

Accounting policies for the year ended 31 December 2007

The principal accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

Basis of preparation

These financial statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through the Group income statement. A summary of the Group's more important accounting policies is set out below.

The preparation of financial statements that conform to IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge at the time, actual amounts may ultimately differ from those estimates.

Basis of consolidation

In October 2007, pursuant to a Scheme of Arrangement under s425 of the Companies Act 1985, a new parent company was introduced which is called Reckitt Benckiser Group plc. The introduction of a new holding company constitutes a Group reconstruction and has been accounted for using merger accounting principles. Therefore, although the Group reconstruction did not become effective until October 2007, the consolidated financial statements of Reckitt Benckiser Group plc are presented as if both Reckitt Benckiser plc and Reckitt Benckiser Group plc had always been part of the same Group. Accordingly, the results of the Group for the entire year ended 31 December 2007 are shown in the consolidated income statement and the comparative figures for the year ended 31 December 2006 are also prepared on this basis. Earnings per share are unaffected by the reorganisation.

The consolidated financial statements include the results of Reckitt Benckiser Group plc and all its subsidiary undertakings made up to the same accounting date. In the case of acquisitions and disposals of businesses, the results of trading are consolidated from or to the date upon which control passes.

Inter-company transactions, balances and unrealised gains on transactions between Group companies have been eliminated on consolidation. Unrealised losses have also been eliminated to the extent that they do not represent an impairment of a transferred asset. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The results and net assets of the Group's subsidiary in Zimbabwe have been excluded from the consolidated Group results. This is on the basis that the Group does not consider the Zimbabwean business to be a subsidiary due to the loss of power to govern the financial and operating policies of the Zimbabwean business due to the restrictions on remitting funds out of the country. Results for 2006 and 2007, and the balance sheets as at 31 December 2006 and 31 December 2007, were insignificant.

The following standards, amendments and interpretations became effective for accounting periods ending after 1 January 2007:

- IFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group or Company's financial instruments, or the disclosures relating to taxation.
- IFRIC 8, "Scope of IFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group or Company's financial statements.
- IFRIC 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost from being reversed at a subsequent balance sheet date. This standard does not have any impact on the Group or Company's financial statements.

The following standards, amendments and interpretations are effective for accounting periods ending after 1 January 2007, but are not relevant to the Group's operations:

- IFRS 4 "Insurance contracts".
- IFRIC 7 "Applying the restatement approach" under IAS 39 Financial Reporting in Hyperinflationary Economies.
- IFRIC 9 "Re-assessment of embedded derivatives".

The following standards and interpretations are not yet effective and have not been early adopted by the Group:

- IAS 23 (Amendment), "Borrowing costs" to be adopted with effect from 1 January 2009 (assuming EU endorsement) but is currently not expected to have any impact on the Group accounts.
- IFRS 3, "Business Combinations: Revised" which the Group expects to adopt in 2010 (assuming EU endorsement). Acquisitions made from 2010 onwards will be accounted for under the revised standard.

- IFRS 8 "Operating Segments" will be adopted with effect from 1 January 2009. It may lead to changes in the determination of the Group's disclosed segments.
- IFRIC 11 "Group and Treasury share transactions" will be adopted from 1 January 2009, but it is not expected to have a material impact on the Group accounts.
- IFRIC 12 "Service Concession Arrangements" which would be adopted from 1 January 2008 (assuming EU endorsement) is not relevant to the Group's operations.
- IFRIC 13 "Customer Loyalty Programmes" which would be adopted from 1 January 2009 (assuming EU endorsement) is not expected to have a material impact on the Group's operations.
- IFRIC 14 "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" effective from 1 January 2008 (assuming EU endorsement). The Group will apply IFRIC 14 from 1 January 2008, but it is not expected to have a material impact on the Group accounts.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in sterling, which is the Company's functional currency.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied.

The accounts of overseas subsidiary undertakings are translated into sterling on the following basis:

- Assets and liabilities at the rate of exchange ruling at the year end date.
- Profit and loss account items at the average rate of exchange for the period.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity on consolidation.

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The currencies that most influence these translations and the relevant exchange rates were:

	2007 full year	2006 full year
Average rates:		
£/Euro	1.4602	1.4672
£/US dollar	2.0018	1.8436
Closing rates:		
£/Euro	1.3605	1.4841
£/US dollar	1.9849	1.9589

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment, with the exception of freehold land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset. Except for freehold land, the cost of property, plant and equipment is written off on a straight line basis over the period of the expected useful life of the asset. For this purpose, expected lives are determined within the following limits:

Freehold buildings: not more than 50 years;

Leasehold land and buildings: the lesser of 50 years or the life of the lease; and

Owned plant and equipment: not more than 15 years (except for environmental assets which are not more than 20 years). In general, production plant and equipment and office equipment are written off over ten years or less; motor vehicles and computer equipment over five years or less.

Assets' residual values and useful lives are reviewed, and adjusted if necessary, at each balance sheet date. Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be appropriate. Freehold land is reviewed for impairment on an annual basis.

Gains and losses on the disposal of property, plant and equipment are determined by comparing the asset's carrying value with any sale proceeds, and are included in the income statement.

Business combinations

The purchase method is used to account for the acquisition of subsidiaries. Identifiable net assets acquired (including intangibles) in a business combination are measured initially at their fair values at the acquisition date.

The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired (including intangibles) is recorded as goodwill.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued (if any), and liabilities assumed or incurred at the date of acquisition, plus costs directly attributable to the acquisition.

The results of the subsidiaries acquired are included in the Group financial statements from the acquisition date.

Goodwill and intangible fixed assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries since 4 January 1998 is included in intangible assets. Goodwill written off to reserves prior to this date has not been reinstated. Goodwill is allocated to the cash generating units to which it relates and is tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

An acquired brand is only recognised on the balance sheet as an intangible asset where it is supported by a registered trademark, is established in the marketplace, brand earnings are separately identifiable, the brand could be sold separately from the rest of the business and where the brand achieves earnings in excess of those achieved by unbranded products. The value of an acquired brand is determined by allocating the purchase consideration of an acquired business between the underlying fair values of the tangible assets, goodwill, brands and other intangible assets acquired.

Brands are not generally amortised, as it is considered that their useful economic lives are not limited. This policy is appropriate due to the stable long-term nature of the business and the enduring nature of the brands. A core element of the Group's strategy is to invest in building its brands through an ongoing programme of product innovation and sustained and rising marketing (particularly media) investment. Within Reckitt Benckiser, a brand typically comprises an assortment of base products and more innovative products. Both contribute to the enduring nature of the brand. The base products establish the long-term positioning of the brand while a succession of innovations attracts ongoing consumer interest and attention. Indefinite life brands are allocated to the cash generating units to which they relate and are tested annually for impairment.

The Directors also review the useful economic life of brands annually, to ensure that their economic lives are still appropriate. If a brand is considered to have a finite life, its carrying value is amortised over that period.

Payments made in respect of product registration and distribution rights are capitalised where the rights comply with the above requirements for recognition of acquired brands. If the registration or distribution rights are for a defined time period, the intangible asset is amortised over that period. If no time period is defined the intangible asset is treated in the same way as acquired brands.

Acquired computer software licences are capitalised at cost. These costs are amortised over three years.

Research and development

Research expenditure is written off in the year in which it is incurred.

Development expenditure is written off in the year in which it is incurred, unless it meets the requirements of IAS 38 to be capitalised and then amortised over the useful life of the developed product.

Exceptional items

Where material, non-recurring expenses or income are incurred during a period these items are recognised on a separate line in the income statement. Examples of such items are:

- Expenses relating to the integration of an acquired business
- Expenses relating to reconfiguration of the Group's activities
- Impairments of current and non-current assets
- Gain/loss on disposal of businesses.

The Group also presents an alternative, adjusted basis, earnings per share calculation, to exclude the impact of the exceptional items.

Management believe that the use of adjusted measures such as adjusted operating profit, adjusted net income and adjusted earnings per share provide additional useful information on underlying trends to shareholders.

Impairment of assets

Assets that have indefinite lives are tested annually for impairment. All assets are tested for impairment if there is an event or circumstance that indicates that their carrying value may not be recoverable. If an asset's carrying value exceeds its recoverable amount an impairment loss is recognised in the income statement. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Value in use is calculated with reference to the future cash flows expected to be generated by an asset (or group of assets where cash flows are not identifiable to specific assets). The discount rate used in brand impairment reviews is based on the Group's weighted average cost of capital including, where appropriate, an adjustment for the specific risks associated with the relevant asset.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises materials, direct labour and an appropriate portion of overhead expenses (based on normal operating capacity). Net realisable value is the estimated selling price less applicable selling expenses.

Trade receivables

Trade receivables are initially recognised at fair value. If there is objective evidence that the Group will not be able to collect the full amount of the receivable an impairment is recognised through the income statement. Significant financial difficulties of the debtor, probability that a debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The impairment is calculated as the difference between the carrying value of the receivable and the present value of the related estimated future cash flows, discounted at the original interest rate. The amount of any impairment is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and other deposits with a maturity of less than three months when deposited. For the purpose of the cash flow statement, bank overdrafts that form an integral part of the Group's cash management and are repayable on demand, are included as a component of cash and cash equivalents.

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified in current assets unless management intends to dispose of them more than 12 months after the balance sheet date.

Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, when the income tax is also then recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantially enacted, at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction (other than a business combination) that affects neither accounting nor taxable profit or loss at that time. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Pension commitments

Group companies operate defined contribution and (funded and unfunded) defined benefit pension schemes.

The cost of providing pensions to employees who are members of defined contribution schemes is charged to the income statement as contributions are made. The Group has no further payment obligations once the contributions have been paid.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the project unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows by the yield on high-quality corporate bonds denominated in the currency in which the benefits will be paid, and that have a maturity approximating to the terms of the pension obligations. The costs of providing these defined benefit schemes are accrued over the period of employment. Actuarial gains and losses are recognised immediately in the statement of recognised income and expense (SORIE).

Post-retirement benefits other than pensions

Some Group companies provide post-retirement medical care to their retirees. The costs of providing these benefits are accrued over the period of employment and the liability recognised in the balance sheet is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related asset is deducted.

Employee share schemes

Incentives in the form of shares are provided to employees under share option and restricted share schemes. Any shortfall between the cost to the employee and the fair market value of the awards date of grant is charged to the income statement over the period to which the performance criteria relate, with the credit taken directly to the retained earnings reserve. Additional employer costs in respect of options and awards are charged to the income statement over the same period with the credit included in payables. Where awards are contingent upon performance conditions an assessment of the likelihood of these conditions being achieved is made at the end of each reporting period and reflected in the accounting entries made.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that there will be an outflow of resources to settle that obligation and the amount can be reliably estimated. Provisions are valued at the present value of the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

Financial instruments

Financial instruments held for trading are classified as current assets and current liabilities, and are stated at fair value, with any resulting gain or loss recognised in the income statement.

Where the Group has the positive intent and ability to hold a financial instrument until its maturity, the instruments are stated at amortised cost less any impairment losses recognised in the income statement.

The fair value of financial assets classified as held for trading is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading are recognised/de-recognised by the Group on the date it commits to purchase/sell the instrument. Financial instruments held to maturity are recognised/de-recognised on the day they are transferred to/by the Group.

The Group has no financial assets or financial liabilities designated as at fair value through profit or loss.

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Derivative financial instruments and hedging activity

The Group may use forward rate agreements and forward foreign currency contracts to manage its exposures to fluctuating interest and foreign exchange rates. These instruments are initially recognised at fair value and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. Derivatives that qualify for hedge accounting are treated as either a hedge of a highly probable forecast transaction (cash flow hedge) or a hedge of net investment in foreign operations (net investment hedge).

At inception the relationship between the hedging instrument and the hedged item is documented, as is an assessment of the effectiveness of the derivative instrument used in the hedging transaction in offsetting changes in the cash flow of the hedged item. This effectiveness assessment is repeated on an ongoing basis during the life of the hedging instrument to ensure that the instrument remains an effective hedge of the transaction.

1. Derivatives classified as cash flow hedges: the effective portion of changes in the fair value is recognised in the SORIE. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts recognised in equity are recycled to the income statement in the period when the hedged item will affect profit or loss. If the hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity, and is recognised when the forecast transaction is ultimately recognised in the income statement. If the forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is immediately transferred to the income statement.

2. Derivatives classified as net investment hedges: the effective portion of any changes in fair value is recognised in equity. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains or losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

3. Derivatives that do not qualify for hedge accounting: these are classified at fair value through profit or loss. All changes in fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Net revenues

Net revenues are defined as the amount invoiced to external customers during the year, that is gross sales net of trade discounts, customer allowances for credit notes and returns and consumer coupons, and exclusive of VAT and other sales-related taxes. Net revenues are recognised at the time that the risks and rewards of ownership of the products are substantially transferred to the customer.

Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are capitalised at lease inception at the lower of the asset's fair value and the present value of the minimum lease payments. Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate within borrowings. The interest element of the finance cost is charged to the income statement over the life of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The plant, property and equipment is depreciated on the same basis as owned plant and equipment or over the life of the lease, if shorter.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals (net of any related lease incentives) are charged against profit on a straight line basis over the period of the lease.

Capital transactions

When the Group repurchases equity share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are either held in Treasury, in order to satisfy employee options, or cancelled and, in order to maintain capital, an equivalent amount to the nominal value of the shares cancelled is transferred from Retained Earnings to the Capital Redemption Reserve.

Segmental reporting

The Group's policy on determination of segments and related matters is included in note 1.

Accounting estimates and judgements

The Directors make a number of estimates and assumptions regarding the future, and make some significant judgements in applying the Group's accounting policies. These include:

- Estimates of future business performance and cash generation supporting the net book value of intangible assets at the balance sheet date (note 9);
- The determination of the carrying value of property, plant and equipment and related depreciation, and the estimation of useful economic life of these assets (note 10);
- The continuing enduring nature of the Group's brands supporting the assumed indefinite useful lives of these assets (note 9);
- Long-term rates of return, inflation rates and discount rates have been assumed in calculating the pension and other employee post-retirement benefits. If the real rates are significantly different over time to those assumed, the amounts recognised in the income statement and in the balance sheet will be impacted (note 4);
- Assumptions are made as to the recoverability of tax assets especially as to whether there will be sufficient future taxable profits in the same jurisdictions to fully utilise losses in future years (note 19);
- Assumptions are made in relation to share awards, both in the Black-Scholes model used to calculate the charge and in terms of the recoverability of the deferred tax asset related to the share award reserve (note 4);
- The actual tax paid on profits is determined based on tax laws and regulations that differ across the numerous jurisdictions in which the Group operates. Assumptions are made in applying these laws to the taxable profits in any given period in order to calculate the tax charge for that period. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the income statement in the period in which it is determined (note 6).