RECKITT BENCKISER

Seeing is believing…

Annual Report and Financial Statements 2007

Net revenues grew by 10% (constant)* to £5,269m

Adjusted operating profit up 15% (constant)* to £1,190m

Over £650m returned to shareholders

… Seeing is believing

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Reckitt Benckiser Group plc. Registered in England No. 6270876

Pages 12 to 23 inclusive consist of a Directors' report that has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

*at constant exchange rates.

Chairman's Statement

2007 was an excellent year for Reckitt Benckiser and its shareholders. The Company posted record financial results, it further strengthened the global market positions of its major brands and it expanded further into consumer healthcare, a key strategic ambition, with the acquisition of Adams Respiratory Therapeutics, Inc. in the USA (January 2008). The Company's balance sheet remains strong and we are well positioned for future growth.

Returning cash to shareholders

The strong growth of the business, leveraged into even better increases in profit and cash flow, allowed the Company to reward shareholders with an increasing rate of cash return. In 2007 we completed another £300m of share buy backs, while paying higher dividends of £358m and paying down virtually all of the remaining debt taken on to acquire Boots Healthcare International.

The Directors propose a final dividend of 30.0 pence which will bring the total for the year to 55.0 pence, an overall increase of 21%. The increase is ahead of the earnings growth of the Company, reflecting the Board's confidence in the business momentum.

The acquisition of Adams on 30 January 2008 for around £1.1bn in cash will not materially alter the Company's ability to continue returning cash to shareholders.

The Board of Directors

There has been no change in the Board of Directors since the year end. Peter White will not seek re-election at the forthcoming Annual General Meeting. Peter has been an extremely valuable member of the Board for ten years and we thank him very much for his most useful contribution, and in particular for his wise chairing of the Audit Committee from 1998 to 2006.

The Board regularly reviews the performance and results of the business and holds specific reviews with management on brand, area and functional performance. The Board also reviewed various other aspects of the business during the year, including annual reviews of corporate governance, corporate responsibility, reputational and business risk. The Board also conducted its annual appraisal of its own performance.

Management

The success of the Company owes much to the strength of its brands, but it would not succeed without the commitment and passion of the management team under the leadership of Bart Becht, our CEO. 2007 was a year which demonstrated the strength of our people, and especially those senior executives who assumed new positions in 2006.

We continue to focus much attention on the need for a strong, sustainable supply of talented people, with continuity in style and culture, to fill senior management positions in future.

Annual General Meeting resolutions

Towards the end of 2007, the Company completed its Scheme of Arrangement to create a new top company, Reckitt Benckiser Group plc. This change means that the Company now has plentiful distributable reserves to allow cash returns to shareholders for many years to come.

Most resolutions at the AGM this year are standard, with two additional resolutions which seek approval to amendments to the Company's Articles of Association and authorisation for the Company to communicate with shareholders electronically and I hope they will receive the approval of our shareholders. The Board strongly recommends that shareholders continue to support the strategies and policies that have brought such success to the Company. We look forward to updating you further at our Annual General Meeting on 1 May 2008.

Thanks

On behalf of all shareholders, I extend our sincere thanks again to Bart Becht and his team for the achievements of the past year. My thanks also go to the members of the Board for their contribution and support. Finally, I again thank shareholders for their confidence in the Board and the Company, and I look forward to further success in the years to come.

Adrian Bellamy
Chairman

2007 was a great year!

We made excellent progress in making our 18 Power Brands stronger global market leaders. Bar one, that held flat, all Power Brands gained market share due to high levels of brand investment and the launch of exciting new products like Air Wick Freshmatic Mini and Vanish Oxi Action Multi. Not only did the Power Brands gain in the markets where they are sold, they are increasingly becoming global leaders as we roll these brands out to new markets.

Power Brands now account for 61% of Reckitt Benckiser's total net revenues, up from 40% in 2001. The continued strong development behind these increasingly clear global leaders in categories with strong growth potential positions the Company well for the future.

We also started to realise our ambition of becoming a real global player in consumer healthcare, another area where we believe the Company can achieve good growth at very attractive margins.

In February 2006, we acquired the Boots Healthcare International (BHI) business. In 2007, not only did we complete the integration of BHI, delivering more than the originally targeted synergies and one year ahead of schedule, we managed to grow the BHI business by 10% on a true like-for-like basis, well ahead of ingoing assumptions. Most of this growth was driven by the three new Power Brands that came with the BHI acquisition: Nurofen, Strepsils and Clearasil.

Towards the end of 2007, we announced our intent to acquire Adams Respiratory Therapeutics, Inc., a transaction which completed on 30 January 2008. Adams allows us to enter the USA, the largest consumer healthcare market in the world with Mucinex, the clear No.1 in the US Cough Relief market. Mucinex will become our 19th Power Brand. Its unique and patent-protected formulas and consumer claims of 12-hour relief provide clear opportunities for further growth for the brand in the USA and in new geographies.

As we are looking forward, we are excited by the growth and margin potential the Power Brands in consumer healthcare can bring to Reckitt Benckiser.

Strong in-market results drove our financial success in the year. 2007 was the eighth consecutive year of above industry average net revenue and profit growth for Reckitt Benckiser. Net revenues at constant exchange grew by 10% in total and 9% on a like-for-like basis, with exchange reducing both numbers by 3%. Adjusted profit for the year advanced by 15% at actual exchange.

The strong financial results and confidence in the continued momentum of the Company led the Board to increase 2007 dividends by 21% and continue with a £300m share buy back programme.

Investors often ask us why we have been successful and even more importantly if we can continue our track record. Since the formation of Reckitt Benckiser in 1999, the Company has delivered consistently above industry average growth in net revenues and profits. We believe at the heart of our success lies our consumer-centric vision, a clear and consistent strategy, the strength of our organisation and culture and our ever stronger product portfolio of globally leading brands in attractive categories. We believe the same elements position us well for future success.

A consumer-centric vision

Our vision is to deliver consumers and customers better solutions for that short period of time every day that they use household cleaning, health or personal care products. Our enduring passion to make continuous progress in this area forms the foundation of our success.

A clear and consistent strategy

Disproportionate focus on our 18 Power Brands to realise our vision and drive above industry average growth

We narrowly focus on these 18 brands as they typically are global market leaders in categories with strong growth potential. These are the brands that receive the lion's share of new products to realise our vision and the bulk of our media and marketing investment to consistently grow them ahead of the market and company average.

Our Power Brands now account for 61% of our total business – up from 40% in 2001. Many of them are world leaders like Vanish in Fabric Treatment, Finish and Calgonit in Automatic Dishwashing or Lysol and Dettol in Disinfection.

We use high levels of brand investment and innovation to nurture our Power Brands to above industry and company average growth rates. Our innovation rate at almost 40% of net revenue from products launched in the prior three years strengthens the positions of our Power Brands within their categories, continually enhancing their consumer appeal. These innovations are then supported with a marketing investment that is amongst the highest in our industry – with our media investment alone running at 12.4% of net revenues.

Due to the historical way our business has been built over the years, through mergers and acquisitions, our Power Brands are not yet present in all markets around the world. However, our dedication to rolling them out into new geographies is reaping rewards. In 1999, Vanish was mostly a UK brand, but it is now in 57 countries and the clear No.1 worldwide in Fabric Treatment. Veet was in 27 and with its presence now in 73 countries has become the global leader in depilatories. Air Wick was in 11 and it is now in 70 making it a strong No.2 in Air Care.

Globalising our Power Brands not only makes them stronger market leaders, it further enhances our corporate net revenue growth.

Transforming growth into profit and cash flow

We focus on turning the growth of the business into attractive profit and cash flow through margin expansion and cash conversion.

We expand margins through an unrelenting attention to cost optimisation, from removing unnecessary components in packaging to creative approaches in manufacturing and logistics. We also drive margins by focusing on higher margin products and categories. Margin expansion not only fuels profit growth, but it also provides the funds to reinvest back into the business to pursue more growth opportunities.

The proof of our success is that we have continued to expand margins even in a period of volatility in commodity prices, and this is due to our persistence in seeking internal cost reduction opportunities not as a one-off exercise, but as a way of everyday business.

We convert all of this into cash through tight control and management of our net working capital and relentless attention to cash.

Our management, people and culture make it happen

A strong management team, and a highly driven group of people, bound together by a common culture bring this vision and strategy to life.

At Reckitt Benckiser, we work together with passion to excite consumers. We truly live our business, it is fun and therefore rewarding and it is an obsession that goes beyond just being a job. Our culture breeds pride in achievement, a truly personal commitment to deliver, pleasure in co-operating in teams and the excitement of taking calculated risks in the search for better solutions. Not for us a culture of consensus, rather we enjoy constructive conflict if it leads to better decision making. Ours is a culture that works for us. That is why we work very hard on recruiting and developing our talent to fit with our culture.

Delivering shareholder value

…in the short-term

The result of our vision, strategy and values brought to life by our passionate people is a performance that has delivered growing profit and cash flow for shareholders. Our growth has outpaced our industry consistently over the past eight years. And shareholders have been rewarded for this with consistent growth in the value of their shares, in a progressive dividend policy, and continuing share buy backs.

…in the long-term

We are also driving the long-term value of the business for shareholders by making our business more sustainable, through building our reputation as a responsible company, and through taking actions to improve upon the social and environmental impact of our business.

Reckitt Benckiser now consistently scores at the head of industry on external measures of sustainability. With programmes such as Trees for Change (a carbon offset programme) and our continuing partnership with Save the Children worldwide, we are already putting back some of the benefits of our business.

In 2007 we launched a major and far-reaching programme, Carbon 20, to make a real and measurable reduction in our products' Total Carbon Footprint, from cradle-to-grave. This programme tackles not just the easy wins of carbon reduction in the areas under the control of our own business, but the much larger, if less straightforward, issues in our supply chain and in consumer use of our products. Success in reducing our products' Total Carbon Footprint by 20% by the year 2020 will make a real contribution to the world's efforts on climate change, effectively taking the equivalent of nearly a million cars off the roads.

Seeing is believing

We always analyse and review the reasons for our past success.

These 2007 financial results and the progress of our Power Brands and categories are evidence that our approach works.

We have a compelling vision and strategy alongside a dynamic group of Power Brands with an exciting array of growth opportunities ahead. This is brought to life by our 23,400 people, incentivised and motivated, working in a collaborative and energising environment, and in a Company they are proud to work for.

I believe these attributes are the foundations of our past success and will continue to be the fundamental drivers to our future success. However, seeing is believing, and I hope the pages that follow will allow you to share my confidence in that future.

Bart Becht
Chief Executive

This review for the financial year ending 31 December 2007 conforms to the Business Review required under the Companies Act 1985. It should be read in conjunction with the rest of this annual report, the Company's Sustainability Report and the Company's website (www.reckittbenckiser.com).

NATURE, OBJECTIVES AND STRATEGIES OF THE BUSINESS

Reckitt Benckiser is one of the world's leading manufacturers and marketers of branded products in household cleaning and health & personal care, selling a comprehensive range through over 60 operating companies into around 180 countries. Over 75% of net revenues in 2007 were generated by brands that are either market leader or ranked second in their markets. The Company's principal product categories and brands are listed on pages 10 and 11 of the Shareholders' Review.

Reckitt Benckiser's vision is to deliver better consumer solutions in household cleaning and health & personal care for the ultimate purpose of creating shareholder value.

The strategy of the business is described in detail in the Chief Executive's Review. In summary:

- Have a disproportionate focus on our 18 Power Brands to realise our vision and drive above industry average growth to strengthen their global market positions.
- Transform the above industry average net revenue growth into attractive profit and cash flow.

THE COMPANY'S BRAND PORTFOLIO AND MARKET POSITION

The Company benefits from many very strong market positions for its brand portfolio. Excluding Laundry Detergent and Fabric Softener the Company is the world market leader in household cleaning products and has leading positions in selected health & personal care categories. These positions derive from the strength of the Company's leading brands, described as Power Brands, which are the flagship brands in the Company's five major categories and on which the Company focuses the majority of its efforts and investment. The Company also has other brands and market positions that are less of a strategic focus but which play a role as scale builders in local markets.

These leading positions include:

Fabric Care

- No.1 worldwide in Fabric Treatment (products to remove stains from clothes, carpets and upholstery) with Vanish around the globe and Resolve/Spray 'n Wash in North America.
- No.2 worldwide in Garment Care (laundry cleaning products for delicate garments) with Woolite.
- No.1 worldwide in Water Softeners (products to prevent destructive limescale build-up on washing machines and laundry) with Calgon.
- The Company also has a number of local market positions in Laundry Detergents and Fabric Softeners (for example in Spain, Italy, certain East European markets and Korea). The Company also has a small private label business, the majority of which provides Laundry Detergent to major multi-national retailers in Europe.

Surface Care

- No.1 worldwide in the overall Surface Care category due to leading positions across disinfectant cleaners, non-disinfectant all purpose cleaners, lavatory care, specialty cleaners and polishes/waxes.
- No.1 worldwide in disinfectant cleaners (products which both clean and disinfect surfaces, killing 99.9% of germs) with Lysol in North America and the Surface Care products in the Dettol range outside North America.
- No.1 worldwide in lavatory care with Lysol in North America and Harpic across Europe and Developing Markets.
- The Company has a number of local leading brands in non-disinfectant all purpose cleaners, specialty cleaners and polishes/waxes.

Dishwashing

- No.1 worldwide in Automatic Dishwashing (products used in automatic dishwashers) with Finish/Calgonit internationally and Electrasol/Jet Dry in North America.
- The Company also has some small, local positions left in the declining manual dishwashing products market.

Home Care

Home Care consists of Air Care, Pest Control and Shoe Care.

- No.2 worldwide in Air Care with Air Wick.
- No.2 worldwide in Pest Control with Mortein, the Company's international brand, supported by local brand franchises like d-Con in North America.
- No.2 worldwide in Shoe Care with such brands as Cherry Blossom and Nugget.

Health & Personal Care

The Health & Personal Care category consists of products that relieve or solve common personal and health problems.

- No.1 worldwide in topical Antiseptics and Antiseptic personal care products with Dettol.
- No.1 worldwide in depilatory products with Veet.
- No.1 worldwide in medicated sore throat products with Strepsils.
- Leading positions in Analgesics and Upper Gastro-Intestinal products in Europe and Australia with Nurofen and Gaviscon. The company has also local leading positions in Denture Care, Dry Skin Care and Cold/Flu products.

Other

The Company also has two non-strategic businesses, Food and Pharmaceuticals.

- Food. The Company owns a largely North American Food business, the principal brands of which are French's Mustard, the No.1 mustard, and Frank's Red Hot Sauce, the No.2 hot sauce in North America.
- Pharmaceuticals (formerly known as BBG or the Buprenorphine Business Group) is responsible for the development of the Company's Subutex and Suboxone prescription drug business. Both products are based on buprenorphine for treatment of opiate dependence. Suboxone is a more advanced product compared to Subutex, as it has substantially better protection against abuse by the opioid-dependent population. Subutex is principally marketed in Europe by Schering Plough Corporation, Kenilworth, New Jersey to whom it is licensed, while Suboxone is sold by Reckitt Benckiser directly in the USA and Australia with US exclusivity until the end of September 2009. Suboxone has recently received marketing approval from the European Commission for treatment in the 25 states of the European Union, Norway and Iceland, with exclusivity until 2016. As with all prescription drugs, the intellectual property protection of this business has a finite term unless replaced with new treatments or forms. Therefore, the revenue and income of this business may not be sustained going forward unless replaced with new treatments or forms on which the Company is actively working. At the same time, the Company is engaged in developing potential new treatments with third parties that would have either patent protection or market exclusivity in similar areas to where it is active today.

THE INDUSTRY, MARKET AND COMPETITIVE ENVIRONMENT

The household cleaning and health & personal care industry is characterised by steady growth in demand with little variation due to macro-economic factors, particularly in developed markets. Some developing markets exhibit more volatile demand in reaction to macro-economic factors. The principal drivers of market growth in all markets are the rate of household formation and growth in the level of disposable income, combined with demand for new products that offer improved performance or greater convenience.

The industry is intensely competitive, with a comparatively small number of major multi-national competitors accounting for a large proportion of total global demand. The Company competes with numerous, well-established, local, regional, national and international companies, some of which are very large and aggressively establish and defend their products, market shares and brands. Principal competitors include FMCG companies like Procter & Gamble, Colgate Palmolive, Clorox, S.C. Johnson, Henkel, Unilever, and such pharmaceutical companies as GlaxoSmithKline, Johnson & Johnson, Novartis and Bayer, plus a number of strong local industry players.

The Company competes, particularly in strongly branded segments, through its focus on its leading position in higher growth categories where it is typically the market leader or a close follower and through its ability to introduce new products (whether improved or newly developed) supported by a rising and substantial level of marketing, particularly media, investment. Much industry competition focuses on competing claims for product performance rather than price or terms. For this reason, failure to introduce new products and gain acceptance thereof may significantly impact the Company's operating results. The Company also encounters challenges to its leadership positions in markets, the defence against which requires significant marketing expenditure and promotional activity.

The Company's products also compete for consumers with private label products sold by major retail companies. The Company competes with private label primarily by focusing on delivering innovative new products with real consumer benefits, which private label typically does not focus on, and by consistent marketing investment to communicate the benefits of its brands direct to consumers, where private label is not advertised.

Technological change and product improvement can therefore be a key determinant of the Company's success. Reckitt Benckiser's success in introducing new and improved products stems from its heavy focus on developing a pipeline of product innovation. The Company maintains a large category development organisation, including market and consumer research, R&D and marketing/sales best practice, to fuel this pipeline and share category success factors and learning. The Company invested £92m in 2007, in R&D. While the Company believes R&D to be a key contributor to innovative new products, it does not believe it to be the dominant performance indicator for innovation success. The Company's success is demonstrated by the fact that almost 40% of its net revenues come from products launched over the last three years.

INTERNATIONAL OPERATIONS AND REGULATORY POSITION

The household and health & personal care industry is heavily regulated by, inter alia, the European Union, the United States government and individual country governments elsewhere. Ingredients, manufacturing standards, labour standards, product safety, marketing and advertising claims are all subject to detailed and developing regulation.

Reckitt Benckiser has operating companies in some 60 countries and has sales in up to 180 countries worldwide. At present, over 75% of the Company's net revenues derive from Europe, North America and Australia/New Zealand with the remainder coming from mostly semi-established or developing economies. The Company is expanding its operations in these semi-established and developing economies, which may bring increased risks from greater economic volatility, additional governmental burden and regulation, political instability, and local labour conditions. However this is not the case with all developing markets many of which offer higher economic growth potential.

The Company structures its business through a matrix of a centralised Category Development organisation, Global Sales organisation, Supply organisation and support functions (Finance, Human Resources and Information Services) combined with three Area organisations, Europe, North America & Australia, and Developing Markets.

The central Category Development function, where appropriate supported by Global Sales, is responsible for Power Brand strategies, brand equity programmes and best practices, new product development, including R&D, consumer and market research, for implementation by the Area organisation.

The geographical structure is in three Areas which are responsible for local execution of marketing and sales programmes:

- **Europe.** The Area covers the regions of Northern Europe (UK, Ireland, Scandinavia), Central Europe (Germany, Netherlands, Austria, Switzerland), Western Europe (France, Belgium), Southern Europe (Italy, Greece), South Western Europe (Spain, Portugal and export business) and Eastern Europe (Poland, Hungary, Czech Republic/Slovakia/Romania, Adriatics, Russia/CIS, Turkey).
- **North America & Australia.** The Area covers the markets of North America (USA, Canada) and Australia and New Zealand.
- **Developing Markets** covers the regions of Latin America (Brazil, Mexico, Argentina and smaller markets), Africa Middle East (South Africa, Middle East, Pakistan, East Africa, West Africa), South Asia (India, Bangladesh, Sri Lanka, Indonesia) and East Asia (Korea, Hong Kong, China, Taiwan, Singapore, Malaysia, Thailand, Japan).

The Supply function is responsible for all procurement (raw and packaging materials and services), production and logistics globally, and is directly responsible for the operation of the Company's 42 production facilities worldwide. Approximately 80% of manufacturing and supply is through these 42 sites around the world, with facilities located in Europe (15 facilities), North America (six facilities), Australia New Zealand (one facility) and the remaining facilities spread across Asia (12), Latin America (four) and Africa Middle East (four). These include a small number of facilities in higher risk labour and social environments in Asia and Latin America.

Information Services is responsible for the Company's global systems infrastructure and global systems, including the Company's chosen Enterprise Resource Planning (ERP) system and its associated programmes.

The Company has a comprehensive set of policies and procedures designed to enforce and protect its reputation and govern its business methods and practices. These cover, inter alia, a comprehensive Code of Business Conduct, an Environmental Policy, a Global Manufacturing Standard, and a policy on product safety. Internal controls on environmental, social, governance (ESG) matters and reputational risk are further outlined on pages 7, 14 and 15 of this report.

RESOURCES

The major resources required by the business are an adequate supply of the raw and packaging materials consumed by the Company's products, and the necessary funds for developing new products and reinvestment in advertising and promoting those brands. The other principal resource is management.

The Company considers that its primary raw materials, such as bulk chemicals including a number of petrochemicals, plastics, pulp, metal cans etc are generally in adequate supply globally. The costs of these items fluctuate from time to time but not at levels that seriously impinge on the ability of the Company to supply its products or generate profit. The Company is profitable, and cash generative, even after reinvesting in marketing, specifically media, at levels well above the industry average. The Company therefore believes that its ability to reinvest in supporting and building its brands is a significant competitive advantage.

Supply constraints do exist in the Company's supply chain from time to time. These normally arise due to unexpected demand for new products or to the time delay involved in stepping up production of new items to the levels required to supply many millions of units internationally.

The Company's supply chain is deliberately relatively well spread in terms of geography and technology such that the reliance on any one facility is minimised. However there are a number of facilities that remain critical to the Company's supply chain where major interruption to normal working could involve disruption to supply. The Company's suppliers are similarly deliberately well spread in terms of geography and supplied items but there are nonetheless some risks to continuity of supply arising from some specialised suppliers both of raw materials and of third party manufactured items.

The supply of strong management for the Company remains more than adequate. This is attributable to the Company's culture and to its highly performance-oriented remuneration system which is based on paying for excellent performance. The Company believes that its ability to attract and retain the excellent management it needs to continue its success depends critically on this system.

The Company trains and develops its management pipeline through formal training programmes focusing on three areas: leadership skills, functional skills and general skills, and through a deliberate policy of training on the job. The Company has 12 formal training modules for middle management and Top 400 managers. During 2007 the Company ran 50 courses on these modules, training over 800 people. Management is international, and is trained through rotation in international postings both in countries and in the Company's central functions. Succession planning is a critical management discipline and is reviewed at least annually at the full Board and the Executive Committee.

The Company closely monitors and tracks its Top 400 international managers (T400), the core management team of the business. This is a diverse group, consisting of 50 nationalities, and over half of the T400 group is working in a country that is not their original domicile, consistent with the Company's policy to develop a multi-national management team. Turnover within this T400 group in 2007 was 10.1% which the Company considers satisfactory given the need to retain high-quality management offset by the benefits of refreshing the team with new talent. 2007 saw around 40 promotions, 50 moves and fewer than 30 external recruits. The Company ended the year with a historically low level of vacancies within the T400 group of 12, or around 3% of the measured group.

There is a comprehensive set of policies governing employment and employees to ensure that the Company remains an attractive employer. The Group is committed to the principle of equal opportunity in employment; no applicant or employee receives less favourable treatment on the grounds of nationality, age, gender, religion or disability. It is essential to the continued improvement in efficiency and productivity that each employee understands the Company's strategies, policies and procedures. Open and regular communication with employees at all levels is an essential part of the management process. A continuing programme of training and development reinforces the Company's commitment to employee involvement. The Board encourages employees to become shareholders and to participate in the Company's employee share ownership schemes.

The Company relies on its brand names and intellectual property. All of the Company's brand names are protected by nationally or internationally registered trademarks. The Company also maintains patents or other protection for its significant product formulation and processing methods. The Company aggressively monitors these protections and pursues any apparent infringements.

RELATIONSHIPS AND PRINCIPAL RISKS

The Company's critical external relationships are with its major customers, typically the large grocery, mass market, multiple retailers, and its suppliers of raw and packaging materials and finished goods.

The Company's customer base is diffuse with no single customer accounting for more than 10% of net revenues, and the top ten customers only accounting for between a quarter and a third of total net revenues. These customers are becoming more concentrated and more multinational, increasing demands on the Company's service levels. In addition, many retailers compete with the Company's products with their own private label offerings. The Company maintains its relationship with its principal retail customers through the efforts of its dedicated sales force, including key account directors, and its global sales organisation specifically set up to manage its interface with the growth of international retailers.

The Company has many suppliers. The suppliers are predominantly international chemical and packaging companies. The Company sources most of its supplies through its global purchasing function, which acts as its primary interface with its suppliers.

The principal risk factors that may be considered in relation to the Company are, in the opinion of the Directors:

Market risks

- Demand for the Company's products may be adversely affected by changes in consumer preferences.
- Customers, mainly large retailers, may decide to de-list the Company's brands, or not participate in the active promotion of the brands through in-store programmes.
- Competition may reduce the Company's market shares and margins.
- The expiry of the Company's exclusive licence for Suboxone in the United States in 2009 with the possibility that the Company will not develop new forms that offer new intellectual protection beyond 2009.
- Competition from private label and unbranded products may intensify.

Operational risks

- The Company's new product pipeline may not generate consumer-relevant innovation and improvement to fuel growth and build market shares.
- Key management may leave or management turnover may significantly increase.
- Information technology systems may be disrupted or may fail, despite the Company's disaster recovery processes, interfering with the Company's ability to conduct its business.
- Regulatory decisions and changes in the legal and regulatory environment could increase costs or liabilities or limit business activities.
- Operating results may be affected by increased costs or shortages of raw materials, labour or by disruption to production facilities or operating centres.
- Unfavourable economic or business conditions may adversely affect or disrupt operations in countries in which the Company operates.
- The Company may not be able to protect its intellectual property rights.

Environmental, social and governance risks

Another group of risks concern the reputation of the Company and its brands, but are reduced by the fact that the Company and its brands are not necessarily connected in the mind of consumers.

Risks from the perspective of Environmental, Social and Governance (ESG) matters are discussed in the Report of the Directors. These should be read in conjunction with the Company's Sustainability Report (available on the Company's website) which addresses the Company's exposures to a number of reputation-affecting issues and how the Company is addressing such risks, and which is independently verified.

In summary, the principal ESG risks identified by the Company are:

- Industry sector/product & consumer safety risks. The household products and health & personal care sectors have a number of product and ingredient issues relating to concerns voiced over the long-term effects of household chemicals and OTC drug ingredients on human health and the environment.
- Supply chain risks. Most product and raw material supply chains present a number of potential reputational risks relating to: labour standards; health, safety and environmental standards; raw material sourcing; and the social, ethical and environmental performance of third party manufacturers and suppliers.
- Product quality & safety risks. Failures in product quality controls could potentially lead to damage to the reputation of and trust in the Company's brands.

The Company has a full set of policies, building on its central Code of Business Conduct, that address all aspects of the Company's ESG behaviour. The Code itself is the subject of an annual review and certification process. The Board holds an annual review of ESG issues.

Financial risks

The Company's policies and procedures on the management of financial risk are explained in detail below. The Company has a number of risk exposures in relation to tax, treasury, financial controls and reporting that are actively managed through the Company's financial manual of policies and procedures, through regular reviews and controls, and through regular auditing, both internal and external.

PERFORMANCE OF THE BUSINESS IN 2007

Net revenues grew by 7% (10% constant) to £5,269m. The extra month of BHI in 2007 contributed 1% to this growth rate.

Reported operating profit for the year rose 35% (39% constant) to £1,233m. Reported net income was 39% (43% constant) higher at £938m. Basic EPS was 131.2p; diluted EPS was 127.9p, an increase of 39% on 2006.

Adjusted operating profit increased 12% (15% constant) to £1,190m. Gross margin was 160bps ahead of last year at 58.3% due to the benefit of price increases early in the year, favourable mix and cost optimisation. Marketing investment was substantially higher, with media investment increased by 14% constant to 12.4% of net revenues, 50 bps ahead of 2006. Adjusted operating margins increased by 110bps to 22.6% due to the gross margin expansion somewhat offset by higher marketing investment, and to the BHI synergies which have been achieved ahead of schedule.

The exceptional profit (net, pre-tax) in 2007 was £43m compared to charges in 2006 of £149m. Cumulative synergies from the BHI acquisition of £87m exceeded the increased target of £80m.

Net interest charges were £24m (2006 £36m) reflecting the reduction in debt during the year. The tax rate is 22%, benefiting from the £20m of one-off tax releases in the second quarter of 2007.

Adjusted net income growth was 15% (18% constant). Adjusted, diluted EPS increased by 15% to 123.4p.

With these results the Company achieved the profit forecast set out on page 32 of the Prospectus issued by Reckitt Benckiser Group plc dated 11 September 2007, which stated that 'we will likely exceed our full year target of net revenue growth of between 7% and 8% at constant exchange (base £4,922m) and net income growth in the mid teens percentage (base £786m) at constant exchange'.

GEOGRAPHIC ANALYSIS AT CONSTANT EXCHANGE EXCLUDING EXCEPTIONAL ITEMS

Europe – 54% of net revenues

2007 net revenues grew by 7% to £2,813m. The extra month of BHI in 2007 contributed 1% to this growth rate while business disposals deducted 1%.

Growth was broad based across all five core categories. Fabric Care grew due to the success of Vanish Oxi Action Multi and Vanish Oxi Action Crystal White, and Calgon Water Softener following increased investment. Surface Care growth benefited from the launch of Cillit Bang Grease & Floor and from growth for Harpic Power Plus and Harpic Max In Toilet Bowl device (ITB) in Lavatory Care. In Automatic Dishwashing, the key drivers were Finish Quantum, Finish All in1 and Finish Turbo Dry. In Home Care, Air Care growth was driven by continuing success for Air Wick Freshmatic. In Health & Personal Care, growth came from the former BHI brands: Nurofen, Strepsils and Clearasil with all three brands responding to increased marketing investment, and from Depilatories.

Full year operating margins were 60bps ahead of last year at 24.2% due to higher gross margins and BHI synergies, partially offset by higher marketing investment to support new products. This resulted in an 11% increase in operating profits to £681m.

2007 results excluding RB Pharmaceuticals

In light of the increasing significance of the RB Pharmaceutical business, the Company provides the following information relating to the performance of the business in 2007 excluding RB Pharmaceuticals (on an adjusted basis):

	RB ex Pharmaceuticals		RB Pharmaceuticals		Total RB	
	£m	% Const	£m	% Const	£m	% Const
Net revenues	5,058	+9%	211	+42%	5,269	+10%
Adjusted Operating Profit	1,072	+13%	118	+44%	1,190	+15%
Adjusted Operating Margin	21.2%	+80bps	55.9%	+90bps	22.6%	+110bps
Adjusted Net Income	830	+16%	75	+44%	905	+18%

North America & Australia (NAA) – 28% of net revenues

2007 net revenues increased 11% to £1,488m. Within this, NAA Household grew 7%, NA Food grew 7% and NAA Pharmaceuticals grew 60%.

Full year growth in Household came particularly from Surface Care, Automatic Dishwashing and Home Care. Surface Care growth was driven by Lysol in NA and by Harpic in ANZ. Automatic Dishwashing increased as a result of the continuing success of Electrasol 3in1 monodose tablets. In Home Care, Air Care growth came from both Airwick Freshmatic and Airwick Electrical Oils. In Health & Personal Care, increased net revenues came mainly from strong growth for Nurofen in ANZ behind higher investment.

Pharmaceuticals grew sales of Suboxone very strongly in the USA where the sales organisation has been substantially increased and helped by a regulatory change which allows doctors to take on more patients for this treatment.

Food grew strongly due to the consumer brands of French's Yellow Mustard, Frank's Red Hot Sauce and French's Fried Onions.

Full year operating margins were 130bps higher at 25.5% mainly due to mix benefit from the high growth of Suboxone plus gross margin expansion and BHI synergies resulting in profits increasing 16% to £379m.

Excluding NAA Pharmaceuticals, operating margins were 20 bps lower at 21.2%.

Developing markets – 18% of net revenues

Net revenues for 2007 grew 15% to £968m with strong growth across all regions of Asia, Latin America and Africa Middle East. The major contributors to growth were Fabric Care, Surface Care, Home Care and Health & Personal Care. In Fabric Care, the growth came from Fabric Treatment, mainly driven by initiatives on Vanish to increase category penetration. In Surface Care, the main drivers were Harpic Power Plus lavatory cleaner, supported by higher investment, and Veja in Brazil. In Home Care, the increase was in both Pest Control and Air Care. Mortein growth came from a number of new initiatives such as Mortein with Dettol, while in Air Care the key driver was Air Wick Freshmatic. In Health & Personal Care, the Dettol personal care range grew strongly, benefiting from the Herbal range extension and additional investment, while in Healthcare both Strepsils, due to higher investment, and Gaviscon, due to geographical expansion, grew strongly.

Full year operating margins expanded 230bps to 13.4% as operating profits increased by 43% to £130m.

CATEGORY REVIEW AT CONSTANT EXCHANGE RATES

Fabric Care. 2007 net revenues increased 5% to £1,241m. The major drivers were strong continuing growth for Vanish Oxi Action Multi and Vanish Oxi Action Crystal White. Calgon Water Softeners grew as a result of higher marketing investment. Woolite Garment Care benefited from the roll-out of Woolite Color and from higher investment. Excluding the private label business, where the level of activity was reduced in the year, the branded business grew 8%.

Surface Care. Net revenues grew 8% to £951m principally due to the launch of Cillit Bang Grease & Floor, and to strong growth for Lysol in North America and Veja in Brazil. Harpic Lavatory Care net revenues were also stronger due to the success of Harpic Power Plus and Harpic Max.

Dishwashing. Net revenues increased 5% to £616m due to the success of Finish Quantum and Finish All in1 in Europe and Electrasol 3in1 tablets in North America.

Home Care. Net revenues improved by 16% to £779m. Air Care grew strongly due to the continuing success of Air Wick Freshmatic globally and strong growth for Air Wick Electrical Oils in North America. Pest Control growth benefited from a number of initiatives such as Mortein Lantern, Mortein with Dettol and Mortein Professional Indoor Spray.

Health & Personal Care. Net revenues increased 13% to £1,199m. The extra month of BHI in 2007 contributed 5% to this growth rate while business disposals deducted 2%.

Dettol was significantly ahead in Developing Markets due to new personal care products like Dettol Herbal soap and shower gel, and significantly increased marketing investment. Veet benefited from the launch of the new Veet Pump Pack.

Healthcare, including the former business of BHI, contributed strongly to the growth in the year. Net revenues from the former BHI business, led by Nurofen, Strepsils and Clearasil, were £560m compared to £494m in the eleven months of ownership in 2006. Like-for-like growth in the former BHI business was 10%, mainly due to substantial growth for Strepsils, Nurofen and Clearasil.

Pharmaceuticals. Full year net revenues were £211m, 42% ahead of 2006, driven by the growth of Suboxone in the USA following a substantial increase in the sales organisation and helped by a regulatory change that allows doctors to take on more patients for this treatment. Operating profit for 2007 was £118m, up 44%.

Food. Net revenues grew 7% to £191m with good performance across the consumer portfolio, in particular further growth for French's Yellow Mustard, French's Fried Onions and Frank's Red Hot Sauce. Operating profits increased 10% to £51m, with operating margins improving 140bps to 26.7%.

FINANCIAL REVIEW

Constant exchange. Movements of exchange rates relative to sterling affect actual results as reported. The constant exchange rate basis adjusts comparatives to exclude such movements and shows the underlying growth.

Exceptional items. Where appropriate, the term 'adjusted' excludes the impact of exceptional items. Exceptional items in 2007 consist of a net gain in respect of business disposals and impairments of £73m offset by restructuring charges of £30m. Reported results for 2007 therefore include a net exceptional gain of £43m pre-tax compared to a pre-tax charge of £149m in full year 2006.

Net interest. Net interest payable was £24m, a 33% decrease on 2006 (£36m) due to strong cash inflow in the period and a reduction in the level of net debt during the year.

Tax. The tax rate is 22% (2006 23%), benefiting from a £20m one-off tax release in Q2 (2006 £19m release in Q4).

Net working capital. (Inventories, short-term receivables and short-term liabilities excluding borrowings and provisions) improved by £98m to minus £826m compared to the position at the end of 2006, mostly due to further significant reductions in the BHI net working capital.

Cash flow. Operating cash flow was £975m (2006 £1,017m) and net cash flow from operations was £861m (2006 £953m). Net interest paid was £6m lower at £24m (2006 £30m) and tax payments increased by £51m to £232m (2006 £181m). Capital expenditure was higher than prior year at £134m (2006 £88m) due to one-off investment in healthcare manufacturing. Proceeds from the disposal of Hermal were £260m.

Net debt at the end of the year was £125m (December 2006 £660m), a reduction of £535m. This reflected net cash flow from operations of £861m, receipts on the disposal of Hermal of £260m, offset by payment of the two dividends (£358m) and share buy backs (£300m).

Balance sheet. At the end of 2007, the Group had shareholders' funds of £2,385m (2006 £1,866m), an increase of 28%. Net debt was £125m (2006 £660m) and total capital employed in the business was £2,510m (2006 £2,526m).

This finances non-current assets of £4,426m (2006 £4,421m) of which £479m (2006 £425m) is tangible fixed assets, the remainder being goodwill, other intangible assets, deferred tax and other receivables. The Company has negative net working capital of £826m (2006 £728m), current provisions of £36m (2006 £47m) and long-term liabilities other than borrowings of £1,054m (2006 £1,120m).

The Company's financial ratios remain strong. Return on shareholders' funds (net income divided by total shareholders' funds) was 39.3% (2006 36.1%) on a reported basis or 37.9% (2006 42.1%) on an adjusted basis.

In October 2007 a Scheme of Arrangement was put in place to create additional distributable reserves whereby Reckitt Benckiser Group plc was introduced as a new parent company. 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.

Dividends. The Board of Directors recommends a final dividend of 30.0p (2006 25.0p), an increase of 20%, to give a full year dividend of 55.0p (2006 45.5p), an overall increase of 21%. The dividend, if approved by shareholders at the AGM on 1 May 2008, will be paid on 29 May to shareholders on the register at the record date of 29 February. The ex-div date is 27 February and the last date for election for the share alternative to the dividend is 7 May.

Share buy back. During 2007, the Company purchased 11.1m shares at a cost of £300m as part of its ongoing share buy back programme. In Q4, the Company purchased 2.4m shares at a cost of £66m. The Company has announced the continuation of its buy back programme with a target spend of £300m in 2008.

Hermal disposal. The Company announced on 16 July that it had agreed to dispose of the Hermal prescription skincare business to Laboratorios Almirall S.A. for a consideration of £260m in cash. The disposal was completed on 31 August 2007. Results for Hermal are included in full year as reported up to the date of disposal. The gain on disposal has been reported as an exceptional item in the 2007 income statement.

Adams acquisition. The Company completed the acquisition of Adams Respiratory Therapeutics, Inc. on 30 January 2008 for a consideration of $60 per share or approximately $2.3bn (£1.1bn). Results for the Adams business will be included in the Company's results from the date of acquisition. The Company announced an exceptional charge of $60m, or approximately £30m, to cover the necessary reorganisation associated with the integration of Adams into Reckitt Benckiser, to be recorded post completion during 2008.

Financial risk management

The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates (foreign exchange risk), market prices, interest rates, credit risks and liquidity. The Group has in place a risk management programme that uses foreign currency financial instruments, including debt, and other instruments, to limit the impact of these risks on the financial performance of the Group.

The Group's financing and financial risk management activities are centralised into the Group Treasury Centre (GTC) to achieve benefits of scale and control. The GTC manages financial exposures of the Group centrally in a manner consistent with underlying business risks. The GTC manages only those risks and flows generated by the underlying commercial operations and speculative transactions are not undertaken.

The Board of Directors reviews and agrees policies, guidelines and authority levels for all areas of treasury activity and individually approves significant activities. The GTC operates under close control of the Chief Financial Officer and is subject to periodic independent reviews and audits, both internal and external.

Foreign exchange risk

(a) Translation risk

The Group publishes its financial statements in sterling but conducts business in many foreign currencies. As a result, it is subject to foreign currency exchange risk due to the effects that exchange rate movements have on the translation of the results and the underlying net assets of its foreign subsidiaries.

The Group's policy is to align interest costs and operating profit of its major currencies in order to provide some protection against the translation exposure on foreign currency profits after tax. The Group may undertake borrowings and other hedging methods in the currencies of the countries where most of its assets are located.

(b) Transaction risk

It is the Group's policy to monitor and, only where appropriate, hedge its foreign currency transaction exposure. These transaction exposures arise mainly from foreign currency receipts and payments for goods and services and from the remittances of foreign currency dividends and loans. The local business units enter into forward foreign exchange contracts with the GTC to manage these exposures where practical and allowed by local regulations. The GTC matches the Group exposures, and hedges the net position where possible, using spot and forward foreign currency exchange contracts.

Market price risk

The Group is not exposed to equity securities price risk. The Group is somewhat exposed to commodity price risk, predominately through its suppliers. The Group has a policy of contracting where possible with suppliers to reduce the impact of short-term volatility of purchase prices.

Interest rate risk

The Group has both interest-bearing assets and interest-bearing liabilities. The Group manages its interest expense rate exposure using a mixture of fixed-rate and floating rate debt. The Group manages its interest rate exposure on its gross financial assets by using a combination of fixed rate term deposits and forward rate agreements.

Credit risk

The Group has no significant concentrations of credit risk. Financial institution counterparties are subject to approval under the Group's counterparty risk policy and such approval is limited to financial institutions with a BBB rating or better. The amount of exposure to any individual counterparty is subject to a limit defined within the counterparty risk policy, which is reassessed annually by the Board.

Liquidity risk

The Group has bilateral credit facilities with high-quality international banks. All of these facilities have similar or equivalent terms and conditions, and have a financial covenant, which is not expected to restrict the Group's future operations. The committed borrowing facilities, together with available uncommitted facilities and central cash and investments, are considered sufficient to meet the Group's projected cash requirements, including the acquisition of Adams Respiratory Therapeutics, Inc.

Funds over and above those required for short-term working capital purposes by the overseas businesses are generally remitted to the GTC. The Group uses the remittances to settle obligations, repay borrowings, or, in the event of a surplus, invest in short-term instruments issued by institutions with a BBB rating or better.

Capital management

The Company's objectives for managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an efficient capital structure to optimise the cost of capital.

In maintaining an appropriate capital structure and providing returns for shareholders, the Company adopts a programme of returning cash to shareholders through a combined dividend and share buy back programme, current details of which are included in the Financial Review for the year, above.

The Group monitors net debt (total borrowings less cash and cash equivalents). Due to the low level of net debt in the recent history of the Company, the Company does not actively monitor a gearing ratio, but seeks to pay down net debt using cash generated by the business to maintain an appropriate level of financial flexibility.

Detail of numerical disclosures relating to the Group's financial risk management are included in note 23 to the Accounts on page 53.

KEY PERFORMANCE INDICATORS

The Board and the Executive Committee have identified a number of Key Performance Indicators (KPIs) that are most relevant to the Company and are used to measure performance.

KPI	2006	2007	Comments
Net Revenue growth % like-for-like growth of net revenues at constant exchange	+7%	+9%	Measures the increase in sales of the Company
Power Brands % of net revenue from top 18 brands	58%	61%	Measures the growth and importance of the Company's flagship brands
Gross Margin % gross profit as % of net revenues	56.7%	58.3%	Measures the resources available for reinvestment or profit growth
Media Investment media investment as % of net revenues	11.9%	12.4%	Measures the rate of reinvestment in the Company's brands
Operating Margin %* Operating profit as % of net revenues	21.5%	22.6%	Measures the profitability of the Company
EPS (fully diluted)* % change in EPS (fully diluted)*	107.1p +19%	123.4p +15%	Measures the increase in profit per share of the Company
Net Cash Flow £m See page 31	£953m +26%	£861m -10%	Measures how the Company converts its profits into cash
Net Working Capital Ratio (defined as inventories, short-term receivables and short-term liabilities excluding borrowings and provisions) as % of net revenue	-£728m -14.8%	-£826m -15.7%	Measures the ability of the Company to finance its expansion and release cash from working capital
Management Turnover	9.2%	10.1%	% of T400 management that has left the Company
% of Net Revenues in No.1 or No.2 Brand Positions	76%	77%	Measures the health of the Company's brand market positions

*Adjusted to exclude the impact of exceptional items.

COMPANY PROSPECTS

The Company believes it is well positioned to continue to deliver on its strategic objective of profitable growth.

For the medium-term outlook, the Company targets to deliver above industry average growth in net revenues, converted into attractive growth in earnings, with increasing capital efficiency. The Company has confidence in its ability to continue to generate strong cash flow and to return substantial cash to shareholders annually.

The unknown factor is the ability of the Company to enhance its prospects through mergers and acquisitions. The industries in which it competes are already characterised by high levels of concentration, resulting in very infrequent opportunities to buy worthwhile assets or businesses. The Company is of the belief that add-on acquisitions, geographically and by product category, could enhance the business, but is not in a position to forecast if and when such acquisitions might occur. The Company retains substantial resources to fund such acquisitions and believes it has the management capability to absorb, integrate and manage such acquisitions within its existing structure.

The Company is targeting for another strong year in 2008 with net revenue growth from continuing operations, excluding Adams, of around 6-7% (continuing operations base £5,220m) and for adjusted (ie. excluding exceptional items) net income growth of 10%, both at constant exchange.

Cautionary note concerning forward-looking statements

This document contains statements with respect to the financial condition, results of operations and business of Reckitt Benckiser and certain of the plans and objectives of the Company with respect to these items. These forward-looking statements are made pursuant to the 'Safe Harbor' provisions of the United States Private Securities Litigation Reform Act of 1995. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to the Company, anticipated cost savings or synergies and the completion of strategic transactions are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors, discussed in this report, that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including many factors outside Reckitt Benckiser's control. Past performance cannot be relied upon as a guide to future performance.

The Board

Bart Becht (51, Dutch) #
Joined the Board in 1999 on his appointment as Chief Executive Officer of the Company. He was appointed Chief Executive of Benckiser Detergents, subsequently Benckiser N.V., in 1995 and Chairman of Benckiser's Management Board from May 1999. He holds no external directorships.

Adrian Bellamy (66, British) ‡ #
Was appointed a Non-Executive Director of the Company in 1999 and became Non-Executive Chairman in May 2003. He is Chairman of The Body Shop International Plc and a Director of The Gap and Williams-Sonoma, Inc. He was formerly a director of Gucci Group NV and The Robert Mondavi Corporation.

Colin Day (52, British)
Joined Reckitt Benckiser in September 2000 from Aegis Group plc where he was Group Finance Director from 1995. He was formerly a Non-Executive Director of Vero plc, the Bell Group plc, easyJet plc and Imperial Tobacco plc. He is currently a Non-Executive Director of WPP Group plc.

Dr Peter Harf (61, German) #
Joined the Board as a Non-Executive Director in 1999 and is the Deputy Chairman. He served as Chairman of the Remuneration Committee until June 2004. He is Chairman of Coty Inc. and InBev and was until May 2007 a Director of the Brunswick Corporation. He is Chief Executive Officer of Joh. A. Benckiser SE.

Kenneth Hydon (63, British)* #
Was appointed a Non-Executive Director in December 2003 and Chairman of the Audit Committee in November 2006. He is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers. He was the Senior Independent Non-Executive Director between February 2005 and November 2006. He retired as Financial Director of Vodafone Group plc in July 2005 and is currently a Non-Executive Director of Tesco plc, Pearson plc and the Royal Berkshire NHS Foundation Trust.

Graham Mackay (58, British/South African) ‡
Was appointed a Non-Executive Director in February 2005 and the Senior Non-Executive Director in November 2006. He is the current Chief Executive of SABMiller plc, one of the world's largest brewers with brewing interests or major distribution agreements in over 60 countries across six continents. He joined the then South African Breweries Limited in 1978 and has held a number of senior positions within that group.

Dr Gerard Murphy (52, Irish) *
Was appointed a Non-Executive Director in June 2005. From February 2003 until February 2008 he was Chief Executive Officer of Kingfisher plc. He was previously Chief Executive Officer of Carlton Communications plc, Exel plc and Greencore Group plc. Earlier in his career, he held various senior positions within food and drink group, Grand Metropolitan (now Diageo plc) in Ireland, UK and USA. He was appointed a Senior Managing Director (partner) of The Blackstone Group's corporate private equity practice in March 2008.

Judith Sprieser (54, American) ‡#
Was appointed a Non-Executive Director in August 2003 and has been Chair of the Remuneration Committee since June 2004. She was previously Chief Executive Officer of Transora, Inc., an e-commerce software and service company and Executive Vice President (formerly Chief Financial Officer) of Sara Lee Corporation. She is a Director of Allstate Insurance Company, USG Corporation, InterContinental Exchange, Inc., and Royal Ahold, NV.

David Tyler (55, British) *
Was appointed Non-Executive Director in February 2007. He is Chairman of Logica plc and of 3i Quoted Private Equity Limited, and also a Non-Executive Director of Experian Group Limited and Burberry Group plc. His executive career from 1974 to 2006 was spent in financial and general management in Unilever plc, County NatWest Ltd, Christie's International plc and GUS plc.

Peter White (66, British)
Was appointed a Non-Executive Director in December 1997. He was previously Group Chief Executive of Alliance & Leicester Plc. He was Chairman of the Audit Committee between May 1998 and November 2006. He resigned as a member of the Audit Committee in November 2007 and will retire from the Board at the conclusion of the AGM to be held in May 2008.

Executive Committee

Javed Ahmed (48, Pakistani)
Executive Vice President, North America and Australia and Regional Director North American Household. Joined Benckiser in 1992 as General Manager, Canada and in 1995 became General Manager, UK. Appointed SVP North American Household in 2001 and EVP, North America and Australia in September 2003. Prior to joining Benckiser, he worked with Procter & Gamble and Bain & Company.
Javed is responsible for North America and Australia/New Zealand.

Bart Becht (51, Dutch)
Chief Executive Officer. Joined Benckiser in 1988 and served as General Manager in Canada, the UK, France and Italy before being appointed Chief Executive of Benckiser Detergents, subsequently Benckiser N.V., in 1995. He was appointed Chief Executive Officer of Reckitt Benckiser following the merger in December 1999. He was previously with Procter & Gamble both in the USA and Germany.
Bart is Chairman of the Executive Committee.

Freddy Caspers (47, German)
Executive Vice President, Developing Markets. Joined Benckiser in September 1997 as EVP for Eastern Europe. He previously served in PepsiCo and Johnson & Johnson in a variety of international assignments in Europe, US, Eastern Europe and Turkey.
Freddy is responsible for all companies in Asia Pacific, Latin America and Africa Middle East.

Colin Day (52, British)
Chief Financial Officer. Joined Reckitt Benckiser in September 2000 from Aegis Group plc where he was Group Finance Director from 1995. Prior to that he was at Kodak, British Gas, De La Rue Group plc and ABB Group.
Colin is responsible for financial controls and reporting, treasury, tax, corporate development, legal affairs and internal audit.

Gareth Hill (41, South African)
Senior Vice President, Information Services. Joined Reckitt Benckiser in October 2006.
He was previously Information Systems Director at Arcadia Group Ltd since 2000, having joined as the e-Commerce Development Director. Prior to Arcadia, Gareth was at IBM UK Ltd, Rex Trueform Clothing Ltd in South Africa and Arthur Andersen. He is a qualified chartered accountant and has a BA in Commerce from the University of Cape Town, South Africa.
Gareth is responsible for global information systems and services and telecommunications.

Rakesh Kapoor (49, Indian)
Executive Vice President, Category Development. Joined Reckitt & Colman in 1987 serving in various roles including Regional Marketing Director, South Asia. Following the merger in 1999, he assumed the position of Category Group Director, Home Care. He was appointed SVP, Regional Director, Northern Europe in 2001 and then EVP Category Development in July 2006.
Rakesh is responsible for global category management, R&D, media, market research and strategic alliances.

Alain Le Goff (55, French)
Executive Vice President, Supply. Was appointed EVP for Operations at Benckiser in October 1996. He joined the Company in 1986, serving as Industrial Director in France, Monaco, Germany and as Logistics Director for the Group. He was previously with Lesieur.
Alain is responsible for the global supply chain including procurement, manufacturing, warehousing and logistics. Also responsible for management of Squeeze and X-trim gross margin enhancement programmes.

Elio Leoni Sceti (42, Italian)
Executive Vice President, Europe. Joined Benckiser in 1992 serving in various marketing roles and as General Manager of Germany and Italy. Following the merger in 1999, Elio was promoted to SVP, North American Household and to EVP Category Development in 2001.
He was appointed EVP, Europe in July 2006.
Elio was previously with Procter & Gamble in Italy and France.
Elio is responsible for all European markets – Western and Eastern – and the Company's private label business.

Frank Ruether (55, German)
Senior Vice President, Human Resources. Joined Benckiser in July 1996 as Personnel Director and was appointed SVP Human Resources in March 1997. He was previously with Mars, 1986–1996, as Director of Compensation & Benefits (Europe).
Frank is responsible for human resources management, remuneration and benefits, and organisational development.

*** Member of the Audit Committee**
‡ Member of the Remuneration Committee
 # Member of the Nomination Committee

The Directors submit their first Annual Report to the members of the Company, with the audited financial statements for the year ended 31 December 2007.

Scheme of Arrangement

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 ('Newco'). The previous parent company was called Reckitt Benckiser plc ('Oldco'). The introduction of the Newco constituted a share capital reconstruction, whereby Oldco ordinary shareholders exchanged their shares on a like-for-like basis for shares in the Newco. The Newco has been accounted for using merger accounting principles. Therefore, although the reconstruction did not become effective until October 2007, the financial statements of Newco are presented as if the Newco and the Oldco 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 presented on this basis.

Review of the activities and development of the Group's business

The principal activities continue to be the manufacture and sale of household and healthcare products.

Audited results for the period are set out on pages 25 to 67. The performance of the business is described in the Chairman's statement on page 1, the Chief Executive's Review on pages 2 and 3 and the Business Review on pages 7 and 8. Within the Business Review, which appears on pages 4 to 10, principal risk factors are given under 'Relationships and Principal Risks' on pages 6 and 7, details of the key performance indicators (KPIs) are given on page 10 and information on the likely future developments of the Company under 'Company Prospects' on page 10.

The information referred to above fulfills the requirements of the business review provisions of the Companies Act 1985 and is incorporated by reference into, and shall be deemed to form part of, this report together with the other information referred to in this Directors' report. This Directors' report has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the Directors in connection with this report shall be subject to the limitations and restrictions provided by such law.

In July 2007, the Directors resolved to pay an interim dividend of 25p per ordinary share (2006 20.5p). The dividend was paid on 27 September 2007. The Directors are recommending a final dividend for the year of 30p per share (2006 25p), which, together with the interim dividend, makes a total for the year of 55p per share (2006 45.5p). The final dividend, if approved by the shareholders, will be paid on 29 May 2008 to ordinary shareholders on the register at the close of business on 29 February 2008. In the view of the Directors, the Group's likely future development will continue to centre on the main product categories in which it now operates.

Research and development

The Group continues to carry out research and development in the search for new and improved products in all its categories and for increased manufacturing efficiencies. Direct expenditure on R&D in 2007 amounted to £92m (2006 £82m).

Acquisitions and disposals

On 30 January 2008, following US regulatory clearance, the Group completed the acquisition of Adams Respiratory Therapeutics, Inc. ("Adams"). The acquisition was financed by the Group by cash on hand and existing credit facilities. Adams is exclusively focused on the development, commercialisation and marketing of pharmaceuticals for the treatment of respiratory disorders. Adams is currently active in the United States only and markets two brands; Mucinex, market leader in adult expectorants and Delsym, a leading cough suppressant.

On 31 August 2007, following regulatory clearances in Germany, the Group sold the Hermal prescription skincare business to Laboratorios Almirall S.A. for a consideration of £260 million in cash. Hermal was acquired as part of the Boots Healthcare International (BHI) business in January 2006.

Employees

During 2007, the Group employed an average of 23,400 (2006 21,900) people worldwide, of whom 2,200 (2006 2,100) were employed in the UK. The Group is committed to the principle of equal opportunity in employment; no applicant or employee receives less favourable treatment on the grounds of nationality, age, gender, religion or disability. The Group recognises its responsibilities to disabled persons and endeavours to assist them to make their full contribution at work. Where employees become disabled, every practical effort is made to allow them to continue in their jobs or to provide retraining in suitable alternative work.

It is essential to the continued improvement in efficiency and productivity throughout the Group that each employee understands the Company's strategies, policies and procedures.

Open and regular communication with employees at all levels is an essential part of the management process. A continuing programme of training and development reinforces the Group's commitment to employee involvement.

The Board encourages employees to become shareholders and to participate in the Group's employee share ownership schemes, should they so wish. Sharesave schemes across the world now give more employees the opportunity to acquire shares in the Company by means of regular savings.

Share capital

Details of changes to the ordinary shares issued, shares held in Treasury, and of options and awards granted during the year are set out in note 20 to the accounts.

As described in the Chairman's Statement on page 1 a rolling share buy back programme has continued throughout 2007. Details of market purchases made, under the authorities given to the Directors by shareholders at the Annual General Meetings of Reckitt Benckiser plc held on 4 May 2006 and 3 May 2007 and the authority given to the Directors of Reckitt Benckiser Group plc on 4 September 2007 to make such purchases up to a maximum of 72,000,000 shares, are given in note 20 on page 50. The shares purchased may be held as Treasury shares or cancelled, depending upon the best interests of the Company.

A resolution seeking to renew this authority will be put to shareholders at the Annual General Meeting (AGM) on 1 May 2008.

Directors

Information regarding the Directors of the Company who were serving on 31 December 2007 and those serving at the date of this report is set out on page 11. Further biographical details of all Directors are available from the Company's website.

Directors to retire by rotation at the forthcoming AGM are Adrian Bellamy, Graham Mackay and Bart Becht, who, being eligible, offer themselves for re-election.

Peter White has served on the Board for more than nine years and is required to stand for re-election on an annual basis. Peter has decided not to offer himself for re-election at the 2008 AGM and will step down from the Board at the conclusion of that AGM.

A statement of Directors' interests in the share capital of the Company is shown in Table 1 at the end of this report.

Details of Directors' options to subscribe for shares in the Company are included in Table 2 on page 22 in the audited part of the Directors' Remuneration Report.

Details of the Directors' service agreements are given on page 23.

Corporate governance

The Company recognises the importance of high standards of corporate governance.

It understands, supports and has applied the principles set out in the Combined Code on Corporate Governance, as issued in July 2006, and has complied with the great majority of the detailed provisions contained in the Code. The ways in which the Company applies these principles, and the few provisions with which the Company does not consider that it is appropriate to comply, are set out in the appropriate sections of this Annual Report and Financial Statements.

The Board comprises eight Non-Executive Directors including Adrian Bellamy, the Chairman, who has the responsibility for managing the Board, and two Executive Directors, Bart Becht, the Chief Executive Officer (CEO) and Colin Day, the Chief Financial Officer (CFO). The Company has adopted a Board structure which is similar to that of its key international competitor companies, the majority of which are based in the USA. The Board approves strategy, carries out an advisory and supervisory role and accepts ultimate responsibility for the conduct of the Company's business. The CEO, together with the other members of his Executive Committee, provides the day-to-day management of the Company.

The Board has identified Graham Mackay as the Senior Independent Non-Executive Director in accordance with provision A.3.3 of the Combined Code. The majority of Non-Executive Directors are independent, as recommended by the Combined Code. Three of the Non-Executive Directors are not considered to be independent for all purposes: Adrian Bellamy, as Chairman of the Board, Peter Harf, because of the shareholding he represents and Peter White, who has served more than nine years on the Board.

During the year, the Company's policy has been revised and now does not, in principle, allow Executive Directors to hold external directorships. Colin Day has been allowed to retain his current external directorship of WPP Group plc which he held prior to the change in policy.

The Articles of Association require that every Director will seek re-election to the Board at least every three years, in line with provision A.7.1 of the Combined Code.

The Board meets a minimum of five times a year and will meet further as necessary to consider specific matters which it has reserved to itself for decision, such as significant acquisition or disposal proposals or major financing propositions. In 2007, there were five regular meetings and one held by telephone conference. A statement of the Directors' attendance at these Board meetings, and at meetings of Board Committees on which they served during the year, is shown in Table 2 at the end of this report. In compliance with Code provision A.1.3 the Chairman holds a session with other Non-Executive Directors at the conclusion of each formal Board meeting without the Executive Directors present. The Chairman and other Non-Executive Directors devote sufficient time to the Company.

During the year the Board has carried out a formal evaluation of its performance and that of its Committees and individual Directors in accordance with Code provision A.6.1.

The Board analysed responses from all Board members to a detailed questionnaire. Graham Mackay, as the Senior Independent Non-Executive Director, conducted an evaluation of the Chairman's performance in conjunction with his Non-Executive Director colleagues with input from both Executive Directors.

The Nomination Committee has primary responsibility for reviewing the performance of individual Directors and in addition to this review process, the Chairman carried out an evaluation of the performance of individual Directors by face-to-face, one-on-one interviews. The Board is of the view that it is best placed to carry out such evaluations, without the need to employ the services of an outside consultancy, and that this is an appropriate and cost-effective procedure. The performance of the CEO, and of other members of the Executive Committee, is regularly reviewed by the Remuneration Committee of the Board.

The Executive Committee presents an annual strategic review and the Annual Plan to the Board for its approval. Actual performance against the Plan is presented to the Board at each of its regular meetings and any changes to forecasts as a result of current performance are reviewed.

All members of the Board receive timely reports on items arising at meetings of the Board to enable them to give due consideration to such items in advance of the meetings.

Non-Executive Directors receive appropriate briefings on the Company and its operations around the world when they are appointed to the Board. They are encouraged to visit the Company's offices and factories, whenever the opportunity presents itself, where they can be briefed on the local business operations. The Board endeavours to hold one meeting each year at one of the operating units.

Full, formal and tailored induction processes are put in place on appointment to the Board which retain flexibility to allow the new Director to have input to the induction process so that areas of particular interest to that Director can be accommodated.

All the Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations governing the Company's operations. A procedure exists for the Directors to take independent professional advice, if necessary, in furtherance of their duties at the Company's expense.

The members of the Executive Committee are appointed to the Committee by the CEO, who leads the Committee.

The Executive Committee manages the day-to-day operations of the Company. Individual Executive Committee members hold global responsibility for specific operating functions including category development, supply, finance, human resources and information services. The three Area Executive Vice Presidents covering Europe, North America/Australia, and Developing Markets are also members of the Committee.

Committees of the Board

The Company has established three Committees of the Board, the terms of reference of which are available on the Company's website and upon request.

Audit Committee

The Audit Committee, chaired by Kenneth Hydon since 16 November 2006, comprises three Non-Executive Directors. The Committee fully complies with provision C.3.1 of the Combined Code. Kenneth Hydon, Financial Director of Vodafone Group plc until July 2005 and David Tyler, Group Finance Director of GUS plc until October 2006, both have recent and relevant financial experience. The Committee monitors the adequacy and effectiveness of the internal controls, compliance procedures and the Group's overall risk framework (including the Group's whistleblowing arrangements). It reviews the interim and full year financial statements before submission to the full Board and makes recommendations to the Board regarding the auditors and their terms of appointment. It reviews and monitors the external auditors' independence and objectivity and the effectiveness of the audit process. The CFO and other senior management attend these meetings by invitation. The Group's external auditors and the Group's Vice President, Internal Audit attend meetings and have direct access to the Committee. In evaluating its performance during the year, the Committee analysed responses from all Committee members and Internal and External Audit to a detailed questionnaire.

Remuneration Committee

The Remuneration Committee, chaired by Judith Sprieser, meets regularly to review remuneration policy for Directors and senior executives. The Committee also has responsibility for making decisions on the Chairman's remuneration. The Committee comprises three members, of whom two are considered independent as defined by the standards of the Combined Code. Adrian Bellamy is not considered independent being the Chairman of Reckitt Benckiser Group plc. Under the revised Combined Code issued in July 2006, it is acceptable for the Chairman to sit on the Remuneration Committee.

Nomination Committee

The Nomination Committee is responsible for nominating candidates for the approval of the Board to fill vacancies on the Board of Directors.

As and when vacancies arise on the Board, the services of an external search consultancy are employed to seek candidates for appointment. The Nomination Committee reviews each candidate as presented by the consultancy and all members of the Committee are involved in the interview process before making their recommendations to the full Board. All members of the Board are given the opportunity to meet the recommended candidates prior to their appointment.

The Committee comprises the Chairman, who also chairs the Committee, the CEO, the Deputy Chairman and the Chairs of both the Audit and Remuneration Committees. The Board believes this membership is appropriate to the Group despite this not being in compliance with Code provision A.4.1, which requires a majority of the members to be independent. Adrian Bellamy is not considered independent as he is the Chairman of Reckitt Benckiser Group plc, Peter Harf is not considered independent because of the shareholding he represents and Bart Becht is not considered independent because he is the CEO.

Internal control

The Board acknowledges that it has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, and has established a control structure designed to manage the achievement of business objectives. The system complies with the Turnbull guidance on internal control and provides reasonable, but not absolute, assurance against material misstatement or loss.

Throughout the year the Group has had in place an ongoing process for identifying, evaluating and managing the significant risks and opportunities faced by the Group and the Board has performed a specific assessment of internal control for the purpose of this Annual Report. The Group's control environment is supported by a Code of Business Conduct and a range of policies on corporate responsibility. Other key elements within the internal control structure are summarised as follows:

- The Board and management – the Board continues to approve strategy and performs an advisory and supervisory role with the day-to-day management of the Company being undertaken by the Executive Committee. The CEO and other Executive Committee members have clearly communicated the Group vision, strategy, operating constitutions, values and business objectives across the Group.
- Organisational structure – the Group operates three area management organisations, Europe, North America/Australia and Developing Markets and centralised functions covering category management, supply, sales, finance and legal, information services and human resources. Throughout the organisation, the achievement of business objectives and the establishment of appropriate risk management and internal control are embedded in the responsibilities of line executives.
- Budgeting – there is an annual planning process whereby detailed operating budgets for the following financial year are prepared and are reviewed by the Board. Long-term business plans are also prepared and are reviewed by the Board on an annual basis.
- Management reporting – there is a comprehensive system of management reporting. The financial performance of operating units and the Group as a whole is monitored against budget on a monthly basis and is updated by periodic forecasts. Area and functional executives also perform regular business reviews with their management teams, which incorporate an assessment of key risks and opportunities.
- Risk management – as part of the ongoing risk and control process, operating units review and evaluate risks to the achievement of business objectives and the Board reviews those significant risks which might impact on the achievement of corporate objectives. Mitigating controls, together with any necessary actions, are identified and implemented.

A summary of the most significant risks faced by the Group is included in the Business Review on pages 6 to 7.

- Operating unit controls – each operating unit maintains internal controls, which are appropriate to its own business environment. Such controls must be in accordance with Group policies and include management authorisation processes, to ensure that all commitments on behalf of the Group are entered into after appropriate approval.

  In particular, there is a structured process for the appraisal and authorisation of all material capital projects.
- Monitoring – the effectiveness of internal controls is monitored regularly through a combination of management review, self-assessment and internal and external audit. The results of external and internal audit reviews are reported to and considered by the Audit Committee, and actions are taken to address significant control matters identified. The Audit Committee also approves annual internal audit plans and is responsible for performing the ongoing review of internal control on behalf of the Board.

The Board confirms that reviews of the appropriateness and effectiveness of the system of internal control throughout the financial year have been satisfactorily completed in compliance with provision C.2.1 of the Combined Code. In particular major risks have been identified and ongoing monitoring procedures are in place.

Group policy in respect of non-audit services provided by external auditors

The Audit Committee and the CFO keep under review the independence and objectivity of the external auditors. The Committee reviews the nature and level of non-audit services undertaken by the external auditors each year to satisfy itself that there is no effect on their independence. The Board recognises that in certain circumstances the nature of the advice required may make it more timely and cost-effective to appoint the external auditors who already have a good understanding of the Group. Any significant information technology consultancy projects are put out to tender and the external auditors are excluded from this tender process.

The external auditors report to the Audit Committee on the actions they take to comply with professional and regulatory requirements and with best practice designed to ensure their independence from the Group, including periodic rotation of the lead engagement audit partner. Details of non-audit services are set out in note 3 on page 35.

Environmental, social and governance (ESG) matters and reputational risk

The Board regularly considers and takes account of the significance of ESG matters and their potential risks to the business of the Company, including reputational risks and the opportunities to enhance value that may arise from an appropriate response.

The Board undertakes a formal review of ESG matters at least annually, which includes providing oversight to ensure that the Company has in place effective policies, systems and procedures for managing ESG matters and mitigating significant ESG risks. Additionally, as part of its risk assessment procedures, the Board's Audit Committee undertakes regular review of the arrangements for, and effectiveness of, risk management and internal audit, including the full range of risks facing the Company, which include ESG matters and reputational risks.

The CEO is the Board member with specific responsibility for ESG matters. As part of established management processes, which include performance management systems and appropriate remuneration incentives, senior management reports directly to the CEO on ESG matters on a regular basis.

Key areas of ESG internal control and performance, including ESG disclosures, are independently reviewed and verified by both internal and external organisations, including Internal Audit, and their findings regularly reported to senior management, the CEO, the Audit Committee and the Board.

The Board has identified and assessed the significant ESG risks and concluded that there are limited material risks to the Company's long- and short-term value arising from ESG matters, other than potential reputational risks common to businesses with well-known brands.

The issues of potential reputational risk considered by the Board include:

- Industry sector and product safety risks: The household products and health & personal care sectors have a number of potential product and ingredient risks relating to concerns voiced over the long-term effects of household chemicals and OTC drug ingredients on human health and the environment. The Company has comprehensive management processes in place to ensure that its products are both suitable and safe for their intended use, in addition to meeting applicable regulatory requirements. Additionally, regulatory compliance and product safety issues are proactively addressed by both national and regional industry associations of which the Company is an active member, including those in Europe and North America/Australia.

For example, the HERA (Human and Environmental Risk Assessment) project, established in 1999, is a voluntary industry programme of publicly available risk assessments on ingredients of household cleaning products (www.heraproject.com).

As part of the Company's commitment to make continual improvements in the environmental sustainability of its products and processes, it continues to progress ingredient removal programmes, above and beyond regulatory requirements, to systematically remove specific ingredients from Company product formulae and packaging/device component specifications globally. For example, recent programmes include: removal of nitro and polycyclic (artificial) musks from fragrances; removal of PDCB (paradichlorobenzene) from toilet blocks; removal of NPEs (Nonyl Phenol Ethoxylates), APEs (Alkyl Phenol Ethoxylates) and monoethylene series glycol ethers from use in household cleaning products; and the replacement of formaldehyde preservative.

REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) is the new framework for regulation of chemicals in Europe which was formally adopted by the European Union in December 2006 and entered into force in 2007.

Under REACH, as part of a phased programme over several years, industry is required to register substances that are manufactured, imported or used in Europe. For the majority of substances (i.e. ingredients) used in the Company's products the responsibility for registration will lie with its suppliers, who manufacture or import the ingredients used. The Company will continue to work closely with its suppliers as REACH is implemented, to ensure that the ingredients used in its products are registered. In addition, the Company has established an internal REACH Task Force to ensure that all of its products and their ingredients remain compliant.

- Supply chain risks: Most product, component and raw material supply chains present a number of potential reputational risks relating to: labour standards; health, safety and environmental standards; raw material sourcing; and the social, ethical and environmental performance of third party manufacturers and suppliers. The Company's Global Manufacturing Standard (GMS) mandates minimum requirements regarding employment arrangements, labour standards and health, safety and environmental management, in line with international guidelines, for both the Company and its suppliers. Management processes and controls in place include Group, Area and Regional monitoring and auditing of compliance with the GMS (and other) requirements, including the external audit of third party product manufacturers.
- Product quality risks: Failures in product quality controls could potentially lead to damage to the reputation of, and trust in, the Company's brands. The Company has comprehensive quality management processes and procedures, including Group, Area, Regional and site-level Quality Assurance functions that oversee and monitor product quality globally.

Further information on the Company's management of ESG matters, specifically its forward-looking programmes to help tackle climate change and invest in communities, is provided on page 9 of the separately published Shareholders' Review and Summary Financial Statement 2007. The Company's annual Sustainability Report (available at www.reckittbenckiser.com) provides further information on its policies, systems and procedures for managing ESG matters and any material risks arising from them, including: the extent to which it complies with those policies, systems and procedures; Key Performance Indicators (KPIs); and its sustainability programmes, targets and progress.

The Board believes that it receives adequate information and training on ESG matters and their potential risks and opportunities to the business of the Company, including reputational risks.

Sustainability and corporate responsibility

Information on the Company's management of sustainability and corporate responsibility issues is provided on page 9 of the separately published Shareholders' Review and Summary Financial Statement 2007 and in its annual Sustainability Report, which provides information on its policies, programmes, targets and progress in this area.

Relations with shareholders

The Board is committed to effective communication between the Company and its shareholders. The Executive Directors, with the Senior Vice President and the Manager, Investor Relations, meet regularly with institutional shareholders and financial analysts, in Europe and North America, to discuss matters relating to the Company's business strategy and current performance issues. The Board receives regular monthly reports from the CEO which include updates on the share price development, major buyers and sellers of shares and on investor views, including analyst reports on the industry and specifically on the Company. Feedback on presentations and roadshow meetings with institutional investors is presented to the Executive Directors following twice-yearly roadshows in Europe and North America.

The Chairman is available to discuss governance and strategy with major shareholders should such a dialogue be requested. During the year the Chairman has met with shareholders in satisfaction of Code Provision D.1.1 and reports upon these meetings to the Directors. The Company believes that it is important that it makes key executives available, along with the Senior Independent Non-Executive Director, if required, to discuss matters of concern with its shareholders.

The Company's Annual General Meeting is used as the main opportunity for the Directors to communicate with private investors.

Policy on the payment of creditors

It is the Company's policy to follow the CBI Prompt Payers' Code. This policy requires the Company to agree the terms of payments with its suppliers, to ensure that those suppliers are aware of those terms and to abide by those terms. Copies of the Code are available from CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. As at 31 December 2007 and 31 December 2006 the Company did not have any amounts overdue to its suppliers.

Directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' Reports set out on pages 24 and 60, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements. The Directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the year, and of the profit or loss for the year.

The Directors consider that, in preparing the financial statements on pages 25 to 67 including the information on Directors' remuneration on pages 18 to 23, the Company has used appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors are also responsible for ensuring that reasonable procedures are being followed for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Going concern

The Directors, having made appropriate enquiries, are satisfied that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Audit
The Directors, having made appropriate enquiries, state that:

(a) so far as each Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) each Director has taken all the steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Charitable and political donations
Donations to charitable organisations in the UK amounted to £606,000 (2006 £599,000) of which £300,000 was donated to Save the Children, the Company's nominated global charity. No political donations were made (2006 £nil).

AGM
The notice convening the first AGM of the Company to be held on Thursday, 1 May 2008 at 11.15 am at The London Heathrow Marriott Hotel, Bath Road, Hayes, Middlesex UB3 5AN is contained in a separate document for shareholders.

Articles of Association
A resolution seeking the adoption of minor amendments to the Articles of Association will be put to the shareholders at the AGM 2008. The new Articles of Association incorporate certain provisions of the Companies Act 2006 and also reflect current practice in relation to the articles of listed companies.

Electronic communication
A resolution seeking authority that the Company may send or supply documents or other information to shareholders by making them available on a website or by using other electronic means will also be put to shareholders at the AGM 2008.

Takeovers Directive
Pursuant to s992 of the Companies Act 2006, which implements the EU Takeovers Directive, the Company is required to disclose certain additional information. The following gives those disclosures which are not covered elsewhere in this Annual Report.

The Company's Articles of Association (the 'Articles') give the Board power to appoint Directors, but also require Directors to retire and submit themselves for election at the first Annual General Meeting following their appointment. A Director who retires in this way is eligible for election but is not taken into account when deciding how many Directors should retire by rotation at the Annual General Meeting. The Articles themselves may be amended by special resolution of the shareholders.

Pursuant to the Articles, at every Annual General Meeting, at least one third of the current Directors must retire by rotation. If the Company's shareholders approve the special resolution amending the Articles, the concept of one third of Directors retiring from office at each Annual General Meeting will be removed as it is no longer appropriate in view of the Combined Code requirement for Directors to offer themselves for re-election every three years.

The Board of Directors 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 the Company's Memorandum of Association and the Articles.

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 and shareholders are asked to renew such authorities each year at the AGM. A copy of the Articles is available on request from the Company Secretary.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover, such as commercial contracts, bank agreements, property lease arrangements and employees' share plans. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole.

Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the AGM.

Substantial shareholdings

As at 1 March 2008, the Company had received the following notices of substantial interests (3% or more) in the total voting rights of the Company:

	% of total voting rights	No of ordinary shares	Nature of holding
JAB Holdings B.V.	15.62	111,105,415	Indirect
Legal and General Group plc and/or its subsidiaries	4.81	34,204,027	Indirect
Massachusetts Financial Services Company and/or its subsidiaries	3.22	22,878,039	Indirect

By order of the Board

Elizabeth Richardson
Company Secretary
103-105 Bath Road
Slough, Berks SL1 3UH

13 March 2008

Table 1 – Interests in the share capital of the Company

The Directors in office at the end of the year had the following interests in the ordinary shares of the Company:

	1 March 2008	31 December 2007	31 December 2006
Adrian Bellamy	**16,372**	16,372	15,306
Bart Becht - beneficial	**1,803,916**	1,803,916	1,232,484
Bart Becht - non-beneficial	**333,821**	333,821	299,655
Colin Day	**356,746**	356,746	302,107
Peter Harf	**842,020**	842,020	841,686
Kenneth Hydon	**4,193**	4,193	3,937
Graham Mackay	**1,012**	1,012	756
Gerard Murphy	**728**	728	472
Judith Sprieser	**2,410**	2,410	2,149
David Tyler	**806**	806	–
Peter White	**2,596**	2,596	2,335

Notes

1. No person who was a Director (or a member of a Director's family) on 31 December 2007 had any notifiable share interests in any subsidiary.
2. The Company's Register of Directors' Interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe.

Table 2 – Attendance at meetings

In 2007, there were six Board meetings (one held by telephone conference in accordance with the Articles of Association), three Audit Committee meetings, six Remuneration Committee meetings (two evidenced by written resolution) and two Nomination Committee meetings. Written resolutions are required to be signed by all Directors on the Board or Members on the Committee. Attendance by individual Directors at Board meetings and at meetings of Committees on which they sit is given in the table below.

Number of meetings attended

	Note	Board	Audit	Remuneration	Nomination
Adrian Bellamy		6		6	2
Peter Harf		6			2
Bart Becht		6			2
Colin Day		6			
Kenneth Hydon		5	3		2
Graham Mackay		6		6	
Gerard Murphy		6	3		
David Tyler	(a)	5	2		
Judith Sprieser		6		6	2
Peter White		6	3		

Notes

(a) David Tyler attended all meetings subsequent to his appointment on 26 February 2007.

Remuneration Committee

The Remuneration Committee of the Board (the "Committee") is responsible for determining and reviewing the terms of employment and remuneration of the Executive Directors and senior executives. The remuneration principles established for this senior group of employees provide the framework for the remuneration packages of all other executives. The Committee also has responsibility for determining the remuneration of the Chairman.

The Committee meets as necessary and in 2007 there were six meetings, two of which were held by written resolution. The Committee comprised three members in 2007.

Judith Sprieser has served as Chairman of the Committee since June 2004. She joined the Committee in November 2003. Graham Mackay has served on the Committee since February 2005, and Adrian Bellamy since 1999.

As well as reviewing Executive Directors' base salaries and benefits, the Committee determines the incentive arrangements that will apply. It aims to set challenging and demanding performance targets and to ensure that incentive awards at the end of each year fully reflect the Company's performance. The Committee's terms of reference are available on the Company's website.

Policy on remuneration

The Committee's overriding objective is to ensure that Reckitt Benckiser's remuneration policy encourages, reinforces and rewards the delivery of outstanding shareholder value. This approach has been a key ingredient in Reckitt Benckiser's success. Management, incentivised by the remuneration system, is delivering outstanding performance. The graphs below show that the Company has outperformed both the UK FTSE 100 and the US remuneration peer group in terms of Total Shareholder Return (TSR) over the last five years. £100 invested on 31 December 2002 in Reckitt Benckiser would have resulted in a shareholding worth £270 on 31 December 2007, compared to £195 and £164 if invested in the FTSE 100 and peer group respectively.

Reckitt Benckiser is a global company operating a global remuneration policy, and the core principles on which that policy is based are as follows. First, in order to attract and retain the best available people, the Committee has – and will continue to adopt – a policy of executive remuneration based on competitive practice. Reckitt Benckiser competes for management skills and talent in the same international market place as its main competitors, the vast majority of which are based in the US. In accordance with this policy principle, total remuneration for Executive Directors and other senior executives will be benchmarked against the upper quartile of a peer group comprising Reckitt Benckiser's main competitors, together with a range of comparable companies in the US consumer goods industry.

The second principle is to align the interests of Executive Directors and senior executives with those of shareholders through a variable performance-based compensation policy and the Company's share ownership policy.

In this context, variable pay is, and will continue to be, the major element of our current Executive Directors' and senior executives' total compensation package. Accordingly, the Executive Directors' compensation package comprises, in addition to base salary, an annual cash bonus and share-based incentives. Highly leveraged annual cash bonuses, linked to the achievement of key business measures within the year, are designed to stimulate the achievement of outstanding annual results.

To balance the management's orientation between the achievement of short and long-term business measures, the Committee believes that longer-term share-based incentives are also appropriate. In broad terms, if the Group achieves its target levels of performance, the variable elements will amount to over 80% of Executive Directors' total remuneration. If performance is unsatisfactory, then no cash bonuses will be paid and long-term incentives will not vest.

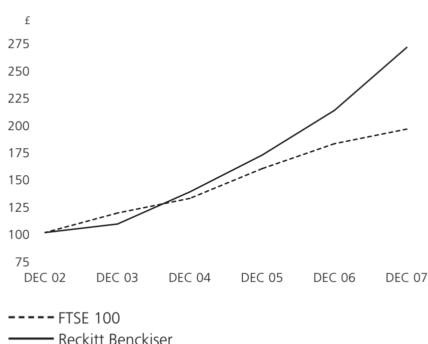
The Company believes that the remuneration package in place, and the mix of fixed and variable pay within that package, meets these core principles. The Committee's market-driven approach to remuneration requires that it regularly reviews its policies and will discuss changes with shareholders as appropriate. Consequently, in 2007, a review of the remuneration policy and arrangements was undertaken and changes were made to the long-term incentive arrangements as discussed below.

Base salaries

Base salaries are normally reviewed annually with effect from 1 January. Increases are determined by reference to competitive practice in our remuneration peer group, individual performance and in the context of salary increases across the Company as a whole. The policy is that salaries for Executive Directors and other Executive Committee members should typically be around the median of competitor market practice.

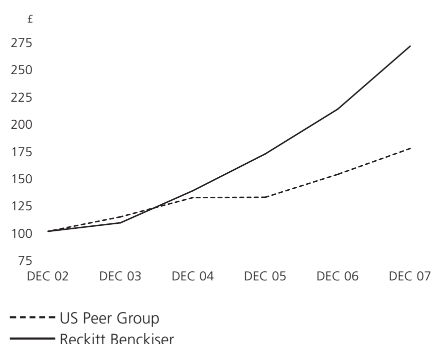
The approach to reviewing the base salaries of Executive Directors is the same as that for other employees. Base pay increases for Executive Directors from January 1, 2007 were 4%, in line with typical base pay increases for executives in Reckitt Benckiser.

Historical TSR performance
Growth in the value of a hypothetical £100 holding over five years. FTSE 100 comparison based on spot values.



Notes
The graph above shows the performance of Reckitt Benckiser in terms of TSR performance against the UK FTSE 100 index over a five-year period and conforms to the Directors' Remuneration Report Regulations 2002. The index was selected on the basis of companies of a comparable size in the absence of an appropriate industry peer group in the UK.

Historical TSR performance
Growth in the value of a hypothetical £100 holding over five years. Peer group comparison based on spot values.



Notes
The graph above shows the performance of Reckitt Benckiser in terms of TSR performance against our current US remuneration peer group over a five-year period. These companies include Church & Dwight, Clorox, Colgate Palmolive, Johnson & Johnson, Procter & Gamble and Sara Lee.

Annual cash bonus

The annual cash bonus is closely linked to the achievement of demanding pre-determined targets geared to above-industry performance. The current performance measures are net revenue and net income growth. The Remuneration Committee each year sets performance standards with reference to prevailing growth rates in the Company's peer group and across the consumer goods industry more broadly. Target bonus will only be earned where the Company's performance is above the industry median. Still more stretching percentage growth rates have been set above target, and the achievement of these delivers higher bonus payments for superior performance.

For 2008, as in 2007, the Executive Directors will participate in the annual cash bonus scheme under which they may receive 100% (CEO) and 75% (CFO) of base salary for achieving target performance. For the achievement of outstanding performance, which the Board sets at a level approximately double the industry median, the bonus potential is 357% (CEO) and 268% (CFO) of base salary.

Similar incentive arrangements are used for other executives worldwide. Annual bonuses are not pensionable. The Committee also reserves the right, in exceptional circumstances, to make individual cash awards.

Long-term incentives

The Committee believes that a significant element of share-based remuneration ensures close alignment of the financial interests of the Executive Directors and other key executives with those of shareholders. This is underpinned by a significant share ownership requirement on senior executives, with penalties for non-compliance, which are described in more detail below.

Long-term incentives comprise a mix of share options and performance shares. Both the levels and combination of share options and performance shares have been reviewed with reference to competitive market data and the associated cost of share provision.

The Committee benchmarks total remuneration for executives against the upper quartile of its peer group. This is then delivered through a combination of base salary, annual cash bonus and long-term incentives. In carrying out the benchmarking exercise, the Company's long-term incentives and those of the peer group are valued using an expected value valuation methodology which is widely accepted and enables like-for-like comparisons.

The competitive market data provided by the Committee's external adviser suggests current total remuneration is moving ahead of the stated policy. This can be attributed to the increase in absolute and relative share price of Reckitt Benckiser, and the appreciation of the British pound relative to the US dollar (as the majority of the companies in the remuneration peer group are US based). Consequently, the Committee has reduced the number of share options and performance shares awarded to Mr Becht and Mr Day by 25%. Award levels for other senior management of the Group have similarly been adjusted in light of their market data. This applies to awards made from 2007 onwards.

The Committee will continue to review the award levels and market data on an annual basis, and make appropriate adjustments when required.

While the use of performance conditions attached to the vesting of long-term incentive awards is still a minority practice among Reckitt Benckiser's peer group, the Committee believes that the vesting of the Company's options and performance share awards should be subject to the satisfaction of appropriate performance conditions.

As such, long-term incentives only vest subject to the achievement of earnings per share (EPS) growth targets that exceed industry benchmarks. EPS has been selected as the performance condition for three reasons:

- It focuses executives on real profit growth;
- It provides the most appropriate measure of the Company's underlying financial performance;
- It is a measure that the performance of the Executive Directors can directly impact.

EPS is measured on an adjusted diluted basis as shown in the Company's reported accounts, as this provides an independently verifiable measure.

The vesting schedule for the options and performance shares rewards superior performance. For 2008, the Committee has set the same targets and levels of awards as in the previous year, having regard to: the industry context in which the Company operates; sensible expectations of what will constitute performance at the top of the peer group; and factors specific to the Company.

For the full vesting of options and performance shares, the Committee has set an exceptional performance target of an average EPS growth of 9% per year. This is equivalent to almost 30% over a three-year period. The threshold when options and shares start to vest is when EPS grows by an average of 6% per year. This is equivalent to 19% over a three-year period, which the Committee considers, based on past performance, exceeds the industry growth average.

Average EPS growth per year (%)	EPS growth over three years (%)	% of options and shares vesting
9	29.5	100
8	26.0	80
7	22.5	60
6	19.1	40

The Committee decided that the performance target attached to the vesting of awards to Executive Directors, EVPs and other senior executives will not be re-tested in respect of awards made from 2005 onwards. As a result, if any target has not been met three years after the date of grant, any remaining shares which have not vested will lapse.

If the performance condition is met, then the option term is ten years from the date of grant. Awards under the long-term incentive plans are not pensionable.

Share ownership policy

Executive Directors and other senior executives are subject to a compulsory share ownership policy. The objective of this policy is to emphasise the alignment of senior executives to the Company and its business targets.

In order to fulfil the share ownership policy, Executive Directors and other senior executives must own the following number of shares:

Individual/Group	Ownership requirement
CEO (1)	600,000 shares
CFO/EVPs (6)	200,000 shares
Other senior executives (31)	30-75,000 shares

As these shareholding requirements are significantly more stringent than market practice, executives, including those newly recruited or promoted into senior executive positions, are allowed eight years to reach these targets.

If the executive does not meet these requirements within the required time period, the Committee will not make any further option grants or awards of performance shares to the executive until the targets have been met. Further, if, in the Committee's opinion, an executive is not making sufficient progress towards satisfying the requirement, then it will reduce the level of grants and awards to that executive until improvement is demonstrated.

Pensions

In line with the Committee's emphasis on the importance of only rewarding the Executive Directors for creating shareholder value, Reckitt Benckiser operates a defined contribution pension plan, the Reckitt Benckiser Executive Pension Plan. Mr Becht and Mr Day are both members of this plan.

Mr Becht's Company pension contribution was 30% of pensionable pay during 2007. Mr Day's Company pension contribution was 25% of pensionable pay in 2007.

In 2007, only Mr Becht continues to be affected by the new lifetime limit brought about by the UK tax changes effective from April 2006. In 2006 the Committee decided the most cost-effective approach was to maintain his current pension commitment, and to make pension contributions in excess of the lifetime allowance into a funded and unapproved defined contribution pension arrangement.

Service agreements

For newly-appointed Executive Directors, termination payments, including compensation paid during any notice period, will not exceed 12 months' pay. Service contract will be rolling and terminable on six months' notice. Contracts will also provide liquidated damages of six months' base salary plus an amount equal to one times the average bonus paid (if any) in the two years up to the termination. Any bonus earned will be included in the termination payment on the basis that a high proportion of pay is related to performance and that in the event of termination for poor performance it is unlikely that any bonus will have been paid.

Non-Executive Directors do not have service agreements, but are subject to re-election by shareholders every three years.

Remuneration policy for the Chairman and Non-Executive Directors

The Board, in the light of recommendations from the CEO, Mr Becht and the CFO, Mr Day, determines the remuneration of the Non-Executive Directors.

Adrian Bellamy's annual fee as Chairman in 2007 was £300,000, and the net proceeds of £50,000 of this fee were used to acquire shares in the Company which he is obliged to retain until he steps down from the Board.

Non-Executive Directors' remuneration consists of fees for their services in connection with Board and Board Committee meetings. In 2007, the basic level of fees was £65,000. Of this, the net proceeds of £12,000 of this fee must be used to acquire shares in the Company and these shares must be retained until the Non-Executive Director steps down from the Board. The Chairmen of the Remuneration Committee and Audit Committee received an additional £15,000 per annum on top of the basic fee. Other Non-Executive Directors received an additional £5,000 per annum Committee membership fee on top of the basic fee.

It is the policy of the Board – which the Board has no plans to change – that Non-Executive Directors are not eligible for pension fund membership and will not participate in any of the Company's bonus, share option or long-term incentive schemes. Fee levels are reviewed every two years, with the Board taking external advice on best practice and competitive levels, taking into account the responsibilities and time commitment of each Non-Executive Director. The next review will take place in 2008.

External appointments

During the year, the Company's policy has been revised and now does not, in principle, allow Executive Directors to hold external directorships. Mr Day has been allowed to retain his current external directorship of WPP Group plc which he held prior to the change in policy. Mr Day received a fee of £61,916 for serving as a Non-Executive Director of WPP Group plc and £8,000 for serving as a Non-Executive Director of Imperial Tobacco plc prior to his resignation from that Board in February 2007.

The process of the Committee

The Committee has formally appointed Mercer Limited as its external and independent adviser and, during the year, they have provided advice to the Board on executive compensation levels, structure and design, plus issues relating to retirement benefits.

Internal advisers include the CEO, Mr Becht and the SVP Human Resources, Mr Ruether. No individual is present when their own remuneration is being discussed.

The Committee has the discretion to consider corporate performance on environmental, social and governance (ESG) issues when setting remuneration of executive directors; and has oversight that the incentive structure for senior management does not raise ESG risks by inadvertently motivating irresponsible behaviour. Throughout 2007, the Company complied with the relevant sections of the Combined Code. It has complied fully with the Section B and Schedule A (relating to the design of performance-related remuneration) of the provisions of the Combined Code published in 2006 relating to the Directors' remuneration. The contents of this report also comply with the Schedule 7A of the Companies Act 1985.

Approved by the Board on 13 March 2008 and signed on its behalf by:

Judith Sprieser
Chairman of the Remuneration Committee

The information on pages 21 to 23 (except where labelled) comprises the auditable disclosures of the Directors' Remuneration Report.

In 2007, Reckitt Benckiser continued to perform very well against its peers, and exceeded the maximum stretch targets designed to achieve maximum bonus payments. Bonus payments for Executive Directors accordingly increased by an average of 18%. This increase is due to above industry average performance for the core business operations, combined with a highly successful integration of Boots Healthcare International (BHI) which delivered synergies ahead of target.

Remuneration disclosures

Table 1

	Notes	Base salary and fees £000	Bonus £000	Benefits in kind £000	Other payments £000	Pension contributions £000	2007 Total £000	2006 Total £000
Chairman								
Adrian Bellamy	1	**300**					**300**	240
Executive Directors								
Bart Becht	2	**912**	**3,257**	**77**	**35**	**271**	**4,552**	4,094
Colin Day	–	**399**	**1,069**	**16**	**–**	**98**	**1,582**	1,436
Non-Executive Directors								
George Greener (resigned 4 May 2006)	3	**–**					**–**	21
Peter Harf	3	**70**					**70**	60
Kenneth Hydon	3	**80**					**80**	60
Graham Mackay	3	**70**					**70**	60
Gerard Murphy	3	**70**					**70**	60
Judith Sprieser	3	**80**					**80**	70
Peter White	3	**70**					**70**	75
David Tyler (appointed 26 February 2007)	3	**59**					**59**	–
Total		**2,110**	**4,326**	**93**	**35**	**369**	**6,933**	**6,176**

Notes

1. Mr Bellamy's fees as Chairman for 2007 were £300,000. These fees include £50,000 (gross), the net amount of which was applied to buy ordinary shares in the Company. These shares must be retained by Mr Bellamy while in office.
2. The remuneration reported under "Other payments" in respect of Mr Becht relates to other international transfer-related benefits and a payment related to compensation for the early exercise of options under the Reckitt Benckiser Savings-Related Share Option Scheme as a consequence of the Scheme of Arrangement implemented in October 2007 (2006 £94,000 – the higher amount in 2006 was due to the inclusion of a non-pensionable cash supplement related to the unapproved element of his pension. This no longer applies).
3. Non-Executive Director fees include £12,000 (gross), the net amount of which was applied to buy ordinary shares in the Company. These shares must be retained by the Director while in office.
4. The total emoluments of the Directors of Reckitt Benckiser Group plc as defined by schedule 6 of the Companies Act were £6,564,000 (2006 £5,821,000).
5. The aggregate gains made by the Directors on the exercise of share options and vesting of restricted shares during the year were £23,529,591 (2006 £22,103,500). The gains are calculated based on the market price at the date of exercise for share options and vesting of restricted shares, although the shares may have been retained and no gain realised.
6. The total emoluments of the highest paid Director (excluding pension contributions) were £4,281,259 (2006 £3,832,407).

   The 2007 remuneration package for Executive Directors comprised base salary, annual cash incentive bonus, long-term incentives in the form of share options and performance shares, non-pensionable cash supplement, pension contributions, fully expensed company car (or cash equivalent) and health insurance, and school fees and preparation of tax returns in the case of the Chief Executive Officer.
7. In connection with the Scheme of Arrangement whereby Reckitt Benckiser Group plc became the holding company of the group, two Directors held office from the date of incorporation of Reckitt Benckiser Group plc on 6 June 2007 to 30 July 2007 and three Directors held office from 30 July 2007 until the re-registration of Reckitt Benckiser Group plc as a public company on 30 August 2007, none of whom received any emoluments. On 30 August 2007 the current Directors of Reckitt Benckiser Group plc were appointed, whose emoluments are shown in the table above.

Pensions

Mr Becht and Mr Day are both members of the Reckitt Benckiser Executive Pension Plan, a defined contribution plan, with a standard company contribution rate of 30% of pensionable pay for Mr Becht (2006 30%), and 25% for Mr Day (2006 25%).

continued

Table 2 – Directors' options and restricted share awards

Table 2 sets out each Director's options over or rights to ordinary shares of the Company under the Company's various long-term incentive plans. The middle market price of the ordinary shares at the year end was £29.14 and the range during the year was £23.79 to £30.07.

Long-term incentives	Notes	Grant date	At 01.01.07	Granted during the year	Exercised/ vested during the year	At 31.12.07	Option price (£)	Market price at date of award (£)	Market price at date of exercise/ vesting (£)	Exercise/ vesting period
Bart Becht										
Options	1	29.09.99	1,200,000		233,000	967,000	7.040		£26.07	May 03-Dec 09
	2	22.12.99	100,000		100,000	–	5.538		£26.07	May 03-Dec 09
	2	17.12.01	750,000		34,166	715,834	9.504		£25.97	May 05-Dec 11
	2	22.11.02	1,000,000			1,000,000	11.186			May 06-Nov 12
	2	08.12.03	800,000			800,000	12.760			May 07-Dec 13
	2	06.12.04	800,000			800,000	15.470			May 08-Dec 14
	2	05.12.05	800,000			800,000	18.100			May 09-Dec 15
	2	08.12.06	800,000			800,000	22.570			May 10-Dec 16
	2	11.12.07		600,000		600,000	29.440			May 11-Dec 17
Performance-based restricted shares	2	22.12.99	80,000			80,000		5.810		May 03-Dec 09
	2	08.12.03	400,000		400,000	–		12.800	£27.37	May 07-Dec 13
	2	06.12.04	400,000			400,000		15.370		May 08-Dec 14
	2	05.12.05	400,000			400,000		18.160		May 09-Dec 15
	2	08.12.06	400,000			400,000		23.000		May 10-Dec 16
	2	11.12.07		300,000		300,000		29.720		May 11-Dec 17
Colin Day										
Options	2	22.11.02	200,000		200,000	–	11.186		£27.26	May 06-Nov 12
	2	08.12.03	160,000			160,000	12.760			May 07-Dec 13
	2	06.12.04	160,000			160,000	15.470			May 08-Dec 14
	2	05.12.05	160,000			160,000	18.100			May 09-Dec 15
	2	08.12.06	160,000			160,000	22.570			May 10-Dec 16
	2	11.12.07		120,000		120,000	29.440			May 11-Dec 17
Performance-based restricted shares	2	08.12.03	80,000		80,000	–		12.800	£27.37	May 07-Dec 13
	2	06.12.04	80,000			80,000		15.370		May 08-Dec 14
	2	05.12.05	80,000			80,000		18.160		May 09-Dec 15
	2	08.12.06	80,000			80,000		23.000		May 10-Dec 16
	2	11.12.07		60,000		60,000		29.720		May 11-Dec 17

Sharesave Scheme	Grant date	At 01.01.07	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.07	Option price (£)	Market price at exercise	Exercise period
Bart Becht	15.09.00	2,777		2,679	98	–	6.616	£28.68	
	04.09.06	1,011				1,011	16.900		Feb 14-July 14
Colin Day	28.09.01	1,967		1,967		–	8.412	£24.84	
	04.09.06	553				553	16.900		Feb 10-July 10

Notes

1. For compound average annual growth (CAAG) in earnings per share over a three-year period of 6%, 9%, 12% and 15%, the percentage of options vesting under the initial grant on 29 September 1999 is 40%, 60%, 80% and 100% respectively. This grant vested 100% on 7 May 2003 but is exercisable as to one-third of the grant from that date, the second one-third exercisable from 1 January 2004 and the final one-third from 1 January 2005.

2. Vesting of long-term incentives is subject to the achievement of the following compound average annual growth (CAAG) in earnings per share over a three-year period.

	Proportion of grant vesting (%)			
	40	60	80	100
CAAG for long-term incentives granted in December 99	6	9	12	15
CAAG for long-term incentives granted in December 00	6	8	10	12
CAAG for long-term incentives granted in December 01, November 02, December 03-07	6	7	8	9

3. The grant made in December 2003 vested in full following the Company's Annual General Meeting in May 2007. The Company exceeded its target compound average actual growth (CAAG) in earnings per share over a three-year period (2004-2006) of 9%.

Table 3 – Service contracts for Executive Directors

	Date of original service contract	Date of amendment	Unexpired term	Notice period	Compensation for early termination
Bart Becht	3 December 1999	19 November 2003	n/a	6 months	0.5 x base salary, 1 x average bonus in previous two years
Colin Day	21 July 2000	9 December 2003	n/a	6 months	0.5 x base salary 1 x average bonus in previous two years

Following the Scheme of Arrangement of the Company as approved by shareholders on 4 October 2007, the service contracts detailed above have been novated into Reckitt Benckiser Group plc under the same terms.

Table 4 (not auditable)

In 2007, members of the Executive Committee (9) received around 35%, senior executives (next 31) around 20% and other executives (next 420) around 45% of the total awards made under the long-term incentive plans. The total grants have resulted in 1% (based on the current issued share capital) being used for discretionary long-term incentive plans in 2007 and 6.7% over a rolling ten-year period from 1997 to 2007. See table below.

Shares placed under option in all schemes in the last ten years, less lapsed

	Total (millions)
Discretionary Plans	
Reckitt Benckiser Executive Plans	46.3
Reckitt & Colman Executive Plans	1.8
Share Ownership Policy Plan	0.3
Employee	
Sharesave UK	1.6
Sharesave US	2.5
Sharesave Overseas	2.8
Share Participation Scheme	0.3
Total	**55.6**

Independent auditors' report to the members of Reckitt Benckiser Group plc

We have audited the Group financial statements of Reckitt Benckiser Group plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet, the Group Cash Flow Statement and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Reckitt Benckiser Group plc for the period ended 31 December 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Business Review 2007, the Report of the Directors (including statements on Corporate governance), the unaudited part of the Directors' Remuneration Report, the biographies of the Board of Directors and Executive Committee, and the Shareholder information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Report of the Directors is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
13 March 2008

Notes:

- The maintenance and integrity of the Reckitt Benckiser Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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.

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.

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).

Group income statement

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Net revenues	1	**5,269**	4,922
Cost of sales	2	**(2,197)**	(2,133)
Gross profit		**3,072**	2,789
Net operating expenses	2	**(1,839)**	(1,879)
Operating profit	1	**1,233**	910
Operating profit before exceptional items		**1,190**	1,059
Exceptional items	2	**43**	(149)
Operating profit		**1,233**	910
Finance income		**22**	18
Finance expense		**(46)**	(54)
Net finance expense	5	**(24)**	(36)
Profit on ordinary activities before taxation		**1,209**	874
Tax on profit on ordinary activities	6	**(271)**	(200)
Profit for the year		**938**	674
Attributable to equity minority interests		**–**	–
Attributable to ordinary equity holders of the parent		**938**	674
Profit for the year		**938**	674
Earnings per ordinary share			
On profit for the year, basic	7	**131.2p**	93.5p
On profit for the year, diluted	7	**127.9p**	91.8p
Dividend per ordinary share	8	**50.0p**	41.5p
Total dividends for the year	8	**358**	300

Group statement of recognised income and expense

For the year ended 31 December 2007

	Notes	2007 £m	2006 £m
Profit for the year		**938**	674
Net exchange adjustments on foreign currency translation		**93**	(194)
Actuarial gains and losses	4	**25**	43
Movement of deferred tax on pension liability		**(5)**	(15)
Tax movement on share option exercises		**18**	–
Net hedged gains and losses taken to reserves		**(5)**	–
Net gains/(losses) not recognised in income statement		**126**	(166)
Total recognised income relating to the year		**1,064**	508
Attributable to equity minority interests		**–**	–
Attributable to ordinary equity shareholders of the parent		**1,064**	508
		1,064	508

Group balance sheet

As at 31 December 2007

	Notes	2007 £m	2006 £m
ASSETS			
Non-current assets			
Goodwill and other intangible assets	9	**3,811**	3,842
Property, plant and equipment	10	**479**	425
Deferred tax assets	19	**106**	144
Other receivables		**30**	10
		4,426	4,421
Current assets			
Inventories	11	**382**	322
Trade and other receivables	12	**693**	670
Available for sale financial assets	13	**39**	19
Cash and cash equivalents	14	**328**	305
		1,442	1,316
Total assets		**5,868**	5,737
LIABILITIES			
Current liabilities			
Borrowings	15	**(487)**	(973)
Provisions for liabilities and charges	16	**(36)**	(47)
Trade and other payables	17	**(1,635)**	(1,481)
Tax liabilities		**(266)**	(239)
		(2,424)	(2,740)
Non-current liabilities			
Borrowings	15	**(5)**	(11)
Deferred tax liabilities	19	**(705)**	(766)
Retirement benefit obligations	4	**(187)**	(216)
Provisions for liabilities and charges	16	**(19)**	(15)
Tax liabilities		**(120)**	(100)
Other non-current liabilities	18	**(23)**	(23)
		(1,059)	(1,131)
Total liabilities		**(3,483)**	(3,871)
Net assets		**2,385**	1,866
EQUITY			
Capital and reserves			
Share capital	20	**72**	76
Share premium account	21	**–**	527
Capital redemption reserve	21	**–**	5
Merger reserve	21	**(14,229)**	142
Hedging reserve	21	**(6)**	(1)
Foreign currency translation reserve	21	**(59)**	(152)
Retained earnings	21	**16,605**	1,266
		2,383	1,863
Equity minority interests	22	**2**	3
Total equity		**2,385**	1,866

Approved by the Board on 13 March 2008.

Adrian Bellamy
Director

Bart Becht
Director

Group cash flow statement

For the year ended 31 December 2007

	2007 £m	2006 £m
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations		
Operating profit	**1,233**	910
Depreciation	**84**	88
Amortisation	**9**	9
Impairment of tangible fixed assets	**5**	23
Impairment of intangible fixed assets	**27**	14
Fair value (gains)/losses	**(2)**	(2)
(Gain)/loss on sale of property, plant and equipment and intangible assets	**(1)**	–
(Gain)/loss on disposal of subsidiary undertakings	**(127)**	–
(Increase) in inventories	**(39)**	(28)
(Increase) in trade and other receivables	**(13)**	(23)
Increase in payables and provisions	**3**	195
Share award expense	**52**	42
Cash generated from operations	**1,231**	1,228
Interest paid	**(46)**	(50)
Interest received	**22**	20
Tax paid	**(232)**	(181)
Net cash generated from operating activities	**975**	1,017
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	**(134)**	(88)
Disposal of property, plant and equipment	**19**	19
Acquisition of businesses	**–**	(1,893)
Disposal of subsidiary undertakings	**260**	–
Maturity of short-term investments	**(17)**	57
Net cash generated/(used) by investing activities	**128**	(1,905)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of ordinary shares	**52**	56
Share purchases	**(300)**	(300)
Proceeds from borrowings	**–**	1,250
Repayments of borrowings	**(503)**	(473)
Dividends paid to the Company's shareholders	**(358)**	(300)
Net cash (used)/generated in financing activities	**(1,109)**	233
Net decrease in cash and cash equivalents	**(6)**	(655)
Cash and cash equivalents at beginning of period	**298**	969
Exchange gains/(losses)	**19**	(16)
Cash and cash equivalents at end of year	**311**	298
Cash and cash equivalents comprise		
Cash and cash equivalents	**328**	305
Overdrafts	**(17)**	(7)
	311	298
RECONCILIATION OF NET CASH FLOW FROM OPERATIONS		
Net cash generated from operating activities	**975**	1,017
Net purchases of property, plant and equipment	**(114)**	(64)
Net cash flow from operations	**861**	953

Management uses net cash flow from operations as a performance measure.

1 SEGMENTAL REPORTING
Segmental information is presented in respect of the Group's geographical and product group segments. The primary segment, geographical areas, is based on the Group's management and internal reporting structure. The individual operations based in the countries within each geographic segment are considered to have similar operational risk and generate a similar level of financial return for the Group.

Inter-segment revenues are charged according to internally agreed pricing terms that are designed to be equivalent to an arm's length basis, and have been consistently applied throughout 2006 and 2007.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

Primary Segment by Geographical Areas
For management purposes the Group is currently organised into three operating areas: Europe; North America, Australia and New Zealand (NAA); and Developing Markets and geographical segmental information is presented on this basis. Segment revenue is based on the geographic location of the Group's customers and segment assets are based on the geographic location of the assets.

2007	**Europe £m**	**NAA £m**	**Developing Markets £m**	**Elimination £m**	**Total £m**
Total gross segment net revenues	**2,877**	**1,488**	**975**	**(71)**	**5,269**
Inter-segment revenues	**(64)**	**–**	**(7)**	**71**	**–**
Net revenues	**2,813**	**1,488**	**968**	**–**	**5,269**
Operating profit	**750**	**379**	**104**	**–**	**1,233**
Operating profit – adjusted*	**681**	**379**	**130**	**–**	**1,190**

2006	Europe £m	NAA £m	Developing Markets £m	Elimination £m	Total £m
Total gross segment net revenues	2,661	1,422	885	(46)	4,922
Inter-segment revenues	(37)	(1)	(8)	46	–
Net revenues	2,624	1,421	877	–	4,922
Operating profit	522	308	80	–	910
Operating profit – adjusted*	618	344	97	–	1,059

*Adjusted to exclude the impact of exceptional items. The profits arising on inter-segment sales are insignificant.

Segmental analyses have been prepared for operating profit as the Directors consider these to be more meaningful than analyses based on profit after tax. The differences between operating profit and profit after tax are net interest expense of £24m (2006 £36m) and tax expense of £271m (2006 £200m).

Other items included analysed by primary segment are as follows:

2007	**Europe £m**	**NAA £m**	**Developing Markets £m**	**Unallocated £m**	**Group £m**
Segment assets	**3,164**	**1,616**	**656**	**432**	**5,868**
Segment liabilities	**(1,075)**	**(567)**	**(309)**	**(1,532)**	**(3,483)**
Capital expenditure	**88**	**23**	**22**	**1**	**134**
Depreciation and amortisation	**60**	**18**	**12**	**3**	**93**
Other non-cash movements	**10**	**5**	**6**	**31**	**52**

2006	Europe £m	NAA £m	Developing Markets £m	Unallocated £m	Group £m
Segment assets	3,162	1,555	584	436	5,737
Segment liabilities	(954)	(402)	(245)	(2,270)	(3,871)
Capital expenditure	50	17	21	–	88
Depreciation and amortisation	67	18	10	2	97
Other non-cash movements	8	6	5	23	42

There are no reconciling items between net revenues and operating profit shown above and those shown in the income statement. Unallocated assets and liabilities comprise headquarter items (deferred tax balances, treasury balances) that are not specifically attributable to one segment and there is no reasonable basis available to allocate them.

Impairment charges arose in Europe £28m (2006 £14m), North America, Australia/New Zealand £nil (2006 £17m) and Developing Markets £26m (2006 £6m).

There is no material difference between geographic segments determined on a customer location basis and a location of assets basis.

Secondary Segment by Product Groups

The Secondary Segment presents the Group's results in the product groups. The product groups are Fabric Care, Surface Care, Dishwashing, Home Care, Health & Personal Care, making up core business together with Other Household, Pharmaceuticals and Food. Unallocated relates to headquarter assets for which there is no reliable method for allocating to any specific product group.

	Net revenues		**Assets**		**Capital expenditure**	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Fabric Care	**1,241**	1,194	**972**	933	**34**	22
Surface Care	**951**	909	**910**	885	**26**	17
Dishwashing	**616**	591	**385**	359	**16**	11
Home Care	**779**	692	**458**	448	**21**	13
Health & Personal Care*	**1,199**	1,078	**2,731**	2,699	**32**	23
Core Business	**4,786**	4,464	**5,456**	5,324	**129**	86
Other Household	**81**	108	**30**	39	**–**	1
Household Health & Personal Care	**4,867**	4,572	**5,486**	5,363	**129**	87
Pharmaceuticals*	**211**	156	**71**	65	**–**	–
Food	**191**	194	**82**	78	**4**	3
Unallocated	**–**	–	**229**	231	**1**	2
	5,269	4,922	**5,868**	5,737	**134**	92

* 2006 comparatives have been reclassified to disclose Pharmaceuticals separately, previously included within Health & Personal Care.

continued

2 ANALYSIS OF COST OF SALES AND NET OPERATING EXPENSES

	2007 £m	2006 £m
Cost of sales	**(2,197)**	(2,133)
Distribution costs	**(1,503)**	(1,376)
Administrative expenses:		
Research and development	**(92)**	(82)
Other	**(304)**	(313)
Total administrative expenses	**(396)**	(395)
Other net operating income	**17**	41
Exceptional items	**43**	(149)
Net operating expenses	**(1,839)**	(1,879)

All results relate to continuing operations.

Depreciation charges by income statement line	2007 £m	2006 £m
Within:		
Cost of sales	**67**	70
Distribution costs	**4**	4
Administrative expenses:		
Research and development	**4**	4
Other	**9**	10
Total administrative expenses	**13**	14
Total depreciation charge (note 10)	**84**	88

Amortisation and impairment charge by income statement line

Amortisation charges (note 9) of £9m in 2007 (2006 £9m) are included within Administrative expenses: Other in the income statement.
Impairment charges of £nil (2006 £6m) are included within Administrative expenses: Other in the income statement.
Impairment charges of current and non-current assets of £54m (2006 £31m) are included within Exceptional items.

Exceptional items	2007 £m	2006 £m
Business disposals and impairments		
– Profit of disposal of business	**127**	–
– Impairments of current and non-current assets	**(54)**	(31)
	73	(31)
Restructuring	**(30)**	(118)
Total exceptional items	**43**	(149)

2 ANALYSIS OF COST OF SALES AND NET OPERATING EXPENSES (CONTINUED)

The Company announced on 16 July 2007 that it had agreed to dispose of the Hermal prescription skincare business to Laboratorios Almirall S.A. for a consideration of £260m in cash. The disposal was completed on 31 August 2007. The Group recognised a profit on disposal of £127m, being proceeds less brands (£94m), goodwill (£17m), and net assets and directly attributable disposal costs (£22m). Results for Hermal are included in the consolidated accounts up to the date of disposal.

The Group incurred impairment charges of £54m in respect of current and non-current assets, and restructuring charges of £30m in 2007 as a result of further restructuring of configuration of the Group. This consisted of redundancy costs of £13m and other charges of £17m. In 2006 restructuring charges related primarily to the acquisition and integration of the Boots Healthcare International (BHI) business. This consisted of redundancy costs of £80m, fixed asset write-offs of £23m, other integration charges of £38m and non-cash items of £8m.

Total foreign exchange gains of £3m (2006 gains of less than £1m) have been recognised through the income statement. These amounts exclude financial instruments fair valued through the income statement and amounts recognised directly in the foreign currency translation reserve.

Pension costs by income statement line	2007 £m	2006 £m
Within:		
Cost of sales	**8**	7
Distribution costs	**7**	7
Administrative expenses:		
Research and development	**3**	2
Other	**10**	8
Total administrative expenses	**13**	10
Total net pensions costs (note 4d)	**28**	24

Total net pensions costs are the total amounts in respect of all the Group's defined contribution and defined benefit pension and other post-retirement schemes charged to the income statement, and exclude the actuarial gains and losses that have been recognised in the SORIE.

3 AUDITORS' REMUNERATION

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor and network firms.

	2007 £m	2006 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**0.8**	0.8
Fees payable to the Company's auditor and network firms for other services:		
– the audit of accounts of the Company's subsidiaries pursuant to legislation	**2.2**	2.4
– other services provided pursuant to such legislation	**1.1**	0.2
– services relating to taxation	**0.6**	0.7
– services relating to information technology	**0.1**	0.1
– services relating to corporate finance transactions	**0.2**	–
	5.0	4.2

In addition, the Company's auditor and its associates have provided other services in relation to the audit of accounts of associated pension schemes of the Company at a cost of £0.1m (2006 £0.1m).

4 EMPLOYEES

(a) Staff costs	2007 £m	2006 £m
The total employment costs, including Directors, were:		
Wages and salaries	**616**	559
Social security costs	**97**	91
Net pension costs	**28**	24
Share-based payments	**52**	42
	793	716

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 18 to 23, which forms part of the financial statements.

Compensation awarded to key management (the Executive Committee):

	2007 £m	2006 £m
Salaries and short-term employee benefits	**13**	12
Post-employment benefits	**1**	1
Share-based payments	**19**	17
	33	30

There were no other long-term benefits (2006 £nil) or termination benefits (2006 £nil) paid to key management in 2007.

4 EMPLOYEES (CONTINUED)

(b) Staff numbers

The average number of people employed by the Group, including Directors, during the year was:

	2007 000s	2006 000s
Europe*	**10.9**	10.3
North America and Australia	**3.6**	3.3
Developing Markets	**8.9**	8.3
	23.4	21.9

*Included in Europe are 2,200 (2006 2,100) UK employees.

(c) Share-based remuneration

All share awards that were not fully vested as at 31 December 2007 and 31 December 2006 are included in the tables below which analyse the charge for 2007 and 2006. The Group has used the Black-Scholes pricing model to calculate the fair value of one award on the date of the grant of the award.

Table 1: Fair value

				Black-Scholes model assumptions					
Award	Grant date	Exercise price £	Performance period	Share price on grant date £	Volatility %	Dividend yield %	Life years	Risk free interest rate %	Fair value of one award £
Share Options									
2002	17 December 2001	9.50	2002-04	9.70	25	2.7	4	4.50	1.95
2003	22 November 2002	11.19	2003-05	10.96	25	2.7	4	4.50	2.05
2004	08 December 2003	12.76	2004-06	12.80	24	2.6	4	4.50	2.46
2005	06 December 2004	15.47	2005-07	15.37	23	2.3	4	4.88	2.99
2006	05 December 2005	18.10	2006-08	18.16	22	2.4	4	4.69	3.33
2007	08 December 2006	22.57	2007-09	23.00	20	2.2	4	4.65	4.23
2008	11 December 2007	29.44	2008-10	29.72	20	1.8	4	5.53	5.99
Restricted Shares									
2002	17 December 2001	–	2002-04	9.70	25	2.7	4	4.50	8.64
2003	22 November 2002	–	2003-05	10.96	25	2.7	4	4.50	9.79
2004	08 December 2003	–	2004-06	12.80	24	2.6	4	4.50	11.49
2005	06 December 2004	–	2005-07	15.37	23	2.3	4	4.88	13.92
2006	05 December 2005	–	2006-08	18.16	22	2.4	4	4.69	16.38
2007	08 December 2006	–	2007-09	23.00	20	2.2	4	4.65	21.01
2008	11 December 2007	–	2008-10	29.72	20	1.8	4	5.53	27.55

Table 2: Share awards expense 2007

			Movement in number of options						
Award	Grant date	Fair value of one award £	Options outstanding at 1 Jan 2007 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2007 number	Total fair value of grant as at 31 Dec 2007 £m	Charge for 2007 £m
Share Options									
2002	17 December 2001	1.95	1,601,011	–	–	(418,466)	1,182,545	2.3	–
2003	22 November 2002	2.05	3,336,896	–	(3,000)	(1,274,122)	2,059,774	4.2	–
2004	08 December 2003	2.46	4,233,500	–	(4,000)	(1,515,700)	2,713,800	6.7	–
2005	06 December 2004	2.99	4,430,000	–	(64,000)	–	4,366,000	13.1	4.2
2006	05 December 2005	3.33	4,227,198	–	(182,198)	–	4,045,000	13.5	4.3
2007	08 December 2006	4.23	4,993,300	–	(690,993)	–	4,302,307	18.2	6.1
2008	11 December 2007	5.99	–	4,483,300	–	–	4,483,300	26.9	–
Restricted Shares									
2002	17 December 2001	8.64	–	–	–	–	–	–	–
2003	22 November 2002	9.79	–	–	–	–	–	–	–
2004	08 December 2003	11.49	2,000,346	–	(2,000)	(1,998,346)	–	–	–
2005	06 December 2004	13.92	1,948,049	–	(28,692)	–	1,919,357	26.7	8.6
2006	05 December 2005	16.38	1,870,286	–	(69,391)	–	1,800,895	29.5	9.5
2007	08 December 2006	21.01	2,466,650	–	(423,997)	–	2,042,653	42.9	14.3
2008	11 December 2007	27.55	–	2,241,650	–	–	2,241,650	61.8	–
Other Share Awards									
UK SAYE	Various	Various	785,726	123,591	(71,679)	(239,267)	598,371	n/a	1.1
US SAYE	Various	Various	973,567	109,280	(67,626)	(427,485)	587,736	n/a	1.3
Overseas SAYE	Various	Various	1,427,813	–	(155,952)	(84,574)	1,187,287	n/a	2.3
SOPP	Various	Various	90,000	20,000	–	(10,000)	100,000	n/a	0.5
Total									52.2

4 EMPLOYEES (CONTINUED)

(c) Share-based remuneration (continued)

Table 3: Share awards expense 2006

			Movement in number of options						
	Grant date	Fair value of one award £	Options outstanding at 1 Jan 2006 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2006 number	Total fair value of grant as at 31 Dec 2006 £m	Charge for 2006 £m
Share Options									
2002	17 December 2001	1.95	3,062,005	–	–	(1,460,994)	1,601,011	3.1	–
2003	22 November 2002	2.05	5,497,750	–	(21,000)	(2,139,854)	3,336,896	6.9	–
2004	08 December 2003	2.46	4,343,500	–	(110,000)	–	4,233,500	10.4	3.3
2005	06 December 2004	2.99	4,732,000	–	(302,000)	–	4,430,000	13.3	4.1
2006	05 December 2005	3.33	4,765,000	–	(537,802)	–	4,227,198	14.1	4.7
2007	08 December 2006	4.23	–	4,933,300	–	–	4,993,300	21.1	–
Restricted Shares									
2002	17 December 2001	8.64	–	–	–	–	–	–	–
2003	22 November 2002	9.79	1,758,371	–	(2,798)	(1,755,573)	–	–	–
2004	08 December 2003	11.49	2,082,525	–	(82,179)	–	2,000,346	23.0	7.0
2005	06 December 2004	13.92	2,109,624	–	(161,575)	–	1,948,049	27.1	8.3
2006	05 December 2005	16.38	2,382,500	–	(512,214)	–	1,870,286	30.6	10.2
2007	08 December 2006	21.01	–	2,466,650	–	–	2,466,650	51.8	–
Other Share Awards									
UK SAYE	Various	Various	689,726	275,737	(32,517)	(147,220)	785,726	n/a	0.8
US SAYE	Various	Various	814,298	323,681	(68,989)	(95,423)	973,567	n/a	1.2
Overseas SAYE	Various	Various	1,743,337	5,434	(87,892)	(233,066)	1,427,813	n/a	2.3
SOPP	Various	Various	100,000	50,000	(6,250)	(53,750)	90,000	n/a	0.4
Total									42.3

Options outstanding at 31 December 2007 that could have been exercised at that date were 5,956,119 (2006 4,937,907).

Notes

Scope: Executive Share Awards are awarded to the Top 400 Management Group. Other Share Awards represent SAYE Schemes (offered to all staff within the relevant geographic area) and a number of Senior Executive Share Ownership Policy Plan (SOPP) awards. Individual tranches of these awards are not material for detailed disclosure and therefore have been aggregated in the table above.

Contractual Life: Executive Share Awards have a contractual life of ten years but vest according to EPS growth criteria over a three-year period. Accordingly, the cost is spread over the three years of the performance period. Other share awards have contractual lives of either three, five or seven years.

Performance criteria: Executive Share Awards are subject to performance criteria based on compound average annual growth (CAAG) rates in earnings per share over the performance period. Other Share Awards are generally not subject to any criteria other than the employee's continued employment. Executive Share Awards included in the above table vest as follows: CAAG of 6%: 40% of awards vest; 7% CAAG: 60%; 8% CAAG: 80%; 9% CAAG: 100%.

The assumptions made within the valuation calculation with respect to the achievement of performance criteria are based on the Directors' expectations in light of the Group's business model and relevant published targets.

Under the terms of the Plans, early exercise is not permitted and therefore the effect of early exercise is not incorporated into the calculation. The calculation also assumes that there will be no leavers in the following year. No material modifications have been made to the Plans in 2006 or 2007 for the purposes of the valuation.

Volatility: An estimate of future volatility is made with reference to historical volatility over a similar time period to the performance period or the contractual life as appropriate.

Historical volatility is calculated based on the annualised standard deviation of the Group's daily share price movement, being an approximation to the continuously compounded rate of return on the share.

Income statement charge: the income statement charge may not exactly equal one third of the total fair value included in the table above due to adjustments for in-year lapses or award revisions.

National Insurance contributions are payable in respect of certain share-based payments transactions and are treated as cash-settled transactions. At 31 December 2007, the carrying amount of National Insurance contributions payable was £19m (2006 £15m) of which £14m (2006 £10m) was in respect of vested grants.

The weighted average share price for the year was £27.06 (2006 £20.88).

4 EMPLOYEES (CONTINUED)

(d) Pension and other post-retirement commitments
The Group operates a number of defined benefit and defined contribution pension schemes around the world covering many of its employees, which are principally funded. The Group's two most significant defined benefit pension schemes (UK and US) are both funded by the payment of contributions to separately administered trust funds. The Group also operates a number of other post-retirement schemes in certain countries. The major scheme is in the US (US retiree healthcare scheme), where salaried participants become eligible for retiree healthcare benefits after they reach a combined "age and years of service rendered" figure of 70, although the age must be a minimum of 55. As at 31 December 2007 there were 2,738 (2006 2,827) eligible retirees and 1,415 (2006 1,414) current employees potentially eligible. This scheme is unfunded.

Pension costs for the year are as follows:

	2007 £m	2006 £m
Defined contribution schemes	**17**	15
Defined benefit schemes (net charge)	**11**	9
Total pension costs recognised in the income statement (note 2)	**28**	24

For the UK scheme, a full independent actuarial valuation was carried out at 5 April 2007 and updated at 31 December 2007. For the US scheme, a full independent actuarial valuation was carried out at 1 January 2007 and updated at 31 December 2007. The projected unit valuation method was used for the UK and US scheme valuations. The major assumptions used by the actuaries for the three major schemes as at 31 December 2007 were:

	2007			2006		
	UK %	US (pension) %	US (medical) %	UK %	US (pension) %	US (medical) %
Rate of increase in pensionable salaries	**5.3**	**5.0**	**–**	5.0	5.0	–
Rate of increase in pension payments and deferred pensions	**3.3**	**–**	**–**	3.0	–	–
Discount rate	**5.8**	**6.0**	**6.0**	5.1	5.8	5.8
Inflation assumption	**3.3**	**3.0**	**–**	3.0	3.0	–
Annual medical cost inflation	**–**	**–**	**9.0-5.0**	–	–	10.5-4.5
Long-term expected rate of return on:						
Equities	**7.9**	**10.1**	**–**	7.4	10.7	–
Bonds	**5.1**	**4.8**	**–**	4.7	4.5	–
Other	**6.2**	**–**	**–**	5.9	–	–

The expected rate of return on plan assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation. Assumptions regarding future mortality experience are set in accordance with published statistics and experience in each territory. For the UK scheme the mortality assumptions were based on the following tables; the average life expectancy in years of a pensioner retiring at aged 60 on the balance sheet date is as follows:

	2007	2006
Male	**25.5**	24.5
Female	**27.9**	27.5

The average life expectancy in years of a pensioner retiring at aged 60, 20 years after the balance sheet date is as follows:

	2007	2006
Male	**26.8**	25.8
Female	**29.1**	28.8

For the US scheme the mortality assumptions were determined using the RP2000 combined table. The average life expectancy in years of a pensioner retiring at age 60 on the balance sheet date is 22.4 years (2006 22.4 years) for males and 24.7 years (2006 24.7 years) for females.

Impact of medical cost trends rates
A one percentage point change in the assumed healthcare cost trend rates would have the following effects:

	+1% £m	-1% £m
Effect on service cost and interest cost	1	(1)
Effect on post-retirement benefit obligation	13	(11)

The amounts recognised in the balance sheet are determined as follows:

	2007					2006				
	UK £m	US (pension) £m	US (medical) £m	Other £m	Total £m	UK £m	US (pension) £m	US (medical) £m	Other £m	Total £m
Total equities	**392**	**72**	**–**	**25**	**489**	388	74	–	18	480
Total bonds	**240**	**40**	**–**	**16**	**296**	214	39	–	20	273
Total other assets	**81**	**–**	**–**	**7**	**88**	91	–	–	6	97
Fair value of plan assets	**713**	**112**	**–**	**48**	**873**	693	113	–	44	850
Present value of scheme liabilities	**(695)**	**(113)**	**(99)**	**(125)**	**(1,032)**	(691)	(119)	(99)	(149)	(1,058)
Net asset/(liability) recognised in the balance sheet	**18**	**(1)**	**(99)**	**(77)**	**(159)**	2	(6)	(99)	(105)	(208)

Other represents the total of post-retirement benefits and Group defined benefit schemes not material for individual disclosure.

4 EMPLOYEES (CONTINUED)

The net pension liability is recognised in the balance sheet as follows:

	2007 £m	2006 £m
Non-current asset:		
Funded scheme surplus	**28**	8
Non-current liability:		
Funded scheme deficit	**(14)**	(16)
Unfunded scheme liability	**(173)**	(200)
Retirement benefit obligation	**(187)**	(216)
Net pension liability	**(159)**	(208)

The funded scheme surplus of £28m (2006 £8m) is included within other receivables in non-current assets of £30m (2006 £10m).

None of the pension schemes' assets includes an investment in shares of the Company.

The amounts recognised in the income statement are as follows:

	2007					2006				
	UK £m	US (pension) £m	US (medical) £m	Other £m	Total £m	UK £m	US (pension) £m	US (medical) £m	Other £m	Total £m
Current service cost	**(8)**	**(3)**	**(2)**	**(4)**	**(17)**	(9)	(3)	(2)	(5)	(19)
Past service cost	**–**	**–**	**–**	**–**	**–**	–	–	–	1	1
Expected return on pension scheme assets	**43**	**9**	**–**	**5**	**57**	40	10	–	3	53
Interest on pension scheme liabilities	**(35)**	**(5)**	**(5)**	**(6)**	**(51)**	(33)	(7)	(5)	(5)	(50)
Curtailment	**–**	**–**	**–**	**–**	**–**	7	–	(1)	–	6
Total charge to the income statement	**–**	**1**	**(7)**	**(5)**	**(11)**	5	–	(8)	(6)	(9)

The amounts recognised in shareholders' equity for the Group are as follows:

	2007 £m	2006 £m	2005 £m	2004 £m
Actual return less expected return on pension scheme assets	**4**	29	71	19
Experience gains and losses on scheme liabilities	**(16)**	(1)	(19)	(5)
Changes in assumptions underlying present value of scheme liabilities	**37**	15	(66)	(90)
Actuarial gain/(loss) recognised	**25**	43	(14)	(76)

This table will evolve into a summary of five-year history as data becomes available.

The movements in the amounts recognised in the balance sheet are as follows:

Movement of net (liability)/ assets during the year	2007					2006				
	UK £m	US (pension) £m	US (medical) £m	Other £m	Total £m	UK £m	US (pension) £m	US (medical) £m	Other £m	Total £m
Surplus/(deficit) at 1 January	**2**	**(6)**	**(99)**	**(105)**	**(208)**	(50)	(10)	(107)	(87)	(254)
Current service cost	**(8)**	**(3)**	**(2)**	**(4)**	**(17)**	(9)	(3)	(2)	(5)	(19)
Liabilities disposed/(acquired) in a business combination	**–**	**–**	**–**	**23**	**23**	–	–	–	(26)	(26)
Contributions	**4**	**–**	**6**	**6**	**16**	5	–	8	8	21
Past service cost	**–**	**–**	**–**	**–**	**–**	–	–	–	1	1
Other finance income/(costs)	**8**	**4**	**(5)**	**(1)**	**6**	7	3	(5)	(2)	3
Actuarial gain/(loss)	**12**	**4**	**(1)**	**10**	**25**	42	4	(6)	3	43
Curtailment	**–**	**–**	**–**	**–**	**–**	7	–	(1)	–	6
Exchange adjustments	**–**	**–**	**2**	**(6)**	**(4)**	–	–	14	3	17
Surplus/(deficit) at 31 December	**18**	**(1)**	**(99)**	**(77)**	**(159)**	2	(6)	(99)	(105)	(208)

The actual return on plan assets was £46m (2006 £67m) for the UK scheme and £10m (2006 £14m) for the US scheme.

4 EMPLOYEES (CONTINUED)

Changes in the present value of scheme liabilities are as follows:

	2007 UK £m	2007 US (pension) £m	2007 US (medical) £m	2007 Other £m	2007 Total £m	2006 UK £m	2006 US (pension) £m	2006 US (medical) £m	2006 Other £m	2006 Total £m
Present value of liabilities at 1 January	**691**	**119**	**99**	**149**	**1,058**	700	136	107	129	1,072
Liabilities (disposed)/acquired on business combination	**–**	**–**	**–**	**(23)**	**(23)**	–	–	–	26	26
Service cost	**8**	**3**	**2**	**4**	**17**	2	3	2	4	11
Interest cost	**35**	**5**	**5**	**6**	**51**	33	7	5	5	50
Benefits paid	**(30)**	**(10)**	**(6)**	**(7)**	**(53)**	(29)	(11)	(5)	(8)	(53)
Actuarial (gains)/losses	**(9)**	**(4)**	**1**	**(9)**	**(21)**	(15)	(4)	6	(1)	(14)
Curtailment	**–**	**–**	**–**	**–**	**–**	–	–	1	–	1
Exchange adjustments	**–**	**–**	**(2)**	**5**	**3**	–	(12)	(17)	(6)	(35)
Present value of liabilities at 31 December	**695**	**113**	**99**	**125**	**1,032**	691	119	99	149	1,058

Changes in the fair value of plan assets are as follows:

	2007 UK £m	2007 US (pension) £m	2007 Other £m	2007 Total £m	2006 UK £m	2006 US (pension) £m	2006 Other £m	2006 Total £m
Fair value of plan assets at 1 January	**693**	**113**	**44**	**850**	650	126	42	818
Expected rate of return	**43**	**9**	**5**	**57**	40	10	3	53
Contributions	**4**	**–**	**6**	**10**	5	–	8	13
Benefits paid	**(30)**	**(10)**	**(7)**	**(47)**	(29)	(11)	(8)	(48)
Actuarial gains	**3**	**–**	**1**	**4**	27	–	2	29
Exchange adjustments	**–**	**–**	**(1)**	**(1)**	–	(12)	(3)	(15)
Fair value of plan assets at 31 December	**713**	**112**	**48**	**873**	693	113	44	850

Cumulative actuarial gains and losses recognised in equity:

	2007 £m	2006 £m
At 1 January	**(47)**	(90)
Net actuarial gain recognised in the year	**25**	43
At 31 December	**(22)**	(47)

History of experience gains and losses:

	2007 £m	2006 £m	2005 £m	2004 £m
Experience adjustments arising on scheme assets:				
Amount (£m)	**4**	29	71	19
Percentage of scheme assets	**0.5%**	3.4%	8.7%	2.6%
Experience adjustments arising on scheme liabilities:				
Amount (£m)	**21**	14	(85)	(95)
Percentage of scheme liabilities	**-2.0%**	-1.3%	7.9%	9.7%
Present value of scheme liabilities	**(1,032)**	(1,058)	(1,072)	(983)
Fair value of scheme assets	**873**	850	818	734
Net pension liability	**(159)**	(208)	(254)	(249)

This table will evolve into a summary of five-year history as data becomes available.

Expected employer contributions to be paid to funded defined benefit schemes in 2008 are £5m for the UK and less than £1m for other schemes.

5 NET FINANCE EXPENSE

Finance income	2007 £m	2006 £m
Interest income on cash and cash equivalents	**20**	17
Gain on available for sale financial instruments (Interest on short-term deposits)	**2**	1
Total finance income	**22**	18
Finance expense		
Interest payable on bank borrowings	**(13)**	(21)
Amortisation of issue costs of bank loans	**(1)**	(1)
Interest payable on other loans	**(31)**	(31)
Interest payable on finance leases	**(1)**	(1)
Interest and similar charges payable	**(46)**	(54)
Loss on hedging instruments	**–**	–
Total finance expense	**(46)**	(54)
Net finance expense	**(24)**	(36)

Interest payable and similar charges relating to borrowings repayable after more than five years was less than £1m (2006 less than £1m).

There are no other gains or losses from fair value adjustments recognised within finance income or expense.

6 INCOME TAX EXPENSE

	2007 £m	2006 £m
Current tax:		
UK	**(13)**	29
Overseas	**331**	188
	318	217
Prior year adjustments:		
UK	**–**	(19)
Overseas	**(20)**	–
Total current tax	**298**	198
Deferred tax (note 19):		
UK	**(21)**	(4)
Overseas	**(6)**	6
	(27)	2
Total tax	**271**	200

UK income tax is calculated at 30% (2006 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The total tax charge for the year can be reconciled to the accounting profit as follows:

	2007 £m	2006 £m
Profit before tax:	**1,209**	874
Tax at the UK corporation tax rate of 30% (2006 30%)	**363**	262
Effects of:		
Tax at rates other than the UK corporation tax rate	**(125)**	(73)
Adjustments to amounts carried in respect of unresolved tax matters	**35**	9
Withholdings and local taxes	**30**	19
Tax losses not recognised/(utilised tax losses)	**10**	(4)
Adjustment in respect of prior periods	**(20)**	(19)
Other permanent differences	**(22)**	6
Total tax charge	**271**	200

Certain deferred tax amounts totalling £33m (2006 £10m) in respect of corporation tax losses and other timing differences have not been recognised at 31 December 2007 as the likelihood of future economic benefit is not sufficiently assured. These assets will be recognised if utilisation of the losses and other timing differences become reasonably certain. The tax charge is expected to be impacted by items in the nature of those listed above for the foreseeable future.

Included within other permanent differences is the impact of the tax rate changes in the UK and other jurisdictions of £24m credit (2006 £5m credit).

7 EARNINGS PER SHARE

Basic
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company (2007 £938m (2006 £674m)) by the weighted average number of ordinary shares in issue during the period (2007 715,039,130 (2006 720,685,570)).

Diluted
Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company has two categories of dilutive potential ordinary shares: Executive Options and Employee Sharesave schemes. The options only dilute earnings when they result in the issue of shares at a value below the market price of the share and when all performance criteria (if applicable) have been met. As at 31 December 2007, there were 4.5m (2006 17.3m) of Executive Options not included within the dilution because the contingent performance targets had not been met.

The reconciliation between profit for the year and the weighted average number of shares used in the calculation of the diluted earnings per share is set out below:

			2007			2006
	Profit for the year £m	**Average number of shares**	**Earnings per share pence**	Profit for the year £m	Average number of shares	Earnings per share pence
Profit attributable to shareholders	**938**	**715,039,130**	**131.2**	674	720,685,570	93.5
Dilution for Executive Options outstanding and Executive Restricted Share Plan		**17,345,740**			12,365,411	
Dilution for Employee Sharesave scheme options outstanding		**1,240,227**			1,145,515	
On a diluted basis	**938**	**733,625,097**	**127.9**	674	734,196,496	91.8

Adjusted basis
The reconciliation between profit for the year and the weighted average number of shares used in the calculations of the diluted earnings per share is set out below:

			2007			2006
	Profit for the year £m	**Average number of shares**	**Earnings per share pence**	Profit for the year £m	Average number of shares	Earnings per share pence
Profit attributable to shareholders	**905**	**715,039,130**	**126.6**	786	720,685,570	109.1
Dilution for Executive Options outstanding and Executive Restricted Share Plan		**17,345,740**			12,365,411	
Dilution for Employee Sharesave scheme options outstanding		**1,240,227**			1,145,515	
On a diluted basis	**905**	**733,625,097**	**123.4**	786	734,196,496	107.1

The Directors believe that a diluted earnings per ordinary share, adjusted for the impact of the exceptional items after the appropriate tax amount, provides additional useful information on underlying trends to shareholders in respect of earnings per ordinary share.

8 DIVIDENDS

	2007 £m	2006 £m
Dividends on equity ordinary shares:		
2006 Final paid: 25.0p (2005 Final 21.0p) per share	**179**	152
2007 Interim paid: 25.0p (2006 Interim 20.5p) per share	**179**	148
Total dividends for the year	**358**	300

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 December 2007 of 30.0p per share which will absorb an estimated £215m of shareholders' funds. It will be paid on 29 May 2008 to shareholders who are on the register on 29 February 2008. The expected tax impact of this dividend is £nil (2006 £nil).

9 GOODWILL AND OTHER INTANGIBLE ASSETS

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
Cost					
At 1 January 2007	2,967	857	26	99	3,949
Additions	–	1	–	–	1
Disposals	(94)	(17)	–	–	(111)
Exchange adjustments	97	18	1	–	116
At 31 December 2007	**2,970**	**859**	**27**	**99**	**3,955**
Accumulated impairment and amortisation					
At 1 January 2007	31	23	25	28	107
Amortisation charge	1	–	1	7	9
Impairment	20	6	–	1	27
Disposals	–	–	–	–	–
Exchange adjustments	1	–	–	–	1
At 31 December 2007	**53**	**29**	**26**	**36**	**144**
Net book amount at 31 December 2007	**2,917**	**830**	**1**	**63**	**3,811**

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
Cost					
At 1 January 2006	1,651	84	25	92	1,852
Additions	1	1	1	3	6
Acquisitions	1,478	796	–	5	2,279
Exchange adjustments	(163)	(24)	–	(1)	(188)
At 31 December 2006	2,967	857	26	99	3,949
Accumulated impairment and amortisation					
At 1 January 2006	28	18	24	16	86
Amortisation charge	1	–	1	7	9
Impairment	3	6	–	5	14
Exchange adjustments	(1)	(1)	–	–	(2)
At 31 December 2006	31	23	25	28	107
Net book amount at 31 December 2006	2,936	834	1	71	3,842

The amount originally stated for brands represents the fair value at the date of acquisition of brands since 1985. Other includes product registration, distribution rights and capitalised product development costs.

The disposal of brands and goodwill during the year related to the disposal of Hermal (note 2).

The majority of brands, all of goodwill and certain other intangibles are considered to have indefinite lives for the reasons noted in the Accounting Policies and accordingly are subject to an annual impairment review. A number of small non-core brands are deemed to have a finite life and are amortised accordingly.

The net book values of indefinite and finite life assets are as follows:

Net book value	**2007 £m**	2006 £m
Indefinite life assets:		
Brands	**2,908**	2,926
Goodwill	**830**	834
Other	**35**	35
Total indefinite life assets	**3,773**	3,795
Finite life assets:		
Brands	**9**	10
Software	**1**	1
Other	**28**	36
Total finite life assets	**38**	47
Total net book value intangible assets	**3,811**	3,842

9 GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

The annual impairment review for intangible assets is based on an assessment of each asset's value in use. Value in use is calculated from cash flow projections based on historical operating results, short-term budgets, medium-term business plans (five years) and longer-term extrapolation. The long-term extrapolations assume a growth rate of no more than the long-term inflation assumption for the relevant markets (range of 2%-10%). A pre-tax discount rate of 12% (2006 11%) has been used in discounting the projected cash flows. A higher rate is used where appropriate to reflect specific risks associated with the relevant asset. Key assumptions (which are kept under constant review by management) in the impairment review include future sales volumes, growth rates and prices, and future levels of marketing support required to sustain, grow and further innovate brands.

An analysis of the net book value of brands by product group, which the Group considers cash generating units, is shown below:

Product group	Key brands	2007 £m	2006 £m
Fabric Care	Calgon, Vanish, Woolite	**501**	486
Surface Care	Dettol, Lysol	**562**	559
Dishwashing	Calgonit, Finish	**160**	147
Home Care	Air Wick	**173**	191
Health & Personal Care	Veet, Nurofen, Strepsils, Clearasil	**1,494**	1,526
Food	French's	**27**	27
Brands total		**2,917**	2,936

The impairment charge for the year ended 31 December 2007 is £27m (2006 £14m). Amortisation for the year ended 31 December 2007 is £9m (2006 £9m). Goodwill of £799m relates to the Health & Personal Care product group. No other product group contains a significant goodwill balance.

During 2007 £nil (2006 £3m) of development expenditure has been assessed as meeting the requirements of IAS 38 and so has been capitalised within other intangible assets. The net book value of internally generated intangible assets included within other intangible assets, at 31 December 2007 is £8m (2006 £10m).

No borrowing costs have been capitalised as an intangible asset in 2007 (2006 £nil).

10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2007	302	861	1,163
Additions	35	99	134
Disposals	(30)	(96)	(126)
Reclassifications	6	(6)	–
Exchange adjustments	13	24	37
At 31 December 2007	**326**	**882**	**1,208**

Accumulated depreciation	Land and buildings £m	Plant and equipment £m	Total £m
At 1 January 2007	128	610	738
Charge for the year	12	72	84
Disposals	(21)	(86)	(107)
Impairment	–	5	5
Exchange adjustments	3	6	9
At 31 December 2007	**122**	**607**	**729**
Net book amount at 31 December 2007	**204**	**275**	**479**

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 January 2006	306	839	1,145
Additions	8	75	83
Acquisitions	16	49	65
Disposals	(14)	(54)	(68)
Reclassifications	4	(4)	–
Exchange adjustments	(18)	(44)	(62)
At 31 December 2006	302	861	1,163

Accumulated depreciation	Land and buildings £m	Plant and equipment £m	Total £m
At 1 January 2006	115	545	660
Charge for the year	11	77	88
Acquisitions	11	41	52
Disposals	(4)	(45)	(49)
Impairment	2	21	23
Exchange adjustments	(7)	(29)	(36)
At 31 December 2006	128	610	738
Net book amount at 31 December 2006	174	251	425

Included in plant and equipment are assets held under finance leases with a net book value of £9m (2006 £9m). The depreciation charge for assets held under finance leases was £2m (2006 £3m).

Minimum lease payments for plant and equipment held under finance leases are £4m (2006 £4m) within one year and £5m (2006 £6m) in two to five years. There are no lease payments falling due after more than five years (2006 £nil).

No revaluations have taken place in 2006 or in 2007.

The net book amount of assets in construction is £39m (2006 £20m). Assets under construction are included within plant and equipment. The reclassification from plant and equipment to land and buildings of £6m (2006 £4m) shows the transfer of completed assets.

The analysis of depreciation charge by income statement line is shown in note 2.

No borrowing costs have been capitalised as plant, property and equipment in 2007 (2006 £nil).

Capital expenditure which was contracted but not capitalised at 31 December 2007 was £20m (2006 £37m).

11 INVENTORIES

	2007 £m	2006 £m
Raw materials and consumables	**91**	77
Work in progress	**14**	14
Finished goods and goods held for resale	**277**	231
Total inventories	**382**	322

The cost of inventories recognised as an expense and included as cost of goods sold amounted to £2,078m (2006 £2,021m).

The Group inventory provision at 31 December 2007 was £32m (2006 £34m). All inventory that was provided for at 31 December 2006 was sold or otherwise disposed of during 2007.

The Group does not have any inventories pledged as security for liabilities.

12 TRADE AND OTHER RECEIVABLES – CURRENT

Amounts falling due within one year	2007 £m	2006 £m
Trade receivables	**596**	588
Less: Provision for impairment of receivables	**(11)**	(16)
Trade receivables – net	**585**	572
Other receivables	**87**	80
Prepayments and accrued income	**21**	18
	693	670

Trade receivables consist of a broad cross section of our international customer base for whom there is no significant history of default. The credit quality of customers is assessed at a subsidiary and Group level, taking into account their financial positions, past experiences and other relevant factors. Individual customer credit limits are imposed based on these factors.

As of 31 December 2007, trade receivables of £40m (2006 £53m) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

	2007 £m	2006 £m
Up to 3 months	**40**	53

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	2007 £m	2006 £m
Pound	**62**	60
Euro	**260**	257
US Dollar	**113**	118
Other currencies	**258**	235
	693	670

As at 31 December 2007, trade receivables of £15m (2006 £26m) were considered to be impaired. The amount of provision of 31 December 2007 was £11m (2006 £16m). It was assessed that a portion of the receivables is expected to be recovered due to the nature and historical collection of trade receivables. The ageing analysis of these receivables is as follows:

	2007 £m	2006 £m
Up to 3 months	**10**	17
Over 3 months	**5**	9
	15	26

The movement in the provision for impaired receivables consists of increases for additional provisions offset by receivables written off and unused provision released back to the income statement. The gross movements in the provision are considered to be insignificant.

The other receivables do not contain impaired assets. They consist of items including reclaimable turnover tax and other tax receivables, and are from a broad selection of countries within the Reckitt Benckiser Group.

The maximum exposure to credit risk at the year end is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

13 AVAILABLE FOR SALE FINANCIAL ASSETS

These investments do not meet the requirements to be classified as cash equivalents due to having maturities of greater than three months. They are, however, highly liquid assets, consisting solely of short-term deposits. All of these deposits are held with financial institutions with a BBB rating or above. The effective interest rate on these short-term deposits is 8.0% (2006 7.9%) and they have an average maturity of 256 days (2006 295 days) from inception.

14 CASH AND CASH EQUIVALENTS

	2007 £m	2006 £m
Cash at bank and in hand	**130**	107
Short-term bank deposits	**198**	194
Commercial paper	**–**	4
Cash and cash equivalents	**328**	305

The effective interest rate on short-term bank deposits and commercial paper is 7.3% (2006 6.9%) and these deposits have an average maturity date of 59 days (2006 60 days) from inception.

Due to foreign currency exchange restrictions £67m (2006 £66m) of cash included in cash and cash equivalents is restricted for use by the Group.

15 FINANCIAL LIABILITIES – BORROWINGS

Current	**2007 £m**	2006 £m
Bank loans and overdrafts[(a)]	**32**	20
Commercial paper[(b)]	**451**	891
Finance lease obligations	**4**	4
6.72% Notes Series F due 2007	**–**	58
	487	973

Non-Current	**2007 £m**	2006 £m
Finance lease obligations	**5**	6
Preference shares[(c)]	**–**	5
	5	11

(a) Bank loans are denominated in a number of currencies, all are unsecured and bear interest based on relevant LIBOR equivalent.

(b) Commercial paper was issued in a number of currencies, all are unsecured and bear interest based on relevant LIBOR equivalent.

(c) Preference Share Capital.

Authorised, issued and fully paid	**2007 Number of shares**	2006 Number of shares	**2007 £m**	2006 £m
5% Cumulative Preference Shares of £1 each	**–**	4,500,000	**–**	5

As part of the Scheme of Arrangement Reckitt Benckiser plc cancelled and repaid the 4,500,000 of 5% cumulative preference shares which were recognised as non-current borrowings by the Group at 31 December 2006.

The 5% cumulative preference shares of £1 each, which were irredeemable and were issued at par, ranked in priority to the ordinary shares both as to dividend and to capital. Shareholders were entitled to receive dividends at 5% per annum on the par value of these shares on a cumulative basis; these dividends were payable bi-annually on 1 January and 1 July. These shares had no further rights to participate in the reserves of the Company and the non-equity capital did not carry any right to vote at any general meeting of the Company unless either: i) the dividend was six months in arrears; or ii) there was a resolution to wind up the Company or to reduce its capital; or iii) there was a resolution to alter the rights of the preference shareholders. On 23 October 2007, in conjunction with the Scheme of Arrangement (detailed in note 20) these shares were cancelled and repaid at par plus accrued interest.

15 FINANCIAL LIABILITIES – BORROWINGS (CONTINUED)

Maturity of debt	2007 £m	2006 £m
Bank loans and overdrafts repayable:		
Within one year or on demand	**32**	20
Other borrowings repayable:		
Within one year:		
Commercial paper	**451**	891
6.72% Notes Series F due 2007	**–**	58
Finance leases	**4**	4
Between two and five years:		
Finance leases (payable by instalments)	**5**	6
After more than five years:		
5% cumulative preference shares	**–**	5
	460	964
Gross borrowings (unsecured)	**492**	984

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available, in respect of which all conditions precedent have been met at the balance sheet date (except for those expiring within one year in which conditions precedent were met subsequent to the balance sheet date), were as follows:

Undrawn committed borrowing facilities	2007 £m	2006 £m
Expiring within one year	**1,260**	–
Expiring between one and two years	**–**	–
Expiring after more than two years	**1,225**	1,224
	2,485	1,224

All borrowing facilities are at floating rates of interest.

The facility expiring within one year is a bridging facility arranged to facilitate the acquisition of Adams Respiratory Therapeutics, Inc. The other facilities have been arranged as a contingency to cover any future funding requirements. All facilities incur commitment fees at market rates.

The Group's borrowing limit at 31 December 2007 calculated in accordance with the Articles of Association was £43,149m (2006 £3,726m).

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Restructuring provision £m	Other provisions £m	Total provisions £m
At 1 January 2006	–	14	14
Charged to the income statement	51	1	52
Utilised during the year	–	(4)	(4)
Exchange adjustments	–	–	–
At 31 December 2006	51	11	62
Charged to the income statement	30	27	57
Utilised during the year	(46)	(19)	(65)
Exchange adjustments	1	–	1
At 31 December 2007	**36**	**19**	**55**

Provisions have been analysed between current and non-current as follows:

	2007 £m	2006 £m
Current	**36**	47
Non-current	**19**	15
	55	62

Other provisions include provision for an onerous lease expiring in 2016 of £9m (2006 £5m). The remainder of the balance relates to various legal and other obligations throughout the Group, the majority of which are expected to be utilised within five years.

The restructuring provision relates to further restructuring of configuration in the Group. The majority is expected to be utilised in 2008 with the remainder being utilised in 2009.

17 TRADE AND OTHER PAYABLES

	2007 £m	2006 £m
Trade payables	**658**	646
Other payables	**57**	68
Other tax and social security payable	**77**	69
Fair value derivatives	**6**	2
Accruals and deferred income	**837**	696
	1,635	1,481

18 OTHER NON-CURRENT LIABILITIES

	2007 £m	2006 £m
Accruals and deferred income	**3**	3
Other payables	**20**	20
	23	23

19 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group, and the movements thereon, during the current and prior year reporting periods.

Deferred tax liabilities	Accelerated capital allowances £m	Intangible assets £m	Short-term timing differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
At 1 January 2006	20	460	(103)	(1)	1	377
Charged/(credited) to the income statement	2	5	39	–	(2)	44
Acquisition	–	372	–	–	–	372
Exchange differences	–	(27)	–	–	–	(27)
At 31 December 2006	22	810	(64)	(1)	(1)	766
(Credited)/charged to the income statement	(10)	(23)	(32)	(7)	–	(72)
Credited to equity	–	(3)	–	–	–	(3)
Exchange differences	–	14	–	–	–	14
At 31 December 2007	**12**	**798**	**(96)**	**(8)**	**(1)**	**705**

Deferred tax assets	Accelerated capital allowances £m	Intangible assets £m	Short-term timing differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
At 1 January 2006	1	1	41	12	22	77
Credited/(charged) to the income statement	4	6	30	9	(7)	42
Credited/(charged) to equity	–	–	4	–	(15)	(11)
Acquisition	12	–	12	(1)	4	27
Exchange differences	–	–	5	–	4	9
At 31 December 2006	17	7	92	20	8	144
(Charged)/credited to the income statement	(13)	(16)	8	(20)	(4)	(45)
Credited/(charged) to equity	–	–	11	–	(5)	6
Exchange differences	–	–	1	–	–	1
At 31 December 2007	**4**	**(9)**	**112**	**–**	**(1)**	**106**

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority.

The current element of deferred tax is considered to be within short-term timing differences and tax losses.

No deferred tax liability has been recognised on the unremitted earnings of overseas subsidiaries as no tax is expected to be payable on them in the foreseeable future based on the current repatriation policy of the Group.

Included within the credit to the income statement within deferred tax liabilities relating to intangible assets is an amount of £17m for the disposal of Hermal.

20 SHARE CAPITAL

Authorised	Equity Ordinary Shares	Nominal Value £m	Non voting Redeemable Preference Shares	Nominal Value £m	Subscriber Ordinary Shares	Nominal Value £m
At 1 January 2007 (Reckitt Benckiser plc)						
Unclassified shares of $10\frac{10}{19}$p each	225,958,229	24				
Ordinary shares of $10\frac{10}{19}$p each	719,541,771	76				
	945,500,000	100				
At 31 December 2007 (Reckitt Benckiser Group plc)						
Ordinary shares of 10p each	945,500,000	95				
	945,500,000	95				
Issued and fully paid						
At 1 January 2007 (Reckitt Benckiser plc)	719,541,771	76				
Allotments	2,826,741	–				
At 22 October 2007	722,368,512	76				
On formation of Reckitt Benckiser Group plc			50,000	–	2	–
Group reconstruction – shares in Reckitt Benckiser Group plc of 10p each	722,368,512	72				
At 31 December 2007	**722,368,512**	**72**	**50,000**	**–**	**2**	**–**

On 23 October 2007 under a Scheme of Arrangement between Reckitt Benckiser plc, the former holding company of the Group, and its shareholders under Section 425 of the Companies Act 1985, and as sanctioned by the High Court, all the issued shares in that Company were cancelled and the same number of new shares were issued to Reckitt Benckiser Group plc in consideration for the allotment to shareholders of one ordinary share in Reckitt Benckiser Group plc for each ordinary share in Reckitt Benckiser plc held on the record date, 22 October 2007. In the above table the figures up to 22 October 2007 relate to shares in Reckitt Benckiser plc. Subsequent movements relate to shares in Reckitt Benckiser Group plc.

Reckitt Benckiser Group plc was incorporated on 6 June 2007 under the name of Trushelfco (no.3293) Limited. On incorporation, the Company's authorised share capital was £100 divided into 100 ordinary shares of £1 each. Of such shares, two ordinary shares were taken by the subscribers to the memorandum of association and were paid up in full in cash. On 28 August 2007 the Company increased its share capital by £50,000 by the creation of 50,000 non-voting redeemable preference shares of £1 each. On 28 August 2007 the Company authorised and allotted 50,000 redeemable preference shares of £1 each to the subscriber.

On 23 October 2007 as part of the Scheme of Arrangement noted above, a further 722,368,512 ordinary shares of 2000 pence were issued, whereby Reckitt Benckiser Group plc was interposed as the new holding company of the Group. As required by Section 131 of the Companies Act 1985 (Merger Relief), no share premium was recognised. On 25 October 2007 the share capital of Reckitt Benckiser Group plc was reduced by reducing the nominal value of the ordinary shares from 2000 pence to 10 pence as sanctioned by the High Court. As a result £14,299 million was added to retained earnings for the Group. For the Company this amount is distributable. The Group met the net income growth forecast set out in the documents published as part of this Scheme of Arrangement. For further details, refer to the Business Review, page 7.

At the same time as the Scheme of Arrangement Reckitt Benckiser plc cancelled and repaid the 4,500,000 of 5% cumulative preference shares which had been recognised as non-current borrowings by the Group at 31 December 2006. The rights, preferences and restrictions of these shares are described in note 15.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the parent company.

Allotments
During the year ordinary shares were allotted as follows:

Ordinary shares	Number of shares	Number of shares	Consideration £m	Consideration £m
Executive Share Options – exercised	3,529,453			
Executive Share Options – released from Treasury	(3,342,453)			
Total Executive Share Options		187,000	1	
Award of Restricted Shares		2,040,896	–	
Total under Executive Share Option and Restricted Share Schemes		2,227,896		1
Under the Senior Executives Share Ownership Policy Plan		10,000		–
Under the Savings-Related Share Option Schemes		588,845		6
Total		**2,826,741**		**7**

Market purchases of shares
During 2007, as part of the Group's continuing share buy back programme, the Group spent £300m repurchasing 11,094,400 shares all of which were held as Treasury shares. 4,212,675 Treasury shares have been used to satisfy exercises during the year under the Group's various share option schemes. This leaves a balance of 10,389,725 held as Treasury shares at 31 December 2007 (2006 3,508,000). The shares repurchased represent 1.54% of the Parent Company's called up share capital at 31 December 2007 and had a nominal value of £1m.

20 SHARE CAPITAL (CONTINUED)

In the period 1 January 2008 to 29 February 2008 a further 609,000 shares have been repurchased at a cost of £16.8m and are held in Treasury. These shares repurchased represent less than 0.1% of the Parent Company's called up share capital at 31 December 2007 and had a nominal value of £61,000.

Options and restricted shares granted during the year

Options and restricted shares which may vest or become exercisable at various dates between 2011 and 2017 granted during the year were as follows:

Executive share option and restricted share schemes	Price to be paid £	Number of shares under option
Long-Term Incentive Plan 2007 – share options	29.44	4,483,300
Long-Term Incentive Plan 2007 – restricted shares	–	2,241,650
Total		**6,724,950**
Savings-Related Share Option Schemes	21.24	231,718

Options and restricted shares unexercised at 31 December 2007

Options and restricted shares exercisable at various dates between 2007 and 2017 are as follows:

Executive share option and restricted share schemes	Price to be paid £		Number of shares under option	
	From	To	2007	2006
Reckitt & Colman Schemes	7.140	12.120	**93,821**	170,609
Benckiser 1998 Schemes		5.100	**–**	109,865
Benckiser 1999 Schemes		7.480	**102,468**	127,536
Benckiser Initial Options Award Agreement 29 September 1999		7.040	**1,533,666**	2,153,666
Reckitt Benckiser 1999 Share Option Plan – Initial Grant		7.220	**204,500**	249,500
Reckitt Benckiser Restricted Share Plan – Initial Grant		–	**4,500**	4,500
Reckitt Benckiser 1999 Share Option Plan – Annual Grant	5.538	18.100	**14,678,943**	18,324,319
Reckitt Benckiser Restricted Share Plan – Annual Grant		–	**4,004,302**	6,158,531
Reckitt Benckiser Long-term Incentive Plan 2006 – Annual Grant – options		22.57	**4,302,307**	4,933,300
Reckitt Benckiser Long-term Incentive Plan 2006 – Annual Grant – restricted shares		–	**2,042,653**	2,466,650
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – options		29.44	**4,483,300**	–
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – restricted shares		–	**2,241,650**	–
Reckitt Benckiser Senior Executives Share Ownership Policy Plan		–	**100,000**	90,000
			33,792,110	34,788,476

Savings-related share option schemes	Price to be paid £		Number of shares under option	
	From	To	2007	2006
UK Scheme	13.710	21.240	**598,371**	785,726
Overseas Scheme		13.710	**1,187,287**	1,427,813
USA Scheme	13.710	21.240	**587,736**	973,567
Total			**2,373,394**	3,187,106

Those Benckiser options which were granted prior to the merger on 3 December 1999 were granted over Benckiser N.V. B shares. On the merger, these options converted to options over ordinary shares at a ratio of five ordinary shares for every Benckiser N.V. B share with a matching exercise price adjustment. In the tables above the outstanding Benckiser options have been stated at their equivalent Reckitt Benckiser Group plc number of options and their exercise prices have been adjusted accordingly.

Executive Share Options are awarded at an exercise price determined on grant and payable on exercise following satisfaction of performance criteria. Restricted share awards entitle the recipient to receive shares at no cost following satisfaction of performance criteria.

21 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Attributable to equity holders of the Company								
	Share capital £m	**Share premium £m**	**Merger reserve £m**	**Hedging reserve £m**	**Capital redemption reserve £m**	**Foreign currency translation reserve £m**	**Retained earnings £m**	**Minority interest £m**	**Total £m**
Balance at 1 January 2006	**76**	**479**	**142**	**(1)**	**4**	**42**	**1,113**	**1**	**1,856**
Shares allotted under share schemes:	1	48							49
Unvested share awards:							42		42
Deferred tax on share awards:							4		4
Profit for the year:							674		674
Dividends:							(300)		(300)
Own shares repurchased:	(1)						(202)		(203)
Actuarial gains and losses:							43		43
Movement of deferred tax on pension liability:							(15)		(15)
Transfer to capital redemption reserve:					1		(1)		–
Purchase of minority interests:							(2)		(2)
Net exchange adjustments on foreign currency translation:						(194)			(194)
Shares repurchased and held in Treasury:							(97)		(97)
Treasury shares re-issued:							7		7
Minority interest acquired with business acquisition:								2	2
Balance at 31 December 2006	**76**	**527**	**142**	**(1)**	**5**	**(152)**	**1,266**	**3**	**1,866**
Shares allotted under share schemes:		7							7
Unvested share awards:							52		52
Deferred tax movement on share awards:							13		13
Tax movement on share option exercises:							18		18
Profit for the year:							938		938
Dividends:							(358)		(358)
Actuarial gains and losses:							25		25
Movement of deferred tax on pension liability:							(5)		(5)
Cancellation of RB plc shares:	(76)	(534)			(5)		615		–
Issue of RB Group plc shares:	14,447								14,447
Capital reduction – merger accounting:	(14,375)		(14,371)				14,299		(14,447)
RB Group plc share issue costs:							(3)		(3)
Net exchange adjustments on foreign currency translation:						93			93
Net hedged gains and losses taken to reserves:				(5)					(5)
Shares repurchased and held in Treasury:							(300)		(300)
Treasury shares re-issued:							45		45
Minority interest acquired:								(1)	(1)
Balance at 31 December 2007	**72**	**–**	**(14,229)**	**(6)**	**–**	**(59)**	**16,605**	**2**	**2,385**

Within all subsidiaries of the Group there were statutory, contractual or exchange control restrictions limiting the parent company's access to distributable profits of £3,154m (2006 £194m). The reserves of subsidiary undertakings have generally been retained to finance their businesses. There were £90m of Treasury shares at 1 January 2007. £300m of shares were repurchased and held in Treasury, of which £45m were issued to satisfy Executive Share Options exercised. £345m of Treasury shares were carried forward at 31 December 2007.

21 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)

Reserves
The original merger reserve arose in 1999 following the combination of Reckitt & Colman plc and Benckiser N.V. to form Reckitt Benckiser plc. This transaction was accounted for as a merger. During the year ended 31 December 2007 there was a debit of £14,371m to the merger reserve as a result of the Group reconstruction described in note 20 which was treated as a merger under Section 425 of the Companies Act 1985.

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedge transactions that are extant at year end.

The foreign currency translation reserve contains the accumulated foreign exchange differences from the translation of the financial statements of the Group's foreign operations that are not considered integral to the operations of the parent company, arising when the Group's entities are consolidated. The reserve also contains the translation of liabilities that hedge the Group's net exposure in a foreign currency.

22 EQUITY MINORITY INTERESTS

	2007 £m	2006 £m
At 1 January 2007	**3**	1
Acquisition of minority shareholdings upon business acquisition	**–**	2
Purchase of minority shareholdings	**(1)**	–
As at 31 December 2007	**2**	3

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Hedge of net investment in foreign entity
The Group had dollar-denominated borrowings which it has designated as a hedge of net investment in its subsidiaries in the USA. The carrying value of the dollar borrowings at 31 December 2007 was £nil (2006 £58m). The foreign exchange gain of £2m (2006 gain of £9m) on translation of the borrowings into sterling has been recognised in foreign currency translation reserve. This hedge is used to mitigate the foreign exchange risk of the Group's net investment in its subsidiaries in the USA.

Fair value of non-derivative financial assets and financial liabilities
Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flows at prevailing interest rates and by applying year end exchange rates. The fair values of cash, cash equivalents, short-term deposits, short-term borrowings and trade receivables and payables approximate to book value.

Numerical financial instruments disclosures are set out below along with additional disclosures relating to risk management.

	Liabilities £m
At 31 December 2007	
Forward foreign currency contracts – cash flow hedge	6

	Liabilities £m
At 31 December 2006	
Forward foreign currency contracts – cash flow hedge	1

Net fair values of derivative financial instruments
The net fair values of derivative financial instruments designated as cash flow hedges at the balance sheet date were:

	2007 £m	2006 £m
Contracts with negative fair values		
Forward foreign currency contracts	**6**	1

There were no interest rate swaps (2006 none) held at year end.

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Cash flow hedge profile

As at 31 December 2007, the Group had no material individual financial instruments classified as cash flow hedges. The same was true as at 31 December 2006.

The Group held forward foreign exchange contracts denominated as cash flow hedges primarily in US dollars, Euros and Australian dollars. Nominal value resulting from these financial instruments was as follows:

	2007 £m	2006 £m
US dollar	**45**	9
Euro	**11**	11
Australian dollars	**9**	36
Other	**16**	7
	81	63

These forward foreign exchange contracts were expected to mature evenly over the period January 2008 to March 2009 (2006 January 2007 to April 2008). The contracts were fully denominated as cash flow hedges. These hedges are used to mitigate the foreign exchange risk on forecast foreign currency cash flows.

Fair value table

	2007 Book value £m	**2007 Fair value £m**	2006 Book value £m	2006 Fair value £m
Long-term borrowings	(5)	(4)	(6)	(5)
Preference shares	–	–	(5)	(5)
Fair value of other financial assets and financial liabilities				
Long-term assets (net)	2	(2)	6	1
Primary financial instruments held or issued to finance the Group's operations:				
Current borrowings	(36)	(36)	(82)	(82)
Non-current deposits	39	39	19	19
Short-term deposits	198	198	194	194
Commercial paper issued	(451)	(451)	(891)	(891)
Commercial paper purchased	–	–	4	4
Cash at bank and in hand	130	130	107	107

The following methods and assumptions were used to estimate the fair values shown in this table:

– Current borrowings – approximates to the carrying amount due to their short maturity.
– Other borrowings non-current – market value using quoted market prices for equivalent fixed rate borrowings.
– Preference shares – based on market valuations at the balance sheet date.
– Investments – approximates to the carrying amount due to their short maturity.
– Cash at bank and in hand – carrying amount used.

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency and interest rate exposure of financial liabilities after hedging

	2007				2006			
	Fixed £m	**Floating £m**	**Non interest bearing £m**	**Total £m**	Fixed £m	Floating £m	Non interest bearing £m	Total £m
Sterling	4	452	9	465	8	890	5	903
US dollar	1	8	–	9	60	3	–	63
Euro	4	–	–	4	6	1	–	7
Other	–	23	–	23	–	16	–	16
	9	483	9	501	74	910	5	989
of which:								
Gross borrowings				492				979
Preference Shares				–				5
Other financial liabilities				9				5
				501				989

The £452m (2006 £890m) sterling floating borrowings include commercial paper issued in US dollars valued at £451m (2006 £606m) and Euros valued at £nil (2006 £87m). Although issued in currencies other than sterling, the Group entered into forward foreign exchange contracts to fix the sterling value due for repayment on maturity of these borrowings.

Financial risk management

The Group's multi-national operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates, credit risks, liquidity and interest rates. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by using foreign currency financial instruments, including debt, and other instruments, to fix interest rates.

The Group's financing and financial risk management activities are centralised into the Group Treasury Centre (GTC) to achieve benefits of scale and control. The GTC is not a profit centre, but adds value to the business operations by managing financial exposures of the Group centrally in a manner consistent with underlying business risks. The GTC manages only those risks and flows generated by the underlying commercial operations and speculative transactions are not undertaken.

The Board of Directors reviews and agrees policies, guidelines and authority levels for all areas of treasury activity and individually approves significant activities. The GTC operates under close control of the Chief Financial Officer and is subject to periodic independent reviews and audits, both internal and external.

1. Market Risk

(a) Foreign exchange risk

The Group publishes its financial statements in sterling but conducts business in many foreign currencies. As a result, it is subject to foreign currency exchange risk due to the effects that exchange rate movements have on the translation of the results and the underlying net assets of its foreign subsidiaries.

The Group's policy is to align interest costs and operating profit of its major currencies in order to provide some protection against the translation exposure on foreign currency profits after tax. The Group may undertake borrowings and other hedging methods in the currencies of the countries where most of its assets are located.

As at 31 December 2007 65% (2006 54%) of the Group's financial liabilities were in currencies other than sterling, including 10% (2006 10%) being denominated in US dollars. All the Group's major currency net assets exceeded the borrowings in the corresponding individual currencies.

It is the Group's policy to monitor and only where appropriate hedge its foreign currency transaction exposure. These transaction exposures arise mainly from foreign currency receipts and payments for goods and services and from the remittances of foreign currency dividends and loans. The local business units enter into forward foreign exchange contracts with the GTC to manage these exposures where practical and allowed by local regulations. The GTC matches the Group exposures, and hedges the net position where possible, using spot and forward foreign currency exchange contracts.

Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; differences resulting from the translation of financial statements into the Group's presentation currency are not taken into consideration.

Major non-derivative monetary financial instruments (liquid assets, receivables, interest and non-interest bearing liabilities) are directly denominated in the functional currency or are transferred to the functional currency through the use of derivatives. As at 31 December 2007 if the US dollar or Euro had strengthened/weakened by 5% against all currencies with all other variables held constant, this would have an insignificant effect on consolidated profit or loss or shareholders' equity (2006 insignificant).

In the case of cash flow hedges, these are denominated in a diverse range of currencies, where a fluctuation in one individual currency relationship with all others held constant does not have a significant effect on the consolidated profit or loss or shareholders' equity. The largest fluctuation is in respect of a forward contract between the Canadian and US dollar when at 31 December 2007, if the Canadian dollar had strengthened/weakened by 5% against the US dollar, with all other variables held constant, shareholders' equity would have been £2m (2006 £nil) lower/higher.

(b) Price risk

The Group is not exposed to equity securities price risk. Due to the nature of its business the Group is exposed to commodity price risk. This risk is, however, managed primarily through medium-term contracts with certain key suppliers and is not therefore viewed as being a material risk.

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Cash flow and fair value interest rate risk

The Group has both interest-bearing assets and interest-bearing liabilities. The Group manages its interest expense rate exposure using a mixture of fixed-rate and floating rate debt. At the end of 2007, the Group had nil (2006 7%) financial liabilities at fixed rates. The Group manages its interest rate exposure on its gross financial assets by using a combination of fixed rate term deposits and forward rate agreements.

The Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are only run for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on the profit or loss of a 50 basis-point shift would be a maximum increase of £2m (2006 £4m) or decrease of £2m (2006 £4m), respectively. The simulation is done on a periodic basis to verify that the maximum loss potential is within the limit given by management.

2. Credit risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers. The credit quality of trade and other receivables is detailed in note 12. Financial institution counterparties are subject to approval under the Group's counterparty risk policy and such approval is limited to financial institutions with a BBB rating or above. The amount of exposure to any individual counterparty is subject to a limit defined within the counterparty risk policy, which is reassessed annually by the Board.

The table below summarises the Group's major financial institution counterparties by credit rating and balances at the balance sheet date.

Counterparty Risk

Counterparty	2007 Credit Rating	2007 Exposure £m	2006 Credit Rating	2006 Exposure £m
Bank A	AA	59	AA	51
Bank B	AA	54	AA	39
Bank C	A	42	A	54
Bank D	AAA	42	AAA	–
Bank E	AA	23	A	28
Bank F	AA	22	AA	10
Bank G	A	20	A	13
Bank H	A	20	A	2
Bank I	AA	10	AA	52
Bank J	AA	10	AA	19

3. Liquidity risk

Funds over and above those required for short-term working capital purposes by the overseas businesses are generally remitted to the corporate centre. The Group uses the remittances to settle obligations, repay borrowings, or, in the event of a surplus, invest in short-term instruments issued by institutions with a BBB rating or better.

The Group has bilateral credit facilities with high-quality international banks. All of these facilities have similar or equivalent terms and conditions, and have a financial covenant, which is not expected to restrict the Group's future operations. At the end of 2007, the Group had, in addition to its long-term debt of £5m (2006 £11m), committed borrowing facilities totalling £2,485m (2006 £1,225m), of which £1,225m exceeded 12 months' maturity. Of the total facilities at the year end, £nil (2006 £1m) was utilised. The committed borrowing facilities, together with available uncommitted facilities and central cash and investments, are considered sufficient to meet the Group's projected cash requirements, including the acquisition of Adams Respiratory Therapeutics, Inc.

Headroom between net debt and available facilities at 31 December 2007 was £2,360m (2006 £313m).

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which have been calculated using spot rates at the relevant balance sheet date, including interest to be paid. Balances due within 12 months have not been discounted as the impact is not significant.

At 31 December 2007	**Carrying Values £m**	**Less than 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 5 years £m**	**Over 5 years £m**
Commercial paper	(451)	(456)	–	–	–
Other borrowings	(41)	(39)	(2)	–	–
Other financial liabilities	(9)	(2)	(2)	(8)	(11)
Trade payables	(658)	(658)	–	–	–
Other payables	(889)	(870)	(19)	–	–

At 31 December 2006	Carrying values £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Commercial paper	(891)	(901)	–	–	–
Other borrowings	(88)	(85)	(2)	(1)	–
Other financial liabilities	(10)	(2)	(2)	(7)	(18)
Trade payables	(646)	(646)	–	–	–
Other payables	(773)	(753)	(20)	–	–

23 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which have been calculated using spot rates at the relevant balance sheet date. Balances due within 12 months have not been discounted as the impact is not significant.

At 31 December 2007	**Less than 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 5 years £m**	**Over 5 years £m**
Forward exchange contracts – cash flow hedges				
Outflow	(897)	(5)	–	–
Inflow	902	3	–	–

At 31 December 2006	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Forward exchange contracts – cash flow hedges				
Outflow	(1,296)	(5)	–	–
Inflow	1,284	4	–	–

4. Capital risk management

Capital risk management is discussed in detail in the Business Review on page 9.

5. Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using quoted spot rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting future contractual cash flows and applying the current market interest rate that is available to the Group for similar financial instruments.

6. Derivative financial instruments

The notional principal values in this table have been calculated using spot rates at the relevant balance sheet date:

	2007		2006	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Forward exchange contracts – cash flow hedges	905	(902)	1,288	(1,301)
Total (all current)	905	(902)	1,288	(1,301)

The ineffective portion recognised in the profit or loss that arises from cash flow hedges amounts to £nil (2006 £nil). There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

Forward foreign exchange contracts

The hedged forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity (note 21) on forward exchange contracts as of 31 December 2007 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement, which is generally within 12 months from the balance sheet date unless the gain or loss is included in the initial recognition of a financial asset in which case recognition is over the lifetime of the asset.

continued

24 OPERATING LEASE COMMITMENTS

	2007		2006	
	Land and buildings £m	**Plant and equipment £m**	Land and buildings £m	Plant and equipment £m
Total commitments under non-cancellable operating leases due:				
Within one year	**19**	**3**	19	4
Later than one and less than five years	**49**	**2**	56	4
After five years	**35**	**–**	44	–
	103	**5**	119	8

Operating lease rentals charged to the income statement in 2007 were £24m (2006 £21m) in respect of land and buildings and £6m (2006 £6m) in respect of plant and equipment.

As at 31 December 2007, total amounts expected to be received under non-cancellable sub-lease arrangements were £12m (2006 £13m). Amounts credited to the income statement in respect of sub-lease arrangements were £1m (2006 £1m).

25 CONTINGENT LIABILITIES

Contingent liabilities for the Group, comprising guarantees relating to subsidiary undertakings, at 31 December 2007 amounted to £33m (2006 £32m).

26 RELATED PARTY TRANSACTIONS

The Group's subsidiary in Zimbabwe (Reckitt Benckiser (Zimbabwe) (Private) Ltd) is not consolidated as noted in the accounting policies. Therefore transactions between the Group and Reckitt Benckiser (Zimbabwe) (Private) Ltd are classified as related party transactions. During 2007 Group companies sold to and purchased from Reckitt Benckiser (Zimbabwe) (Private) Ltd products and services of less than £1m (2006 less than £1m). At 31 December 2007 Group companies had receivable and payable balances with Reckitt Benckiser (Zimbabwe) (Private) Ltd of less than £1m (2006 less than £1m). There are no other significant related party transactions in 2007 (2006 none).

Key management compensation is disclosed in note 4a.

27 BUSINESS ACQUISITIONS

Acquisitions

There were no acquisitions during the year (2006 Boots Healthcare International). No significant adjustments were made to the provisional fair value adjustments recognised in the 2006 financial statements in relation to the BHI acquisition.

28 POST BALANCE SHEET EVENTS

Acquisition of Adams Respiratory Therapeutics

The Company completed the acquisition of Adams Respiratory Therapeutics, Inc. on 30 January 2008 for a cash consideration of $60 per share or approximately $2.3bn (£1.1bn). The purchase has been accounted for as an acquisition and the Directors are in the process of revaluing the assets and liabilities acquired to fair value, including the value of any acquired intangible assets. As the acquisition took place on 30 January 2008, the Directors consider it impracticable to provide the disclosures required by IFRS 3 and have therefore used the exemption available which permits non-disclosure in such instances.

Further disclosure will be provided in the 2008 Interim Announcement.

Share capital issued since 31 December 2007

In the period 31 December 2007 to 29 February 2008 the parent company has not issued any ordinary shares.

Five-year summary

Income statement	2007 £m	2006 £m	2005 £m	IFRS 2004 £m	UK GAAP 2003 £m
Net revenues	**5,269**	4,922	4,179	3,871	3,713
Operating profit	**1,233**	910	840	749	679
Operating profit before exceptional items	**1,190**	1,059	840	749	679
Exceptional Items	**43**	(149)	–	–	–
Operating profit	**1,233**	910	840	749	679
Net finance (expense)/income	**(24)**	(36)	36	9	(19)
Profit on ordinary activities before tax	**1,209**	874	876	758	660
Tax on profit	**(271)**	(200)	(207)	(181)	(171)
Attributable to minority interests	**–**	–	–	–	–
Profit for the year	**938**	674	669	577	489
Ordinary dividends	**(358)**	(300)	(262)	(216)	(198)
Profit after deducting dividends	**580**	374	407	361	291
Balance sheet					
Fixed assets	**4,426**	4,421	2,343	2,212	2,248
Net current (liabilities)/assets (excluding current liability provisions)	**(946)**	(1,377)	351	240	118
Total assets less current liabilities (excluding current liability provisions)	**3,480**	3,044	2,694	2,452	2,366
Creditors due after more than one year:					
Borrowings/other	**(148)**	(134)	(186)	(255)	(292)
Convertible Capital Bonds	**–**	–	–	–	(192)
Provisions for liabilities and charges**	**(947)**	(1,044)	(652)	(617)	(408)
Equity minority interests	**(2)**	(3)	(1)	(3)	(4)
Total shareholders' funds	**2,383**	1,863	1,855	1,577	1,470
Statistics					
Reported basis					
Operating profit to net revenues	**23.4%**	18.5%	20.1%	19.3%	18.3%
Total interest to operating profit (times covered)	**51.4x**	25.3x	n/a	n/a	35.7x
Tax rate	**22.4%**	22.9%	23.6%	23.9%	25.9%
Dividend cover†	**2.6x**	2.2x	2.6x	2.7x	2.5x
Adjusted basis*					
Operating profit to net revenues	**22.6%**	21.5%	20.1%	19.3%	18.3%
Total interest to operating profit (times covered)	**49.6x**	29.4x	n/a	n/a	35.7x
Dividend cover†	**2.5x**	2.6x	2.6x	2.7x	2.5x
Dividends per ordinary share	**50.0p**	41.5p	36.0p	30.0p	28.0p

*Adjusted basis is calculated by deducting the exceptional items from profit for the year.
†Dividend cover is calculated by dividing earnings/adjusted earnings by ordinary dividends paid.

The figures for 2003 have not been restated following the adoption of IFRS in 2005.

**Provisions for liabilities and charges includes deferred tax liabilities, retirement benefit obligations and restructuring provisions.

We have audited the parent company financial statements of Reckitt Benckiser Group plc for the period ended 31 December 2007 which comprise the balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the Group financial statements of Reckitt Benckiser Group plc for the year ended 31 December 2007.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Review, the Business Review 2007, the Report of the Directors (including Corporate governance), the unaudited part of the Directors' Remuneration Report, the biographies of the Board of Directors and Executive Committee, and the Shareholder information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
13 March 2008

Notes:

- The maintenance and integrity of the Reckitt Benckiser Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Parent company accounting policies

Accounting convention
The accounts are prepared under the historical cost convention as modified by the revaluation of financial instruments and share based remuneration and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards.

Foreign currency translation
Transactions denominated in foreign currencies are translated at the rate of exchange on the day the transaction occurs or at the contracted rate if the transaction is covered by a forward exchange contract.

Assets and liabilities denominated in a foreign currency are translated at the exchange rate ruling on the balance sheet date or, if appropriate, at a forward contract rate.

Taxation
The tax charge is based on the profit for the period and takes into account taxation deferred due to timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax liabilities are provided for in full and deferred tax assets are recognised to the extent that they are considered recoverable.

Tangible fixed assets
Fixed asset investments are valued at cost less impairment.

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 at 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 account over the same period with the credit included in creditors. Where awards are contingent upon future events 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.

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 Company 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 instruments classified as held for trading is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading are recognised/derecognised by the Company 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 Company.

Capital transactions
When the Company 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.

Cash and cash equivalents
Cash and cash equivalents comprises cash balances and other deposits with a maturity of less than three months when deposited.

Cash flow statement
Reckitt Benckiser Group plc has presented a Group cash flow statement in its Annual Report and Accounts 2007, therefore as permitted by FRS 1, "Cash Flow Statements", the Directors have not prepared a cash flow statement for the Company.

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:

- The determination of the carrying value of investments classified as fixed assets, and the assessment of any impairment of the investments.
- 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.

Comparative information
As detailed in note 5, on 23 October 2007 a Scheme of Arrangement took place whereby Reckitt Benckiser Group plc was interposed as the new holding company of the Group. There is no comparative information as this is the Company's first accounting period.

Parent company balance sheet

As at 31 December 2007

	Notes	2007 £m
Fixed assets		
Investments	1	**14,447**
Current assets		
Debtors due within one year	2	**2**
Debtors due after more than one year	3	**1**
		3
Current liabilities		
Creditors due within one year	4	**(66)**
Net current liabilities		**(63)**
Total assets less current liabilities		**14,384**
Net assets		**14,384**
EQUITY		
Capital and reserves		
Share capital	5	**72**
Profit and loss reserve	6	**14,312**
Total equity		**14,384**

Approved by the Board on 13 March 2008.

Adrian Bellamy
Director

Bart Becht
Director

1 INVESTMENTS CLASSIFIED AS FIXED ASSETS

	Shares in subsidiary undertakings £m
At 6 June 2007	–
Acquisitions during the period (refer to note 5)	14,447
At 31 December 2007	14,447
Provision for impairment:	
At 6 June 2007	–
Provided for during the period	–
At 31 December 2007	–
Net book amounts:	
At 6 June 2007	–
At 31 December 2007	14,447

Principal subsidiary undertakings
The principal subsidiary undertakings at 31 December 2007, all of which are included in the consolidated financial statements, are shown below.

	Product segment	Country of incorporation or registration and operation	Effective % of share capital held by the Group
Propack	Household	Germany	Ordinary 100
Reckitt Benckiser (Australia) Pty Limited	Household	Australia	Ordinary 100
Reckitt Benckiser (Brasil) Limitada	Household	Brazil	Ordinary 100
Reckitt Benckiser (Canada) Inc.	Household and Food	Canada	Ordinary 100
Reckitt Benckiser Deutschland GmbH	Household	Germany	Ordinary 100
Reckitt Benckiser España SL	Household	Spain	Ordinary 100
Reckitt Benckiser France SAS	Household	France	Ordinary 100
Reckitt Benckiser Healthcare (UK) Limited	Household	UK	Ordinary 100
Reckitt Benckiser Inc.	Household and Food	USA	Ordinary 100
Reckitt Benckiser (India) Limited	Household	India	Ordinary 100
Reckitt Benckiser Italia SpA	Household	Italy	Ordinary 100
Reckitt Benckiser (Poland) SA	Household	Poland	Ordinary 100
Reckitt Benckiser (UK) Limited	Household	UK	Ordinary 100

None of the above subsidiaries is held directly by Reckitt Benckiser Group plc.

As permitted by s.231(5) of the Companies Act 1985, particulars of other subsidiary undertakings are not shown above. A full list of the Company's subsidiary undertakings will be annexed to the Company's annual return to Companies House.

2 DEBTORS DUE WITHIN ONE YEAR

	2007 £m
Amounts owed by Group undertakings	**2**

3 DEBTORS DUE AFTER MORE THAN ONE YEAR

	2007 £m
Deferred tax	**1**

4 CREDITORS DUE WITHIN ONE YEAR

	2007 £m
Amounts owed to Group undertakings	**66**
	66

5 CALLED UP SHARE CAPITAL

Authorised, issued and fully paid	Non voting redeemable preference shares	Nominal value £m	Subscriber ordinary shares	Nominal value £m	Equity ordinary shares	Nominal value £m
Ordinary shares – allotted, called up and fully paid	50,000	–	2	–	**722,368,512**	**72**

For details of the movement in ordinary shares during 2007 see note 20 of the Group Financial Statements on page 50.

On 23 October 2007 under a Scheme of Arrangement between Reckitt Benckiser plc, the former holding company of the Group, and its shareholders under Section 425 of the Companies Act 1985, and as sanctioned by the High Court, all the issued shares in that Company were cancelled and the same number of new shares were issued to Reckitt Benckiser Group plc in consideration for the allotment to shareholders of one ordinary share in Reckitt Benckiser Group plc for each ordinary share in Reckitt Benckiser plc held on the record date, 22 October 2007. Subsequent movements relate to shares in Reckitt Benckiser Group plc.

Reckitt Benckiser Group plc was incorporated on 6 June 2007 under the name Trushelfco (No.3293) Limited. On incorporation, the Company's authorised share capital was £100 divided into 100 ordinary shares of £1 each. Of such shares, two ordinary shares were taken by the subscribers to the memorandum of association and were paid up in full in cash. On 28 August 2007 the Company increased its share capital by £50,000 by the creation of 50,000 non-voting redeemable preference shares of £1 each. On 28 August 2007 the Company authorised and allotted 50,000 redeemable preference shares of £1 each to the subscriber.

On 23 October 2007 as part of the Scheme of Arrangement noted above, a further 722,368,512 ordinary shares of 2000 pence were issued, whereby Reckitt Benckiser Group plc was interposed as the new holding company of the Group. As required by Section 131 of the Companies Act 1985 (Merger Relief), no share premium was recognised. On 25 October 2007 the share capital of Reckitt Benckiser Group plc was reduced by reducing the nominal value of the ordinary shares from 2000 pence to 10 pence as sanctioned by the High Court. As a result £14,375m was added to retained earnings for Reckitt Benckiser Group plc. For the Company this amount is distributable.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the parent company.

6 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Share capital £m	Profit and loss £m	Total £m
Movements during the period:			
Profit/(loss) for the year		(5)	(5)
Issue of Reckitt Benckiser Group plc shares	14,447		14,447
Capital reduction	(14,375)	14,375	–
Share issue costs		(3)	(3)
Unvested restricted shares		2	2
Shares repurchased as Treasury shares		(66)	(66)
Treasury shares re-issued		9	9
At 31 December 2007	**72**	**14,312**	**14,384**

As permitted by s.230 of the Companies Act 1985, no profit and loss account is presented for Reckitt Benckiser Group plc.

Reckitt Benckiser Group plc has £14,310m of its profit and loss reserve available for distributions.

There were no Treasury shares at 6 June 2007. £66m of shares were repurchased and held in Treasury, of which £9m were issued to satisfy exercises under the Group's various share option schemes. £57m of Treasury shares were carried forward at 31 December 2007.

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2007 of 30.0p per share which will absorb an estimated £215m of shareholders' funds. It will be paid on 29 May 2008 to shareholders who are on the register on 29 February 2008.

Other post balance sheet events are described in note 28 of the Group financial statements.

7 SHARE-BASED REMUNERATION

Reckitt Benckiser Group plc has one employee, the Group's CEO. Details of his share awards that are not fully vested are set out in the Directors' Remuneration Report, and the charge in relation to the period 23 October 2007 to 31 December 2007 is set out below. The Company has used the Black-Scholes pricing model to calculate the fair value of one award on the date of the grant of the award.

As described in note 5 the share options are disclosed from the date the Company was interposed as the new parent company of the Group.

Table 1: Fair value of awards with options outstanding at 31 December 2007

				Black-Scholes model assumptions					
Award	Grant date	Exercise price £	Performance period	Share price on grant date £	Volatility %	Dividend yield %	Life years	Risk free interest rate %	Fair value of one award £
Share Options									
2002	17 December 2001	9.504	2002-04	9.70	25	2.7	4	4.50	1.954
2003	22 November 2002	11.186	2003-05	10.96	25	2.7	4	4.50	2.054
2004	08 December 2003	12.76	2004-06	12.80	24	2.6	4	4.50	2.462
2005	06 December 2004	15.47	2005-07	15.37	23	2.3	4	4.88	2.991
2006	05 December 2005	18.10	2006-08	18.16	22	2.4	4	4.69	3.334
2007	08 December 2006	22.57	2007-09	23.00	20	2.2	4	4.65	4.227
2008	11 December 2007	29.44	2008-10	29.72	20	1.8	4	5.53	5.989
Restricted Shares									
2002	17 December 2001	–	2002-04	9.70	25	2.7	4	4.50	8.644
2003	22 November 2002	–	2003-05	10.96	25	2.7	4	4.50	9.791
2004	08 December 2003	–	2004-06	12.80	24	2.6	4	4.50	11.493
2005	06 December 2004	–	2005-07	15.37	23	2.3	4	4.88	13.920
2006	05 December 2005	–	2006-08	18.16	22	2.4	4	4.69	16.376
2007	08 December 2006	–	2007-09	23.00	20	2.2	4	4.65	21.015
2008	11 December 2007	–	2008-10	29.72	20	1.8	4	5.53	27.555

7 SHARE-BASED REMUNERATION (CONTINUED)
The charge for the period ended 31 December 2007 in respect of share-based remuneration under FRS 20 is as set out below:

Table 2: Share awards expense 2007

				Movement in number of options					
Award	Grant date	Fair value of one award £	Options outstanding at 23 October 2007 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 December 2007 number	Total fair value of grant as at 31 December 2007 £m	Charge for the period ending 2007 £m
Share Options									
2002	17 December 2001	1.954	715,834	–	–	–	715,834	1.4	–
2003	22 November 2002	2.054	1,000,000	–	–	–	1,000,000	2.1	–
2004	08 December 2003	2.462	800,000	–	–	–	800,000	2.0	–
2005	06 December 2004	2.991	800,000	–	–	–	800,000	2.4	0.1
2006	05 December 2005	3.334	800,000	–	–	–	800,000	2.7	0.2
2007	08 December 2006	4.227	800,000	–	–	–	800,000	3.4	0.2
2008	11 December 2007	5.989	–	600,000	–	–	600,000	3.6	–
Restricted Shares									
2002	17 December 2001	8.644	–	–	–	–	–	–	–
2003	22 November 2002	9.791	–	–	–	–	–	–	–
2004	08 December 2003	11.493	–	–	–	–	–	–	–
2005	06 December 2004	13.920	400,000	–	–	–	400,000	5.6	0.3
2006	05 December 2005	16.376	400,000	–	–	–	400,000	6.6	0.4
2007	08 December 2006	21.015	400,000	–	–	–	400,000	8.4	0.6
2008	11 December 2007	27.555		300,000	–	–	300,000	8.3	–
Other Share Awards									
UK SAYE	15 September 2000	2.481	2,777	–	(98)	(2,679)	–	n/a	–
UK SAYE	04 September 2006	6.612	1,011	–	–	–	1,011	n/a	–
Total									1.8

Notes
Contractual Life: Executive Share Awards have a contractual life of ten years but vest according to EPS growth criteria over a three-year period. Accordingly, the cost is spread over the three years of the performance period. Other share awards have contractual lives of either three, five or seven years.

Performance criteria: Executive Share Awards are subject to performance criteria based on compound average annual growth (CAAG) rates in earnings per share over the performance period. Other Share Awards are generally not subject to any criteria other than the employee's continued employment. Executive Share Awards included in the above table vest as follows: CAAG of 6%: 40% of awards vest; 7% CAAG: 60%; 8% CAAG: 80%; 9% CAAG: 100%.

The assumptions made within the valuation calculation with respect to the achievement of performance criteria are based on the Directors' expectations in light of the Group's business model and relevant published targets.

Under the terms of the Plans, early exercise is not permitted and therefore the effect of early exercise is not incorporated into the calculation. The calculation also assumes that there will be no leavers in the following year. No material modifications have been made to the Plans in 2006 or 2007 for the purposes of the valuation.

Volatility: An estimate of future volatility is made with reference to historical volatility over a similar time period, to the performance period or the contractual life as appropriate.

Historical volatility is calculated based on the annualised standard deviation of the Group's daily share price movement, being an approximation to the continuously compounded rate of return on the share.

Income statement charge: the income statement charge may not exactly equal one third of the total fair value included in the table above due to adjustments for in-year lapses or award revisions.

The weighted average share price for the year was £27.06 (2006 £20.88).

8 AUDITORS' REMUNERATION
The fee charged for the statutory audit of the Company was £0.05m.

9 RELATED PARTY TRANSACTIONS
There were no related party transactions.

Shareholder information

Annual General Meeting
To be held on Thursday, 1 May 2008 at The London Heathrow Marriott Hotel, Bath Road, Hayes, Middlesex, UB3 5AN.
Every shareholder is entitled to attend and vote at the meeting. The notice convening the meeting is contained in a separate document for shareholders..

Final dividend for the year ended 31 December 2007
To be paid (if approved) on 29 May 2008 to shareholders on the register on 29 February 2008.

Company Secretary
Elizabeth Richardson

Registered office
103-105 Bath Road
Slough, Berkshire SL1 3UH
Telephone: 01753 217800
Facsimile: 01753 217899

Registered and domiciled in England
No. 6270876

Company status
Public Limited Company

Auditors
PricewaterhouseCoopers LLP

Solicitors
Slaughter and May

Registrar and transfer office
If you have any queries about your shareholding, please write to, or telephone, the Company's Registrar at the following address:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZY

Dedicated Reckitt Benckiser shareholder helpline
Telephone: 0870 703 0118
Website: www-uk.computershare.com

Key dates

Announcement of quarter 1 results	24 April 2008
Annual General Meeting	1 May 2008
Payment of final ordinary dividend	29 May 2008
Announcement of interim results	28 July 2008
Payment of interim ordinary dividend	September 2008
Announcement of quarter 3 results	27 October 2008
Preliminary announcement of 2008 results	11 February 2009
Publication of 2008 Annual Report and Accounts	April 2009
Annual General Meeting	May 2009

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