

Corporate governance

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The Combined Code on Corporate Governance 2006 ("the Combined Code") sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires companies listed in the UK to disclose in relation to Section 1 of the Combined Code, how they have applied its principles and whether they have complied with the provisions throughout the accounting year. The company's compliance during the year with the provisions set down in Section 1 of the Combined Code is described below.

1. The 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) as set out in the board governance procedures and practices manual, which is 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.

The board meets routinely nine times a year and additionally when necessary and follows an agreed formal schedule of matters which are considered at individual meetings. In 2008, the board met on 14 occasions. Details of directors' attendance at board and principal committee meetings are set out on page 34. The limited number of directors' absences from meetings was principally due to conflicting business commitments relating to meetings scheduled outside the regular meeting calendar.

In connection with the changes introduced by company law and in the company's articles of association, the board has adopted new procedures over the identification and authorisation of potential conflicts of interest which are in line with current best practice and which the board considers to be operating effectively. The nomination committee of the board will review the procedures annually to ensure that the procedures remain effective.

2. Composition of the board

The board currently comprises the chairman, six independent non-executive directors and three executive directors. Each non-executive director serves for a fixed term not exceeding three years that may be renewed in mutual agreement for a further two terms of three years, subject to the board being satisfied with a director's performance, independence and commitment. Each director is required to be elected by shareholders at the annual general meeting following his/her appointment and be re-elected by shareholders at least

once every three years. The board's policy is to appoint and retain non-executive directors who can apply their wider knowledge and experience to their understanding of the company's affairs. Appointments to the board are made on the recommendation of the nomination committee following a rigorous selection process. Information on the current directors is set out on page 25. New members of the board receive appropriate training and induction which includes spending time in the company's operations.

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 changes in the composition of the board and the appointment of additional non-executive directors at the beginning of 2008, the board reviewed the membership of principal board committees with the aim of ensuring that non-executive directors were able to focus their committee involvement on only one of the principal board committees.

Agendas, papers and minutes of committee meetings are generally provided to all board members.

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) reflect the Financial Reporting Council guidance which is intended to assist listed companies in complying with the provisions applicable to audit committees in the Combined Code. The committee reviewed its terms of reference towards the end of 2008 and concluded that they remained appropriate. The audit committee has also reviewed its effectiveness and concluded that it continues to operate effectively.

The members of the committee at the end of the year were Duncan Tatton-Brown (chairman), chartered management accountant, William Rucker, chartered accountant and Peter Bamford all of whom are non-executive directors. Of the members of the committee, both Duncan Tatton-Brown and William Rucker have 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. The committee did not find it necessary to seek external advice. The committee invites the chairman, 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 has had a dialogue with the external auditors without executives present during the year.

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 and reports over individual incidents of control weaknesses related to individual businesses reported either through line management or the internal audit process. In addition to issues relating to City Link (see below), control issues in the UK Washrooms and Australian businesses were also reviewed. In an environment of significant change there remains an on-going need to enhance project management and other procedures in certain areas.
- The control weaknesses in the enlarged City Link business which had emerged towards the end of the previous financial year had been the subject of significant scrutiny by the audit committee and by the board throughout the year. In particular the committee reviewed the deficiencies in the operating systems that had been caused by the poorly planned integration of various parts of the City Link and Target Express business in the forth quarter of 2007 and related impact on management reporting. The committee received regular reports on the management, systems and resource changes implemented during the course of 2008 which the committee was satisfied had resulted in the establishment of an effective business and financial control environment, although business performance recovery was ongoing.
- 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.
- 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. 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, during 2007. The committee considered and approved changes to the structure of the group internal audit function in 2008 which involved an increased use of external resources for the conduct of internal audits both in the UK and internationally. A new head of internal audit was appointed at the end of the year.
- The introduction of a formal policy on fraud risk management aimed at reinforcing a zero tolerance culture on fraud and setting out roles and responsibilities in connection with the implementation of the policy. The committee also approved a management response plan to give guidance to managers dealing with incidents of fraud. A fraud risk management awareness review was undertaken by internal audit during the year and reported on to the committee. The group has not experienced any fraud which is material to the group as a whole although low value incidents do occur and are dealt with appropriately.
- Half-yearly reports on whistleblowing which did not contain any material matters of concern and approved and updated whistleblowing policy and related communication materials.
- Reports from the chief financial officer on trends in the performance of accounts receivable across the group's businesses with a particular focus on the UK Washroom business.
- The company's policy concerning the provision of non-audit services by the company's auditors. In accordance with best practice and to avoid actual or perceived conflicts of interest, non-audit services provided by the external auditors are pre-approved by the audit committee within certain pre-defined parameters. In addition the auditors are prohibited from providing certain services set out in the policy. The provision of non-audit services by the company's auditors was at a level well below that which would question the firm's independence as auditors. PricewaterhouseCoopers LLP assisted the company over a number of disposal transactions as well as providing assistance in relation to tax and other areas of technical support. The expenditure on audit and non-audit services in 2008 is set out in note 4 on page 66.
- The fees for the 2008 audit and the external audit plan for 2008 incorporated various changes in the audit scope and geographic coverage.
- The process of formally evaluating external auditor effectiveness indicated that the external auditors had met company expectations for the 2007 audit. The process was conducted by means of a questionnaire, completed group-wide by members of the senior management and finance communities. The evaluation had identified minor opportunities for both the company and the auditors to further enhance the effectiveness of the process but the committee concluded that the audit service of PricewaterhouseCoopers LLP provided a robust overall examination of the group's business and the risks involved.
- Auditor independence is reviewed routinely.

- In line with the Combined Code requirements the board undertook a review of the effectiveness of all its committees, including the audit committee the results of which demonstrated that the committee continued to operate effectively.
- During the year the chief executive established a risk committee which comprises the senior financial, legal and risk executives in the group under the chairmanship of the chief financial officer. The risk committee will assist the audit committee in its review of the business risk evaluation and control processes.

Nomination committee

The main purpose of the nomination committee is to assist the board by keeping the composition of the board under review and conducting a rigorous and transparent process when making or renewing appointments of directors to the board. In 2008, the committee took on the additional responsibility of advising the board over concerning directors' conflicts of interest and independence.

At the beginning of the year a special nomination committee, led by the senior independent director, Peter Long, conducted the process which led to recommendations being made to the board over the appointment of John McAdam, Alan Brown and Andy Ransom, following the resignations of Brian McGowan as chairman and Doug Flynn as chief executive in March 2008.

In the second half of the year the membership of the committee was reviewed and now comprises: the chairman, John McAdam, the senior independent director, Peter Long and the next two longest serving non-executive directors, Duncan Tatton-Brown and Alan Giles. The nomination committee met on three occasions in 2008. A meeting early in the year concerned the then search for a chairman to succeed Brian McGowan. Thereafter the special nomination committee referred to above dealt with matters relating to the change in the leadership of the company. Later in the year the nomination committee reviewed proposals concerning the appointment of Michael Murray as chief financial officer and reviewed its existing terms of reference and effectiveness. In the light of the current board membership, there were no succession planning issues on which the committee was required to give attention. In carrying out its duties the committee and the special nomination committee utilised the services of a specialist firm of search consultants.

Remuneration committee

The members of the remuneration committee are Peter Long (chairman), Richard Burrows 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 38 to 46.

Attendance at meetings

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
John McAdam	8/8	–	–	2/2
Alan Brown	11/11	–	–	–
Peter Bamford	10/14	5/5	–	–
Richard Burrows	14/14	–	5/5	–
Alan Giles	13/14	1/1	7/8	1/2
Peter Long	14/14	–	8/8	3/3
Andy Ransom	8/8	–	–	–
Duncan Tatton-Brown	13/14	5/5	3/3	3/3
William Rucker	11/13	3/4	–	–
Former Directors				
Brian McGowan	2/2	–	–	1/1
Doug Flynn	2/2	–	–	1/1
Andrew Macfarlane	14/14	–	–	–
Total number of meetings	14	5	8	3

- (i) *Other than in two instances of unavoidable absence, directors' non-attendance related to meetings held at short notice where conflicting commitments prevented attendance.*
- (ii) *In addition to the meetings shown above John McAdam attended by invitation two meetings held shortly before his appointment on 14 May 2008.*

The terms of reference of the principal board committees are available on the company's website, 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

Under the Combined Code the board appoints one of the non-executive directors to act as senior independent director whose main responsibility is to be available to shareholders should they have concerns that they are unable to resolve through normal channels and for leading the performance review process in respect of the chairman.

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. Chairman

The role of the chairman, John McAdam, is set out in the board's governance procedures which are reviewed annually by the board and in his letter of appointment. The chairman's priority is the management of the board whereas the chief executive's priority is the management of the company. The chairman's commitment to the company is at least two days per week and his main interests outside the company are set out in his biographical details on page 25.

The chairman's participation in the incentive arrangements described in this report and approved by shareholders on his appointment in 2008 result in him not being regarded as independent under the provisions of the Combined Code.

6. Performance evaluation

The board has undertaken a formal evaluation of its own performance and that of its principal committees and individual directors. 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 led internally by the chairman with the assistance of the company secretary, utilising a framework provided by external specialists which covers the establishment and role of the board, its membership, skills, experience, training, meeting arrangements, leadership, procedures and communications.

Individual director evaluation showed that each director (including those seeking re-election at the annual general meeting in 2009) 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. In reaching this conclusion the directors have had regard to the group's operating plan and budget for 2009 and projections contained in the three-year plan. The directors have considered carefully the group's trading performance and cash flows as a result of the difficult global economic environment, the shortage of credit available in the bank finance market in particular and the other principal risks to the group's performance. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Further information is contained within the financial review on pages 17 to 21.

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 and the company has no other reason to seek to re-tender the external audit role. The company has a formal policy on the provision of non-audit services provided by the company's auditors under which any such proposed expenditure of up to £250,000 must be approved by the chief financial officer and above that level approved by the committee. In accordance with usual practice, PricewaterhouseCoopers LLP has introduced in 2008 a new audit partner to lead the group audit process who has previously had no involvement in the audit of any group company. The committee does not consider that there is any material risk of the company's auditors withdrawing from the market.

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the annual general meeting to be held on 13 May 2009.

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.

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 2008 (and up to 20 March 2009, the date of the approval of the audited 2008 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: the review

of the significant risks facing the business and the company's ability to respond to these; the review of a control self-assessment exercise, involving all of the group's reporting entities, to assess compliance with the group control framework; consideration of any instances of significant control failings during the year and management's response to these; consideration of any significant control weaknesses identified by internal audit and the management's progress in dealing with them.

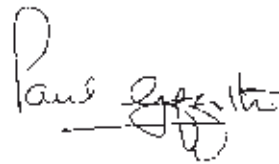
The audit committee reviews the scope of external audit, the half-yearly and annual financial statements (including compliance with legal and regulatory requirements) and trading updates and reports to the board on financial issues raised by both internal and external audit reports. The audit committee 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.

As mentioned in the report of the audit committee's activities during the year the control failings at the City Link business, which came to light at the end of 2007 and early in 2008, have been the subject of considerable attention by both the board and the audit committee and the company is now satisfied with the control environment in that business. Control weaknesses in the UK Washroom and Australian businesses were also the subject of significant management attention. Further information on the risk management and internal control processes in the business can be found in the financial review on pages 17 to 21.

More generally, the board has identified that the risk of control failings in the group is increased by: the geographic spread of operations; non-standard business processes and supporting IT systems and infrastructure, particularly with regard to acquired operations; instances of significant change, for example the integration of acquired businesses or operational restructuring. To address these factors, and under the direction of the company's new chief executive, Alan Brown, management has commenced a review of the group's operating framework with the intention of reinforcing standard operating policies, procedures and systems. This activity will deliver a greater understanding of the required standards for operations and the related performance metrics which will, in turn, lead to greater control. In addition, there has been significant focus on the quality of finance management across the group and a number of new appointments at a senior level have been made to strengthen capability in this area.

Within this overall framework management has specifically developed new project management guidelines to improve the governance and control of major change projects. It has also carried out a review of delegated authority limits in the group as a result of which the corporate centre has increased its level of involvement in operating business and divisional level decision-making, particularly with regard to acquisition opportunities. Both of these measures improve the level of governance around operational activity which reduces the risk of control failures arising from major change projects. It should however be noted that the process of refining the internal control framework is iterative and improvement measures are continually under review.

By order of the board,



Paul Griffiths
Secretary
20 March 2009