

Corporate governance

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The Combined Code on Corporate Governance 2008 ("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 how they have complied with the provisions throughout the accounting year. This is provided 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 the approval of 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 2009, the board met on nine occasions. Details of directors' attendance at board and principal committee meetings are set out on page 30. The limited number of directors' absences from meetings was principally due to conflicting business commitments.

The board has formal procedures over the identification and authorisation of potential conflicts of interest which are in line with current best practice. The nomination committee reviewed these procedures in December 2009 and reported to the board that the procedures remained appropriate and 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 by 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 23. New members of the board receive appropriate training and induction which includes spending time in the company's operations.

3. Board committees

The board reviewed the terms of reference of the principal board committees as part of its annual review of governance procedures and practices. Agendas, papers and minutes of committee meetings are generally provided to all board members. Membership of the principal board committees below has not changed during the year. The committees' terms of reference are available on the company's website, www.rentokil-initial.com.

Audit committee

The principal oversight responsibilities of the committee cover financial reporting, internal controls and risk management, various matters concerning the external auditors including their appointment, the scope of their duties, their independence and monitoring and receiving reports from the internal audit function. The terms of reference of the committee reflect the Financial Reporting Council's guidance which is intended to assist listed companies in complying with the provisions applicable to audit committees set out in the Combined Code. The committee reviewed its terms of reference towards the end of 2009 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. The committee did not find it necessary to seek external advice during the year, other than through its dialogue with the external auditors.

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 four occasions and considered a range of matters in fulfilment of its terms of reference.

During 2009, the committee reviewed the provision of overall assurance within the group, with the aim of improving the efficiency and effectiveness of the assurance process. This included reviewing audit arrangements, which had hitherto been provided, in part, by a combination of in-house internal audit, outsourced internal audit and external audit. Of particular relevance was the extent of the group's operations in many overseas territories where a large proportion of historic internal audit processes had focused on basic financial controls which replicated the work undertaken by the auditors as a necessary part of their external audit.

The committee considered proposals submitted by its then auditors, PricewaterhouseCoopers LLP, and KPMG Audit Plc. These proposals identified areas of duplication in the work performed by its internal and external auditors which could be removed to improve the efficiency of the processes and reduce overall assurance costs without compromising audit quality. Both firms demonstrated that they would be able to deliver the services on broadly similar economic terms.

The committee, jointly with the board, concluded on balance that the proposal from KPMG should be accepted and at the beginning of September 2009, PricewaterhouseCoopers submitted their resignation and formally confirmed that there were no matters concerning their resignation that needed to be brought to shareholders' attention. KPMG were appointed by the board as auditors to the company with effect from the date of PwC's resignation to hold office until the conclusion of the 2010 annual general meeting.

Other matters considered by the committee during the year are described 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 which neither individually nor collectively were material to the company. The control issues at City Link reported on in 2008 were effectively dealt with in 2008. The committee reviewed control issues which had occurred in the Spanish pest control business and the Malaysian business in the previous year and actions taken by management to deal with the identified weaknesses. Previously identified weaknesses in project management have received significant management attention and a new project management framework is being embedded across the group.
- The committee considered the group assurance framework covering the financial and non-financial control processes. This framework was prepared by reviewing the most significant business risks and current sources and levels of assurance related to those risks in order to consider whether changes should be made in the level of assurance. The committee continued to be satisfied that a reasonable level of assurance had been provided in respect of key areas of business risk.
- The committee considered a report setting out the findings of an internal evaluation of the 2008 external audit process.
- The committee reviewed the actions which the chief executive had initiated to establish a new operating framework for the group's businesses that would create greater consistency and a more standard approach towards business processes and remove a significant amount of administration cost as well as adding to the effectiveness of control processes.
- 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.
- 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.

- 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 head of internal audit was appointed at the end of 2008.
- Routine reports on whistle blowing which did not contain any material matters of concern.
- The committee reviewed an analysis and related assumptions from the chief financial officer supporting the statement to be contained in its annual report that the business is a going concern.
- The fees for the 2009 audit and the external audit plan for 2009.
- Auditor independence is reviewed routinely.

In 2008 the company established a risk committee, chaired by the chief financial officer, comprising senior financial and other functional heads which through the chief financial officer provides support to the chief executive and to the audit committee in support of its oversight responsibility for the management of business risk.

To avoid actual or perceived conflicts of interest, the company has a policy concerning the provision of non-audit services by the company's auditors under which 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 expenditure on audit and non-audit services in 2009 is set out in note 4.

Nomination committee

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

Membership has not changed during the year and 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 two occasions in 2009 to deal with changes in executive responsibilities at the level below the chief executive and to review the company's conflict authorisation process. The committee reviewed and was content with its effectiveness.

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 has continued to operate effectively. The directors' remuneration report is set out on pages 32 to 38.

Attendance at meetings

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
John McAdam	9/9	–	–	2/2
Alan Brown	9/9	–	–	–
Michael Murray	9/9	–	–	–
Andy Ransom	9/9	–	–	–
Duncan Tatton-Brown	9/9	4/4	–	2/2
Richard Burrows	8/9	–	6/6	–
William Rucker	8/9	3/4	–	–
Peter Long	6/9	–	6/6	2/2
Peter Bamford	9/9	4/4	–	–
Alan Giles	9/9	–	6/6	2/2
Total number of meetings	9	4	6	2

The terms of reference of the principal board committees are available on the company's website, www.rentokil-initial.com, or from the company secretary.

4. Independent non-executive directors

The board has appointed Peter Long 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, 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 as well as 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 main interests outside the company are set out in his biographical details on page 23.

The chairman received an award under the 2008 Share Incentive Plan, which was formally approved by shareholders at the time of his appointment. As a consequence of this one-off award, he is not 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, including the chairman. 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 2010) 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 and will keep under review revisions in the UK corporate governance code when deciding 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

At 31 December 2009, the group had net debt of £1,108 million. Of this, £915 million had been issued under the group's debt capital market programme and the earliest maturity of any of these instruments is 2013. Of the balance, £32 million is held as net cash and other borrowings in the businesses and £225 million is drawn under the group's bank facility, which matures in October 2012. This facility provides the group's principal source of day-to-day liquidity.

The group's practice is to reforecast the expected full-year outcome in terms of profit and cash every month and current and prospective performance are reviewed formally with each of the group's divisions monthly. These forecasts, together with supplementary short-term cash forecasts which are provided by the divisions to group treasury allow the group's cash and debt position to be managed actively.

At 31 December 2009 and 26 March 2010 the group had undrawn headroom in its committed bank facilities of £275 million and £285 million respectively. 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.

In reaching this conclusion, the directors have considered carefully the risks to the group's trading performance and cash flows as a result of the difficult global economic environment and the shortage of credit available in the bank finance market in particular. The directors have also had regard to the group's operating plan and budget for 2010 and have considered a number of risk factors. The group's budget shows improved profitability and strong cash flows. The group has a good level of headroom in its bank facilities in terms of both the amount of funds available to withdraw and the financial covenants.

The group's bank facilities contain a single financial ratio covenant which requires EBITDA to be no less than 4x interest payable (on the basis of the definitions and subject to the adjustments set out in the bank facility documentation). The covenant is tested on 30 June and 31 December for the previous 12 months. At 31 December 2009 the covenant ratio was 7x, equivalent to £185 million of EBITDA headroom.

Full details of the group's net debt and borrowing facilities are set out in note 21 to the financial statements.

10. Auditors' and auditor independence

As described earlier in this report, KPMG Audit Plc replaced PricewaterhouseCoopers LLP as the company's auditors in September 2009. In concluding that KPMG Audit Plc should be appointed as auditors, the board and the audit committee took into account the need to ensure that auditor independence was safeguarded.

The company considers that there are sufficient controls and processes in place to ensure that the required level of independence is maintained. 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 in advance by the chief financial officer and above that level the approval of the audit committee is required. The committee does not consider that there is any material risk of the company's auditors withdrawing from the market.

A resolution to re-appoint KPMG Audit Plc as auditors of the company will be proposed at the annual general meeting to be held on 14 May 2010.

Disclosure of information to auditors

Insofar as each of the directors is aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) 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 2009 (and up to 26 March 2010, the date of the approval of the audited 2009 accounts) and during that time the board, with the assistance of the committee, has reviewed the process.

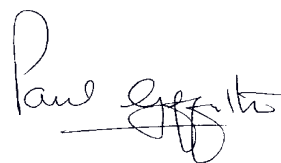
A report on the activities of the committee in 2009 is reported in section 3 above and further information on the risk management and internal control processes in the business can be found in the financial review on pages 16 to 19.

As indicated in the last annual report the company is currently engaged in a process of introducing a standard operating framework which will tend to mitigate risks associated with the geographic spread of operations and non-standard business processes. In addition the company is introducing a standard framework for the management of projects which will mitigate risks associated with the management of change which has been a particular exposure for the company in the past. These enhancements in the company's processes, which are taking place over the next three years, will deliver a greater understanding of the required standards for operations and the related performance metrics which will, in turn, lead to an improved control environment. In addition, the capability of financial management has been strengthened during the year.

In 2008 delegated authority limits in the group were revised. As a result the corporate centre increased its level of involvement in operating business decision-making. During 2009 the audit committee initiated a review of the sources of assurance provided to the board over the adequacy of the control and other processes. The review is on-going and is proving to be a useful additional oversight process.

Refining the internal control framework is iterative and improvement measures are continually under review.

By order of the board,



Paul Griffiths
Secretary
26 March 2010