008. No purchases of its shares were made by the company in 2008.

The authority is normally renewable annually and approval will be sought from shareholders at the 2009 annual general meeting to renew the authority for a further year.

| Substantial shareholding | % | No. of ordinary shares | Nature of holding |
|--|--------|------------------------|-------------------|
| Schroders plc | 13.041 | 236,680,935 | Indirect |
| Invesco Ltd | 10.040 | 182,368,729 | Direct |
| Lloyds Banking Group plc | 5.677 | 103,034,344 | Indirect |
| Aviva plc (and subsidiaries) | 5.110 | 92,754,576 | Direct |
| Ameriprise Financial Inc | 5.003 | 90,790,221 | Indirect |
| Silchester International Investors Ltd | 3.998 | 72,556,947 | Direct |
| Legal and General Group plc | 3.990 | 72,494,739 | Indirect |
| Orbis Holdings Ltd | 3.100 | 56,278,825 | Indirect |

(i) Ameriprise Financial includes Threadneedle Asset Management Holdings Ltd.

(ii) Value Act Capital Management LLC, The Hermes UK Focus Fund, Hermes Asset Management and Britel Fund Trustees Ltd 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 pages 107 and 108.

Board

Biographical information on the current directors of the company, including their ages and their dates of appointment, is shown on page 25.

On 20 March 2008 the company announced the resignations on 19 March 2008 of Doug Flynn as chief executive and Brian McGowan as chairman, and the proposed appointments of John McAdam as chairman, Alan Brown as chief executive and Andy Ransom as executive director, corporate development. Alan Brown joined the board and was appointed chief executive on 1 April 2008 and Andy Ransom joined the board on 1 May 2008. John McAdam was elected a director at the Annual General Meeting and appointed chairman on 14 May 2008.

Richard Burrows and William Rucker were appointed directors on 14 January 2008 and 15 February 2008, respectively.

Andrew Macfarlane resigned as a director on 31 December 2008. Michael Murray was appointed a director and chief financial officer on 5 January 2009 and under the company's articles of association will offer himself for re-appointment as a director at the annual general meeting.

The directors retiring by rotation will be Alan Giles, Peter Bamford and Peter Long who are eligible and offer themselves for re-election at the 2009 annual general meeting. None of the directors retiring by rotation has a service contract with the company.

Biographical information of the directors seeking election or re-appointment is set out in the notes accompanying the notice of the annual general meeting.

Directors' interests

The interests of the directors and their families in the share capital of the company on 1 January 2008, or their date of appointment if later, and 31 December 2008 are set out on pages 44 and 46. Details of incentive awards to directors are shown in the remuneration report on page 46. 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 20 March 2009 are described in the directors' remuneration report.

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 2008 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 96 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 colleagues. Internal communications take place at a group, divisional, business and team level in order to ensure that colleagues 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 e-mail 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.

In Europe the company meets its European Forum (European Works Council) at least once a year to communicate with colleagues' 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 e-mail, divisional intranets, electronic newsletters and quarterly magazines to communicate business issues including financial and economic factors affecting the operations. 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

There have been no material post balance sheet events.

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 2008 the trade creditors of the group represented 53 days of annual purchases and the UK businesses' trade creditors represented 43 days of purchases; UK trade debtors represented 59 days of turnover. During the year the parent company did not have any trade creditors.

Other performance areas

In order to help stakeholders measure the success of its strategy, in addition to financial metrics available in this annual report, the company has begun to provide details of several non-financial indicators.

Environment

The company has had a clear environment policy for many years. The group's primary environmental impacts are the use and reuse of water resources in its washroom and textiles and Ambius divisions; the use of fuels and related emissions across the group; and the stewardship and effectiveness of materials used in the pest control division. Aside from laundries, the group has very limited exposure to environment impacts from property.

In line with our policies and in pursuit of good business practice, the company's operational businesses are

continually developing and putting into practice improvements in operating practices that lessen resource consumption and improve emissions impact. Actual impacts will always be affected by the level and mix of business activity. The group is improving its monitoring of its environmental impacts but does not set targets at a group level.

For 2008 the total emissions data is based upon operations representing over 90% of the company's employee base. Extended reporting now includes all fuel used by the company's worldwide fleet of vehicles. Throughout the group, 70% of the fuel used in vehicles is diesel, and almost 100% in UK service vehicle fleet.

Key data:

- In 2008, the company's total CO₂ emissions were 273 million kilogrammes, equal to 3,463 kilogrammes for each employee.
- In 2008, the water consumption, based on kilogrammes of laundry washed in all of the company's plants, fell by 4.6% to 13.74 litres (2007 – 14.40 litres).

Further details of the company's environment performance, initiatives and management processes can be found in the company's Corporate Responsibility Report 2008 and on the website at www.rentokil-initial.com.

People

The group is a very substantial employer, particularly in the UK, with over 78,000 colleagues worldwide. The operational businesses employ a large number of part-time or temporary workers, currently over 40,000 people on fortnightly, weekly or hourly contracts.

| Geographic area – continuing operations | % of employees |
|---|----------------|
| UK | 62% |
| Continental Europe | 21% |
| North America | 4% |
| Asia Pacific | 11% |
| Other | 2% |

Rentokil Initial has an all-encompassing Code of Ethics as well as a range of policies, which deal specifically with employees and the people they come into contact with, such as customers and suppliers. All these policies are available to download from www.rentokil-initial.com, including:

- Code of Ethics
- Fundamental Rights of Employees
- Equal Opportunities and Diversity
- Job Security and Wealth Creation
- Code of Employee Remuneration
- Training and Employee Development
- Relationships with Customers and Suppliers.

An important programme underway is to update the company's corporate policies and procedures and ensure that they are properly communicated across the businesses. As part of this process the company will re-launch its core business principles in a Code of Conduct which colleagues will be expected to abide by in their daily dealing with colleagues, customers, suppliers and other stakeholders.

Since 2006 the company has carried out regular colleague engagement surveys, mainly in the Rentokil and Ambius businesses. This will be extended to all divisions in 2009.

In terms of employee engagement, there has been significant progress in improving over-arching perceptions of the company as a place to work. Business leaders are reported to be more visible to employees and the rating of tools and equipment provided to employees is up. The areas of year-on-year improvement are shown below:

| Question | Trend |
|---|-------|
| No significant barriers in my job preventing me doing my best | +5 |
| Visibility of top management at the company | +5 |
| Considering everything, I am satisfied with the company at the present time | +4 |
| The trust and confidence you have in your company | +4 |
| Taking a genuine interest in the well-being of colleagues | +4 |
| Being open and honest in communications to colleagues | +4 |
| Communication between teams/departments | +4 |

The 2008 survey had improved response rates and improved results in all key "engagement" areas. In all, there were 9,225 responses – a 94% response (compared with 92% in 2007).

The company believes that safeguarding the health and safety of employees, customers and others with whom it interacts is of paramount importance. Rentokil Initial has developed a group health and safety strategic plan, setting objectives for continual improvement of health and safety management and performance for the next three years. Part of this plan includes Lost Time Accident Rates as one of the KPIs (with targets) for all businesses.

The company's focus on skills training is exemplified by the company's signing of the UK Government's Skills Pledge.

Key data:

- Since 2005 Rentokil Initial has delivered accredited training for over 1,500 UK-based employees across a wide range of training requirements including numeracy and literacy skills, customer services and administration.
- In the 12 months between March 2008 and March 2009, over 600 UK employees took part in training which delivers a formal qualification.

- Over 700 field-based pest control employees took part in workshops to improve their financial capability, delivered in 56 locations supported by 42 FSA presenters.
- Overall colleague engagement score increased to 73% (2008) from 72% (2007).
- As part of the strategic plan the company has set new targets to reduce the group's Lost Time Accident Rate from 1.78 in 2008. The company will continue to report against these targets annually.

Marketplace

Each local business is responsible for developing responsible business relationships with their customers and local suppliers, while working closely together to develop a global procurement approach where appropriate.

Customer service and satisfaction is of great importance to Rentokil Initial therefore as part of its strategic plan the company has introduced group-wide KPIs of customer retention, customer service and customer satisfaction using the Net Promoter Score (NPS) measurement system. This is being adopted across the company to provide a standard measurement of customer satisfaction.

Communities

As a predominately business to business organisation, the company's community impact is relatively low. Rentokil Initial's approach to community support and investment is delivered locally rather than centrally driven. The selection of which community schemes to support is often identified by employees. Their active participation rather than passive donation is particularly important. The company takes its responsibilities seriously and in 2008 its businesses participated in a wide range of activities to support local communities around the world.

Key contracts

The group does not have any dominant customer or supplier relationships.

Further details of the company's non-financial metrics and activities can be found in the company's Corporate Responsibility Report 2008, available at www.rentokil-initial.com.

Charitable donations

Donations for UK charitable purposes in 2008 amount to £57,000 and a further £85,000 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 company operates a matched giving scheme whereby the company matches donations raised by employees following employee fundraising.

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 2008 was £1.7 million (2007: £1.7 million).

Financial instruments

The company's financial risk management objectives and policies are set out within the financial review on pages 19 to 21, 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, are as follows:

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.

The company's Euro Medium Term Note Programme contains conditions that in general terms allow the Notes in issue by the company to be put back to the company in the event of a change of control of the company coupled with either a credit rating downgrade below 'investment grade' or where the company's credit rating is already below 'investment grade'.

The company's main central committed bank facilities require mandatory prepayment and cancellation in the event of a change of control of the company.

There are a number of other 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.

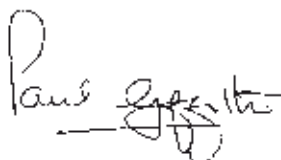
Annual general meeting

The annual general meeting of the company will be held at No. 4 Hamilton Place, London, W1J 7BQ on 13 May 2009 at 11 a.m.

In addition to the adoption of the 2008 report and accounts, resolutions dealing with the appointment and re-election of 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.

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,

A handwritten signature in black ink, appearing to read 'Paul Griffiths', with a horizontal line underneath it.

Paul Griffiths
Secretary
20 March 2009