



HEALTH ▪ HYGIENE ▪ HOME

*Purpose  
with a  
passion*



Purpose with a passion

RB has a vision of a world where people are healthier and live better lives. Inspired by our purpose and a passionate culture that drives ownership and rewards success, we push ourselves to outperform, every day.



## Our purpose

See more on pages 2-3



## Our passion

See more on pages 4-5



## Our performance

See more on pages 6-7



## Our betterbusiness strategy

Our betterbusiness strategy focuses on how we deliver financial performance, by fulfilling our social and environmental responsibilities.

See more on pages 22-35



**betterfinancials**  
How we outperform, through our focus on our brands, markets and creating a digitally connected company



**bettersociety**  
How we support our communities, develop our people and drive quality and safety in all we do



**betterenvironment**  
How we reduce our environmental impact and ensure we source materials responsibly

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# Highlights

## Introduction from the Chairman



2016 was an important year for RB. Our earnings model remains strong, as our growth strategy continues to deliver outperformance. The tragic humidifier sanitiser (HS) issue in South Korea, and Oxy RB's part in it, reminds us that consumer safety is our number one priority. The lessons from the HS issue and actions we have taken are set out on pages 14 to 15.

Our brands  
**>80%**  
Net Revenue from  
Powerbrands  
 See page 26



## betterfinancials

### Net Revenue

**£9.9bn**

Like-for-like growth<sup>1</sup> +3%  
Total reported growth +11%

### Gross Margin

**60.9%**

+180bps

### Adjusted<sup>1</sup> Earnings Per Share (diluted)

**302.0p**

+17%

### Total dividend for the year

**153.2p**

+10%

### Adjusted<sup>1</sup> Operating Margin

**28.1%**

+130bps  
Operating Margin 24.3% (-90bps)

### Reported Earnings Per Share (diluted)

**256.5p**

+6%

### Health and Hygiene

**75%**

of Net Revenue

### Developing markets

**31%**

of Net Revenue

## betterociety

### Net Revenue from more sustainable products

**13.2%**

### People reached with Health and Hygiene messaging

**365m**

## betterenvironment

### Greenhouse gas emissions per unit of production

**25.0%**

Reduction since 2012

### Water usage per unit of production

**31.8%**

Reduction since 2012

# Our purpose...

Our purpose inspires us and informs what we do. With every decision, we look for innovative solutions that can help our consumers to live better, from new products that improve health to social programmes that touch millions of lives.





Our purpose is to make a difference, by giving people innovative solutions for healthier lives and happier homes.

## Our world is changing

Many factors, from increasing life expectancy to rising healthcare costs, are boosting demand for health and hygiene products.

See more on pages 18-19



Our purpose informs every aspect of our strategy, from the brands we focus on and the innovations we bring to market, to the role we play in society.

People reached with Health and Hygiene messaging

# 365m

As well as offering innovative products, we improve people's health and hygiene through our education and prevention programmes.

See more on pages 28-31



## Save a Child Every Minute

Our campaign with Save the Children uses our expertise and our people's efforts to stop diarrhoea being a top five killer of children.

See more on pages 28-31

# ...combined with our passion

RB has a unique culture that harnesses the passion of our people. We have a compelling desire to challenge ourselves and each other, to not just deliver but to outperform and make RB the best it can be.





We want our people to behave as if they own the business. The “Top40” managers in RB have the highest shareholding requirements in the industry.

See more on pages 36-37

#### Total share ownership requirement for “Top40” management

**£203m**

We have the highest shareholding requirement in the industry and the FTSE 100.

## Partnerships

We tap into innovation, creativity and knowledge through our partnerships with other organisations, and strive for a spirit of openness.

Our culture means we continually look for ways to do things better

**£150m**

Savings targeted from Project Supercharge

See more on pages 22-24

## Achievement

Everyone wants a sense of achievement and for RB that means outperformance.



## Entrepreneurship

RB is 35,000 passionate people, pursuing projects they believe in and pushing the boundaries of innovation.



See more on pages 36-37

# ...drives our (out) performance

Bringing together passionate people and giving them a clear purpose makes RB a business where we act fast, take responsibility and aim for and reward exceptional performance.

**Rakesh Kapoor**  
Chief Executive Officer



## Why RB delivers

### Right portfolio strategy

We identify unmet consumer needs, drive growth through innovation and invest disproportionately behind our high-potential markets (Powermarkets) and our faster-growing brands (Powerbrands).



#### Powerbrands

19



#### Powermarkets

16



### Performance-based culture

Our culture is central to our outperformance. We live our values, and our compensation approach and share ownership requirements encourage our people to act as if the Company was their own.

### Successful innovation

Continuous, successful innovation is the key to long-term success. We listen to our consumers, develop new products and invest heavily behind them.

### Virtuous earnings model

By targeting higher-margin segments and optimising cost, we expand our Gross Margin. This gives us room to invest for growth, increasing Net Revenue and our Operating Margin.

### Value creation

We have created substantial value through organic growth but, in a fragmented consumer health market, we also have the opportunity to acquire strong brands. The combination of our organic growth strategy and acquisitions have generated significant returns for Shareholders.

**Total Shareholder Return since announcement of strategy in 2012:**

£100 invested on 1 January 2012 was worth £253 on 31 December 2016.

#### Gross Margin

+180bps

# Chairman's Statement

**"Our review in September once again confirmed that the strategy was working well and that the focus on Health and Hygiene positions us for further outperformance."**

**Adrian Bellamy**  
Chairman



## An important year

This was an important year for RB. One of the Board's top priorities has been absorbing the lessons from the tragic events in South Korea surrounding humidifier sanitisers (HS), and Oxy RB's involvement in this industry-wide issue. Oxy RB has expressed their sincere apologies to all individuals and their families who have suffered from lung injury as a result of the HS issue.

Consumer safety is the Group's fundamental priority. Developments in South Korea as described on pages 14 to 15 caused both management and the Board to review the Group's quality, compliance and safety procedures. We have established a new Board committee, chaired by Pamela Kirby, to support the Board in fulfilling its duty to safeguard and advance RB's reputation for responsible and sustainable corporate conduct. In addition, we have brought together our consumer safety, health and safety, quality, compliance and sustainability functions into a single team. The objective is to further strengthen our safety, quality and compliance culture, and to drive continuous improvement in these critical areas. The Board has also engaged law firm Linklaters LLP to advise the Board on the Group's management of the HS and related safety issues.

## Business performance

Performance was affected by the HS issue and by weak conditions in key markets such as Russia. Even so, our successful strategy delivered Revenue growth that compared favourably with our peers and Profit growth that was well ahead of the industry.

Total Net Revenue rose by 11%, which equated to a 3% increase on a like-for-like basis. Reported Operating Profit was up 8% in actual currency and down 3% in constant currency terms. Adjusted Operating Profit rose 17% in actual currency and 6% in constant currency, resulting in a 130bps increase in our Adjusted Operating Margin. Reported Diluted Earnings Per Share were up 6% to 256.5 pence, while Adjusted Diluted Earnings Per Share were 17% higher at 302.0 pence.

Our Profit growth enables us to reward Shareholders through rising dividends. The Directors have proposed a final dividend of 95.0 pence per share, up 7%. When added to the interim dividend of 58.2 pence per share, this gives a total dividend for the year of 153.2 pence per share, an increase of 10%. Subject to Shareholder approval, the final dividend will be paid on 25 May 2017 to Shareholders on the register on 18 April 2017.

RB is a highly cash generative business and we continued to use surplus free cash flow to buy back shares, with the aim of keeping our net debt broadly constant. In 2016, these buybacks totalled £802 million. This policy leaves us with a healthy Balance Sheet, while retaining the financial strength we need to implement our strategy. As a business, we are resolutely focused on

outperformance and it is pleasing to see this reflected in our Total Shareholder Return (TSR), which shows the increase in the share price assuming dividends are reinvested. Since we adopted our current strategy in 2012, RB has delivered a TSR of 153%, compared with the 54% return from the FTSE 100.

### The right strategy

The Board formally reviews RB's strategy each year. Our review in September once again confirmed that the strategy was working well and that the focus on Health and Hygiene positions us for further outperformance.

During the year, we invested US\$50 million to acquire a stake of around 1% in China Resources Pharmaceutical Group (CRP). CRP is China's largest manufacturer of over-the-counter (OTC) drugs. While the investment is small in the context of RB, it opens up some interesting strategic possibilities for us. We have signed a non-binding memorandum of understanding with CRP, which will see us explore ways to cooperate with respect to certain designated OTC medicines, medical devices and healthcare products in the Chinese market.

RB's better business strategy recognises that long-term success depends as much on meeting our obligations to society and the environment as it does to strong financial performance. We further improved our environmental performance in 2016 and continued with our social programmes, which support our business purpose by helping people benefit from better health and hygiene.

### The Mead Johnson acquisition: A good strategic fit

On 10 February 2017, RB announced that an agreement has been signed to acquire Mead Johnson for US\$16.6 billion. The acquisition of Mead Johnson is aligned with RB's well-established strategic focus on growing in consumer health and on investing in Powerbrands with attractive growth prospects. RB already reaches millions of mothers through its hygiene education programmes and, through world-class brands such as Nurofen and Mucinex, provides parents with relief and reassurance when their children are unwell. This will be enhanced by Mead Johnson's deep understanding of a new mother's journey and well-established relationships with healthcare professionals. (See more on pages 10 to 11).

### Robust governance

RB has strong governance and our annual evaluation showed that the Board and its committees continued to work effectively. The Board's membership was stable during the year, with the only changes being the retirements of Jaspal Bindra, Sue Shim and Doug Tough, all of whom stepped down at the conclusion of the Annual General Meeting (AGM) in May. On behalf of the Board, I thank them for their contributions.

We remain focused on succession planning and regularly review the composition of the Board and its committees. In July 2016 a new Corporate Responsibility, Sustainability, Ethics and Compliance Committee was established (see Board achievements).

We have also approved changes to our committees. André Lacroix will become Chairman of the Audit Committee from the conclusion of the Company's AGM. Ken Hydon will step down as Chairman but will remain a member of the Committee to support André in his new role. Mary Harris will move from the Audit Committee to the Remuneration Committee following the conclusion of the AGM and transition to the role of Chair of that Committee on 1 November 2017. Judy Sprieser will remain on the Remuneration Committee to support Mary in her new role. I would like to thank Ken and Judy for their many years of service as Chairs of their respective committees.

More information about RB's approach to corporate governance and the Board's activities during the year can be found in my Statement on pages 60 to 61 and in the full Corporate Governance Statement on pages 62 to 67.

### A culture of outperformance

As this Annual Report explains, RB's unique culture is one of the most important contributors to its success. It makes our people hungry to achieve more and frees their entrepreneurial instincts, while encouraging them to work in partnership and act as if they own the business. This drives us on to do better for consumers, customers and Shareholders.

Our approach to reward is a fundamental part of this culture. While average performance leads to average reward, we give our people the chance to earn exceptional long-term reward for exceptional long-term performance.

### AGM resolutions

The AGM is on 4 May 2017 and the resolutions that Shareholders will vote on are fully explained in the Notice of Meeting.

A General Meeting (GM) will be held to approve the acquisition of Mead Johnson Nutrition. Shareholders will receive details separately.

### Conclusion

The Board remains confident in RB's future. The Company has the right strategy and is strongly positioned to outperform categories with robust long-term growth characteristics. Combined with our outstanding people and culture of achievement, we look forward to creating further value for all our stakeholders.

I would also like to express my personal appreciation to my fellow Board members, to Rakesh Kapoor and his team, and to everyone in RB around the world for their substantial efforts during a challenging year.

### Adrian Bellamy

Chairman

20 March 2017

## Board achievements

### New Board committee

The new Corporate Responsibility, Sustainability, Ethics and Compliance Committee has a key role in reviewing, monitoring and assessing our approach to these critical issues.

 See more on pages 74-75



### Board highlights from 2016

- Reviewed the Group's strategy
- Reappraised the Group's risks
- Considered the Viability Statement
- Offsite visit by Board to China as part of the Strategy Review, which included: review of e-commerce platform, in-depth analysis of Chinese social and economic issues, consumer and market trends, logistics and trade visits, visit to sexual wellbeing plant and meeting with local management
- Meetings with functional and operational management heads, e.g. Finance, Tax, Treasury, Investor Relations, HR, Safety, Quality and Compliance, Supply, IT, programme leaders and divisional heads
- Reviewed and updated corporate governance policies and procedures in connection with the EU Market Abuse Regulation which came into force on 3 July 2016
- External evaluation of the Board

# Acquiring a world leader in infant and children's nutrition

On 10 February 2017, we announced that we have signed an agreement to acquire Mead Johnson for US\$16.6 billion in cash. The acquisition will be a significant step forward in RB's journey as a leader in Consumer Health and will increase our revenues in this area by approximately 90%.

Mead Johnson's Enfa brands are the world's leading franchise in infant and children's nutrition. The Enfa franchise is a natural extension to our Consumer Health portfolio and will become our largest Powerbrand. We already reach millions of mothers through our hygiene education programmes and, through world-class brands such as Nurofen and Mucinex, provide parents with relief and reassurance when their children are unwell. This will be enhanced by Mead Johnson's deep understanding of a new mother's journey and well-established relationships with healthcare professionals.



## A large and growing market

The global infant and children's nutrition category is worth approximately US\$46 billion in annual sales. We expect this to grow at 3-5% per annum in the medium to long term. This growth is underpinned, particularly in developing markets, by trends such as economic growth, urbanisation, increasing spend on premium nutrition, special nutritional needs, more mothers choosing to work while their children are young, and changes to China's one-child policy. Brand, quality and innovation are increasingly important differentiators in the category.

Mead Johnson's geographic footprint significantly strengthens our position in developing markets. The business derives 67% of its Net Sales in Asia and Latin America, including 2016 Net Sales of US\$1.1 billion in China. Developing markets will account for approximately 40% of the combined group's sales, with China becoming our second largest Powermarket.

## Drawing on the best of both businesses

Our ambition is to bring together the best of both companies, keeping the consumer at the heart of the combined group. RB has extensive multi-channel go-to-market and global branding capabilities across consumer health and a track record of consumer-centric innovation. These capabilities, together with our culture of swift decision making and commitment to driving performance, will enable us to add value to Mead Johnson by enhancing its position in key markets. At the same time, Mead Johnson brings significant R&D, quality, regulatory and specialist distribution capabilities to RB.

Following a transitional period, our goal is for Mead Johnson to perform progressively towards the upper end of the 3-5% category growth rate. Our supply chain infrastructure and distribution network will enhance Mead Johnson's go-to-market capabilities, while our scale and expertise will enable accelerated entry into nascent markets for Mead Johnson, where we already have a deep understanding of the local consumer health dynamics.

We also expect to build on Mead Johnson's e-commerce platforms. The two companies have complementary e-commerce expertise, particularly in China where approximately 30% of RB's sales are online.

#### Financial highlights

Mead Johnson Shareholders will receive US\$90 in cash for each share of common stock, valuing the total equity at US\$16.6 billion. Including net debt of US\$1.2 billion as at 31 December 2016, the total enterprise value of the transaction is US\$17.9 billion, representing a multiple of 17.4x 2016 non-US GAAP EBITDA of US\$1.0 billion and 14.0x 2016 non-US GAAP EBITDA including the expected run-rate cost savings described below.

We expect the integration to deliver cost savings of £200 million per annum by the end of the third full year following completion. These arise principally from removing duplication in back office functions and leveraging the scale of the combined business in procuring raw and packaging materials, advertising and promotional expenditure and other spend. One-off costs to achieve the savings are expected to be approximately £450 million.

The acquisition is expected to be accretive to our Adjusted Diluted Earnings Per Share in the first full year following completion and double-digit accretive by year three. We also expect the acquisition to deliver a post-tax return on invested capital in excess of our cost of capital by year five.

We intend to maintain our current dividend policy of paying out about 50% of our Adjusted Net Income. However, we do not intend to buy back any further RB shares until debt is materially lower.

#### Financing

The acquisition will be financed through new fully underwritten debt facilities with Bank of America, Merrill Lynch, Deutsche Bank and HSBC. These facilities include US\$9 billion of term loans over three to five years and US\$8 billion of bridge funding to cover the cash consideration, plus a further US\$3 billion to refinance existing Mead Johnson bonds if required. They also include an additional £1 billion revolving credit facility, to provide financing headroom from the date of completion. We expect to refinance the bridge by issuing bonds with a variety of maturity dates which will reflect the expected cash flows of the combined group. We are in discussion with the rating agencies and expect to retain a strong investment grade credit rating.

#### Integration planning

We have a track record of effectively integrating consumer health companies. The acquisitions of Boots Healthcare International, Adams and SSL all delivered an important inflection point of growth for RB.

We will establish an infant and children's nutrition division, which will report directly to Rakesh Kapoor. Selected key RB employees will transfer to this new division.

We will balance the opportunity to realise cost savings with the need to retain and invest in valuable talent at Mead Johnson, especially within the R&D, quality, regulatory and specialist distribution capabilities. Our objective will be to balance RB's leadership and FMCG talent with the skill and expertise that has helped establish Mead Johnson as a category leader.

#### Steps to completion

The proposed acquisition requires the approval of RB's Shareholders. We will in due course send a circular to Shareholders, convening a meeting to approve the acquisition. The RB Board is unanimous in recommending the transaction.

The acquisition is also subject to approval by Shareholders of Mead Johnson, regulatory approvals (including in the US, China and other markets), and certain other customary conditions.

The transaction is expected to complete by the end of Q3 2017.

## Mead Johnson

A company with a compelling purpose

#### Mission

To give children the best start in life



#### Core beliefs

**Good early life nutrition**  
supports lifelong health

**Informed decisions:**  
access to information helps parents and paediatricians make better decisions

**Empowering women:**  
working mothers trust infant formula to support their child's nutritional wellbeing



Enfa is the No.1 global franchise in infant and children's nutrition



# Chief Executive's Statement

**"The acquisition of Mead Johnson is a significant step forward in RB's journey as a leader in consumer health."**

 See more on pages **10-11**

**Rakesh Kapoor**  
Chief Executive Officer



## A purpose-driven company

RB has a clear purpose: to provide people with innovative solutions for healthier lives and happier homes. This purpose inspires us and we are passionate about achieving it. We look to bring it to life in everything we do: the strategic choices we make, the brands we focus on, the type of innovations we bring to market and the programmes we run. Having this purpose makes the work we do each day more fulfilling for our people and drives us to higher levels of performance.

Our purpose also encompasses the role we play in the world. There is a social dimension to our work, in particular our programme to eradicate diarrhoea as a leading killer of children under five years old. This unique, multi-year commitment focuses everyone in RB on an issue where we can use our health and hygiene capabilities to real effect. Our financial contribution is important but we also apply our R&D resources to create products specifically for families around the world who cannot afford high-end solutions for preventing diarrhoea.

RB's betterbusiness strategy also includes setting challenging environmental objectives. We have set ourselves targets for reductions in carbon emissions and water use. As a highly innovative company we can use our new product pipeline to bring more responsible products to the market. These efforts have made us one of the top-ranked companies in the sector for corporate responsibility.

However, I am deeply sorry that an Oxy RB product in South Korea caused lung and respiratory injuries and deaths among its users. Oxy RB has taken responsibility for the part it played, along with other companies who supplied humidifier sanitisers. In July 2016, Oxy RB announced a full and fair compensation package for Category I & II Oxy HS victims categorised by the South Korean Government in its first two categorisation rounds. As of 31 January 2017, 97% of eligible victims are participating in this plan.

As Oxy RB strives to do the right thing in South Korea, we must also ensure that similar problems cannot arise in the future. We have therefore created a new position of Chief Safety, Quality and Compliance (SQC) Officer, reporting directly to me. Through this combined SQC organisation, we will focus on end-to-end safety: product and consumer safety, as well as the health and safety of our people, and our quality and compliance systems and processes. I am determined that RB will learn all the lessons we can from this tragedy, so we emerge a much stronger and better Group.

### **Delivering outperformance**

Market conditions were generally difficult in 2016. Economic growth was slow in developed markets and mixed in developing markets, with India expanding rapidly but major economies such as Brazil and Russia proving weak, and geopolitical and social issues affecting the Middle East and Turkey. Commodity prices, which had been favourable, have also started to rise.

RB is not immune to these challenges but our goal is to always deliver, no matter what the external environment. Our Net Revenue performance of 3% growth on a like-for-like basis, was affected by a combination of challenging markets, the HS issue in South Korea reducing our growth rate by 1% and an innovation within our consumer health portfolio which failed to meet our expectations. However, RB's virtuous earnings model delivered a further strong expansion in our Operating Profit Margin, while giving us the room to invest in category building initiatives, penetration programmes and new market entries.

Innovation plays an important role in our growth, with Dettol Squeazy, Mucinex Clear & Cool and Harpic Bathroom among the many new products contributing in 2016. However, there was a negative impact from the lower-than-expected uptake of the Scholl Amopé Wet & Dry express pedi, which we launched this year. We pride ourselves on high-quality innovation and have a culture that allows people to push ideas they are passionate about. This passion for ideas is the most important driver of innovation. While we are never happy when a launch fails, I firmly believe it is the sign of a healthy culture. Companies that never fail are companies that are not doing their best, since they avoid the calculated risks that outperformance demands.

### **The Mead Johnson acquisition**

The acquisition of Mead Johnson will mark a significant step forward in RB's journey as a global leader in consumer health; with the Enfa franchise already established as the global leader in the infant and children's nutrition category.

Mead Johnson brings significant R&D, quality, regulatory and specialist distribution capabilities. When paired with our existing expertise in consumer-centric innovation, scaling global brands and commitment to driving performance this will enable long-term value creation for the Group. (See more on pages 10 to 11).

### **Looking forward**

The next few years will be both challenging and exciting for RB. The challenges will come from world markets that are likely to remain tough. However, we see exciting possibilities for our business and aim to outperform categories whose long-term growth prospects remain robust.

We continue to position RB for a world where digital and technological advancements are changing how people live their lives, as well as how they connect with brands and look for solutions that can keep them healthier. At the touch of a button, consumers can now find the right medication for their symptoms. Offering tailored, innovative solutions for their everyday ailments is a huge opportunity for us.

At the same time, the rise of e-commerce is creating a borderless world, opening up new opportunities for RB. We already have major successes in this area, notably in China where more than 30% of our revenue this year was online. We intend to stay at the forefront as other developing countries go through this transformation.

Overall, we remain confident that our medium and long-term strategic choices are right, and will deliver Shareholder returns. In 2017, we are targeting like-for-like Net Revenue growth of 3%. For Adjusted Operating Margin, we reiterate our medium-term target of moderate margin expansion.

### **Rakesh Kapoor**

Chief Executive Officer  
20 March 2017

E-commerce China revenue this year was

**>30%**

of China's Net Revenue

Up from 25% of China's Net Revenue in 2015

### **Connected Health**

Connected Health is the interrelationship between digital technology, health and self care. The ability to bring these areas together has led to our breakthrough innovation and first-ever connected health product: Nurofen FeverSmart Temperature Monitor.

This innovation has been designed with young children in mind. Parents will be familiar with the concern experienced when a child is unwell with fever. Research shows that over 80% of parents find it hard to monitor a young child's temperature.

In response to this clear consumer need RB has launched FeverSmart. Placed under a child's arm the small, flexible monitor sends real-time continuous temperature readings straight to the user's smartphone. Parents can track medicine doses and receive alerts for when their child's temperature spikes; helping parents manage their child's temperature.



# Our ongoing support in South Korea



The Humidifier Sanitiser (HS) issue, while dating back to events in South Korea from the late 1990s, required significant senior management attention in 2016.

RB remains committed to putting victims first in working to resolve this tragedy.

In 2001, RB acquired Oxy, a South Korean company. Oxy RB manufactured and sold household products, including HS products which accounted for less than one half of one percent of their sales. By 2011, Oxy RB was one of about 13 suppliers of HS products in the South Korean market. RB did not sell HS products in any other market. Oxy RB continued to sell the HS products in South Korea for the next ten years. In 2011 the Korean Centre for Disease Control (KCDC) determined that HS products might be responsible for serious respiratory diseases, including fatalities. Oxy RB immediately began to withdraw its HS products.

Oxy RB was the subject of legal action from the Government and sought to defend itself in the courts. It took the same approach in defending against civil claims which began to arise from individual victims. Over the period to March 2016, 63 of the 79 cases (80%) brought by Category I & II Oxy HS victims in Rounds 1 and 2 against the company were settled through a court-mediated or private settlement process.

We recognised in April 2016 that this court-led process was taking too long, and was not fair on victims. From this point, Oxy RB publicly apologised to all individuals and their families who had suffered lung injury as a result of its HS product, and committed to deliver a compensation plan. In July 2016, it announced a full and fair compensation package for Category I & II Oxy HS victims categorised by the South Korean Government in its first two categorisation rounds. As of 31 January 2017, 97% of eligible victims are participating in this plan.

We recognise that it took too long for Oxy RB to move from a legally driven approach and to bring forward a compensation plan. We deeply regret this delay. We are proud of the leadership position that Oxy RB has taken since April 2016 in working to resolve this tragedy.

Transparency is key in our response to the HS issue. We have included all the details of our actions on our website.

We recognise that it will be a long road to recover the trust of South Korean consumers. We also understand that all the work Oxy RB can do pales in comparison to the hardship and irreparable harm suffered by HS victims. Oxy RB cannot undo the past but can work to make amends. Today its focus is on these victims and ensuring they have recognition and fair compensation for the damage caused.

We believe that victims of lung injury from HS products should be provided with a single, consistent and readily accessible source of compensation which also covers uncertain long-term medical needs, regardless of which products they used. We believe this requires a single, industry-wide approach to compensation, funded fairly by all the contributors to this tragedy.

In 2017, Oxy RB will work hard to engage other stakeholders, including the South Korean Government and other manufacturers and ingredient suppliers, to try to find such a long-term and sustainable industry-wide solution for all Category I & II HS victims in the third and fourth rounds of the categorisation process. Resolving this issue is a matter of urgency, and requires everyone to participate and learn from their mistakes.

### **RB today**

Drawing on the lessons of this tragedy RB is strengthening further its approach to consumer safety. Actions are the real demonstration of putting safety at the centre of operations. We have taken significant steps including the creation of a Board committee on product safety, compliance and ethics which will ensure that product safety is further embedded across the organisation.

We have created a new role of Chief Safety, Quality and Compliance (SQC) Officer, reporting directly to the CEO. The Quality, Consumer Safety, Employee Safety, Sustainability and Product related compliance programme teams will report into this new structure and will support the work of the Board in relation to safety, quality and compliance matters.

Our Compliance Management Committee is undertaking a review of safety and quality management systems; and working on the continued rollout across the world of SQC activities, including those related to evidence, safety and medical oversight.

For our part, RB is a learning organisation and we will ensure our structure and governance continues to put consumer safety at the core.

The Board has also engaged law firm Linklaters LLP to advise the Board on the Group's management of the HS and safety-related issues.

# How our business works

## Our business model

1

We are passionate about using our strengths...

Our people, culture and brands differentiate us from our competitors.

### People and culture

RB has a unique culture, which harnesses our people's **passion** and allows them to make a real difference (pages 36 to 37).

### Powerbrands

We have 19 Powerbrands, which are leaders in their markets and offer faster growth (page 26).

Net Revenue % from Powerbrands

>80%

Our business model also depends on the following **inputs** for its success:

### Skillset

We have proven clinical R&D capabilities and an agile organisation

### Infrastructure

We have well-invested manufacturing sites, R&D laboratories and logistics centres

### Relationships

We develop strong, value-creating relationships with customers, consumers, suppliers and communities

### Environment

We use natural raw materials, water and energy

### Financial capital

We are financed by Shareholders' equity, debt and retained profit

2

to power our business...

### Our markets

#### ENA

Europe (including Russia/CIS and Israel), North America and Australia/New Zealand

Net Revenue

£6,410m

LFL growth +1%

#### DvM

Africa, Middle East (excluding Israel), Turkey, Asia (excluding Russia/CIS) and Latin America

Net Revenue

£3,070m

LFL growth +8%

#### Food

We run Food as a standalone business. Its brands include French's, the leading mustard brand in the US

Net Revenue

£411m

LFL growth +5%

### Our categories

#### Health

Covers treatment products for everyday issues such as pain and flu, but also wellness products in sexual wellbeing, footcare, vitamins and supplements

Net Revenue

£3,332m

LFL growth<sup>1</sup> +4%



#### Hygiene

Personal and home hygiene products, which provide the foundation for healthy living

Net Revenue

£4,066m

LFL growth<sup>1</sup> +4%



#### Home

Brands that make the home environment harmonious and less stressful, so that families are happier every day

Net Revenue

£1,828m

LFL growth<sup>1</sup> -1%



#### Portfolio (including Food)

Includes our laundry and fabric softener business, as well as our Food brands

Net Revenue

£665m

LFL growth Flat



<sup>1</sup> Definitions of non-IFRS measures and their reconciliations to IFRS are shown on page 45

3

## and pursue our purpose...

### Megatrends

Powerful long-term trends are influencing our markets, from longer lives to the relentless rise of technology and e-commerce.

 See more on pages 18-19

These trends are increasing demand for our products and changing what society and Shareholders expect from companies such as RB.

4

## so we drive outperformance

### Outcomes

Our strategy and operating model push us to outperform, so we create value for all our stakeholders.

#### People

Exciting and challenging careers, with excellent rewards for outstanding performance

**35,000**  
challenging careers

#### Consumers

Safe, high-quality products that lead to healthier lives and happier homes

**19**  
market-leading Powerbrands

#### Shareholders

Strong operational and financial performance, so we can grow dividends and return funds

**153%**  
TSR since adoption of new strategy in 2012

#### Customers

Leading brands that grow the category, and drive customer value in all relevant channels



#### betterfinancials

How we outperform, through our focus on our brands, markets and creating a digitally connected company

#### bettersociety

How we support our communities, develop our people, and drive quality and safety in all we do

#### betterenvironment

How we reduce our environmental impact and ensure we source materials responsibly

### Operating model

Our three-part model enables us to rapidly scale up our ideas and offer them to consumers around the world

#### Create

Create innovative products that meet consumers' under-served demands

#### Scale

Scale our innovations to make them as global as possible

#### Activate

Activate our ideas through our customer relationships, while driving consumer demand through offline and digital channels

 See more on pages 20-21

#### Communities

Improved health and hygiene standards, through our products and social programmes

**365m**  
people reached with health and hygiene messaging.

# The megatrends driving our business

## Our world is changing

Powerful trends are changing what consumers, society and investors demand from us. Here we explain those trends and how they are shaping our strategy.

### The consumer landscape is changing



### We are living longer

Life expectancy is rising around the world. The number of people aged over 60 is expected to increase from 900 million in 2015 to 1.4 billion in 2030 and 2.1 billion by 2050. Ageing populations put ever-greater demands on healthcare services and motivate people to find new ways to promote wellbeing and wellness.

People over 60

**1.4bn** in 2030  
Up from 900m in 2015

Due to medical advances life expectancy is increasing

### Our incomes are rising

The global middle class currently numbers 3 billion people. By 2021, this could surpass 4 billion – more than half the world's population – with the growth coming from developing markets. This means people will have more money after meeting their essential needs, spurring demand for health and hygiene products. Infrastructure improvements, such as new sanitation systems, will further increase demand.

## We are more proactive about health

Longer lives and rising incomes are encouraging more of us to look after ourselves and prevent health issues before they occur, for example through better hygiene and healthier home environments. We believe that self-care is the new frontier of healthcare.

## Our lives are busier

The pace of modern life means many people feel busier than ever. This encourages consumers to use easily accessible over-the-counter health products, rather than wait for a doctor's appointment, to seek out the most effective hygiene product, and to look for personal grooming and beauty treatments they can use at home.

## We are always connected

Consumers are making ever-greater use of online resources and e-commerce to manage lifestyles and healthcare. Sites such as WebMD and Facebook allow us to learn about health and wellbeing, interact with brands and exchange information. Consumers around the world are increasingly buying online, giving companies data about their preferences that drive tailored offerings and increase engagement.



### How this links to our strategy

## RB's response to the changing consumer landscape

By creating innovative Health, Hygiene and Home products, we help consumers to protect and improve their health and wellbeing, as they enjoy longer and more prosperous lives. Our Powerbrands strategy gives consumers brands they can trust to meet these needs.

Our Powermarkets strategy addresses the countries with the fastest growing demand for our products, while our organisation strategy helps us to scale our innovations and get them quickly to the consumers who need them.

We are also investing in our e-business and data capabilities, to respond to the shift to buying online, and developing connected products, such as the new Nurofen Feversmart digital thermometer which links to the consumer's smartphone.

## Our environment is changing



## Healthcare costs are rising

Access to healthcare is a basic human right. Current systems are straining due to rising populations, longer lives and shortages of healthcare professionals. Scientific advances offer more solutions for health needs but at a higher cost. Society therefore needs more cost-effective ways to help consumers protect and manage their health.

## New health risks are emerging

As populations urbanise, pollution is becoming an increasing risk to people's health. We are also seeing diseases emerging, such as the Zika virus, which is spread by mosquitoes and other pests.

## Regulation is changing

Governments are demanding responsibility and accountability from all stakeholders, as the evolving consumer landscape exposes gaps in regulations covering areas such as environmental stewardship, patient safety and data protection. Companies must innovate to meet changing laws and regulations, adapting their products to exclude ingredients that may affect safety or the environment and reducing their environmental footprint. This favours forward-thinking companies that strive for transparency and continuous improvement.



### How this links to our strategy

## RB's response to the changing environment

Our Health products provide a cost-effective way for consumers to treat a range of ailments, relieving pressure on health services. We continue to develop innovative responses to new health threats, such as our Dettol air pollution range of masks and our pest control products.

A key part of our organisation strategy is working to comply with all laws and regulations, through our new Safety, Quality and Compliance function.

## Stakeholder expectations are changing

Companies' licence to operate now encompasses stakeholder expectations that go beyond the letter of the law and regulations. To be truly sustainable, companies must continuously improve their environmental and social performance.

One particularly strong trend that companies such as RB can help to address is the growing focus on tackling easily preventable deaths and illness. For example, each year around the world there are over 94,000 deaths from sexually transmitted diseases, over 526,000 children under the age of five years die from diarrhoea, and malaria kills over 439,000 people. All these deaths can be prevented.



### How this links to our strategy

## RB's response to changing stakeholder expectations

Our **betterSociety** and **betterEnvironment** strategies ensure we work in the way expected of us by our stakeholders and society as a whole.

# Our operating model explained

We develop, acquire, produce, distribute and promote consumer products in the growing Health, Hygiene and Home categories.

Our operating model has three key elements, which enable us to create value for all our stakeholders, but primarily for our consumers, our people and our Shareholders.

# Our operating model in action



## → Wave toilet block

Keeping the toilet clean and fresh is an everyday struggle for consumers. We homed in on this need by developing the Wave toilet block. Available under the Harpic, Cillit Bang and Lysol brands, it delivers best-in-class fragrance and cleaning cues, lasting up to four weeks. The product also looks great, with a sleek, colourful design.



## → Veet Sensitive Precision

We realised that women were not fully satisfied with products for removing hair in sensitive areas. They saw them as painful or inconvenient, and lacking the precision and gentleness they wanted. We recognised this as an opportunity for Veet to play in a new area of the market, driving brand penetration.

## Create

Innovation is in the DNA of our Company. By staying close to our consumers, we learn about their needs and demands. We generate a range of ideas to meet those needs, which we translate to differentiated products with blockbuster potential, driving greater consumer loyalty, faster growth and better margins. Sustainability is built into our process, for example to minimise carbon emissions and water use. Our culture of innovation and pushing boundaries on new-to-world solutions means that occasionally we also fail, such as with the Scholl/Amopé Wet & Dry express pedi. We are as comfortable with these rare failures as we are excited by our many successes.

## Scale

Centralised procurement leverages our purchasing power, while sourcing responsibly. We manufacture most Powerbrand products in-house, with third parties producing some other brands for us. Quality control is stringent, particularly in healthcare. Our customer-facing supply services organisation aims for best-in-class delivery and customer satisfaction. To rapidly scale our innovations, we identify a lead market and our Power of 1 team develops global launch packages which we can take to all markets. Our financial strength also allows us to acquire brands, which we quickly integrate into our operating model.

## Activate

Our brands and innovations drive footfall and online traffic for our retail customers, encouraging them to stock our products. We work with major retailers to promote our products and grow the category, supported by our worldwide commercial operations, and use of distributors to reach smaller retailers. We invest heavily behind our brands, through advertising, social and digital media, and consumer education. Our virtuous earnings model enables us to fund this investment, grow revenues and increase our margins.

### Wave toilet block

#### → Create

Having identified the need for a superior toilet block, we partnered with a third party to develop and improve their existing product. The toilet block was launched just six months after conception in France, Germany, US, Turkey, UK and Benelux. This required no capital expenditure for RB and demonstrated our speed to market.

### Wave toilet block

#### → Scale

Sales far exceeded expectation following the initial launch. Performance was closely monitored and lessons learned were used to scale further into new markets for toilet blocks, such as Russia. Close collaboration across departments and with our partners enabled us to rapidly increase capacity. We are poised for a truly global rollout in 2017.

### Wave toilet block

#### → Activate

Wave's in-market performance, combined with our years of experience, helped us to create an approach tailored to the needs of each specific market. Approved budgets have been created for each country with regard to promotional/media spend for the toilet block, to continue to increase sales of Wave during 2017.

### Veet Sensitive Precision

#### → Create

Our product idea was distinctive: a versatile electric trimmer, tailored to gently trim and precisely style hair in areas such as the face, bikini and underarms. We test marketed it in Germany, which proved the high penetration potential of mass-distributing the device and maximising its visibility and accessibility.

### Veet Sensitive Precision

#### → Scale

Close collaboration across departments, great supplier management and constant monitoring of test markets enabled us to rapidly ramp up capacity, as sales exceeded expectations. We addressed issues identified by online reviews through continuous improvement and, in just six months, we rolled out the trimmer in more than 20 markets.

### Veet Sensitive Precision

#### → Activate

By continually gathering lessons, identifying success factors and correcting issues, we achieved excellent execution across our markets. We used our keen understanding of the '4Ps' (product, price, promotion and place), and created strong communication assets to maximise consumer awareness, including activation guidelines for vloggers and bloggers.

# Strategic overview

## Our betterbusiness strategy

### betterfinancials

The better**financials** element of our strategy has four pillars, which focus us on faster-growing markets and categories and enable us to outperform.



## Strategic approach

### Organisation

Organising our business into two geographical areas helps us to allocate resources and scale innovations. We continually evolve our organisation, to ensure fast decision making and execution.

### Powermarkets

We have 16 Powermarkets. These are the markets which have the highest absolute growth potential for us and where we see the greatest ability to win. They are weighted towards developing markets which have greater economic growth, rising middle classes and more opportunities to increase market penetration.

### Powerbrands

We invest heavily in our focused portfolio of 19 market-leading Powerbrands. They provide over 80% of our revenue and offer higher revenue growth and margins.

### Virtuous earnings model

We focus on higher-margin initiatives and rigorous control of our costs. Through our virtuous earnings model, this funds our investment in our brands, capabilities and development, and enables us to deliver operating margin expansion.

## What we said

- ④ Deliver +4-5% LFL Net Revenue growth, through focus on Health and Hygiene and by increasing distribution and penetration
- ④ Achieve moderate Adjusted Operating Margin expansion
- ④ Drive further benefits from Project Supercharge
- ④ Continue to create a connected company, through investments in our systems, e-business capabilities and data analytics

## What we did

- ④ LFL Net Revenue growth (+3%) short of target due to the HS issue in South Korea and the Scholl/Amopé Wet & Dry express pedi failing to deliver to expectation
- ④ Outperformed our Adjusted Operating Margin expansion target (up 130bps)
- ④ Made further progress towards our Net Revenue targets for DvM and Health and Hygiene (see pages 38 to 41), and on Project Supercharge, we have completed the majority of the programme of our planned £150 million cost savings over three years
- ④ Formed a Safety, Quality and Compliance (SQC) team (see page 24)
- ④ Established a dedicated e-business function to accelerate online revenues (see page 24)

## What we will do

- ④ Continue to invest heavily behind our Powermarkets and Powerbrands, particularly in Health and Hygiene, to increase penetration and distribution
- ④ Advance our SQC processes and practices, with the aim of moving from good to great performance

## KPIs

## Organisation

**LIKE-FOR-LIKE NET REVENUE GROWTH<sup>1</sup>**  
Growth in Net Revenue, excluding the impact of changes in exchange rates, acquisitions and disposals

Category:	Medium-term growth:	Target
Health	4–6%	Outperform
Hygiene	3–5%	Top end
Home	1–2%	In line

**OPERATING MARGIN EXPANSION<sup>2</sup>**  
The increase in the Adjusted Operating Margin

**Medium-term target:  
Moderate Adjusted Operating Margin<sup>2</sup> expansion**

## Performance

**+3%**

2013	+5%
2014	+4%
2015	+6%
2016	+3%

**11%**  
Total Net Revenue growth

## Commentary

2016 was a good year in which we achieved broad-based growth and excellent margin expansion, despite challenging markets and an unusual number of issues.

**+130bps**

2013	+20bps
2014	+160bps
2015	+210bps
2016	+130bps

## Commentary

Adjusted Operating Margin was 28.1% due to strong Gross Margin expansion and fixed cost containment.

## Powermarkets

We operate in  
**16**  
Powermarkets

**DvM**  
Net Revenue generated in our DvM Area, as a percentage of total Net Revenue

**Target to 2020:  
40%<sup>1</sup>**

**31%**

2013	31%
2014	30%
2015	31%
2016	31%

## Commentary

DvM delivered LFL growth of 8% with strong penetration gains from Dettol and Harpic underpinned by innovation and consumer education programmes.

Note: 2013 number restated to reflect DvM Area

## Powerbrands

We have  
**19**  
Powerbrands

**HEALTH AND HYGIENE**  
Net Revenue generated by our Health and Hygiene categories, as a percentage of total Net Revenue

**Target to 2020:  
80%<sup>1</sup>**

**75%**

2013	70%
2014	72%
2015	74%
2016	75%

## Commentary

Health and Hygiene delivered LFL growth of 4%. The Health portfolio exceeded market growth rates (with the exception of Scholl/Amopé Wet & Dry express pedi). Hygiene growth was led by DvM growth of the Dettol and Harpic brands and the growth of Finish in ENA.

Please note: 2013 numbers have been adjusted to strip out RB Pharmaceuticals

<sup>1</sup> Excluding the impact of the proposed acquisition of Mead Johnson

<sup>2</sup> Definitions of non-IFRS measures and their reconciliation to IFRS measures are shown on page 45

## Strategic overview

# betterfinancials in action



## Organisation

We continued to develop our organisation in 2016, establishing new functions to support our growth and operations, while introducing further simplification and efficiency.

### Highlights 2016

- ④ Continued to benefit from two-area structure introduced in 2015, simplifying the scaling and activation of our initiatives (see Operating Review on pages 38 to 41)
- ④ Delivered further benefits from Project Supercharge, our cultural programme to simplify the organisation, targeting £150 million annual savings
- ④ Set up Safety, Quality and Compliance (SQC) team
- ④ Established new e-business function and digital centre
- ④ Continued to simplify and strengthen our IT function, by consolidating suppliers, data centres and help desks, and investing in cyber security

### What we're doing

#### Enhancing our safety, quality and compliance culture

Our new SQC team brings together health and safety, consumer safety, quality, compliance and sustainability, with the aim of strengthening and co-ordinating our capabilities. The team sets the agenda for the Group and reports directly to the CEO, giving these critical areas focus at the very top of the organisation.

#### Driving incremental growth online

In 2016, we established a dedicated e-business unit. It supports our in-country teams with their online offerings but crucially is also developing a centralised proposition for selling our products across borders. By building our relationships with e-distributors and partners such as Amazon, it aims to accelerate online growth for us.

#### Leveraging the power of data

Data analysis gives us essential insights into consumer needs. This year we opened a digital centre in Poland, employing around 40 specialists to give us better and faster data analytics. The new metrics and key performance indicators we can now produce will help us to become more agile and improve our speed of decision making.





## Powermarkets

In 2016, we made further strategic progress in our Powermarkets, with particular success in India and China.

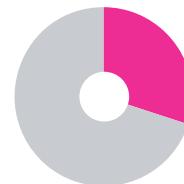
### Highlights 2016

- ⌚ Strong growth in DvM, with improved household penetration, and solid growth in ENA, held back by difficult conditions in Russia (see pages 38 to 39)
- ⌚ India was a major contributor to growth this year, fuelled by innovation and expanded distribution, despite a significant slowdown in Q4 caused by the demonetisation market disruption.
- ⌚ China grew rapidly, led by e-commerce
- ⌚ Acquired cornerstone investment in China Resources Pharmaceutical Group, China's largest over-the-counter (OTC) drugs manufacturer, and signed non-binding strategic cooperation agreement

### What we're doing

#### Setting the pace in e-commerce

E-commerce is a huge growth driver for us in China. As well as our own platform, we have strong relationships with major players such as Taobao and Alibaba, and e-distributors who put our products in around 1,000 online shops. This presence means online sales are now over 30% of our Net Revenue in China, with a target of 50% by 2020.



Online sales are over 30% of our business in China

■ Online sales China  
■ Non-online sales China

#### Succeeding with our strategy in India

We once again delivered rapid growth in India, with successful brand penetration programmes and marketing putting our products in the hands of ever more consumers. We also stepped up our visits to stores, with an extra 200 salespeople helping to significantly expand our distribution.

Dettol India continued to implement its five-year Banega Swachh India (BSI) programme promoting nationwide hygiene and sanitation among students



#### Working in partnership with Amazon

Our relationship with Amazon in the US is going from strength to strength. By analysing Amazon's traffic data and providing high-quality content that differentiates our products, we are increasing conversions and repeat visits, resulting in significant sales growth.

## Strategic overview

# betterfinancials in action

continued



## Powerbrands

We continue to benefit from our strategic focus on the Health and Hygiene categories and remain well positioned to outperform the long-term category growth rates.

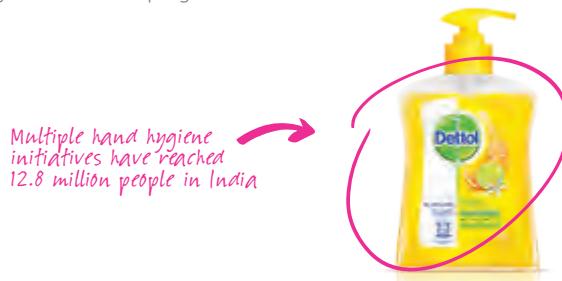
### Highlights 2016

- ⌚ Successfully grew in Health and Hygiene by focusing on penetration initiatives for our global brands (see case studies and Operating Review on pages 40 to 41)
- ⌚ Successful innovations contributed to growth, such as Durex Invisible extra thin condoms, Mucinex Fast Max Day/Night gelcaps and Dettol Gold, although newly launched Scholl/Amopé Wet & Dry express pedi underperformed, against a strong comparative for the brand in 2015
- ⌚ While short-term growth rates may fluctuate, our medium-term annual growth rate expectation for our categories is unchanged: Health 4-6%, Hygiene 3-5%, Home 1-2%

### What we're doing

#### Increasing penetration for Dettol

Increasing penetration has been key to Dettol's growth this year. From smaller sizes at lower prices in India to cost-effective super-sized soap bars in Nigeria, we offer the right size at the right price. We also raise awareness of the importance of hand hygiene, for example through sponsoring Handwashing Day and our hand hygiene education programme in India.



#### Raising demand through consumer education

Our point of market entry campaigns for Durex were very successful in 2016. By offering sex education to young people and helping them avoid unwanted pregnancies, we stimulated demand for our products. We also continued to innovate, expanding our sexual wellbeing offer with KY Duration, to help with premature ejaculation.

#### Growing the market for Scholl

We have increased penetration of Scholl significantly since 2013. In 2016, we launched Scholl Light Legs compression tights and GelActiv invisible insoles and inserts – all designed to provide superior comfort for tired legs and feet.



# Virtuous earnings model

Through our virtuous earnings model, we are able to fund investment in our brands, capabilities and development, so we drive revenue growth while increasing our operating margin.

## Progress

Our virtuous earnings model remained highly effective in 2016.

### Gross Margin

Gross Margin benefited from a beneficial sales mix, commodity cost tailwinds and cost optimisation initiatives.

+180bps

### BEI

We increased investment behind our brands by £63 million or 50bps of Net Revenue. Total investment was 13.2% of Net Revenue.

+£63m

### Adjusted<sup>1</sup> Operating Margin

The outcome was an increase in the Operating Margin of 130bps, to 28.1%.

+130bps

### Fixed cost

Fixed costs were little changed as a percentage of Net Revenue, as we invested in the business and Project Supercharge continued to deliver savings and efficiencies.

Flat

### LFL<sup>1</sup> Net Revenue

We grew Net Revenue by 3% on a like-for-like basis.

+3%

### Gross Margin

Our ethos is that the virtuous earnings model starts at Gross Margin. Gross Margin creates room in the Income Statement to fund investment and deliver Operating Profit growth. We drive Gross Margin expansion through our focus on higher-margin brands, which results in a superior sales mix, stronger pricing and by continuing to optimise our cost of goods sold, an ongoing process we call Project Fuel.

### Fixed cost

We invest appropriately behind our people, capabilities and infrastructure. However, we deliberately keep our organisation lean, encouraging our people to prioritise and avoid inefficiency and waste.

### Brand Equity Investment (BEI)

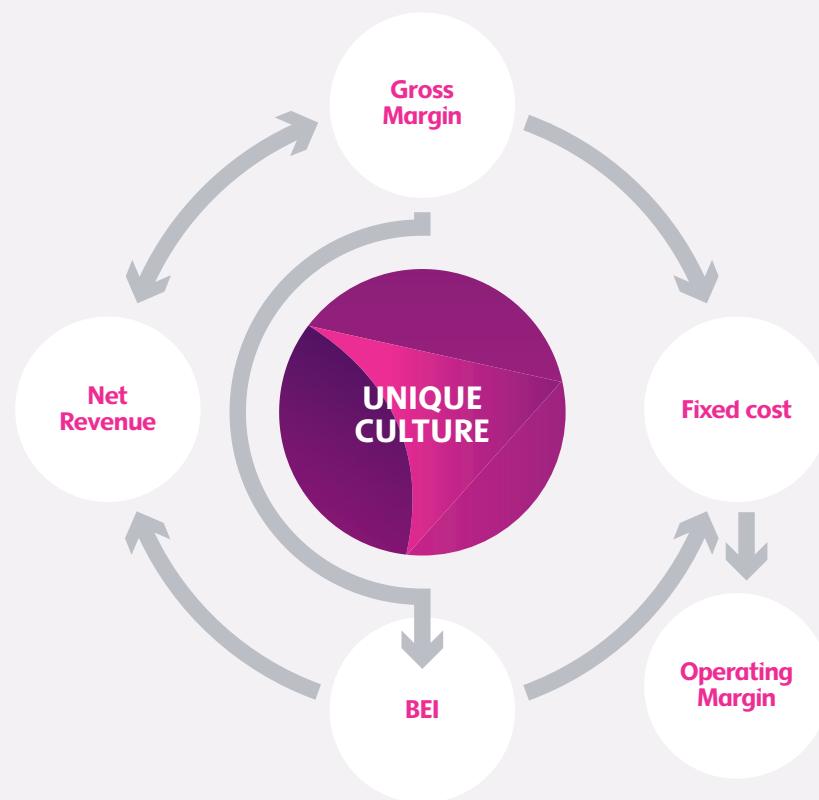
We focus our investment on consumer education and penetration activities, to build long-term brand equity. BEI includes our TV and print media spend, digital and social media investment and consumer and medical education.

### Net Revenue

BEI helps us to grow Net Revenue. We invest disproportionately behind our Powerbrands and in our Powermarkets, where our investment can have the greatest impact on the top line. Revenue from the sale of products is recognised when the risks and rewards of ownership of the products are passed to the customer.

### Operating Margin

Our Operating Margin is already best-in-class, but our virtuous earnings model means we can continue to expand our margins.



<sup>1</sup> Definitions of non-IFRS measures and their reconciliation to IFRS measures are shown on page 45

# Strategic overview

## Our betterbusiness strategy

### better**society**

Better**society** is about how we meet our responsibilities in the workplace and in our communities, as well as in relation to our products.



Read more in our Sustainability Report [sustainabilityreport2016.rb.com](http://sustainabilityreport2016.rb.com)



## Strategic approach

### Workplace

We attract great people, give them global experiences in a unique culture, and inspire them with stretching performance-based rewards. We look after our people and contractors through high health and safety and human rights standards in addition to our Code of Business Conduct. We expect suppliers to take similar care.

### Healthier lives

How we improve Health and Hygiene behaviour through our products, brand educational programmes and corporate social investment.

### Products

We advance health, consumer safety and environmental protection by optimising our products and aim to increase the proportion of our revenue that comes from more sustainable products.

## What we said

- Continue to improve our health and safety performance at all our sites
- Advance our gender diversity initiative, Project DARE (Develop, Attract, Retain, Engage talented women)
- Promote health and hygiene messages and continue to invest to deliver social impact
- Grow the proportion of revenue from more sustainable products
- Further increase transparency about the ingredients in our products

## What we did

- Continued to reduce our lost working day accident rate and further restructured our health and safety compliance programmes
- Focused on gender balance, including Project DARE, improved performance reviews and increased support to international transferees and their partners
- Relaunched our Human Rights and Responsible Business policy and continued to work with stakeholders to address human rights issues
- Reached 365 million people through our health and hygiene messages and invested £8 million in social impact programmes
- Increased proportion of Net Revenue from more sustainable products to 13.2%
- Started reviewing our Restricted Substances List (RSL), increased ingredient transparency and accelerated the phasing out of microbeads

## What we will do

- Launch global standards for health and safety, to set our minimum expectations for the highest risk areas across all our sites
- Focus on diversity, talent, succession and performance
- Develop our networks, to scale our health and hygiene programmes globally
- Continue to increase revenue from more sustainable products
- Complete the review of our RSL and continue to increase ingredient transparency
- Deliver further improvements to our human rights due diligence and remediation processes

## KPIs

### Workplace

#### GENDER DIVERSITY

The percentage of women in our global workforce.

##### Target:

Expand our focus of diversity and talent by improving the retention rates of women from managers to senior managers.

#### LOST WORK DAY ACCIDENT RATE (LWDAR)

The number of workplace accidents at manufacturing, warehouse and R&D sites, resulting in at least one day of lost time, per 100,000 hours worked.

##### Target to 2020: continued reduction in the LWDAR

### Healthier lives

#### PEOPLE REACHED WITH HEALTH AND HYGIENE MESSAGING

The total number of people encouraged to improve their health and hygiene behaviour, as a result of our brands' educational programmes.

##### Target to 2020: 400m

#### SAVE A CHILD EVERY MINUTE

The amount RB committed to the programme during the year, including through employee fundraising.

##### Target to 2020: remove diarrhoea as one of the top killers of children

### Products

#### NET REVENUE FROM MORE SUSTAINABLE PRODUCTS

The proportion of total Net Revenue derived from product innovations with significant sustainability benefits, such as a reduction of 10% or more in CO<sub>2</sub> emissions, water use or virgin packaging material per dose.

##### Target to 2020: 1/3 of Net Revenue

## Performance

### 20%

women in "Top 400" Senior positions

#### Commentary

New KPI for 2016.

### 0.071

#### Commentary

Further reduction in LWDAR delivered in 2016.

### 365m

#### Commentary

Reached a further 128m people during 2016.

### £8.0m

#### Commentary

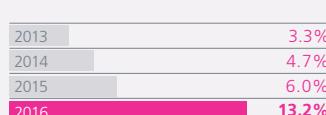
An additional £1.5m provided to Save the Children during 2016 vs 2015.

### 13.2%

of Net Revenue

#### Commentary

More than double the Net Revenue from more sustainable products since last year, amounting to over £1 billion.



## Strategic overview

# better society in action



## Workplace

In 2016, we made further progress with our people strategy, reinvigorated our health and safety approach, relaunched our Human Rights and Responsible Business policy and continued to work with stakeholders to address human rights issues.

### What we're doing

#### Our people

Improving gender balance and female leadership development, engagement and retention were a major focus in 2016. We continued to implement Project DARE (Develop, Attract, Retain, Engage talented women), introduced initiatives such as the Accelerate leadership programme for women, and enhanced support for women on maternity leave. We also focused on unconscious bias and inclusive leadership. Enhancing performance reviews was another key project. We helped line managers to have inspiring and meaningful conversations with team members, giving employees clarity about their performance, their impact and how they can develop. This is improving both engagement and performance. International assignments are key to our development model and we increased support for international transferees and their partners.

The percentages of female members in the Group's director, senior manager and all employee populations at 31 December 2016 were 27%, 20% and 42% respectively. The Group has designated the members of its "Top40" and "Top400" populations as RB's 'senior managers' for the purpose of the gender split disclosure required by the Companies Act 2006. Of Board Directors, eight were male and three female, of senior managers, 346 were male and 86 female, and 15,681 of all employees were male and 11,430 female. There is a variance in total employee numbers from those reported in Note 5 on page 119, in respect of contracted labour for which gender split information is not available.

## Human rights

We recognise our responsibility for respecting human rights wherever we operate. In 2016, we relaunched our Human Rights and Responsible Business policy, reinforcing our commitment. We continued to work with forums such as AIM-Progress, to promote responsible sourcing and sustainable production, and worked with suppliers to understand their performance in areas such as managing labour, health and safety, environment and business integrity. We also provided compulsory human rights training to RB's site management, global procurement and supply services DvM teams, and engaged with suppliers through workshops and other initiatives. In addition, we conducted a review against the UN Guiding Principles on Business and Human Rights, and identified opportunities to improve our due diligence and remediation processes.

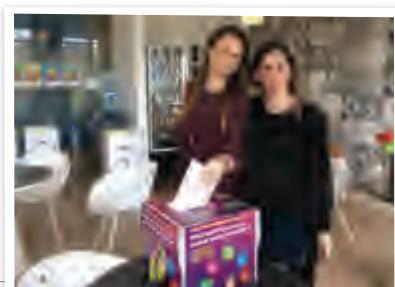
## Health and safety

Health and safety is a business imperative. Since 2006, our robust approach has reduced our lost working day accident rate (LWDAR) by 79% and cut the rate each year since 2012. Despite this, we are deeply saddened by the deaths of two contractors in 2016, at an RB manufacturing site in Pakistan. Our investigation and response has contributed to a further restructuring of our health and safety compliance programmes. We have strengthened our global standards and introduced Regional Health & Safety Compliance Managers. They will add rigour to annual audits across sites and increase training for our employees. New global standards will also set our minimum expectations in the highest-risk areas across all our sites. At our manufacturing sites, we will continue to develop an Environment, Health & Safety (EHS) Competence framework for managers, supervisors and EHS professionals.

Reduction in our LWDAR since 2006:

79%

More than 700 female colleagues took part in DARE forums called Lean in Circles





## Healthier lives

We continued to promote healthier lives, reaching more people with our health and hygiene messaging and supporting the Save a Child Every Minute campaign.

### What we're doing

#### Brand purpose

We continued to deliver health and hygiene awareness and education programmes to improve people's lives. Many of our programmes are linked to our brands, such as Durex, Mortein and Dettol. We aim to reach 400 million people by 2020. So far, we have reached 365 million since 2013. This includes 120 million through hygiene and sanitation programmes, 217 million with sexual health messaging and 27 million with mosquito-borne disease education programmes.



#### Social investment

This year, we invested £8 million through our Save a Child Every Minute programme, to stop children dying from preventable diseases such as diarrhoea to build toilets to discourage open defecation and to educate communities on hygiene habits. Our social impact through this programme benefited more than 1.5 million people in 2016.



## Products

We increased revenue from more sustainable products, grew the proportion of more sustainable products in our pipeline and revitalised our approach to product safety.

### What we're doing

#### Innovation

We further improved the sustainability profile of some of our biggest selling brands, for example through reducing packaging and cutting associated emissions and reducing water consumption. This helped us to more than double our Net Revenue from more sustainable products to over £1 billion.

**13.2%**

of Net Revenue from more sustainable products

#### Stewardship

In 2016, we started a full review of our Restricted Substances List, which ensures we have a consistent global approach to ingredients of concern. We continued to increase ingredient transparency, with 66% of our Net Revenue from products for which we publish ingredients lists. We also accelerated our commitment to phase out microbeads in our personal care products, recognising their negative effect on the marine environment.

# Strategic overview

## Our betterbusiness strategy

### betterenvironment

The betterenvironment element of our strategy sets out how we minimise emissions, water use and waste, and ensure we source responsibly.



Read more in our Sustainability Report [sustainabilityreport2016.rb.com](http://sustainabilityreport2016.rb.com)



## Strategic approach

### Greenhouse gas emissions

We reduce our emissions through manufacturing process improvements, energy efficiency programmes, investing in renewable technologies and procuring electricity from renewable sources. We also consider how we can reduce the carbon footprint of our products during our innovation process.

### Water

We seek to reduce our products' water impact throughout their life cycle, from raw materials sourcing to the way they are manufactured, used and disposed of. We also consider how we can reduce our water consumption in manufacturing facilities especially for water scarce regions.

### Waste

We look to reduce our manufacturing waste. We have created a culture of zero waste and seek new waste-related revenue streams and disposal options. Our aim is for none of our waste to go to landfill.

### Sourcing

We believe in sourcing our natural raw materials responsibly. Our policy defines the minimum standards expected of our suppliers, while our responsible sourcing programmes focus on high-priority commodities, such as palm oil and latex.

## → What we said

- ④ Continue to reduce the carbon and water footprints of our products
- ④ Further reduce greenhouse gas emissions from our operations
- ④ Make further progress towards zero waste to landfill
- ④ Work towards all natural raw materials being responsibly sourced against our policy

## What we did

- ④ Successfully reduced our total greenhouse gas (GHG) emissions per unit of production
- ④ Little change in our carbon footprint since 2012 due to how our business has grown across our product portfolio and key markets
- ④ Our water footprint has reduced over time and we have invested in product innovation
- ④ Further reduced water use per unit of production
- ④ Invested in reusing and recycling waste water, and in waste water treatment
- ④ Achieved our 2020 waste reduction goal ahead of schedule, strengthened our recycling processes and further improved our product packaging
- ④ Further increased traceability within our palm oil supply chain and successfully started three smallholder farmer programmes. Continued to engage with suppliers to ensure materials are sourced responsibly against our policies

## What we will do

- ④ Look for further opportunities to reduce GHG emissions across our manufacturing sites
- ④ Work across our value chain to further explore opportunities to reduce the water impact of our products
- ④ In our manufacturing sites we will identify ways to reduce, reuse and recycle water, and invest in waste water treatment facilities and monitoring systems
- ④ Continue to drive towards zero waste to landfill, with an emphasis on finding new ways to reuse and recycle waste
- ④ Further develop our palm oil programme, focusing on increasing traceability within our supply chain and the implementation of transformation programmes. We will increase human rights due diligence for palm oil

## KPIs

### Greenhouse gas emissions

#### GHG EMISSIONS PER UNIT OF PRODUCTION

The percentage reduction in GHG emissions per unit of production, against our 2012 baseline.

**Target to 2020: 40% reduction**

#### CARBON FOOTPRINT PER DOSE OF PRODUCT

The percentage reduction in our total carbon footprint per dose of product manufactured, against our 2012 baseline.

**Target to 2020: 1/3 reduction**

### Water

#### WATER USE PER UNIT OF PRODUCTION

The percentage reduction in total water consumption per unit of production against 2012 baseline.

**Target to 2020: 35% reduction**

#### WATER IMPACT PER DOSE OF PRODUCT

Total water used during the product's entire life cycle, from material sourcing to disposal or recycling, adjusted to reflect water scarcity at each stage, and divided by the number of product doses manufactured.

**Target to 2020: 1/3 reduction**

### Waste

#### FACTORIES SENDING ZERO WASTE TO LANDFILL

Percentage of our factories achieving zero waste to landfill status, including both hazardous and non-hazardous waste.

**Target to 2020: 100% reduction**

#### MANUFACTURING WASTE PER UNIT OF PRODUCTION

The percentage reduction in manufacturing waste per unit of production, against our 2012 baseline.

**Target to 2020: 20% reduction**

## Performance

**(25.0)%**

2013	(3.6)%
2014	(7.8)%
2015	(13.8)%
2016	(25.0)%

#### Commentary

A further 13% reduction in GHG emissions per unit of production in 2016 vs 2015.

**0%**

2013	(7)%
2014	(3)%
2015	+1%
2016	0%

#### Commentary

Reducing carbon footprint per dose of product remains challenging.

 Read more on page 35

**(31.8)%**

2013	(18.9)%
2014	(24.8)%
2015	(29.9)%
2016	(31.8)%

#### Commentary

A further 2.6% reduction in water per unit of production in 2016 vs 2015.

**(6)%**

2013	(9)%
2014	(2)%
2015	(9)%
2016	(6)%

#### Commentary

A 6% reduction since 2012.

**97%**

2013	48%
2014	74%
2015	89%
2016	97%

#### Commentary

All except for one factory is now zero waste to landfill.

**(19.2)%**

2013	(2.7)%
2014	(6.5)%
2015	(14.4)%
2016	(19.2)%

#### Commentary

A further 5.5% reduction in waste per unit of production in 2016 vs 2015.

## Strategic overview

# better environment in action



## Our manufacturing

We made further progress with our efforts to reduce GHG emissions, the amount of energy and water we use in manufacturing, and the waste we produce.

### What we're doing

#### Greenhouse gas emissions

Energy use is a major source of our carbon footprint and we have focused on using renewable energy and reducing consumption. In 2016, we implemented new energy programmes across our manufacturing sites. We made our biggest investment in renewables to date, installing a 2.5MW solar energy system at our Belle Mead factory in New Jersey. We purchased renewable electricity at our manufacturing sites in Derby and Hull (UK), Nowy Dwor (Poland), St Peters and Belle Mead (US). This helped to decrease overall carbon emissions by 7.8% tonnes globally. We also invested in low-carbon technologies. The Nowy Dwor plant installed a free cooling module that uses external air to cool manufacturing operations, while our St Peters plant collaborated with the Materials Lifestyle Management Company to transform our waste into low carbon fuel.

In 2016, our GHG emissions from our entire operations, including manufacturing, R&D, offices and distribution centres, were made up of:

- Scope 1: 80,321 tCO<sub>2</sub>e (2015: 79,502) – emissions from combustion of fuel in RB facilities.
- Scope 2: 180,497 tCO<sub>2</sub>e (2015: 214,586) – emissions from energy supplied to RB such as electricity, heat, steam or cooling.

Total GHG emissions from Scope 1 and Scope 2 emissions in 2016 were 260,818 tCO<sub>2</sub>e (2015: 294,087). We calculate our emissions intensity per unit of production, which equated to 0.0344 tCO<sub>2</sub>e in 2016 (2015: 0.0389 tCO<sub>2</sub>e).

Note: Our GHG data includes all emissions from operations covered by the Group Financial Statements for which we have operational control. We include emissions for businesses we acquire in the first full calendar year of our ownership. We calculated CO<sub>2</sub>e emissions using internationally recognised methodologies from the Greenhouse Gas Protocol and International Energy Authority (IEA). Scope 2 GHG emissions reported in 2016 are net emissions which equals gross emissions minus emissions from renewable electricity certificates purchased (36,814.89t).

## Water

We reduced water consumption by 2.6% across our operations in 2016 vs 2015. We have improved metering systems in our plants, to better understand where we can reduce water use, and invested in initiatives to deliver reductions, including reusing reject water in cooling towers and chillers.

Using water in our production processes and for cleaning creates waste water, which we treat and clean before we release it from our sites. All our sites must comply with local legislation and monitor water discharge parameters. In 2016, we strengthened compliance by setting water management and waste water discharge standards across all our global manufacturing sites. We have also invested in our facilities, including a new waste water treatment plant at our site in Cali, Colombia.

## Waste

Our Zero Manufacturing Waste to Landfill Challenge encourages sites to find new ways to divert waste from landfill. It has helped us to make significant progress and in 2016, 46 of our sites sent zero waste to landfill, with the remaining one facility having clearly defined plans to meet the target by 2020. During 2016, the average waste sent to landfill across our factories was less than 1%, which translates to a reduction of over 22,570 tonnes of hazardous and non-hazardous waste being diverted from landfill since 2012.

In 2015, we increased our waste reduction goal to 20% by 2020. We continued to lower our waste production throughout 2016 and given our strong progress, we have further increased the target to 30% by 2020 (against a 2012 baseline).



## Our products

We continue to focus on reducing GHG emissions and water use for our products, across the value chain through product innovation although savings made are offset by impacts at the point of consumer use.



## Responsible sourcing

We continue to focus on engaging with our suppliers, increasing levels of traceability and ensuring that our raw materials are sourced responsibly, in line with our policy.

### What we're doing

#### GHG and water footprint for products

Our carbon footprint per dose of product is broadly unchanged since 2012. While we have made good progress in the areas under our control, consumer demand for products with high carbon intensity (especially in hygiene) is offsetting reductions elsewhere. Water use per dose has decreased since 2012. We are developing water efficient products such as Dettol Squeezy and are working to see how we can further reduce impacts in the largest part of our footprint – consumer use of our products.

### Packaging waste

We continually look to reduce, reuse and recycle our packaging through our sustainable innovation and efficiency programmes. We measure the sustainability impact of packaging for all new products through our Sustainable Innovation App, to encourage packaging reductions and the use of more sustainable materials. As a result, approximately 40% of the products in our pipeline now have less packaging than their predecessor.

### What we're doing

#### Palm oil

Since 2014, we have focused on tracing the palm oil we procure back through the supply chain, from supplier to refinery, and refinery to mill. In 2016, we achieved traceability to mill for 87% of our supply base outside of India, and 55% traceability to port in India<sup>1</sup>. Traceability in India is challenging and we have run multiple workshops with suppliers and other brands to address this. We have continued to support on-the-ground transformation programmes, and in partnership with The Forest Trust we launched two smallholder farmer programmes to educate farmers in good farming techniques and crop diversification.

1 Excluding surfactants

### Other materials

In 2016, we started our first latex smallholder farmer programme. As part of this programme we have already engaged with over 120 smallholder farmers and have run multiple workshops focused on building farmer resilience. We continued to ensure that the paper and board we use are sourced in compliance with our policies, whilst rolling out packaging initiatives for brands including Durex, where we converted the board used for the cartons to sustainable sources. We are a very small user of soy. However, in 2016 we confirmed that the raw soy we use originates from low-risk countries.

# It's my RB

RB has a distinct culture. We are driven to outperform, by acting like owners and having the drive and passion of entrepreneurs.

Our culture comes to life through our values. These values are interlinked and together define how we make decisions, how our people behave, how we reward people and how people grow.

## The right values

### ④ Achievement

We aim high and strive for outperformance. We challenge ourselves to climb mountains and then look for the next peak.

### ④ Ownership

We treat the Company as if it is our own in everything we do.

### ④ Entrepreneurship

We passionately believe in our ideas and are willing to win big, even if we may sometimes fail.

### ④ Partnership

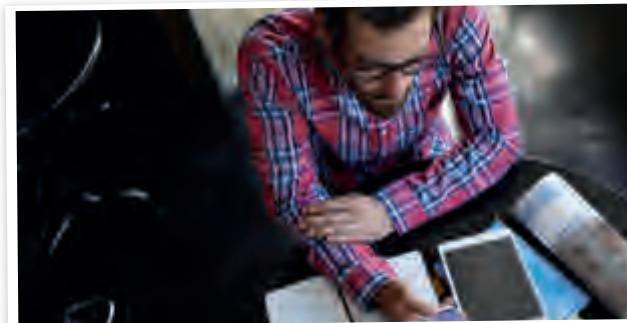
We leverage relationships to make each other the best we can be, both inside and outside of the Company.



## Achievement

Everyone wants a sense of achievement. For RB, that means we have to outperform.

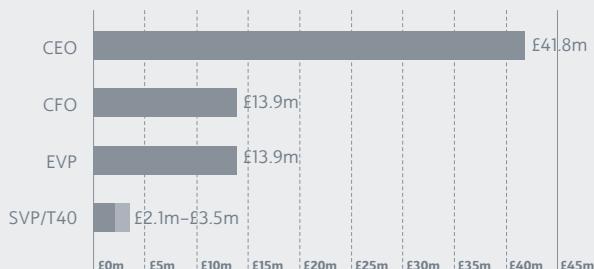
We constantly challenge ourselves and inspire others to stretch. We are not happy with the status quo because we want better innovations, better ways of doing things and better results. This hunger pushes us to be the very best. Our unique approach to reward means outperformance results in excellent rewards.



## Ownership

To achieve exceptional things, our people need a sense of ownership.

### Value of share ownership requirements



Note: Value of share ownership requirements using a share price of £69.69 (the average of Q4 2016)

We encourage our people to behave as if they own the business. This means they identify issues, take responsibility and own the outcome. They act in RB's and consumers' best interests and spend money as if it were their own.

Our ownership philosophy extends to our shareholding requirements for our senior managers, which are the highest in the industry. Many of our employees also own shares. In addition, share-based incentives deliver long-term rewards that can outweigh short-term bonuses. Creating Shareholder value through outperformance therefore materially benefits our people.



## Entrepreneurship

Owners are usually entrepreneurs, so we make a conscious effort to breed a culture of entrepreneurship.



Entrepreneurs are passionate about their ideas. By tightly controlling resources, we encourage our people to find innovative ways to achieve their goals. We allow them to pursue projects they believe in, knowing they can fail small and still be rewarded if their project is launched. This contrasts with the typical big company, which has more resources than ideas and avoids taking calculated risks because it worries more about failure than success. We create a culture of diversity so we benefit from different experiences, and encourage people to speak up.



## Partnership

To be a great company, we must be obsessed with making each other the best we can be.

We cannot be the best if we do everything ourselves. There is far more innovation, creativity and knowledge outside RB than there can ever be inside it. We therefore partner with organisations that bring us innovative products and better ways of working. We also strive for openness in our internal partnerships. We seek help when we need it, share best practice and make each other better every day.



## Net Revenue

# £9.9bn

Like-for-like growth 3%  
Total reported growth 11%



# Operating Review

# ENA

% of Net Revenue  
65%



**Rob de Groot /**  
Executive Vice President, ENA

## Net Revenue

# £6,410m

2015: £5,830m  
LFL growth: +1%  
Actual growth: +10%

## Adjusted Operating Profit

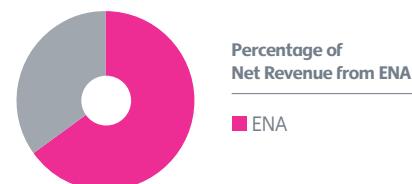
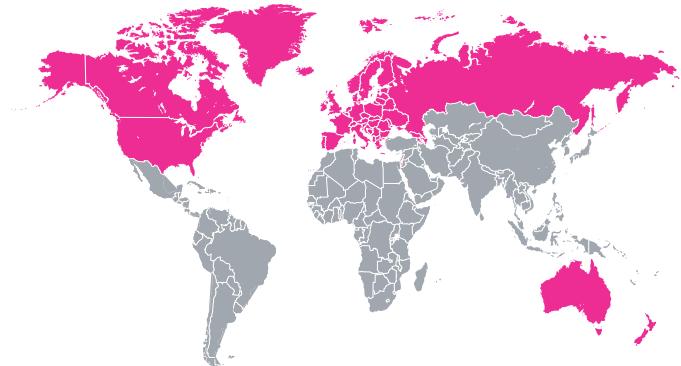
# £1,978m

2015: £1,744m  
Total growth: +2% at constant  
+13% at actual

## Food

# 4%

of Net Revenue



Total Net Revenue was £6,410 million, with like-for-like (LFL) growth of +1%. North America had a tough year, with a flat LFL performance. While we achieved good growth in our VMS brands, Mucinex and Finish, this was offset by weakness with our Amopé Wet & Dry pedi innovation.

Russia had a very weak year, with a double-digit LFL decline in revenue. Volume declines arose from a combination of customer and consumer destocking and weakness in Scholl. While Russia remains volatile, we are looking for an improving performance in 2017.

The rest of ENA saw robust growth during the year. Growth was innovation led in our larger markets of Germany, the UK, France, Spain and Australia, with strong performances from the Veet precision trimmer, Harpic Waves and Air Wick Pure. Scholl's performance was mixed, with strong performance from our GelActive insoles more than offset by weakness from the Wet & Dry pedi.

Adjusted Operating Profit increased by 2% at constant exchange rates to £1,978 million. The Adjusted Operating Margin rose by +100bps to 30.9%, due to strong Gross Margin expansion.

## Food

Total Net Revenue was £411m, a 5% LFL increase versus prior year and +7% LFL increase in Q4. French's continues to deliver a strong performance, driven by growth of French's ketchup, regaining share in French's mustard, outperformance on Frank's Red Hot and continued expansion in international markets, most notably Canada.

Operating Margins declined by -50bps to 28.7% as we continue to invest for growth and international expansion.

# DvM

% of Net Revenue  
31%



**Frederic Larmuseau /**  
Executive Vice President, DvM

## Net Revenue

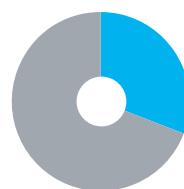
**£3,070m**

2015: £2,695m  
LFL growth: +8%  
Actual growth: +14%

## Adjusted Operating Profit

**£681m**

2015: £528m  
Total growth: +19% at constant  
+29% at actual



Percentage of  
Net Revenue from DvM

DvM

Total Net Revenue was £3,070 million, with LFL growth of +8%. This reflected a strong underlying performance.

Had it not been for the impact of South Korea, LFL growth in DvM would have been double digit. For more information on our ongoing support in South Korea see pages 14 to 15.

In South Asia, India delivered strong growth, despite a significant slowdown in the fourth quarter caused by demonetisation disrupting the market. We reduced the impact of the disruption on reported revenue through a focused programme of support to distributors, with some increase in channel inventory which will reverse in 2017.

We achieved further strong penetration gains with our leading Dettol and Harpic brands, underpinned by innovation and consumer education programmes. China had another strong year, driven by e-commerce initiatives and the launch of Move Free. Over 30% of China's net revenue is now via e-commerce channels and we have an ambition to achieve 50% by 2020. Indonesia and Thailand also had strong performances.

The Brazil macro environment remains challenging, although a strong performance from Veja and pest brands helped mitigate some of the weakness. Turkey and Saudi Arabia had a weaker year, due to geopolitical issues in the second half.

Adjusted Operating Profit increased by +19% at constant exchange rates to £681m, and the Adjusted Operating Margin was +260bps higher at 22.2%. This was due to Gross Margin expansion, combined with Supercharge initiatives.

# Operating Review

continued



## Health

### Net Revenue

# £3,332m

2015: £2,942m  
LFL growth: +4%  
Actual growth: +13%

Our Health Powerbrands



### Market position

- Nurofen and Gaviscon are leading analgesic and gastro-intestinal brands in Europe and Australia
- Durex is No.1 worldwide in condoms for both safe and more pleasurable sex
- Strepsils is No.1 in medicated sore throat globally
- Mucinex is the No.1 cough brand in the US
- Scholl/Amopé is No.1 globally in footcare

### Highlights 2016

Total Net Revenue was £3,332 million, with LFL growth of +4%, following exceptional LFL growth of +14% in 2015. This was an average result versus the market but below our ambition to outperform. We remain steadfast in our commitment to driving outperformance in this strategic category.

Our Scholl/Amopé franchise experienced a double-digit decline. The cause was twofold: an exceptional year of product launches and geographic expansion in 2015, followed by the launch of the Wet & Dry rechargeable pedi in 2016, which failed to meet expectations. We have taken some key lessons from this launch and continue to innovate in this important and underpenetrated category.

All the Powerbrands in the remainder of our Health portfolio grew in 2016 and the overall performance of our Consumer Health portfolio (ex Scholl/Amopé) was the same as in 2015, exceeding both in-year and medium-term category growth rates.

This broad-based growth in 2016 included:

- Durex/KY: "Invisible" ultra-thin condom and the launch of our KY Duration spray in the US
- Gaviscon: continued strong growth of our recent Double Action innovation
- VMS brands: all of our key brands (MegaRed, Move Free, Digestive Advantage and Airborne) grew during the year. Move Free was particularly strong, following its full launch in China
- Mucinex: successful launch of our Clear & Cool range of liquids, within Fast Max and Sinus Max

We believe we are well positioned to outperform long-term category growth in Consumer Health, led by our market-leading and trusted brands, strong consumer-centric innovation pipeline and significant investment behind medical professional and consumer education programmes.



## Home

### Net Revenue

# £1,828m

2015: £1,715m  
LFL growth: -1%  
Actual growth: +7%

Our Home Powerbrands



### Market position

- Vanish is No.1 worldwide in fabric treatment
- Calgon is No.1 worldwide in water softeners
- Air Wick is No.2 worldwide in air care

### Highlights 2016

Total Net Revenue was £1,828 million, with a LFL decline of -1%. Air Wick grew, with a good performance from our recent Air Wick Pure innovation, which we scaled across a number of ENA markets during the year. We also experienced success in the US from the launch of the new liquid electrical fragrance diffuser. This provides the user with the benefit of '8 x more fragrance control' and has won a number of international design awards.

The Vanish franchise declined in 2016, driven solely by the impact of events in South Korea. We have continued to drive the Vanish Gold franchise with the '30 second removal even on seven day dried in stains' campaign as well as penetration building activities in key DVM markets in Indonesia, Mexico and the Middle East.

Our overall performance in Home care, excluding the impact of South Korea, was at the upper end of our long-term category growth rates.

# Hygiene

## Net Revenue

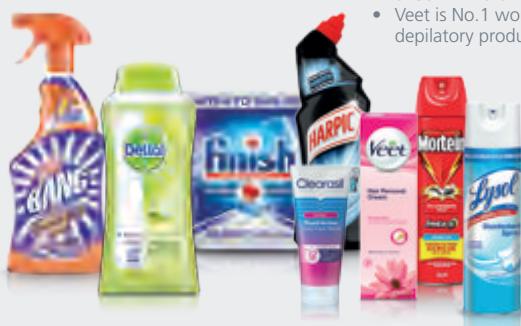
# £4,066m

2015: £3,589m  
LFL growth: +4%  
Actual growth: +13%

Our Hygiene Powerbrands

## Market position

- RB is No.1 globally in the overall category of surface care
- No.2 worldwide in lavatory care with Lysol in North America and Harpic across Europe and Developing Markets
- Dettol is No.1 worldwide in antiseptic liquids
- Finish is No.1 worldwide in automatic dishwashing
- No.2 worldwide in pest control with the Powerbrand Mortein, the Group's international brand, supported by local brand franchises like d-Con in North America
- Veet is No.1 worldwide in depilatory products



# Portfolio (including Food)

## Net Revenue

# £665m

2015: £628m  
LFL growth: Flat  
Actual growth: +6%

Our Food Powerbrand



## Market position

- French's Mustard is the No.1 mustard brand in the US

## Highlights 2016

Total Net Revenue was £4,066 million, with LFL growth of +4%. This was an improved performance versus the previous year and we saw growth across both ENA and DvM.

Growth continues to be led by our key emerging market brands of Dettol and Harpic, as we focus on the right combination of relevant and appropriately targeted innovations (such as Dettol Squeezy and Harpic bathroom cleaner) and consumer awareness programmes. Dettol also launched an innovative new mask in China to protect families from the harmful effects of air pollution. Banega Swachh in India continues to gain momentum in championing better hygiene and Global Handwashing day, which helps teach children better hand hygiene, delivered more than 2 billion impressions.

Finish was a growth driver in ENA, with particular success in the US as a result of our instore initiatives and successful Max-in-1 innovation. We also saw a near doubling of our Finish business in China where we announced a new global partnership with a leading dishwasher manufacturer in China. While the market is still small in absolute terms, the growth rates for new dishwashers are now becoming the highest in the world and Finish remains well positioned to benefit from this growth.

Veet had a successful year, with the launch and scaling of our new precision trimmer innovation. Our pest business had a very strong year experiencing high market growth due to the spread of mosquito borne illnesses like Zika, the launch of our premium insect repellent range in Brazil and the recovery of our business in India. Veja also had a strong performance in Brazil.

## Highlights 2016

### Food

Total Net Revenue was £411 million, representing a +5% LFL increase. Food continues to deliver a strong performance, driven by growth of French's ketchup, regaining share in French's mustard, outperformance by Frank's Red Hot and continued expansion in international markets, most notably Canada.

Operating margins declined by -50bps to 28.7%, as we continue to invest for growth and international expansion.

### Portfolio (including Food)

Total Net Revenue was £665 million, with a flat LFL performance versus the prior year. Laundry detergents and fabric softeners suffered from the twin impact of weakness in Southern Europe and South Korea. Food continues to perform well.

# Financial Review

Like-for-like (LFL) growth	Net Revenue
3%	£9,891m
Adjusted Operating Margin	
+130bps	

"RB delivered a year of robust growth and excellent margin expansion, against a backdrop of slowing market trends and some negative company-specific items."

**Adrian Hennah /**  
Chief Financial Officer



Total Net Revenue was £9,891 million, an increase of +2% at constant exchange rates and +3% on a LFL basis. The positive foreign exchange impact on translation increased Net Revenue by +9%. The devaluation of Sterling following the UK referendum in June had a significant positive impact on reported results, as the majority of the Group's revenue and profits are earned outside the UK.

Our developed market area of ENA delivered LFL growth of +1%, in slowing market conditions. Russia in particular saw very weak consumer demand, and the US was affected by a later flu season than in the previous year. Our emerging market area (DvM) delivered +8% LFL growth, in mixed market conditions. India and China continue to be strong, with improving trends in Indonesia, Thailand and Pakistan. Geopolitical issues and/or challenging macro backdrops impacted performance in Turkey, Saudi Arabia and Brazil. Indian demonetisation had a small impact in 2016, but will also affect the early part of 2017.

On a category basis, growth continues to be driven by our strategic priorities of Consumer Health and Hygiene brands. Consumer Health saw broad-based growth across the portfolio, with the exception of the Scholl/Amopé franchise, which was significantly impacted by the Wet & Dry express pedi innovation failing to deliver to our expectations. Hygiene had an improved performance in the year, with growth across most Powerbrands, driven by innovation and penetration building initiatives. Our Home care category had a weak year, due to specific issues in South Korea. The underlying performance of the Home category was in line with our goal of performing in line with the market.

Gross Margin increased by +180bps to 60.9%, an excellent performance driven by favourable input costs, margin accretive innovation, pricing, mix, Project Fuel initiatives and supply-related Supercharge savings. The impact of commodity driven input costs will vary from year to year, and in 2016 these were a significant tailwind. As previously reported in the 2016 interim statement, we expect input costs to become headwinds in 2017. Gross Margin has driven our virtuous earnings model, we expect that it will continue to drive it, as we focus on favourable mix, driven by Consumer Health led growth, and on Project Fuel, pricing and Gross Margin enhancing innovations across our Powerbrands.

We increased investment behind our brands (as defined by our Brand Equity Investment (BEI) metric), by +£63 million (at constant exchange rates) or +50bps to 13.2% of Net Revenue. The efficiencies we have driven from our Supercharge programme (for example, consolidation of creative agencies and media buying savings), have been reinvested in brand equity building initiatives throughout the year.

On Project Supercharge, we have completed the majority of the programme to achieve our planned £150 million cost savings over three years.

Operating Profit as reported was £2,410 million, up +8% versus 2015 (-3% constant), reflecting the impact of an exceptional pre-tax charge of £367 million (2015: £133 million). The exceptional items relate mainly to the Humidifier Sanitiser (HS) issue in South Korea. Details of the exceptional charge are set out in Note 3. On an adjusted basis, Operating Profit was ahead +17% (+6% constant) to £2,777 million. The Adjusted Operating Margin increased by +130bps to 28.1%, due to the strong Gross Margin expansion and fixed cost containment.

Net Income as reported was £1,832 million, an increase of +5% (-5% constant) versus 2015. On an adjusted basis, Net Income was

£2,157 million +15% (+4% constant). Diluted Earnings Per Share of 256.5 pence was up +6% on a reported basis. On an adjusted basis, the growth was +17% to 302.0 pence.

### Net finance expense

Net finance expense was £16 million (2015: £33 million). Borrowing levels and the cost of finance remained broadly the same in 2016 and benefited from some cash temporarily held in high interest countries.

### Tax

The effective tax rate was 23% (2015: 21%) and the tax rate on adjusted profit, excluding the effect of exceptional items, was 22% (2015: 20%), in line with our guidance. The effective rate in the year was reduced by 1% by the effect on the deferred tax liability of the enactment of a 1% reduction in the UK corporate tax rate in 2020. We continue to expect our underlying Group effective tax rate to be in the region of 23%.

### Exceptional Items

In 2016, a pre-tax exceptional charge of £367 million (2015: £133 million) was incurred, relating primarily to costs associated with the HS issue in South Korea. Further details of this charge can be found in Note 3.

### Net working capital

During the year, inventories increased to £770 million (2015: £681 million), trade and other receivables increased to £1,623 million (2015: £1,331 million) and trade and other payables increased to £3,495 million (2015: £2,948 million). These increases were principally driven by a depreciation of the British pound during 2016. There was an improvement in net working capital to minus £1,102 million (2015: minus £936 million). Net working capital as a percentage of net revenue was -11% (2015: -11%).

### Cash flow

Cash generated from operations was £2,951 million (2015: £2,295 million). Net cash generated from operating activities was £2,422 million (2015: £1,784 million) after net interest payments of £16 million (2015: £31 million) and tax payments of £513 million (2015: £480 million).

Free cash flow is the amount of cash generated from operating activities after capital expenditure on property, plant and equipment and intangible assets, and any related disposals. Free cash flow reflects cash flows that could be used for payment of dividends, repayment of debt or to fund acquisitions or other strategic objectives. Free cash flow as a percentage of adjusted net income was 94% (2015: 89%).

	31 December 2016 £m	31 December 2015 £m
Net cash generated from operations	<b>2,422</b>	1,784
Purchase of property, plant and equipment	<b>(179)</b>	(154)
Purchase of intangible assets	<b>(214)</b>	(25)
Proceeds from the sale of property, plant and equipment	<b>7</b>	51
<b>Free cash flow</b>	<b>2,036</b>	1,656

### Net debt

Net debt at the end of the year was £1,391 million (2015: £1,620 million). This reflected strong free cash flow generation, offset by the payment of dividends totalling £1,036 million (2015: £926 million), net share purchases of £723 million (2015: £730 million) and net M&A of

£158 million (2015: £10 million). The Group regularly reviews its banking arrangements and currently has adequate facilities available to it.

### Balance Sheet

At the end of 2016, the Group had total equity of £8,426 million (2015: £6,906 million), an increase of 22%. Net debt was £1,391 million (2015: £1,620 million) and total capital employed in the business was £9,817 million (2015: £8,526 million).

This finances non-current assets of £14,569 million (2015: £12,386 million), of which £878 million (2015: £730 million) is property, plant and equipment, with the remainder being goodwill, other intangible assets, deferred tax, retirement benefit surplus, available for sale assets and other receivables. The Group has net working capital of minus £1,102 million (2015: minus £936 million), current provisions of £251 million (2015: £229 million) and long-term liabilities other than borrowings of £3,388 million (2015: £2,652 million).

The Group's financial ratios remain strong. Return on shareholders' funds (net income divided by total shareholders' funds) was 21.7% on a reported basis and 25.6% on an adjusted basis (2015: 25.2% on a reported basis and 27.1% on an adjusted basis).

### Dividends

The Board of Directors recommends a final dividend of 95.0 pence (2015: 88.7 pence), to give a full year dividend of 153.2 pence (2015: 139.0 pence). The dividend, if approved by Shareholders at the AGM on 4 May 2017, will be paid on 25 May to Shareholders on the register at the record date of 18 April. The ex-dividend date is 13 April. The final dividend will be accrued once approved by Shareholders.

### Capital returns policy

RB has consistently communicated its intention to use its strong cash flow for the benefit of Shareholders. Our priority remains to reinvest our financial resources back into the business. The Group had net debt of approximately £1.4 billion at 31 December 2016.

In announcing the planned acquisition of Mead Johnson, we confirmed that we intend to continue our current policy of paying an ordinary dividend equivalent to around 50% of adjusted net income. We also stated that, if the transaction completes, we do not intend to buy-back any further shares until the debt taken on to fund the transaction is materially reduced.

### Legal provisions

The Group is involved in litigation, disputes and investigations in multiple jurisdictions around the world. It has made provisions for such matters, where appropriate. Where it is too early to determine the likely outcome of these matters, or to make a reliable estimate, the Directors have made no provision for such potential liabilities. Further details can be found in Note 17.

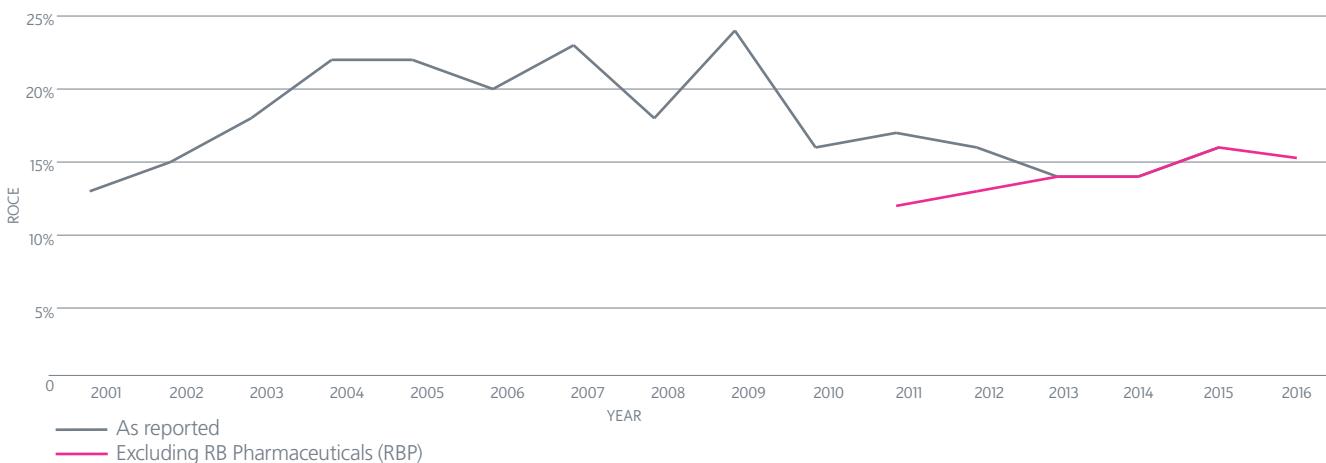
### Contingent liabilities

The Group is involved in a number of civil and/or criminal investigations by government authorities, as well as litigation proceedings, and has made provisions for such matters where appropriate. Where it is too early to determine the likely outcome of these matters, or to make a reliable estimate, the Directors have made no provision for such potential liabilities. Further details can be found in Note 19.

# Financial Review

continued

## Return on capital employed (ROCE)



RB's return on capital employed (ROCE), both "as reported" and adjusted for the demerger of RBP, is set out above. A return-based approach is firmly embedded into both organic operational activities and M&A transactions undertaken by the Group.

### Organic activities

Operational activities which utilise capital employed are undertaken with the same rigorous and returns-based approach, which we adopt for brand equity investment and other "P&L" based investments:

- **Capital expenditure (capex)** – all proposed capex must be supported by a relevant business case. We do not set rigid capex budgets each year, but allow the organisation to invest where and when the case is strong. We assign a high priority to projects addressing safety and quality opportunities. Capex levels are on average approximately 2% of Net Revenue.
- **Net Working Capital (NWC)** – tight management of inventories, payables and receivables is always required. The leadership in every market in which RB operates is targeted on NWC performance. It is typically one of the three multiplicative metrics which determine the annual bonus. NWC is on average approximately minus 8–9% of Net Revenue.

### Inorganic activities

Our principal focus is on organic growth. However, there is an inorganic element to our strategy focused around both value accreting acquisitions, and non-core/tail brand divestitures. Decision making with respect to inorganic opportunities is taken at a Group level. Our front-line operations play the leadership role in building the case for an acquisition, the due diligence prior to a transaction and delivering value once a transaction takes place.

A transaction may reduce the Group's ROCE during the years immediately following the transaction. Of key importance, however, is the generation of an appropriate cash return on invested capital within a reasonable time frame. The Group deliberately sets no return thresholds for an acquisition, as transactions vary in nature, strategic importance, risk and size. The Group does, however, undertake a significant amount of analysis and due diligence prior to any transaction to review the return expected to be generated by the end of year three, compared to the Group's weighted average cost of capital (WACC).

As management is required to hold a significant personal stake of RB shares, there is strong alignment of interest between management and Shareholders in seeking to ensure that transactions deliver an appropriate return within an appropriate time frame. Post-investment reviews of all transactions are undertaken on a regular basis and discussed at a Board level.

### Review of RB ROCE

The Group's ROCE declined following the acquisitions of BHI (2006), Adams (2008), SSL (2010) and Schiff (2012) and then improved as good returns were subsequently generated. It was also negatively impacted in 2013 with the demerger of RBP, as RBP earned a high return on capital employed (RBP ROCE is removed in reported data from both 2014 and its comparative year, 2013).

RB performed well in 2014. ROCE performed less well, however, as reported profit was reduced by significant foreign exchange headwinds (-10% negative translational impact on Group profits), while capital employed was less impacted as a significant part of the Group's net assets are denominated in stronger currencies. In 2015 the Group ROCE increased following a year of excellent organic growth and minimal increase in capital employed.

RB performed well in 2016, however, the Group's reported ROCE decreased as a result of the increased Sterling value of the Group's net assets due to the significant depreciation in Sterling from mid-2016. Over 80% of the Group's net assets are denominated in currencies other than Sterling. The Group's results are translated using average rates (which included a half year of weaker Sterling) and year end rates are used to translate the Balance Sheet. If the Group's results were translated using year end rates then ROCE would have increased by 110bps.

## Reporting our performance

**The following terms are used to describe RB's financial performance. Certain terms are considered to be Non-GAAP measures because they are adjusted from comparable IFRS measures in order to provide additional clarity about the underlying performance of the business. Other terms, which are not themselves Non-GAAP measures are also defined below.**

### Non-GAAP measures:

- **Like-for-like (LFL) growth** on Net Revenue excludes the impact of changes in exchange rates, acquisitions and disposals.
- **Constant exchange rates** adjusts the actual consolidated results such that the foreign currency conversion applied is made using the same exchange rates as was applied in the prior year.
- **Adjusted results and Adjusted Operating Margin** exclude exceptional items, defined as material, non-recurring expenses or income.
- **Adjusted Earnings per share** is defined as Adjusted Net Income attributable to owners of the parent divided by weighted average of ordinary shares (Note 8 to the Financial Statements).
- **Free cash flow** is defined as net cash generated from operating activities less net capital expenditure.

### Other measures and terms:

- **Actual exchange rates** show the statutory performance and position of the Group, which consolidates the results of foreign currency transactions at year-end closing rates (Balance Sheet) or annual average rates (Income Statement).
- **BEI** represents our Brand Equity Investment and is the marketing support designed to capture the voice, mind and heart of our consumers and is presented as a component of distribution costs within Net Operating Expenditure.
- **Return on capital employed (ROCE)** is defined as Net Adjusted Operating Profit after Tax (Note 3 to the Financial Statements) divided by capital employed, where capital employed is measured as Total Assets less non-interest bearing Current Liabilities.
- **Total Shareholder Return (TSR)** measures the return received by a Shareholder, capturing both the increase in share price and the value of dividend income (assuming dividends are reinvested).

## Summary of % Net Revenue growth

	FY 2016				FY 2015			
	LFL	Net M&A	FX	Reported	LFL	Net M&A	FX	Reported
North America	—	—	+12%	+12%				
Rest of ENA	+1%	-1%	+9%	+8%				
ENA	+1%	-1%	+10%	+10%	+5%	-1%	-5%	-1%
DvM	+8%	—	+6%	+14%	+9%	—	-6%	+3%
Food	+5%	—	+13%	+18%	+4%	—	+6%	+10%
<b>Group</b>	<b>+3%</b>	<b>-1%</b>	<b>+9%</b>	<b>+11%</b>	<b>+6%</b>	<b>-1%</b>	<b>-5%</b>	<b>—</b>
	FY 2016				FY 2015			
	LFL	Net M&A	FX	Reported	LFL	Net M&A	FX	Reported
Health	+4%	—	+9%	+13%	+14%	+1%	-5%	+9%
Hygiene	+4%	—	+9%	+13%	+3%	—	-4%	-1%
Home	-1%	-1%	+8%	+7%	+2%	—	-7%	-5%
Portfolio	—	-5%	+11%	+6%	+1%	-9%	-2%	-10%
<b>Group</b>	<b>+3%</b>	<b>-1%</b>	<b>+9%</b>	<b>+11%</b>	<b>+6%</b>	<b>-1%</b>	<b>-5%</b>	<b>—</b>
Adjusted Net Income							2016 £m	2015 £m
Net income attributable to owners of the parent							1,832	1,743
Exceptional items							367	133
Tax effect of exceptional items							(42)	(5)
Adjusted net income attributable to owners of the parent							2,157	1,871
Free Cash Flow							2016 £m	2015 £m
<b>Net Cash generated from operations</b>							2,422	1,784
Purchase of property, plant and equipment							(179)	(154)
Purchase of intangible assets							(214)	(25)
Proceeds from the sale of property, plant and equipment							7	51
<b>Free cash flow</b>							2,036	1,656

# Our framework for risk management

The following table provides a summary review of the principal strategic risks and uncertainties that are more likely to affect the Group, as identified by management and the Board.

**RB operates a major risk assessment process to periodically identify, assess and mitigate those risks it considers to be most significant to the successful execution of our strategy.**

The following table sets out the principal strategic risks and uncertainties facing the Group at the date of this report. They do not comprise all of the risks that the Group may face. Additional risks and uncertainties not presently known to management, or deemed to be less material at the date of this report, may also have an effect on the Group.

The Board retains responsibility for oversight of principal risks across RB and it considers the appropriateness of the risk exposure to its appetite for risk as laid out in the annual strategic planning process. The Board delegates the day-to-day monitoring of risk to the Executive Committee (EC) and each principal risk has an EC owner; principal risks are routinely reviewed not only at EC meetings but also by the appropriate Board committee (Audit Committee or CRSEC Committee) or by the Board itself. The Audit Committee holds responsibility for oversight of the principal risk assessment process, that it is appropriate to the needs of the business and that it works effectively; the Audit Committee performs an annual review of this process. The principal risk assessment process is led and facilitated by the Group Head of Internal Audit & Risk Management under the direction of the Group CEO and CFO. The principal risk assessment process consists of the following key elements.

The most senior leaders of our business dedicate time each year, in a facilitated discussion with the Group risk team, to consider the risk environment for their particular functional or geographic area of responsibility and how their emerging or known risks could impact on the achievement of the Group's strategic objectives.

Similar sessions are held with the Group's external advisors and also with each Board member. The key content from these sessions is synthesised into the Group's principal risks, with the EC owner being accountable for executing the current control strategy and for compiling and executing a plan of mitigating actions to properly manage the Group's exposure to that risk. Progress is reviewed periodically and the summary output from the principal risk assessment process is formally submitted annually by the EC to the Board for its consideration and agreement. Through the course of each year, the EC, Board and Board committees' agendas address all of the principal risks through specific 'deep dives' to ensure proper focus, resourcing and progress with mitigation.

## Viability Statement

The Board conducted a Viability Review covering a five-year period. This period was selected as it is the period covered in the Group's long-term forecasting process. This period covers the introduction to market of the current new product pipeline.

The five-year Viability Review first looks at the Group's ability to continue in operation if it performs in line with the Group forecast. This assumes that normal market conditions continue and current trends remain. The evaluation takes into account the Group's cash flow, historical Group planning accuracy, available banking facilities and interest cover ratios in connection with financial covenants. The analysis concluded that if RB performs in line with forecast it would have sufficient funds to trade, settle its liabilities as they fall due, and remain compliant with financial covenants.

The analysis goes on to consider the viability of the business should adverse unexpected events arise. To illustrate this, a sensitised view of the Group forecast was produced. The adverse assumptions are based primarily upon the realisation of key Group principal risks, which have the most relevant potential impact on viability (see risks marked “\*\*” on the following pages).

The sensitivity assigns each adverse assumption an estimated annual monetary value and estimates the impact on interest cover ratios and headroom over available borrowing facilities. The analysis concludes that even with the occurrence of key unexpected scenarios, RB would still have sufficient funds to trade, settle its liabilities as they fall due, and remain compliant with financial covenants.

The Board has further considered the occurrence of a 'Black Swan' event: an event with sufficient potential impact to risk the future of RB as a strong and independent business operating in its chosen markets. The occurrence of a major issue could result in significant reputational impact, a catastrophic share price fall, significant loss of consumer confidence and inability to retain and recruit quality people. Such an event could have an impact on the viability of the business.

As there are a number of mitigating controls in place across the business, the occurrence of a Black Swan event is considered sufficiently unlikely that it has not been factored into the sensitivity analysis.

As a result of the Viability Review, the Board have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period covered in the Viability Review.

## Risk management framework

Compared with a year ago, the individual risks have evolved as follows:

- ‘Safety’ both for consumers as well as for employees has been reassessed through a newly implemented Safety, Quality and Compliance (SQC) governance structure, implemented mid-year, and are now included as separate principal risks;
- Due to developments during 2016 in ‘South Korea’, this risk is now demonstrably material and is actively managed separately from the Legal Non-Compliance risk;
- ‘RB Reputation’ has been included for the first time as a principal risk, reflecting RB’s increased maturity as a healthcare business;
- The ‘Product and GXP Regulatory Non-Compliance’ risks have been refocused, again in light of the newly implemented SQC governance structure; and
- The ‘Significant Country Underperformance’ risk has been removed from the list, as the materiality of the net exposure has reduced.

The Group risk profile has also shifted, with more principal risks carrying a higher likelihood than in the previous year, notably risk numbers 2, 3, 9 and 10 per the listing adjacent. This shift represents a recalibration from the perspective of a healthcare business in the case of numbers 2 and 3; the potential impact of risk number 9 is also considered to be higher than the previous year based on the experiences of 2016; and, in the case of risk number 10, the global tax environment is seen as generally tougher than was previously the case.

Overall, it is considered that the Group risk management framework has been considerably strengthened during 2016 through the combination of greater Board leadership and oversight with the establishment of the CRSEC Committee together with the establishment of executive management committees, the establishment of the Safety, Quality and Compliance function reporting directly to the Group CEO and the channelling of additional resources to strengthen compliance assurance across the Group.

### Exchange rate risk

While the exchange rate is not considered to be a principal risk to the Group, the means used to mitigate this risk are considered in Note 14 on pages 131 to 132.

## Current Group principal risks

1. Product Safety
2. Non-Compliance with Product Regulations
3. Non-Compliance with GXP Regulations
4. South Korea
5. Fatality or Major Employee Safety Incident
6. Supply Business Continuity Planning
7. ERP/IT Systems Failure
8. Cyber Security and Data Protection
9. Legal Non-Compliance
10. Major Tax Disputes
11. Loss of Key Management
12. RB Reputation
- BS. ‘Black Swan’ Event
- Routine Risks

## Risk management framework

### Principal risk

#### 1. Product Safety\*

##### Description

Risk of not having a robust process for assessment of product safety; this may result in:

- Consumer Safety issue
- Gaps in the completion of our safety assessment
- Reputational damage with consumers, customers or regulators
- Significant financial losses arising from supply disruption, product recalls, delayed launches, penalties, etc.
- Possible criminal liability for RB senior management

### Mitigation status

A dedicated pharmacovigilance group monitors and reports on adverse events and manages patient safety risks.

Safety team has been strengthened during 2016 with clearer leadership of the Safety, Quality and Compliance organisation, reporting directly to the Group CEO.

A Compliance Management Committee (CMC) has been established in 2016, meeting monthly and chaired by the Group CEO. This committee routinely reviews Product Safety governance and issues arising and escalates to the Executive Committee as necessary.

Quarterly updates of Product Safety progress from the CMC to the CRSEC Committee.

### Ongoing 2017 actions

Review of Product Safety Evaluation Records (PSERs) to ensure current availability for all products.

Systems review to ensure that all product changes are satisfactorily tracked, controlled and updated.

Develop and deliver base training for all employees, and advanced training for relevant employees to fully understand their role in fulfilling safety, quality and compliance standards for RB products.



#### 2. Non-Compliance with Product Regulations\*

##### Description

Risk that non-compliance with regulations of relevant product classifications (e.g. medicinal products, medical devices, VMS, food, cosmetics, general products etc.) results in:

- Consumer safety issue
- Reputational damage with consumers, customers or regulators
- Significant financial losses arising from supply disruption, product recalls, delayed launches, penalties, etc.
- Possible criminal liability for RB senior management

REGENEX (Regulatory Excellence) programme executed to review compliance of RB's medicine marketing authorisations.

Regulatory investment during 2016 to create a dedicated compliance and maintenance team to strengthen existing product regulatory control.

A Compliance Management Committee (CMC) has been established, meeting monthly and chaired by the Group CEO. This committee routinely reviews Product Regulatory governance and issues arising.

Quarterly updates of Product Regulatory progress from the CMC to the Board Compliance Committee.

REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) compliance programme progressing.

Best practice guidance on technical due diligence and vulnerability/compliance activities post acquisition has been developed, based on learnings from recent acquisitions.

Product Vulnerability Programme (review of ingredients, formulations, stability data, etc. in Health portfolio).

Pilot compliance programme for sexual wellbeing medical devices has started and will be accelerated as part of product integrity reviews.

Improve artwork and label approval process.

Continue comprehensive REACH compliance programme and implementation of business-wide change control capability.

- ⬇ Decreased
- ▬ No change
- ⬆ Increased
- New

\*Key Group Principal risks



## Principal risk

### 3. Non-Compliance with GXP Regulations\*

#### Description

Non-compliance with applicable regulations, guidelines, internal standards and/or registrations across the supply chain and throughout the product life cycle (PLC) governing how we produce and supply product.

Non-compliance results in risk to:

- Consumer – safety and efficacy
- Business disruption including site or business closures
- Possible criminal liability for RB senior management

## Mitigation status

A CMC has been established, meeting monthly and chaired by the Group CEO. This committee routinely reviews GXP Regulatory governance and issues arising.

Quarterly updates of Product Regulatory progress from the CMC to the Board Compliance Committee.

Minimum standards programme in place to monitor and measure performance.

Health compliance regularly audited externally and clear actions in place.

Change management, already in place for Health, rollout to rest of the business in 2016.

Implementation of a full Company Quality Management System (QMS) to cover Health, Hygiene and Home and all supporting functions.

The establishment of an independent Quality Audit function reporting directly to the Chief Safety, Quality and Compliance Officer.

Enhance the Medical Device QMS to ensure compliance with new ISO and Authority Standards.

Improve and enhance the Global Consumer Relations function and system to facilitate appropriate signal detection and action to be taken.

External benchmarking and review of QMS.

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## 4. South Korea

#### Description

Significant financial and reputational risk as a result of death and lung injury caused by inhaling Oxy Sac Sac, a humidifier sanitiser product marketed by RB's Korean subsidiary Oxy RB.

While a fully appropriate provision was made at half year to cover the one-off costs of litigation, civil settlements and medical costs, as well as some impairment, the risk of additional exposure remains.

However, there was no substantive basis to take further provision at year end.

RB and Oxy RB crisis management team in place and functioning throughout the year to progress a compensation plan and address legal and governmental action.

Full public apology formally and repeatedly made by Oxy RB to affected parties.

Financial modelling completed to quantify risk and provide for financial exposure at the half year.

Compensation agreements reached with a significant proportion of Round 1 and Round 2 victims of lung damage.

Lessons learned exercise performed to understand required process and control enhancements to prevent reoccurrences.

RB continues to work closely with government, lawyers and other businesses to progress settlement with claimants.

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- ↓ Decreased
- No change
- ↑ Increased
- New

\*Key Group Principal risks

## Risk management framework continued

### Principal risk

#### 5. Fatality or Major Employee Safety Incident

##### Description

Work accidents leading to death, injury or illness on RB premises or premises under RB supervision, in the case of outsourced operations, resulting in risks to:

- Loss of life
- Company reputation – brand and Company image damage
- Operational efficiency – factory closures, significant supply disruption as issues are identified and rectified
- Financial performance – loss of sales, fines and cost of remediation activities
- Possible criminal liability for RB senior management

### Mitigation status

Policy and minimum Environment, Health & Safety (EHS) standards established and confirmed through self-assessment, site visits and independent audits.

A CMC has been established, meeting monthly and chaired by the Group CEO. This committee routinely reviews Employee Safety governance and issues arising.

Quarterly updates of progress with Safety governance and issues from the CMC to the CRSEC Committee.

H&S training for both manufacturing site leadership and commercial offices running through 2016.

### Ongoing 2017 actions

EHS resourcing review to consider appropriateness across RB for supply, R&D and commercial offices.

New independent internal EHS audit team and programme established for regional deployment. Clear guidelines and cultural safety programme to be developed as part of this.

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#### 6. Supply Business Continuity Planning

##### Description

Risk that our business continuity plans (BCPs), including mono-sourcing of materials and finished products, do not adequately address all risks facing the Group, resulting in unforeseen business disruption.

Continued progress in driving principal single sourced manufacturing sites to achieve and maintain FM Global certification as 'Highly Protected Risk' (HPR) sites, or otherwise have fully tested risk mitigation plan.

Annual review of Business Interruption insurance policies to ensure adequate cover is in place.

Tested and proven product recall process.

BCP documentation and testing to be reviewed for each significant factory and in aggregate to ensure that business continuity arrangements remain sufficient.

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#### 7. ERP/IT Systems Failure

##### Description

Risk of IT disruption or accounting error, due to legacy Enterprise Resource Planning (ERP) and IT systems, impacts business operations in a number of areas, e.g. through unavailability of key management information or disruption to transactional processing.

There is an associated, additional risk that SAP deployment, to replace the existing legacy ERP (JDE), is delayed.

Executive Committee strategic decision committing to Group-wide ERP rollout.

SAP commercial and factory templates now live in two and four entities respectively, with multiple deployment teams now active in rapid rollout phase.

Disaster recovery plans for key IT systems redefined, reviewed and tested under new outsource provider platform, providing improved systems integrity.

SAP rapid rollout phase consists of five deployment teams working in separate geographies to deliver a single instance SAP for both commercial and manufacturing sites in those geographies.

Full migration of all servers to outsourced data centres.

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-  Decreased
-  No change
-  Increased
-  New

\*Key Group Principal risks

## Principal risk

### 8. Cyber Security and Data Protection\*

#### Description

Risk that RB is subject to increasingly sophisticated cyber attacks aimed at causing business disruption, capture of data for financial gain, and reputational damage or that RB's data privacy is considered by regulators to be inadequate.

## Mitigation status

- Cyber security awareness and data privacy training for all staff, and anti-phishing training for senior management.
- Data Privacy programme in place.
- Solutions implemented for data loss prevention and privileged access management.
- Strengthening of Information Security resourcing and capabilities.
- Proactive investment in system patching against cyber threats.
- Transformation of internal cyber team, with additional resourcing for Security, Privacy and Compliance.
- Single Sign On platform implemented.

## Ongoing 2017 actions

- Transformation of hardware environment, Cyber Security Monitoring and Vulnerability Management tools being delivered.
- Global Data Privacy compliance assessment to identify further remediation required.
- Implement Digital Compliance programme.
- Additional investment in Cyber Monitoring, Digital Cyber Protection and IT Forensic systems.
- Implementation of a Cyber Breach Response framework.



### 9. Legal Non-Compliance\*

#### Description

Risk that we are not fully compliant with relevant laws and regulation, including anti-corruption laws and global competition laws, resulting in damage to RB's reputation, significant potential fines and possible criminal liability for RB senior management. (See Notes 17 and 19 of the Financial Statements for further details).

Group Legal Compliance programme strengthened.

Global Compliance Passport online training completed by all employees.

Group Whistleblower Hotline operational, widely communicated and embedded.

Legal Academy launched, providing centralised training facilities.

Appointment of new General Counsel to the Executive Committee.

Develop tool for ongoing monitoring to prevent abuse of significant market positions.

Development of global gift register to replace local tools.



- Decreased
- No change
- Increased
- New

\*Key Group Principal risks

## Risk management framework continued

### Principal risk

#### 10. Major Tax Disputes

##### Description

Risk of significant unprovisioned cash outflows as a result of tax authority challenge to filed tax positions. (See Note 7 of the Financial Statements for further detail.)

### Mitigation status

Implementation of a Governance Review Board to monitor and drive compliance against our operating model.

Ongoing monitoring of progress of European Community State Aid investigations and their possible impact on RB. Also for Base Erosion and Profit Shifting (BEPS) initiatives.



### Ongoing 2017 actions

Ongoing proactive management to progress formal Advanced Pricing Agreements (APAs) and proactive management of ongoing tax audits.

#### 11. Loss of Key Management

##### Description

Risk that RB cannot implement its strategies and meet objectives as a result of key management leaving the business who cannot be readily replaced by equally high-calibre experienced/qualified candidates.

Succession plans for key management positions are in place.

Retention risk analysis undertaken regularly, including review of turnover rates.

Continuous review of competitiveness of the total compensation programmes at RB.

DARE (Develop, Attract, Retain, Engage talented women) programme launched with the objective of reducing the drop-off rate of females from manager to senior management positions.



The Group structures its reward programme to attract and retain the best people. The formal succession planning process continues to evolve with plans being reviewed and updated regularly for all key positions and individuals.

The DARE programme is a key focus for 2017.

#### 12. RB Reputation

##### Description

The risk of significant reputational damage within multiple external stakeholder groups, including consumers, customers, suppliers, investors and regulatory bodies, as a result of recent and any future publicly known issues.

Recent organisational changes, most notably development of the Safety, Quality and Compliance function, to strengthen RB's compliance culture.

A Board CRSEC Committee and an executive Compliance Management Committee (CMC) have been introduced and now meet regularly.

A Critical Event process has been formalised with clear decision making and escalation through an independent functional line to the CEO.

On executive pay, the Remuneration Committee has reduced LTIP awards across the Board for 2017, with the most substantial reduction being the CEO share awards.

Also, from 2017, variable pay awards may be withheld from individuals if it is considered that their results have not been achieved in alignment with RB values and Code of Conduct.



- Decreased
- No change
- Increased
- New

\*Key Group Principal risks

## Principal risk

### BS. 'Black Swan' Event

#### Description

Significant reputational impact as a result of a major operational or product related safety issue resulting in very serious adverse impacts to third parties or the viability of the business, possibly compounded by apparently negligent management behaviour.

Extreme adverse press coverage and viral social media linking the RB name to consumer brands, leads to substantial share price fall, accompanied by collapse of consumer confidence and inability to retain and recruit quality employees.

## Routine Risks

#### Description

We are subject to a range of compliance and routine risks as part of everyday business.

## Mitigation status

A full and robust risk and control framework is in place and operating effectively across RB.

This framework is overseen by the Audit Committee on behalf of the Board and is routinely reviewed by an independent Internal Audit function, which reports directly to the Audit Committee.

Comprehensive crisis management training programme and support tools in place.

## Ongoing 2017 actions

The adequacy of the risk and control framework, together with Group policies, is reviewed annually by the Audit and CRSEC Committees.

Incremental improvements are made each year to further strengthen RB's system of internal control and risk management.

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In order to manage the more numerous and routine risks, the Group maintains a complete and robust governance framework. This consists of a full set of policies, processes and systems covering all aspects of compliance, with international and local laws as well as with the Group's stated minimum control standards.

Management provide primary assurance by driving risk compliance through their respective area, regional or functional responsibility. This is done through regular and detailed business and governance reviews. Secondary assurance is provided independently through a combination of Internal and External Audit covering all aspects of the Group's operations.

The adequacy of the risk and control framework, together with Group policies, is reviewed annually by the Audit and CRSEC Committees.

A fundamental element of the Mead Johnson Nutrition acquisition integration process will be to select the best combination of risk and control policies, processes and systems to further improve robustness for the enlarged RB business.

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By order of the Board

**Rupert Bondy**  
Company Secretary  
20 March 2017

-  Decreased
-  No change
-  Increased
-  New

\*Key Group Principal risks

# Board of Directors



**Adrian Bellamy**  
Chairman



**Rakesh Kapoor**  
Chief Executive Officer



**Adrian Hennah**  
Chief Financial Officer



**Nicandro Durante**  
Non-Executive Director

**Nationality**  
British/American

**Length of tenure**  
17 years and one month

**Committee membership**  
Chair of Nomination; Corporate Responsibility, Sustainability, Ethics and Compliance; Remuneration

**Skills and experience**  
Adrian joined RB as Non-Executive Director in 1999 and was appointed as Chairman of the Board in May 2003. He brings extensive executive experience and was formerly Chairman of the Body Shop International plc. His other previous directorships include River Island, The Gap Inc, Gucci Group NV and The Robert Mondavi Corporation.

Adrian earned his Bachelor of Commerce and Master of Business Leadership degrees from the University of South Africa.

**Nationality**  
Indian/British

**Length of tenure**  
Five years and three months

**Committee membership**  
Nomination

**Skills and experience**  
Rakesh was appointed as CEO of the Company in 2011. He joined RB in 1987 and held a number of regional and central marketing roles with the Company. In 2006 he was appointed EVP, Category Development with responsibility for global category management, R&D, media, market research and strategic alliances. He has a wealth of business experience and brings to the Board valuable knowledge of the Company.

Rakesh holds an MBA from XLRI, Jamshedpur and a Chemical Engineering degree from the Birla Institute of Technology and Science.

**Nationality**  
British

**Length of tenure**  
Three years and 11 months

**Committee membership**  
None

**Skills and experience**  
Adrian joined RB in January 2013 as Chief Financial Officer Designate, and was appointed CFO in February 2013. Adrian has a wealth of financial experience; prior to joining RB, he spent six years at Smith & Nephew plc as CFO and four years as CFO at Invensys plc. He worked for 18 years at GlaxoSmithKline plc, holding a number of senior management and financial roles. He started his career with PwC (then Price Waterhouse) working in audit and consultancy and worked with Stadtsparkasse Koeln, the German regional bank.

Adrian has a degree in Law from Cambridge University and is a Sloan Fellow of the London Business School.

**Nationality**  
Brazilian/Italian

**Length of tenure**  
Three years and one month

**Committee membership**  
Corporate Responsibility, Sustainability, Ethics and Compliance; Remuneration

**Skills and experience**  
Nicandro joined the RB Board in December 2013. He holds degrees in Finance, Economics and Business Administration. He started his career working in finance in Brazil and joined British American Tobacco (BAT) in 1981. Whilst at BAT he has worked in the UK, Hong Kong and Brazil. He held senior positions, including Regional Director for Africa and the Middle East, and was appointed as Chief Operating Officer (COO) prior to his current appointment.

## Other current appointments

Chairman of Williams-Sonoma Inc, and Chairman of the Supervisory Board of Action Nederland BV.

## Other current appointments

None

## Other current appointments

Non-Executive Director of RELX Group plc and RELX NV.

## Other current appointments

Chief Executive Officer of British American Tobacco p.l.c. (BAT) since March 2011.



**Mary Harris**  
Non-Executive Director



**Ken Hydon**  
Non-Executive Director



**Dr Pamela Kirby**  
Non-Executive Director



**André Lacroix**  
Non-Executive Director

<b>Nationality</b>
British

<b>Length of tenure</b>
One year and 11 months

<b>Committee membership</b>
Audit

<b>Skills and experience</b>
Mary was appointed as Non-Executive Director in February 2015. She was formerly a Partner at McKinsey & Company, with a particular focus on consumer and retail businesses in China, South East Asia and Europe.

Mary is a graduate of the University of Oxford (MA Politics, Philosophy and Economics) and Harvard Business School.

<b>Nationality</b>
British

<b>Length of tenure</b>
13 years and one month

<b>Committee membership</b>
Chair of Audit; Nomination

<b>Skills and experience</b>
Ken joined the RB Board as Non-Executive Director in December 2003 and became Chairman of the Audit Committee in November 2006. He served as Senior Independent Director between February 2005 and November 2006. Ken's career working in the electronics, retail, consumer products and healthcare sectors brings valuable finance and business experience to the Board. He was formerly CFO of Vodafone Group plc and a former Non-Executive Director of Tesco plc and Pearson plc.

He is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.

#### **Other current appointments**

Non-Executive Director of ITV plc and J Sainsbury plc. Member of Supervisory Board of Unibail-Rodamco SE.

#### **Other current appointments**

Non-Executive Director of Merlin Entertainments plc.

<b>Nationality</b>
British

<b>Length of tenure</b>
One year and 11 months

<b>Committee membership</b>
Chair of Corporate Responsibility, Sustainability, Ethics and Compliance; Audit; Nomination

<b>Skills and experience</b>
Pam joined RB as Non-Executive Director in February 2015. She served as Chairman of Scynexis Inc until June 2015. She was formerly CEO of Quintiles Transnational Corporation and held senior positions at AstraZeneca PLC and Hoffman-La Roche.

André was appointed as Non-Executive Director of RB in October 2008. In June 2013 he became Senior Independent Director. He served as Chief Executive Officer of Inchcape plc from 2006 until March 2015. He was previously Chairman and Chief Executive Officer of Euro Disney S.C.A., President of Burger King International (previously part of Diageo), and also held positions at Colgate, PepsiCo and Ernst & Young LLP.

<b>Nationality</b>
French

<b>Length of tenure</b>
Eight years and three months

<b>Committee membership</b>
Audit; Nomination

André is a graduate of ESCP Europe.

#### **Other current appointments**

Non-Executive Director of DCC plc, Victrex plc, Hikma Pharmaceuticals PLC and a member of the Supervisory Board of AkzoNobel N.V.

#### **Other current appointments**

Chief Executive Officer of Intertek Group plc.

# Board of Directors

continued



**Christopher Sinclair**  
Non-Executive Director



**Judy Sprieser**  
Non-Executive Director



**Warren Tucker**  
Non-Executive Director

Other Directors who served in the year



**Jaspal Bindra**  
Non-Executive Director

Appointed to the Board as Non-Executive Director in July 2014. Jaspal did not seek re-election at the 2016 AGM and stepped down as Non-Executive Director of the Company.



**Sue Shim**  
Non-Executive Director

Appointed to the Board as Non-Executive Director in July 2014. Sue did not seek re-election at the 2016 AGM and stepped down as Non-Executive Director of the Company.



**Doug Tough**  
Non-Executive Director

Appointed to the Board as Non-Executive Director in November 2014. Doug did not seek re-election at the 2016 AGM and stepped down as Non-Executive Director of the Company.

<b>Nationality</b>	American
<b>Length of tenure</b>	One year and 11 months
<b>Committee membership</b>	Remuneration

**Skills and experience**  
 Chris was appointed as Non-Executive Director in February 2015. Throughout his career he has held a number of executive positions and brings a wealth of experience to the role. He was previously Executive Chairman of Scandent Holdings, Executive Chairman of Cambridge Solutions Ltd, Chairman and CEO of Caribiner International, and President and CEO at Quality Foods Centers, Inc. Earlier in his career, he held various senior management positions with PepsiCo, including Chairman and CEO of Pepsi Cola Co., and Chairman of PepsiCo International Foods and Beverages, which gave him the platform to showcase his strong global branding skills.

Chris is a graduate of the University of Kansas (Business Administration) and the Tuck School at Dartmouth College.

<b>Other current appointments</b>
Chairman of Mattel, Inc.

<b>Nationality</b>	American
<b>Length of tenure</b>	13 years and four months
<b>Committee membership</b>	Chair of Remuneration; Nomination

**Skills and experience**  
 Judy joined the RB Board as Non-Executive Director in August 2003 and has been Chair of the Remuneration Committee since June 2004. She was previously Director and Vice Chairman at Royal Ahold NV, CEO of Transora Inc. and Executive Vice President of Sara Lee Corporation and CFO of Sara Lee's Food Group.  
  
 Judy has a Bachelor's and Master's degree from Northwestern University.

<b>Other current appointments</b>
Director of Allstate Corporation, and InterContinental Exchange Inc.

<b>Nationality</b>	British
<b>Length of tenure</b>	Six years and 10 months
<b>Committee membership</b>	Audit

**Skills and experience**  
 Warren was appointed as a Non-Executive Director in February 2010. Warren was an Executive Director and Chief Financial Officer of Cobham plc from 2003 to 2013. Previously he was Non-Executive Chairman at Paypoint plc, and has held senior finance positions at Cable & Wireless plc and British Airways plc.  
  
 Warren is a Chartered Accountant and has an MBA from INSEAD.

<b>Other current appointments</b>
Non-Executive Director of Thomas Cook Group PLC, Survitec Limited and the UK Foreign & Commonwealth Office.

# Executive Committee



**Rakesh Kapoor**  
Chief Executive Officer



**Rupert Bondy**  
Senior Vice President  
General Counsel/Company  
Secretary



**Amedeo Fasano**  
Executive Vice President,  
Supply

**Nationality**  
Indian/British

**Company tenure**  
29 years

**Experience**

Joined Reckitt & Colman in 1987, serving in various roles including: Regional Sales Manager, North India; General Manager, Indian Southern Region; and Regional Marketing Director, South Asia. In 1999, he was appointed Global Category Director, Pest Control. Following the merger, he assumed the role of Senior Vice President, Home Care. He was appointed SVP, Regional Director, Northern Europe in 2001 and in July 2006 he was promoted to EVP, Category Development. Rakesh became CEO in September 2011.

**Nationality**  
British

**Company tenure**  
– (started Jan 2017)

**Experience**

Joined RB as SVP General Counsel and Company Secretary in 2017, and is responsible for company secretarial and legal compliance matters across RB.

Rupert began his career as a lawyer in private practice. In 1989 he joined US law firm Morrison & Foerster, working in San Francisco and London, and from 1994 he worked for Lovells in London. In 1995 he joined SmithKline Beecham as Senior Counsel for mergers and acquisitions and other corporate matters. When SmithKline Beecham and GlaxoWellcome merged to form GlaxoSmithKline, Rupert was appointed Senior Vice President and General Counsel. In 2008, Rupert became Group General Counsel of BP plc, holding that position until he joined RB in January 2017.

**Nationality**  
Italian

**Company tenure**  
19 years

**Experience**

Joined in 1997 as Supply Director, Italy. After the Reckitt & Colman and Benckiser merger, Amedeo was appointed Manufacturing Director for Central, South Western and Southern Europe Regions. In 2002 he became Regional Supply Director, North America and in 2003 SVP Supply, North America, Australia and New Zealand.

In 2007 he took over the role of SVP Supply, Developing Markets and in March 2009 Amedeo was appointed as EVP, Supply. He previously worked for Pirelli Tyres in various supply roles.

# Executive Committee

continued



**Roberto Funari**  
 Executive Vice President,  
 Category Development  
 Organisation



**Rob de Groot**  
 Executive Vice President,  
 ENA



**Adrian Hennah**  
 Chief Financial Officer

**Nationality**

Brazilian

**Company tenure**

Three years

**Experience**

Rejoined RB in February 2013 as EVP, Latin America, Asia Pacific following two years at Imperial Tobacco where he was Group Marketing Director and Executive Committee member. In his prior 12-year career with RB, Roberto rose rapidly through the organisation, holding increasingly senior marketing and general management roles in both emerging and developed markets, including Brazil, the Netherlands, South Africa, Central Europe and Global Category Officer, Fabric and Home Care. He was appointed as EVP, Category Development Organisation in January 2015.

**Nationality**

Dutch

**Company tenure**

28 years

**Experience**

Joined RB in 1988. After international roles in marketing and sales he became General Manager, The Netherlands, then SVP, Regional Director, Eastern Europe and was appointed Global Category Officer, Surface, Dish and Home Care before being appointed EVP, North America & Australia. As part of RB's new strategy for continued outperformance, in January 2012 Rob became EVP of the newly created ENA area. Rob is now responsible for North America, Europe, Russia, CIS and ANZ and is headquartered in Amsterdam.

**Nationality**

British

**Company tenure**

Three years

**Experience**

Joined the Company in January 2013 as Chief Financial Officer Designate, and was appointed CFO in February 2013. He joined the Company following six years at Smith & Nephew plc, as CFO. Previously he was CFO for four years at Invensys, the international engineering company. Adrian also spent 18 years at GlaxoSmithKline plc, one of the world's largest pharmaceutical companies, holding a number of senior management and financial roles. He previously worked at PwC (then Price Waterhouse) for four years in both audit and consultancy and also for Stadtsparkasse Koeln, the German regional bank. He is a Non-Executive Director of RELX Group plc and RELX NV.



**Frederic Larmuseau**  
 Executive Vice President,  
 Developing Markets



**Darrell Stein**  
 Senior Vice President,  
 Information Services



**Deborah Yates**  
 Senior Vice President,  
 Human Resources

**Nationality**

Belgian

**Company tenure**

15 years

**Experience**

Joined the Company in 2001 as Marketing Director for Malaysia-Singapore. In 2003, Frederic was promoted to Regional Marketing Director for East Asia and in 2005 became Global Category Director for Vanish. He was appointed General Manager for Brazil in February 2008 and in October 2009, Frederic was promoted to SVP, Regional Director, Latin America.

He was appointed as EVP, RUMEA in June 2013 before taking up his current role in January 2015. Before joining RB, Frederic worked for Procter & Gamble.

**Nationality**

British

**Company tenure**

Two years

**Experience**

Joined RB on 1 September 2014 from Marks & Spencer plc, the UK-headquartered international clothes and food retailer. Darrell was responsible for the development of Marks & Spencer's global online platform. Importantly, Darrell also has experience of successfully delivering global ERP and supply chain systems, including SAP. Prior to this, Darrell spent five years with Vodafone in a number of increasingly senior roles culminating as Global Director Information Technology, Strategy and Planning. He also spent five years at Ernst & Young as a programme manager and two years with Mars Inc. as business systems manager.

**Nationality**

Australian

**Company tenure**

12 years

**Experience**

Joined RB in 2004 in the Australian business. Since then, Deb has worked in the US, UK and Netherlands. She was appointed Global Human Resources Director (HRD) Finance and IS in 2009, Regional HRD ANZ in 2011, Regional HRD North America in 2012 and Area HRD Europe and North America in 2013. In 2015, Deb was appointed SVP of HR. Before joining RB, Deb worked in a variety of industries in HR in Australia including News Limited, George Weston Foods and Qantas Airways.

# Chairman's Statement on Corporate Governance



**"As stewards of the Company, the Board promotes the highest standards of corporate governance across the Group to ensure we maintain a superior level of growth in shareholder value commensurate with an appropriate level of risk management."**

**Adrian Bellamy**  
Chairman

## Introduction

On behalf of the Board, I present the Company's Corporate Governance Report for the financial year ended 31 December 2016. As in previous years, we report against the requirements of the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council (FRC). Our goal remains to provide management with the support needed to run a sustainable business, as well as challenging decision making to ensure alignment with the strategic framework and risk appetite of the Company. I'm pleased to confirm that our high standards of compliance with the Code remain.

In recent years, there have been a significant number of changes in the regulatory landscape affecting both our reporting requirements and governance structure. Recent changes, such as the introduction of the EU Market Abuse Regulation, the EU Audit Directive, The Small Business Enterprise and Employment Act 2015 as well as the implications around the result of the UK referendum were reviewed by the Board during the year and we will continue to meet changing standards, set the appropriate tone and drive compliance across the Group.

In the past year, we have taken great strides in seeking to further enhance our high governance standards. The Board has established a Corporate Responsibility, Sustainability, Ethics and Compliance (CRSEC) Committee under the headship of Pam Kirby to lead the Group in the promotion of best practice in corporate responsibility and ethical matters, to encourage sustainable operations, and to oversee management's compliance framework and challenge accordingly. You can read more about the CRSEC Committee's work on pages 74 to 75

## Leadership

As part of its stewardship of the Company, the Board recognises the need for high standards of corporate governance, in order to best serve

our Shareholders and wider stakeholder community. The current composition and balance of skills on the Board ensures that we are well placed to do so.

Biographies of the members of our current Board of Directors can be found on pages 54 to 56. The strength of your Board lies in its diversity, with skills and experience from across the business spectrum. At all times, the composition of the Board is kept under review so that it continues to be best placed to ensure the long-term success of the business, comprehensively manage risk and deliver on our stakeholders' expectations.

2016 has been a year of change as we bedded in our three newer Directors and three Directors left us to pursue other interests. In 2015, we welcomed Chris Sinclair, Mary Harris and Pam Kirby to the Board. I am pleased to say that each of them has brought with them their own strengths and that their perception, ability to challenge and strategic input has been invaluable since joining. Pam and Mary both joined the Audit Committee in 2016 and Chris was appointed to the Remuneration Committee. Pam has taken on the additional responsibility of chairing our new CRSEC Committee and, with the appointments of myself and Nicandro Durante as fellow members of the Committee, Pam will report to the Board on its approach to managing the Company's corporate social responsibilities, environmental and sustainability issues and behaviours, ethical conduct and regulatory compliance. Jaspal Bindra, Sue Shim and Doug Tough stood down as Directors following the conclusion of the 2016 AGM and we wish them well in their future endeavours.

A number of members of the Board have served longer terms than those recommended by the Code, including myself. Their wealth of knowledge and experience is considered invaluable. In light of this, both Judy Sprieser and Ken Hydon have again been requested to remain with the Company in order to best serve you, our stakeholders. I am pleased to report that they have both agreed. Judy's and Ken's knowledge of the business greatly supports the newer members of the Board. Mary Harris will become a member of the Remuneration Committee following the conclusion of the AGM and will succeed Judy as Chair from 1 November 2017. Judy will step down from the post of Chair and she will continue to support Mary as a member of the Remuneration Committee. Mary will cease to be a member of the Audit Committee from May 2017. From the conclusion of the AGM Ken Hydon will also step down as Chair of the Audit Committee and be succeeded in that role by André Lacroix. Ken will continue as a member of the Committee to support André, who will also continue as Senior Independent Director.

As a Board, we collectively continue to place the greatest of importance on having an experienced, well-balanced and diverse Board with a wide range of skills and expertise. It is this breadth of experience and diversity which underpins our decision-making capabilities and this Corporate Governance Statement serves to present to you our compliance with the Code during the year and how we have served you, our stakeholders.

With effect from 1 January 2017, we have also appointed a new Company Secretary, Rupert Bondy, formerly responsible for legal and compliance matters as Group General Counsel of BP. Rupert is also our SVP General Counsel and a member of the Executive Committee and we are delighted to welcome him. I thank Chris Logan, our Deputy Company Secretary, for acting as Interim Company Secretary over the last 15 months and for her support and diligence during that time, which was also recognised externally by her receiving the Institute of Chartered Secretaries and Administrators' Governance Professional of the Year 2016 award.

## Effectiveness

As reported last year, in view of the changes made to the Board in 2015, it was decided to hold an external Board evaluation during 2016. In line with the Code requirements and corporate governance best practice, an independent externally facilitated evaluation of the Board and its committees (excluding the CRSEC Committee as it was considered too new) was conducted using the services of EquityCommunications Limited. Broadly, the resulting view of the evaluation was that the Board and its committees are working well, with high levels of functionality, an appropriate balance of skills and experience, mutual respect of Directors, open and transparent discussion at meetings, and a balanced

focus on strategic and operational issues, combined with the strength of the RB culture. Further discussion on the evaluation and its results are contained on page 65.

### Diversity

We meet the recommendations set by the Davies Report on Women on Boards, and have taken note of the Hampton Alexander review, we always recruit the best and most suited candidates for any role and we strive for a well-balanced representation of gender and ethnic background at all levels across the Group.

Our Executive Committee, comprising the most senior management level in the business, represents seven different nationalities from across the globe, embodying our corporate diversity and inclusion policy. The Company's wider global leadership community holds 51 nationalities between them, representing a broad background of collective skills and experience. This widens our understanding of our consumers, who themselves come from the broadest possible backgrounds, allowing us to be best placed in serving their needs.

As well as supporting women with their career paths, our DARE (Develop, Attract, Retain and Engage talented women) programme has progressed further to help educate all our employees and remove unconscious bias from the workplace and is a key focus for the Group in 2017.

### Accountability and audit

The Board has responsibility for confirming that the Financial Statements for the Group are fair, balanced and understandable. It is supported in its decision by the Audit Committee, which ensures the integrity of the Group's financial reporting, internal controls framework and risk management processes. The Audit Committee works closely with the Internal Audit function, as well as the External Auditor, and further details of their work can be found on pages 69 to 73.

As I reported last year, together with the Audit Committee, the Board has considered the requirements of the Competition and Markets Authority Order in respect of audit tendering, as well as the Code recommendations and the related FRC guidance. We are required to undertake an audit tender and auditor rotation by the 2020 year end. In compliance with the UK implementation of the EU requirements on auditor rotation, the Audit Committee has commenced an audit tender pre-selection process, with the intention to recommend and have ready for appointment a new auditor at the 2018 AGM.

### Remuneration

Aligning the interests of our Executive Directors and employees with those of our investors remains the key driver behind our Remuneration

Policy. This approach is further detailed in the Remuneration Report on pages 76 to 92. We are conscious of the need for a prudent and measured approach to remuneration, whilst offering sufficient reward for effective performance to maximise our ability to recruit and retain the very best suited candidates. The Directors' Remuneration Policy was approved in 2016 and details are set out on page 81. We will not be asking Shareholders to make any changes to the policy this year. However, the Remuneration Committee has made significant changes within the policy following consultation with Shareholders in relation to the CEO's bonus and the quantum of future LTIP awards.

### Engagement

We place considerable importance on the views of our Shareholders. As Chairman, I am responsible for effective communication with Shareholders and for ensuring that the Board collectively understands their views. The Company has a regular investor relations programme of meetings between our institutional Shareholders, analysts, Directors and senior management. Additional dialogue is held with institutional Shareholders as appropriate. Private Shareholders have the opportunity to speak with the Board and raise any concerns at the Annual General Meeting (AGM).

### Summary

The Board considers compliance with the Code of utmost importance. Any instances of non-compliance would only ever be allowed through the authority of the Board if it can be shown that the spirit of the Code and good corporate governance within the Company generally continue.

All of the existing Directors will be offering themselves for re-election at the 2017 AGM. Three of the Directors, Ken Hydon, Judy Spireser and myself, have served beyond the maximum nine-year period recommended by the Code. The Board has taken this into account and believes that the current mix of tenure is in the best interests of our Shareholders and that Ken, Judy and I continue to challenge appropriately and act independently. The Board regularly considers Board member succession and, in particular, succession for the Chairman (led by the Senior Independent Director) and the Committee Chairs. We look for your continued support for all of us to continue to serve the Board on your behalf and to promote the long-term success of the Company.

The Corporate Governance Statement outlines the Company's governance processes in greater detail and is on pages 62 to 67. Except where otherwise mentioned above, the Company has complied with the Code throughout the year ended 31 December 2016.

**Adrian Bellamy / Chairman**

20 March 2017

## Key areas of Board focus in 2016

The Board considers reports from the CEO and the CFO on strategic and business developments as well as financial performance and forecasts for the business at every meeting.

**In addition, the following areas formed substantial areas of focus for the Board in the year:**

### Strategy and planning

- ⌚ Group budgets, forecasts and key performance targets, including assumptions, scenarios and projections
- ⌚ Potential mergers & acquisitions and post acquisition reviews
- ⌚ Performance relative to key competitors
- ⌚ Group debt and funding arrangements
- ⌚ The Supercharge programme
- ⌚ Pensions

### Risk management and internal control

- ⌚ RB's principal risks, emerging risks and the Group's risk register, including newly identified compliance risks
- ⌚ Consideration and approval of the Viability Statement
- ⌚ The effectiveness of the Group's compliance programme
- ⌚ Detection and response to cyber threats
- ⌚ Internal controls
- ⌚ External Audit tender and evaluation of Internal and External Auditors

### Results and Financial Statements

- ⌚ Compliance with reporting requirements
- ⌚ Annual Report
- ⌚ Results and presentations to analysts

### Remuneration

- ⌚ Oversight of executive remuneration

### Leadership and governance

- ⌚ Board and committee evaluation and effectiveness
- ⌚ Director and senior management succession planning
- ⌚ Corporate responsibility, sustainability, ethics and compliance
- ⌚ Relations with Shareholders
- ⌚ Promoting the highest standards of corporate governance and best practice

### Other

- ⌚ Independent review of the Group's management of the HS and safety related issues.

# Corporate Governance Statement

The Company is premium listed on the London Stock Exchange and this Statement is prepared with reference to the Financial Reporting Council's UK Corporate Governance Code (the Code) in effect for the financial periods beginning on or after 1 October 2014. This Statement sets out how the Company has applied the Main Principles of the Code throughout the year ended 31 December 2016 and as at the date of this Statement.

## Leadership

### Board responsibilities

The Board is responsible for the overall leadership of the Group, focusing on its governance with the highest regard to the principles of the Code. As part of its responsibility, the Board oversees the development of the Company's strategic aims, ensures appropriate processes are in place to manage risk and monitors the Company's financial and operational performance against objectives.

The Board consists of a balance of Executive and Non-Executive Directors who together have collective accountability to RB's Shareholders as well as responsibility for the overriding strategic, financial and operational objectives and direction of RB.

The Board manages the overall leadership of the Group with reference to its formal Schedule of Matters Reserved for the Board. This schedule is reviewed annually, with the last review undertaken in November 2016 and broadly covers:

- matters which are legally required to be considered or decided by the Board, such as approval of RB's Annual Report and Financial Statements, declaration of dividends and appointment of new Directors;
- matters recommended by the Code to be considered by the Board, such as Terms of Reference for the Board and its committees, review of internal controls and risk management;
- compliance with regulations governing UK publicly listed companies, such as the UK Listing Rules, the Disclosure Guidance and Transparency Rules and the Prospectus Rules; and
- matters relating to developments in, or changes to, the Group's strategic direction, material corporate or financial transactions.

The full Schedule of Matters Reserved for the Board is available at [www.rb.com](http://www.rb.com).

The principal activities undertaken by the Board are set out over the following pages. A summary overview is set out in the table on Board focus areas in 2016 on page 61.

### Board meetings

Board meetings are structured in an open atmosphere conducive to challenge and debate. Board meetings are held regularly with all Directors expected to attend, with five scheduled meetings normally held each year. At least one of these meetings is held in an overseas Group business location to provide the Board with the opportunity to meet with local management and structured to include a formal and comprehensive site visit to an operating unit. The 2016 meeting was held in China and included visits by the Board to the Shangma factory in Qingdao, logistics centre and store checks in Shanghai, and time spent with external speakers covering local geopolitical, industry-related and commercial issues. Further details can be found on page 65. Additional meetings, which may be held by phone or consist of written resolutions, are held throughout the year to consider topics that may have arisen outside the formal agenda structure.

Directors receive papers several days in advance of meetings and are expected to devote sufficient time for review prior to the meeting taking place, enabling them to fully engage with, challenge and stimulate productive discussion.

At the conclusion of every formal Board meeting, the Chairman holds a session with the other Non-Executive Directors, without the Executive Directors present, providing further opportunity for the Non-Executive Directors to challenge and critique the performance of the Executive Directors and help drive future agenda items.

Operating and financial reports from the Executive Directors are discussed at each Board meeting. When appropriate, detailed presentations may be made by non-Board members on material matters to the Group.

## Board Governance Structure – Committees of the Board

<b>Board</b>			
<b>Audit Committee</b>	<b>Corporate Responsibility, Sustainability, Ethics and Compliance Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>
 See pages 69-73	 See pages 74-75	 See pages 76-80	 See page 68
<b>Executive Committee</b>		<b>Disclosure Committee</b>	

The Board has established four Board committees to assist in the execution of its responsibilities. These are the Nomination Committee, Audit Committee, Remuneration Committee and the Corporate Responsibility, Sustainability, Ethics and Compliance Committee. Each committee operates under terms of reference approved by the Board. The terms of reference are reviewed regularly and can be found on the Company's website. The current committee membership of each Director is shown on pages 54 to 56. The Board has also established two supporting management committees, the Disclosure Committee, which ensures accuracy and timeliness of disclosure of financial and other public announcements, and the Executive Committee, which is RB's key management committee.

## Nomination Committee

The Nomination Committee's key objective is to make recommendations to the Board on suitable candidates for appointment to the Board and its committees and regularly review and refresh their composition to ensure that they comprise individuals with the necessary skills, knowledge and experience to effectively discharge their responsibilities. Membership during the year and further details are set out in the Nomination Committee Report on page 68.

## Audit Committee

The Audit Committee assists the Board in discharging its responsibilities in relation to financial reporting, and is responsible for ensuring effective internal financial control and risk management. Membership of the Audit Committee and details of its activities during the year are set out in the Audit Committee Report on pages 69 to 73.

## Remuneration Committee

The Remuneration Committee assists the Board in fulfilling its oversight responsibility by ensuring that Remuneration Policy and practices reward fairly and responsibly; are linked to corporate and individual performance; and take account of the generally accepted principles of good governance. Membership of the Remuneration Committee during the year is set out in the Annual Report on Remuneration on page 82. The Report on pages 76 to 92 details the current and proposed policy on remuneration and sets out Executive Directors' remuneration, Non-Executive Directors' fees and share ownership.

## Corporate Responsibility, Sustainability, Ethics and Compliance Committee

The Corporate Responsibility, Sustainability, Ethics and Compliance Committee was established in July 2016 to support the Board in reviewing, monitoring and assessing the Company's approach to responsible, sustainable, ethical and compliant corporate conduct and to assist the Board in upholding its values of honesty and respect. Details of the priorities which it has set itself for the coming year and its achievements to date are set out in the Report on pages 74 to 75.

## Board attendance at scheduled meetings

In 2016, there were five scheduled Board meetings, plus four additional meetings. There were four regular Audit Committee meetings (plus one additional meeting), four regular Remuneration Committee meetings, one separate Nomination Committee meeting and the inaugural meeting of the Corporate Responsibility, Sustainability, Ethics and Compliance Committee. The table below sets out the attendance by individual Directors at the main Board and individual committee meetings which each Director was eligible to attend. Directors who were not members of individual Board committees were also invited to attend one or more meetings of those committees during the year.

	Board	Audit	Remuneration	CRSEC	Nomination
Adrian Bellamy	5 of 5	–	4 of 4	1 of 1	1 of 1
Nicandro Durante	4 of 5 <sup>3</sup>	–	3 of 4 <sup>3</sup>	1 of 1	–
Mary Harris	5 of 5	3 of 3 <sup>1</sup>	–	–	–
Adrian Hennah	5 of 5	–	–	–	–
Pamela Kirby	5 of 5	3 of 3 <sup>1</sup>	–	1 of 1	1 of 1
Ken Hydon	5 of 5	3 of 4 <sup>3</sup>	–	–	1 of 1
Rakesh Kapoor	5 of 5	–	–	–	1 of 1
André Lacroix	5 of 5	3 of 4 <sup>3</sup>	–	–	1 of 1
Christopher Sinclair	4 of 5 <sup>2</sup>	–	3 of 4 <sup>2</sup>	–	–
Judy Sprieser	4 of 5 <sup>2</sup>	–	4 of 4	–	1 of 1
Warren Tucker	4 of 5 <sup>3</sup>	4 of 4	–	–	–

1 Members of the Audit Committee for three of the four meetings

2 Unable to attend due to a long standing commitment

3 Unable to attend following calendar miscommunication on the Company's part

## The Chairman

The roles of the Chairman and the CEO have a clear division of responsibilities, set out in writing and agreed by the Board. The Chairman's principal responsibility is for the effective running of the Board and chairing Board and Shareholder meetings. Effective leadership and governance of the Board allows the Directors to focus on the key strategic, financial and operational issues, to make sound judgements and be comfortable to challenge any uncertainties, as well as ensuring a transparent approach in communicating with Shareholders.

The Chairman leads the annual performance evaluation process of the Board and its committees, which in 2016, was conducted using external consultants EquityCommunications Limited, in line with good corporate governance practice. Details of the evaluation follow on page 65.

## The Chief Executive Officer

The CEO is principally responsible for the day-to-day management of RB, in line with the strategic, financial and operational objectives set by the Board. He chairs the Executive Committee, consisting of the CEO, the CFO and senior management executives, who together are responsible for execution of the Company's strategy and achieving its commercial aims. More details about the members of the Executive Committee are set out on pages 57 to 59.

The CEO has the power delegated to him by the Board to enable him to carry out his duties efficiently. Such powers include delegation of the day-to-day management of the business of the Company to each of the Officers of the Executive Committee, acting individually or as a group or sub-committee; acquisition and disposal of businesses and unbudgeted capital expenditure projects subject, in each case, to a £50 million limit; and instructing advisors and instigating legal proceedings on behalf of the Company in respect of matters for which no further Board authority is required.

## The Senior Independent Director

The Senior Independent Director provides a sounding board for the Chairman and is available to the other Directors and Shareholders who have concerns that cannot be addressed through the Chairman, CEO or CFO.

## The Executive Directors

The Executive Directors have additional responsibilities for the operation of RB's business as determined by the CEO. Every Director may request that any matter not delegated to the CEO should be discussed by the Board and that no action should be taken before the Board has decided on the matter.

## The Non-Executive Directors

The Non-Executive Directors share full responsibility for the execution of the Board's duties, are independent of management and are therefore able to provide critical input into Board decisions through their contributions to Board discussions and their roles on, and Chairmanship of, Board committees. With a wealth of experience and skills between them, they are well placed to help develop the Company's long-term strategic, financial and operational goals, as well as constructively challenge and scrutinise the day-to-day management of the business against the performance targets and objectives set.

The Non-Executive Directors are responsible for setting appropriate levels of remuneration for the Executive Directors, and ensuring performance targets are continually monitored to be closely aligned with Shareholder interests. They are also critical to the development of succession planning and appointment and removal of senior executives and management.

The Non-Executive Directors are also responsible for ensuring that adequate internal controls and risk management systems have been developed and implemented, that these are continually monitored and suitably robust and that financial information is accurate and transparent.

# Corporate Governance Statement

continued

## Company Secretary

The Company Secretary takes responsibility for compliance with all relevant governance requirements and assists the Chairman with ensuring Board procedures are followed. The Company Secretary in his or her role further advises the Board on changes to relevant legal and corporate governance regulations. The Board is collectively responsible for the appointment and removal of the Company Secretary.

## Effectiveness

### Board composition and succession planning

The Board regularly reviews its composition to determine whether it has the right mix of skills and background to effectively perform its duties. As part of this review, it also considers internal executives and senior management positions to ensure a proper breadth of talent is developed. The Board has appointed Directors from a wide variety of business backgrounds to provide it with a strong balance of skills and experience. The Board is comprised of the Chairman and eight Non-Executive Directors who, together with two Executive Directors, help maintain a solid, collective understanding of the Company and its daily business. More details about the current Board members can be found on pages 54 to 56.

André Lacroix acts as the Senior Independent Director. All Non-Executive Directors, excluding the Chairman, who was independent on appointment are determined by the Board to be independent. The Board has deemed Judy Sprieser and Ken Hydon independent, notwithstanding that they have served in excess of the recommended nine years, by virtue of their behaviour and judgement, which remains challenging and unbiased.

The Shareholder agreement between the Company and JAB Holdings B.V. (JAB) at the time of the merger in 1999 entitled JAB to nominate Board Directors. A holding in excess of 20% or 10% of the Company's ordinary shares entitles JAB to nominate two Directors or one Director respectively. JAB's current holding is below this amount and there is currently no nominated Director on the Board.

In accordance with the Code, every Director submits him or herself for election/re-election at every Annual General Meeting of Shareholders.

### Board diversity

The composition of the Board's members reflects diverse professional, ethnic and national backgrounds. We comply with the Davies Report recommendation of at least 25% females on the Board and at all times consider gender balance as part of discussions on Board composition. The Company recognises the Hampton Alexander review to have at least 33% females on the Board by 2020. The Board's diversity reflects itself throughout our business and helps to ensure that we cater fully to our varied spectrum of consumers across all markets that we serve. Details of diversity through the workplace can be found on page 30.

### Board balance and independence

On appointment, Non-Executive Directors are made aware and are required to confirm they will allocate sufficient time to their role to discharge their responsibilities effectively. They are also required to seek agreement from the Chairman before taking on additional commitments, and to declare any actual or potential conflicts of interest. Non-Executive Directors are engaged under the terms of a Letter of Appointment. Initial terms of appointment are for three years with one month's notice, with all Directors standing for re-election at every Annual General Meeting of Shareholders.

The Nomination Committee has principal responsibility delegated to it for making recommendations to the Board on new appointments as well as the composition of the Board and its committees. The Board and each of its members are confident they individually have the expertise and relevant experience required to perform the functions required of a Director of a listed company.

The Company recognises the developmental advantages of an external non-executive role on a non-competitor board and Executive Directors are permitted to seek such a role, provided that they do not take on more than one non-executive directorship in, or become the Chairman of, a FTSE 100 company. Adrian Hennah is a Non-Executive Director of RELX Group PLC and RELX NV. He was also a Non-Executive Director of Indivior PLC until 11 May 2016, when he stepped down from that board.

The 2016 evaluation of the Board's performance during the year concluded that the Chairman and other Non-Executive Directors continue to devote sufficient time to carrying out their duties to the Company. Each Director standing for re-election has individually provided assurances that they remain committed to their roles and can dedicate sufficient time to perform their duties. Accordingly, the Board recommends that all Shareholders vote in favour of the resolutions to re-elect the Directors at the 2017 Annual General Meeting.

### Director inductions and training

RB has established a comprehensive induction programme for new Directors. The programme covers RB's business, legal and regulatory requirements of Directors and includes one-to-one presentations from senior executives across the Group covering topics such as strategy, investor relations, taxation, Internal Audit, supply and the Company's categories of Health, Hygiene and Home. The induction programme has several aims and serves multiple purposes. It provides new Directors with an understanding of RB, its businesses and the markets and regulatory environments in which it operates, provides an overview of the responsibilities for Non-Executive Directors of RB and builds links to RB's people and stakeholders. Incoming Board members will also have legal due diligence meetings and meet with the Group's External Auditor.

Site visits are arranged to the Group's operations to gain an insight into the business, and also form part of the annual Board meeting cycle, with at least one meeting held at an offsite business location.

The Chairman has overall responsibility for ensuring that the Directors receive suitable training to enable them to carry out their duties. As part of their role, Directors are also expected to personally identify any additional training requirements they feel would benefit them in performing their duties to the Company. Ongoing training arranged by the Company covers a wide variety of sector-specific and business issues, as well as legal and financial regulatory developments relevant to the Company and the Directors. Training may be provided by way of briefing papers or presentations, as well as meetings with senior executives or other external sources.

## Board support

The Company Secretary is responsible for organising Board meetings, as well as collating any papers for the Board to review and consider. Board and committee papers, as well as past meeting minutes, are accessible to all Directors through a secure and confidential electronic document storage facility. This facility is maintained by RB's Secretariat function and additionally holds other information which the Chairman or Company Secretary may deem useful to the Directors, such as press releases and pertinent Company information.

All of the Directors have individual access to advice from the Company Secretary and a procedure exists for Directors to take independent professional advice at the Company's expense in furtherance of their duties.

## Conflicts of interest and indemnity

Directors have a duty under the Companies Act 2006 (CA 2006) to avoid interests, direct or indirect, which might conflict with the interests of the Group. Under the terms of the Company's Articles of Association, such conflicts can be authorised by the Board which at all times takes responsibility for ensuring compliance with laws and regulations on corporate governance, and that Directors' potential conflicts of interest are regularly reviewed.

The Company indemnifies the Directors and Officers of the Company and any Group subsidiary to the extent permitted by CA 2006 and the FCA Listing Rules in respect of the legal defence costs for claims against them and third-party liabilities. The indemnity would not provide cover for a Director or Officer if that individual was found to have acted fraudulently or dishonestly. Additionally, Directors' and Officers' liability insurance cover was maintained throughout the year at the Company's expense.

## Evaluation of the Board

The Board annually reviews its own and its committees' performance and effectiveness. In line with the Code requirements, an independent external review took place in the year, facilitated by EquityCommunications Limited (EquityCommunications). EquityCommunications provides board evaluation services and has no other connection with the Company. The 2016 Board evaluation was the first externally facilitated review that EquityCommunications had carried out for the Company.

The scope of the evaluation was broad and included corporate strategy, risk oversight, degree of challenge and decision making, the role of the Chairman, succession planning and Board committees. The evaluation was conducted through use of a detailed questionnaire specifically targeted for the Company and designed to elicit full and meaningful responses.

A report, containing the findings of EquityCommunications, together with action points and recommendations for the Board to consider, was distributed to Directors and the results of the assessment subsequently discussed by the Board at its November meeting.

In addition, the Chairman's performance was separately considered by the Senior Independent Director with input from his fellow Non-Executive Directors and also discussed in November.

The results of the external assessment confirmed that the Board was working well, with an enviable and productive blend of experienced and newer Board members. The Board was commended on its high levels of functionality, cohesiveness and mutual respect between the Executive and the Non-Executive Directors. The Chairman and CEO were emphasised as being key assets to the Board. The Chairman earned particular praise and EquityCommunications noted the Board's warm and universal support for his direction and performance.

The most significant challenge for the Board going forward was recognised to lie in succession planning. In particular, and in light of its current strong composition, continuing to source suitably well-balanced and diverse candidates, both internally and externally, for future membership and in succession of the Chairman, CEO and as Non-Executive appointments reach their maturity.

The Company's strong and deeply integrated culture, extending right through the Group, was recognised as a clear driver for RB's growth and dynamic characteristics, with the ability to take and implement decisions swiftly not just at Board level but globally, throughout the layers of management beneath the Board. This was tempered with the need to always be mindful of newly emerging regulatory frameworks and developments within health and safety.

The Board's rational responses to the challenge faced in South Korea were also commended, stressing the continued confidence displayed by the Board in each other and management was testament to being able to perform well under pressure.

The 2016 review of the Board's performance and that of its committees concluded that the Board, its committees and individual Directors were continuing to perform effectively. Recommendations have been taken on board to be addressed and these will be reassessed as part of the 2017 evaluation.

## Board visit to Shanghai

In September 2016, the RB Board travelled to Shanghai, China for its annual off site strategy session.

### Local business insights

- ⌚ Tour of the Shangma sexual wellbeing factory in Qingdao
- ⌚ Trade visits
- ⌚ Visit to logistics centre outside Shanghai

### China

- ⌚ Presentations by leading experts on:
  - socio/economic challenges and opportunities
  - consumer and market trends shaping growth
  - Connected Health
  - Digital sales and marketing
- ⌚ Review of the DvM operating area
- ⌚ Comprehensive review of RB's e-commerce platform including D2C operation.
- ⌚ Meetings with the China management team
- ⌚ Meetings with local financial management, with a focus on internal financial controls by the Audit Committee

# Corporate Governance Statement

continued

## Accountability

### Risk management

The Board has ultimate responsibility for preparing the Annual Report and Financial Statements. RB has implemented robust internal controls to safeguard the integrity of both the Group and its subsidiary Financial Statements and ensures that adequate verification processes are in place to enable it to confirm that the Group's Financial Statements present a fair, balanced and understandable assessment of RB's position and prospects, in line with Code requirements. The Board considers that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provide sufficient information for Shareholders to be able to assess the Company's position, performance, business model and strategy.

RB's finance function, headed up by the CFO, has implemented a number of policies, processes and controls to enable the Company to review and fully comply with changes in accounting standards, financial regulations and recognised practices. These processes are kept under review on an ongoing basis. Multiple teams including consolidation and financial accounting, together with technical support, ensure both internal and external developments are reviewed and responded to. The Group also maintains a Finance Policy Manual setting out the required standards of financial reporting and approvals across the Group and its operating units, including a structured process for the appraisal and authorisation of any material capital projects.

The basis for the preparation of Group Financial Statements is set out on page 110 under Accounting Policies.

The Company's External Auditor's Report, setting out its work and reporting responsibilities, can be found on pages 98 to 104. The terms, areas of responsibility and scope of the External Auditor's work are agreed by the Board and set out in the Auditor's engagement letter.

More information on the Group's principal risks and strategy for growth and achieving targeted goals is detailed in the CEO's Statement and the Strategic Report, which can be found on pages 1 to 53.

The Directors' Statement of Responsibilities on page 96 details the Going Concern Statement as required by the Listing Rules and the Code and the Directors' responsibility for the Financial Statements, for disclosing relevant audit information to the Auditor and for ensuring that the Annual Report is fair, balanced and understandable.

As part of the plans to acquire Mead Johnson, the Board will continue to ensure proper due diligence processes are in place in the forthcoming period. More details of the acquisition can be found on pages 10 to 11.

### Risk appetite

The Board has overall responsibility for complying with the Code and the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. It oversees the internal controls established, and monitors their effectiveness, in managing risk. The sectors and environment within which RB operates are dynamic and fast moving, and the controls are continually kept under review to minimise the potential exposure to risk. The system is designed to evolve and manage, rather than eliminate, risks to RB's business objectives, and the Board relies on these controls in so far as they are able to provide reasonable, but not absolute, assurance against material misstatement or loss. The Group's major risks and mitigating factors are detailed on pages 46 to 53.

As part of its risk control, RB regularly evaluates principal risks to achieving objectives, the likelihood of such risks materialising and determining the ability of the Group to cope with the circumstances should they occur. In doing so, it also looks to actions that can be taken, controls that can be implemented and processes that can be followed to reduce the chances of risk events taking place, mitigating the potential impact and ensuring that the cost of doing so is proportionate to the benefit gained. During the year a significant change was made to address compliance risk. A compliance assessment process was managed in parallel with the established risk management process, and a separate compliance risk register was also produced. Compliance risks determined as major risks are detailed as such.

### Internal control

Internal control processes are implemented through clearly defined roles and responsibilities, delegated by the policies to the executive team and senior management.

RB operates three strands in monitoring internal control systems and managing risk:

- Management ensures the controls, policies and procedures are followed in dealing with risks in day-to-day business. Such risks are mitigated at source with controls interwoven into the relevant systems and processes. Supervisory controls either at management level or through delegation ensure appropriate checks and verification takes place, with any failures dealt with promptly and awareness raised in order to review gaps in existing controls. Throughout RB, a key responsibility for any line manager is to ensure the achievement of business objectives with appropriate risk management and internal control systems.
- Each function and operating unit has its own management which acts as a second line of oversight and verification. This level sets the local level policies and procedures, specific to its own business environment, subject to Group policy and authorisation. They further act in a supervisory capacity over the lower level management implementation of controls. The financial performance of each function and operating unit is monitored on a monthly basis against pre-approved budgets and set against forecasts, developed higher up the management chain, and ultimately overseen by the executive management and the Board.
- The third strand is provided through independent review by both Internal and External Audit teams, who challenge the information and assurances provided by the first two strands. This review ultimately gets reported back to the Board, via the Audit Committee, with action taken to address matters identified. More details on the Audit Committee and its duties can be found on pages 69 to 73. The Group's compliance controls further include operating an independent and anonymous whistleblowing facility, annual management reviews and providing training specific to individual needs within the business. The Board is also provided with reports on the effectiveness of these controls to ensure full oversight of the business.

RB has a strong culture of support for its internal controls. Function and operating management meet to discuss performance measured against strategic aims and goals, with risks and risk controls incorporated into the discussions. More detail on the Group's principal strategic risks and uncertainties can be found in the Strategic Report on pages 46 to 53.

RB has developed a Code of Conduct on which employees must undertake training. This training includes reminding employees of the Group's strict policies on reporting of any adverse events in relation to its products, as well as the availability of an independent and anonymous whistleblowing facility. Together they help ensure a solid backbone of ethical, responsible behaviour amongst RB's employees, providing an extra layer of support to the internal controls with an intrinsic awareness of RB's policies on corporate responsibility.

A Code of Conduct for ethical marketing is also being rolled out globally to employees in 2017 to drive the principles of ethical marketing and putting the consumer at the heart of everything we do. For further detail see the full Code of Conduct at [www.rb.com](http://www.rb.com).

This culture of ethical and responsible conduct has been further strengthened with the creation of a Corporate Responsibility, Sustainability, Ethics and Compliance Committee. The focus of this committee is on the Company's corporate social responsibilities, environmental and sustainability issues and overall ethical conduct and regulatory compliance. More details on its work can be found on pages 74 and 75.

### Statement of compliance with the Code

The Board confirms that reviews and monitoring of the appropriateness and effectiveness of the system of internal control and risk management throughout the financial year and up to the date of approval of the Annual Report and Financial Statements have been satisfactorily completed in compliance with provisions C.2.1 and C.2.3 of the Code with no significant failings or weaknesses identified. During the year, the Directors undertook a robust assessment of the principal risks facing the Company, including those that could threaten RB's business model, future performance, solvency and liquidity. For further details, see the principal risks section on pages 46 to 53.

The Company is compliant with DTR 7.2.6 and the information is included in the section on Takeover Directive on page 93.

## Relations with Shareholders

The Board values effective communication with Shareholders and is committed to regular, clear and transparent dialogue. This includes formal presentations of full year and interim results, together with quarterly statements on the Company's key performance indicators, with roadshows to meet with institutional investors following results announcements.

RB maintains regular dialogue with trade analysts and fund managers to ensure a widespread understanding and availability of information regarding developments for the Group, as well as the industry sectors which RB serves. The CEO, CFO and the Director of Investor Relations meet regularly with institutional Shareholders and analysts to discuss the performance of the Group and its strategy. Where appropriate, the views of Shareholders are also sought in relation to remuneration plans and governance issues.

Feedback is presented to the Board to ensure all Directors are fully aware of the views of existing Shareholders, investors and analysts. Analysis of RB's Shareholder register is made available to the Board and reports prepared by the Group's brokers and public relations advisors are provided to all Directors after every significant corporate event and on other relevant occasions.

On a monthly basis, and at each Board Meeting, the Board receives updates from the CEO on the Company's share price movements, major share transactions and the views of both investors and analysts on the Group's performance.

All Shareholders may speak with the Company's Investor Relations team and the Company Secretary; and a section of the RB website is dedicated to Shareholders. The Chairman is also available to discuss governance and strategy with major Shareholders and does so regularly throughout the year, providing feedback on the meetings to the rest of the Board. In November 2016, the Chairman carried out a two-day roadshow with a number of institutional investors focusing on governance and the Company's strategy.

If required, key executives, along with the Senior Independent Director, are available to discuss matters of concern.

### Annual General Meeting

The Board views the AGM as a valuable opportunity to meet with its private Shareholders in particular, giving them an opportunity to put questions to the Chairman, chairs of the committees and the Board.

All Shareholders are able to vote on the resolutions put to the meeting. Voting is by way of poll providing each share with one vote. Results of the poll are released to the London Stock Exchange and published on the Group's website shortly after the AGM.

## Shareholder resources

### Website

The Investor Relations hub on the RB website provides the Board with an additional method of communicating with Shareholders. As well as the latest regulatory disclosures, the hub includes copies of the latest and previous years' Annual Reports, latest share price information and copies of previous investor presentations, as well as key calendar dates. The website is available at [www.rb.com/investors](http://www.rb.com/investors)

Shareholders can also access our Sustainability Report and associated policies on the RB website at [www.rb.com](http://www.rb.com)

# Nomination Committee Report



**“Our commitment to ensuring a balanced and diverse Board with a wealth of skills and experience is key to safeguarding the Group’s values and culture and promoting RB’s long-term success.”**

## Adrian Bellamy

Chair of the Nomination Committee

### Role of the Nomination Committee

The role of the Committee is to review and monitor the structure, size and composition of the Board and its committees and to make recommendations to the Board of suitable candidates for appointment to the Board and its committees. The Committee also has responsibility for reviewing succession plans for the Board and key management roles.

The Committee’s terms of reference are available on the Company’s website. They are reviewed annually to ensure that they continue to reflect best practice.

### Composition

The Nomination Committee is comprised of a majority of Non-Executive Directors. During the year the following Directors were members:

Adrian Bellamy (Chairman)	Mary Harris <sup>1</sup>	Sue Shim <sup>1,3</sup>
Jaspal Bindra <sup>1,3</sup>	Ken Hydon	Chris Sinclair <sup>1</sup>
Nicandro Durante <sup>1</sup>	Rakesh Kapoor	Judy Sprieser
	Pamela Kirby <sup>2</sup>	Doug Tough <sup>1,3</sup>
	André Lacroix	Warren Tucker <sup>1</sup>

1 Stepped down from the Committee on 16 March 2016

2 Appointed to the Committee on 28 July 2016

3 Stepped down from the Board at the conclusion of the AGM on 5 May 2016

Biographical details of the members of the Board who held office during the year and up to the date of this Report can be found on pages 54 to 56.

Following review of the Committee’s composition, on 16 March 2016 its membership was refreshed to comprise the Chairman, CEO, Senior Independent Director and Chairs of the principal Board committees.

The Deputy Company Secretary, who at the time held the role of Interim Company Secretary, acted as Secretary to the Committee during the year.

### Activity

The Committee’s focus during 2016 and at the start of this year has been the composition of the Board, its principal committees and their Chairs, as well as succession planning for the positions of Chairman, CEO and senior management; to ensure that the Board has the right balance of skills, expertise, experience, diversity and independence to enable it to perform effectively; and that its governance structures are of the highest standard.

Ethics and compliance have been a strategic priority for the Group, underlined by the importance of setting the tone from the top. The Audit Committee previously covered ethical matters; however, to assist the Board in fulfilling its duty to safeguard and advance the Company’s reputation for responsible and sustainable corporate conduct, the Nomination Committee recommended to the Board the creation of a separate Board committee to review, monitor and assess the Board’s approach to and management of corporate social responsibility, environmental and sustainability issues and behaviours, ethical conduct and regulatory compliance. Pam Kirby’s knowledge of healthcare and previous experience as a member of sustainability, ethics and compliance committees on other boards are highly regarded and she was asked to chair the newly established Corporate Responsibility, Sustainability, Ethics and Compliance (CRSEC) Committee. She was appointed as Chair on 28 July 2016. The first report of the CRSEC Committee is on pages 74 and 75.

The Committee meets on an ‘as needed’ basis and formally met once during the year. In addition, matters within the Committee’s remit were also taken as specific items at full Board meetings, principally consideration of succession planning more widely within the Group and talent identification, management and development. Members of the Committee also met together informally to discuss senior executive succession planning.

### Effectiveness

In line with the Code requirements and corporate governance best practice, an independent external Board evaluation was facilitated through EquityCommunications Limited. The evaluation covered the Board and its committees (with the exception of the CRSEC Committee as it was considered too new to evaluate) and was conducted on an anonymous basis using a comprehensive questionnaire. Details of the process can be found on page 65, together with the outcome.

### Diversity

The Board and Committee consider diversity, including gender, amongst its members to be a key factor in steering the Company to strategic and financial success. RB’s customers are from wide and diverse backgrounds and so diversity is pivotal to understanding and best serving our customers.

There is a strong commitment to engendering an all-embracing culture of acceptance throughout the business and the Board recognises the need to set the tone from the very top. This commitment is clearly demonstrated in the diverse composition of the Board, which comprises five nationalities and three women, two of whom are committee Chairs.

### Focus for 2017

On 20 March 2017 it was approved that Mary Harris will move from the Audit Committee to the Remuneration Committee following the conclusion of the AGM and succeed Judy Sprieser as Chair of the Remuneration Committee from November 2017. Judy Sprieser will remain on the Remuneration Committee to support Mary in her new role. We also approved that André Lacroix will become Chairman of the Audit Committee from the conclusion of the Company’s AGM. Ken Hydon will step down as Chairman but will remain a member of the Committee to support André in his new role.

The Board will continue to focus on maintaining strong leadership and to develop its Directors and update and refresh their skills and knowledge, with particular focus on the culture and operating model that has made RB a successful multinational company. The Nomination Committee will focus specifically on composition of the Board and its committees and their Chairs.

# Audit Committee Report



**“Our primary focus remains the accuracy of our financial reporting and the robustness of our internal controls and risk management processes.”**

**Ken Hydon**  
 Chair of the Audit Committee

## Introduction

I am pleased to present the Audit Committee Report for the financial year ended 31 December 2016 which outlines the role, responsibilities and activities of the Committee during the year.

Maintaining the integrity of our financial reporting, monitoring the robustness of internal controls and overseeing risk management processes continues to be our primary focus. This enables the Committee to endorse the results, provide reassurance to the Board and be able to say that the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and provide the necessary information for Shareholders to assess the Group’s position and performance, business model and strategy.

We have therefore continued to review and monitor our risk and control processes, which have included the potential impact on the Company’s internal risk control processes from our expanding IT programme and SAP implementation and some of the consequences of the tragedy in South Korea.

Each year the Committee has a detailed standing agenda of matters to be considered and reviewed. In addition to the regular agenda reviews, we have carried out focused reviews of: quality standards management; IT systems failure; legal and product non-compliance; taxation issues; and the progress of the Group’s global SAP programme. The Committee met with operational management at its meetings to consider financial, legal, regulatory and IT risks and controls. The Committee appreciated the open discussions with local financial senior executives from the US and from China on internal control risk.

During the year we reviewed the Company’s major risk assessment which identified and prioritised the principal strategic risks and uncertainties that might affect the Group and how they could be

mitigated. Looking at the major risks is a key element of our review of the effectiveness of RB’s risk management and control systems and identified risks are clearly reflected in our communications to Shareholders. This year, we made a significant change to address compliance risk; a compliance assessment process was managed in parallel with the established risk management process and a separate compliance risk register produced. Details are set out on pages 46 to 53.

The Committee is responsible for auditor effectiveness and independence. We continue to be satisfied with the work carried out by PwC in the 2016 financial year and confirm that it remains independent and is best placed to conduct the Company’s audit for 2017. In compliance with EU legislation, we are obliged to rotate to a different auditor by 2020 and, as we indicated in last year’s report, it is our intention to recommend to Shareholders at the 2018 AGM the appointment of a new auditor. We have started to prepare for the tender process to be carried out during the first half of 2017 and will work hard to ensure a seamless transition to the new auditor for the 2018 financial year.

The Committee has reviewed the 2016 Annual Report and Financial Statements to provide assurance that they are fair, balanced and understandable and provide sufficient information to enable the Shareholders to assess the Group’s business model, strategy and performance. The form and content of the Annual Report and Accounts were reviewed and approved, and consistency of narrative within the document confirmed. The preparation and verification processes were determined to be robust. Following our review, we advised the Board that we were satisfied that the 2016 Annual Report and Financial Statements, taken as a whole, met its objectives and supported the Board in making its statement on page 96.

Committee meetings are scheduled ahead of Board meetings and a summary is given to the Board at the following meeting. Minutes of Committee meetings are provided to the Board. Terms of reference are on the Company’s website.

I would like to acknowledge and thank the other members of the Audit Committee for their diligence and support during the year. Sue Shim and Jaspal Bindra stood down at the conclusion of the 2016 AGM as they did not stand for re-election. In March 2016, Pamela Kirby and Mary Harris were appointed as members of the Committee and I was delighted to welcome them both. They have brought new perspectives to discussions at our meetings. Pam was subsequently appointed Chair of the newly established Corporate Responsibility, Sustainability, Ethics and Compliance Committee which reviews compliance and ethical matters, such as fraud and whistleblowing. Pam has worked closely with me to ensure that any processes used by both committees or financial implications which arise are sufficiently covered by the appropriate committee(s). Since the year end it was approved that Mary Harris will become a member of the Remuneration Committee from May 2017 and succeed Judy Spireser as Chair in the Autumn. Mary will cease to be a member of the Audit Committee from May 2017 in order to devote herself to her new responsibilities. I thank her for her input to date and wish her well in her new role.

Over the coming year the Committee will continue to provide oversight and reassurance to the Board on the risk management process and control procedures. Activities will include cyber security, the roll out of SAP, shared services and preparations for new accounting standards.

This will be my last Audit Committee report as I will be stepping down from the post of Chair at the conclusion of the AGM. André Lacroix will succeed me as Chair. I will remain a member of the Committee and give André my full support.

**Ken Hydon / Chair of the Audit Committee**  
 20 March 2017

# Audit Committee Report

## continued

### Composition

The Audit Committee is made up entirely of Non-Executive Directors who are appointed by the Board on the recommendation of the Nomination Committee. Membership of the Audit Committee during the year was as follows:

Name

Ken Hydon (Chairman)  
 Jaspal Bindra<sup>1</sup>  
 Mary Harris<sup>2</sup>  
 Pamela Kirby<sup>2</sup>  
 André Lacroix  
 Sue Shim<sup>1</sup>  
 Warren Tucker

<sup>1</sup> Stepped down from the Board and Committee at the conclusion of the Company's AGM on 5 May 2016.  
<sup>2</sup> Appointed to the Committee on 16 March 2016.

The Deputy Company Secretary was Secretary to the Committee throughout the year.

The Board considers that each member of the Audit Committee is independent and meets the requirements of the UK Corporate Governance Code (the Code). The Code's requirement is for members of the Committee to have significant, recent and relevant financial experience. All of the members have financial, economics and/or business management expertise in multinational organisations. Two of the members have held senior finance posts. Ken Hydon, Chairman since 16 November 2006, was previously CFO of Vodafone Group plc until July 2005 and Warren Tucker was previously CFO of Cobham plc until May 2013. All members are expected to have an understanding of the principles of, and recent developments in, financial reporting and an understanding of the Group's internal control systems. On joining the Committee and during their tenure, members receive additional training tailored to their individual requirements. Such training includes meetings with internal management covering Internal Audit, legal, tax, treasury and financial matters as well as meetings with the External Auditor. All members of the Committee receive regular briefings from senior executives on matters covering governance and legislative developments, accounting practices and policies and tax and treasury. The Committee as a whole is considered by the Board to be competent in the Company's sector. The skills and expertise of each Committee member are summarised on pages 54 to 56.

All members are expected to have an understanding of the principles of, and recent developments in, financial reporting and an understanding of the Group's internal control systems. On joining the Committee and during their tenure, members receive additional training tailored to their individual requirements. Such training includes meetings with internal management covering Internal Audit, legal, tax, treasury and financial matters, as well as meetings with the External Auditor. All members of the Committee receive regular briefings from senior executives or PwC on matters covering: governance and legislative developments; accounting practices and policies; tax; and treasury.

### Meetings

During 2016, the Company held four scheduled meetings at times related to the Company's reporting cycle, and the attendance of members at the meetings is set out in the table on page 63. In addition, a less formal Committee session with local financial management was held in September 2016 as part of the Board's strategy visit to China. Senior representatives of the External Auditor, the Group Head of Internal Audit and the CFO regularly attend meetings. The Chairman and CEO are also invited to all meetings and other senior management attend when deemed appropriate by the Audit Committee. Time is allocated at each meeting for private discussion with the Head of Internal Audit and PwC without the other invitees being present, and a private meeting of the Committee.

Audit Committee meetings take place ahead of Board meetings and the Audit Committee Chairman provides an update of the key issues discussed to the Board at each meeting. Minutes of Audit Committee meetings are provided to the Board and the External Auditor.

### Role and responsibilities

The Audit Committee is part of the Group's governance framework and supports the Board in fulfilling its responsibilities in ensuring the integrity of the Group's financial reporting, internal controls and overall risk management process. Its role and responsibilities are set out in its Terms of Reference which can be found at [www.rb.com](http://www.rb.com). In 2016, the Board reviewed and updated the Committee's terms of reference to take account of the 2016 UK Corporate Governance Code and the associated Guidance on Audit Committees, recommended best practice and to reflect on its interface with the newly established Corporate Responsibility, Sustainability, Ethics and Compliance (CRSEC) Committee.

In accordance with its terms of reference, the Audit Committee's responsibilities include, but are not limited to, the following matters:

### Financial reporting

- Monitor the integrity of the Financial Statements of the Company, including preliminary and interim announcements. Review and challenge, where necessary, the actions and judgements of management before submission to the full Board.
- Consider significant legal claims and regulatory issues.

### Narrative reporting

- Review the content of the Annual Report and Financial Statements and advise the Board on whether it is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's position and performance, business model and strategy.

### Risk management and internal controls

- Review and monitor on an ongoing basis the scope and effectiveness of internal financial, operational and compliance risk management processes.
- Consider the findings of internal investigations.

### Internal Audit

- Assess and approve Internal Audit's annual work plan and ensure that the Internal Audit function has sufficient resources and access to management to perform its role.
- Review Internal Audit activities, significant recommendations and findings and related management actions.
- Review the effectiveness of the Internal Audit function.

### External Audit

- Consider and make recommendations to the Board to put to Shareholders for their approval at the AGM regarding the appointment of the External Auditor.
- Monitor the rotation of the External Audit partner and manage the competitive tendering process of the audit services contract.
- Review and monitor the External Auditor's independence, objectivity and effectiveness.
- Develop, implement and keep under review policy on non-audit services, taking into account relevant ethical guidance.

### Activities during 2016

Audit Committee meetings cover matters set out in its Terms of Reference related to the reporting and audit cycle, including: half and full year results; Internal and External Audit work plans and reports; and regular updates from senior financial management and PwC. Recognising the importance of new accounting standards, in 2017 we shall be looking in particular at the preparations for IFRS 15, revenue from contracts with customers effective from 2018, and IFRS 16, leasing.

### Financial reporting and significant financial judgements

During the year, the Audit Committee assisted the Board with the discharge of its responsibilities for financial reporting, including:

- reviewing and approving the appropriateness of the interim and annual Financial Statements and related announcements;
- recommending that, in the Audit Committee's view, the Financial Statements were fair, balanced and understandable. In addition to the detailed preparation and verification procedures in place for the 2016 Annual Report and Financial Statements, management continued its focus on narrative reporting and clear written and visual messaging to communicate the Group's strategy. The Audit Committee concluded that the disclosures contained in the Financial Statements and the underlying processes and controls were appropriate and recommended to the Board that the Annual Report and Financial Statements, taken as a whole, was fair, balanced and understandable and provided the necessary information for Shareholders to assess the Group's position and performance, business model and strategy; and
- reviewing the appropriateness of the accounting policies, judgements and estimates used as set out on pages 110 to 114 and concluding that the judgements and assumptions used were reasonable.

The significant financial judgement and complexity areas in relation to the 2016 Group Financial Statements considered by the Audit Committee, together with a summary of the actions taken, were as follows:

- **Impairment assessments**

Management performed its annual impairment review for goodwill and other intangible assets with indefinite lives. Key judgements included the allocation of these assets to cash generating units (CGUs) and groups of CGUs (GCGUs) as well as estimates of future business performance and cash generation, discount rates and long-term growth rates (see Note 9 to the Group Financial Statements on pages 123 to 125). The Audit Committee reviewed management's analysis, including the appropriateness of specific risk factors applied to individual and groups of CGUs, as well as the adequacy of sensitivities applied. As a result of this review, the Audit Committee confirmed that it was comfortable that no impairment was required and that the intangible assets with indefinite lives remained appropriate.

Following a review of the Company's 2014 Report and Accounts, the FRC Conduct Committee requested certain explanatory information from the Company in respect of preparation of the accounts, including the determination of CGUs on a product rather than geographical basis in goodwill impairment calculations. The FRC was satisfied with the Company's response and closed its enquiry. The Company has undertaken to monitor internally if material goodwill impairment would occur were a review carried out at a lower level than that of the operating segments, as required by IAS 36.

- **Legal liability provisioning**

At 31 December 2016, a provision of £329 million (2015: £141 million) was held on the Group's Balance Sheet in relation to regulatory, civil and/or criminal investigations by government authorities as well as litigation proceedings and a provision in respect of the South Korea HS issue. The Committee challenged management on legal judgements made in determining the level of provisioning and were satisfied with the level of provisioning.

- **Tax provisioning**

From time to time the Group may be involved in disputes in relation to ongoing tax matters in a number of jurisdictions around the world where the approach of the authorities is particularly difficult to predict. The level of provisioning for these investigations is an issue where management and tax judgement are important. The Committee debated the key judgements made with management, including relevant professional advice that may have been received in each case, and considers the tax provisioning levels to be appropriate.

- **Exceptional items**

The Committee considered the presentation of the Group Financial Statements and, in particular, the presentation of exceptional items and the items included within such measures. The Audit Committee discussed this with management and agreed that the presentation provided meaningful information to Shareholders about the underlying performance of the Group.

# Audit Committee Report

continued

- **Trade spend**

Trade spend remains a significant expense for the Group, and the main judgements relate to trade accruals, specifically the timing and extent to which temporary promotional activity occurred. The Audit Committee reviewed with management its assessment of the control environment and the findings of Internal Audit relating to trade spend and considered that management operates an appropriate control environment which recognises the risks in this area.

- **Going concern and Viability Statement**

A viability review was undertaken by management, encompassing its going concern review. (See Note 1 to the Group Financial Statements on page 110.) The Audit Committee reviewed the key assumptions used by management in its viability review and going concern assessment, as well as the scenarios applied and risks considered. Based on its review, the Audit Committee considers that the application of the going concern basis for the preparation of the Financial Statements was appropriate and confirmed the suitability of the Viability Statement covering the next five years as set out on page 46. A five year period was selected as it is the period of the Group's long-term forecasting process and covers the various business cycles.

### Risk management and internal control matters

In monitoring the adequacy and effectiveness of the system of internal controls, the Audit Committee reviewed compliance procedures and RB's overall risk framework (including the Group's whistleblowing arrangements) and considered operational risk and control processes. There were no significant failings or weaknesses during the year meriting disclosure in this report and the Audit Committee considers the internal control framework to be functioning appropriately.

The Audit Committee also addressed the following specific matters during the year:

- 'Deep Dive' risk and control reviews of non-compliance with quality standards, IT systems failure, legal and product non-compliance and taxation issues, as well as a review of the progress of the Group's global SAP programme.
- Reviewed the Group's major risk assessment process and gave detailed consideration to principal risks and internal control processes.
- Kept abreast of changes in financial reporting and governance matters by way of technical updates throughout the year, as well as discussions on relevant topical issues such as cyber security by way of 'spare chair' briefing with an external specialist.
- Engaged with senior executives and local management to receive and discuss control reviews of the Group's ENA and DvM areas, and China and the US.

- Approved the External Auditor's annual terms of engagement and reviewed and updated the provision of non-audit services policy.
- Approved and assessed the deployment of the External Audit plan.
- Carried out pre-selection work in anticipation of the tender for External Audit services which will be conducted during 2017.
- Approved the Group's Internal Audit plan and risk controls and reviewed Internal Audit reports.
- Reviewed ethical issues, including any fraudulent activity or reports raised under the whistleblowing procedure. From November 2016, the CRSEC Committee has been responsible for ethical issues.
- Reviewed tax and treasury matters, including provisioning and compliance with statutory reporting obligations.

### External Auditor and the retender of External Audit

The Audit Committee is responsible for reviewing and monitoring the independence and objectivity of the External Auditor and the effectiveness of the External Auditor and the audit process. The Audit Committee approves the Auditor's terms of engagement and reviews the strategy and scope of the audit and the work plan. RB has a formal policy in place to safeguard the External Auditor's independence.

The Committee reviews the nature and level of non-audit services undertaken by the External Auditor during the year to satisfy itself that there is no impact on its independence and is required to approve all non-audit services over £250K. The Board recognises that in certain circumstances the nature of the advice required may make it more timely and cost effective to appoint an auditor who already has a good understanding of RB. The total fees paid to PwC for the year ended 31 December 2016 were £7.4 million, of which £1.3 million related to non-audit work (to which PwC was appointed principally for the above reasons). Details of non-audit services are set out in Note 4 on page 119.

Following the introduction of EU reforms, the Group's internal policy on non-audit fees was revised during the year to reflect prohibited non-audit services, including all tax services provided to entities within the EU. This policy became effective as at 1 January 2017. In anticipation of an External Audit tender being carried out in 2017, all services provided by PwC and the service providers identified by the Company in the pre-selection process are being carefully managed. The policy states that, on an annual basis, non-audit fees should not exceed 50% of the Group's External Audit and audit-related fees for the year. The Board confirms that, for the year ended 31 December 2016, non-audit fees were 21% of the audit and audit-related fees. In the opinion of the Audit Committee, the relationship with the External Auditor works well and the Audit Committee remains satisfied with its independence and effectiveness.

The Audit Committee is responsible for reviewing and making recommendations to the Board on the re-appointment of the External Auditor and tendering of the External Audit contract. The Audit Committee also monitors the rotation of the lead Audit Partner, who rotates every five years in accordance with best practice standards. The current lead Audit Partner, Mark Gill, has just completed the fourth year of his five-year term.

PwC was appointed as Auditor of Reckitt Benckiser plc in 2000, the year after the merger of Reckitt & Colman plc and Benckiser N.V. in 1999. At the time of the merger, PwC was the auditor of Reckitt & Colman plc and Deloitte LLP was the auditor of Benckiser N.V. Post-merger, the Audit Committee at the time undertook a review and subsequently selected PwC as Auditor for the Group for the December 2000 year end. There has been no subsequent audit tender. PwC has been the Auditor of the Parent Company since the formation of Reckitt Benckiser Group plc in 2007.

Under the EU Directive on Audit Reform in respect of audit retenders and rotation, and the Competition and Markets Authority Order on mandatory audit tendering, we are required to appoint a different auditor by the 2020 financial year end. In the Annual Report and Accounts for the year ended 30 December 2015, the Committee disclosed that it had commenced a pre-selection process with a number of audit firms in preparation for a possible audit tender in 2017, allowing for the appointment of a new auditor at the 2018 AGM. It remains the Committee's intention to put a recommendation to Shareholders to appoint a new External Auditor for the year ending December 2018. Management and the Committee are working to ensure that there will be a seamless transition at that time. The Committee has carried out detailed investigations during the year to identify those firms with sufficient geographical reach, experience, expertise in the consumer products industry, that provide a good cultural fit and which were not conflicted by virtue of substantial ongoing non-audit work. Following detailed reviews and preliminary meetings with potential firms, a shortlist has been identified and firms have been asked to submit proposals against a detailed invitation to tender.

The Committee is satisfied that PwC remains independent and is best placed to conduct the Company's audit for 2017 and the Board concluded on the Audit Committee's recommendation, that it was in the best interests of the Shareholders to appoint PwC for a further year. PwC has expressed its willingness to continue as External Auditor of the Company. Following a recommendation by the Audit Committee, and in accordance with section 489 CA 2006, resolutions to propose the reappointment of PwC as the Company's External Auditor and to authorise the Audit Committee to fix its remuneration will be put to the Shareholders at the AGM.

The Committee is pleased to note that PwC's 2015 audit files were reviewed by the Financial Reporting Council's Audit Quality Review team in the year and no significant issues were raised.

#### **Internal Auditor**

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Internal Audit function. The Head of Internal Audit reports to the Chairman of the Audit Committee and to the CFO for administrative matters and updates the Audit Committee at each meeting. The Internal Audit department is responsible for impartially assessing the key risks of the organisation and appraising and reporting on the adequacy and effectiveness of RB's risk management and internal controls in financial, information systems and other business and operational areas to develop and improve the effectiveness of the Group's risk management control and governance processes and strategies. RB's identified Group major risks and their mitigating controls are described in detail on pages 46 to 53.

The annual Internal Audit plan is prepared under an agreed cover and scope policy and reflects a risk-based approach. Designated audit locations are determined at the start of each year following a risk and control assessment of each commercial and supply unit. Information systems and Head Office locations also fall within Internal Audit's remit and are subject to audit. Following each audit, findings are reviewed and reported to management and to the Audit Committee, together with recommendations and updates. Resulting management actions and progress are tracked until a report is satisfactorily closed. In 2016, routine Internal Audit work covered 63% (by Net Revenue) of RB's global commercial business and 53% (by industrial sales) of global manufacturing facilities.

#### **Governance**

An independently facilitated external evaluation was carried out during the year of both the Board and its committees by EquityCommunications Limited. Details can be found on page 65. Matters reviewed by Committee members included the appropriateness of the Audit Committee's Terms of Reference, composition and skills, training and number and length of meetings.

The performance of the External Auditor was separately assessed by way of an internal questionnaire completed by members of the Audit Committee, Executive Directors and senior management. Respondents were invited to rate PwC's effectiveness in a number of areas including quality, judgement, mindset and culture, skills and knowledge. The Committee also took into account the interaction with PwC at every Committee meeting and the FRC audit inspections of the big four firms. The review led to the conclusion by the Audit Committee that PwC and the External Audit process were effective and that PwC provides a robust challenge of management actions. This view was further reflected by the FRC's review of the audit files.

A new approach was adopted in 2016 for the Internal Audit effectiveness review. Direct post-audit feedback was received and this was followed by a questionnaire targeted at: Audit Committee members, Executive Committee members and functional heads. The evaluation of the Internal Audit function, which covered performance, plan and resources, indicated that the reviewers appreciated the quality and capability of the Internal Audit team which assisted with the improvement of internal controls and processes through the Group, and that they were satisfied with the service level provided. The Audit Committee considered the effectiveness review and the work carried out by the Internal Audit function as reported at every Committee meeting and concluded that it was an effective operation.

#### **Compliance**

The Audit Committee is exclusively responsible (on behalf of the Board) for matters relating to the appointment of the Auditor and for the year ended 31 December 2016 the Company has complied with the Competition and Markets Authority Order: The Statutory Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

# Corporate Responsibility, Sustainability, Ethics and Compliance Committee Report



"We believe that policies alone are not sufficient in ensuring compliance. We are pleased to have made great strides in our governance approach and framework and will work tirelessly to ensure that our programmes are integrated throughout the business and that our high standards are globally upheld and continually strengthened."

## Pam Kirby

Chair of the Corporate Responsibility, Sustainability, Ethics and Compliance Committee

On behalf of the Board, I am pleased to present the first report of the Corporate Responsibility, Sustainability, Ethics and Compliance (CRSEC) Committee for the year.

On 28 July 2016 the Board approved the establishment of a new CRSEC Board Committee. The Committee supports the Board in fulfilling its duty to safeguard and advance the Company's reputation for responsible and sustainable corporate conduct by reviewing, monitoring and assessing its approach to and management of corporate social responsibility, environmental and sustainability issues and behaviours, ethical conduct and regulatory compliance.

Whilst the Board has always overseen and monitored corporate responsibility, it was recognised that more time and capability was needed to give proper attention to the matter. We are committed to ensuring that we conduct business responsibly and that best practice governance is seriously promoted internally with a sustainability mindset. Whilst we are on a journey which will continually change and evolve, we have made substantial progress to date and changes have been welcomed by employees.

## Composition

The CRSEC Committee is made up entirely of Non-Executive Directors who are appointed by the Board on the recommendation of the Nomination Committee. Membership of the CRSEC Committee during the year was as follows:

Pam Kirby (Chairman)  
 Adrian Bellamy  
 Nicandro Durante

All Directors were appointed to the Committee on 28 July 2016.

The Deputy Company Secretary was Secretary to the Committee throughout the year.

## Responsibilities

The Committee's responsibilities include overseeing and making recommendations to executives and the Board for actions to be taken in respect of the Company's corporate responsibility and sustainability, ethics and compliance strategies, policies, programmes and activities. This includes those relating to human rights and product safety, regulatory and quality risk assurance and restrictive trade practices and ethical conduct as well as monitoring and reviewing their implementation.

The Committee meets at least three times per year. The CEO, SVP General Counsel, Chief Safety, Quality and Compliance Officer (CSQC), VP General Counsel Group Legal Affairs and Head of Internal Audit regularly attend meetings and other senior management attend when deemed appropriate by the Committee. Time is allocated at each meeting for private discussion between Committee members and with the CSQC Officer and the Head of Internal Audit without the other invitees being present.

CRSEC Committee meetings take place ahead of Board meetings and the CRSEC Committee Chair provides an update of the key issues discussed to the Board at each meeting. Minutes of CRSEC Committee meetings are provided to the Board. Its Terms of Reference are available on the Company's website.

### Activity

Following its establishment, the Committee met once during 2016. Directors' attendance is set out in the table on page 63.

At its inaugural meeting in 2016, the Committee established its terms of reference, agreed a standing agenda of matters to be discussed at each meeting, determined priorities for 2017 and received and discussed reports from management. The Committee also reflected on the tragedy in South Korea. Both the Committee and the Board's top priorities have been absorbing the lessons learned, to prevent such an event ever happening again and to ensure that our governance structure and programmes continue to put safety at their core.

In conjunction with the establishment of our new Board committee to provide stewardship, advance our priorities and review performance against our targets, a new organisational structure comprising three management committees was also set up. Matters covered by the three management committees, whose work is overseen and monitored by the Committee, include:

- Governance Review Board – Operating model compliance;
- Compliance Management Committee – Consumer safety, employee health and safety, product regulation, substance regulation, environmental strategy, policy and human rights; and
- Ethical Management Committee – Ethics, the Group's Code of Conduct, whistleblowing, and legal compliance, including data protection, anti-bribery and corruption, anti-money laundering, competition law and trade sanctions.

We believe that policies alone are not sufficient in ensuring compliance. A new senior executive Chief Safety, Quality and Compliance Officer position was created to lead a dedicated executive management team to communicate and embed the Group's compliance priorities globally.

### Driving SQC

With clear direction from the Committee the Company has accelerated the plans to improve and drive some of the key activities on safety quality and compliance. Some of the actions already taken in 2016 include setting up a dedicated organisation to manage safety, quality and compliance reporting directly to the CEO.

The SQC function takes the operational lead for sustainability and compliance, setting the agenda for the Group, supported by regional compliance managers, who ensure that policies and processes are rolled out throughout the business.

The organisation has been focused on five key programmes.

- Health and Safety – Providing clearer guidelines and standards and ensuring clear and independent auditing;
- Product safety – Stepping up the requirements and focus to ensure that all our products have the best and most up-to-date safety assessments;
- Quality – Approval and funding to put in place improved business process to support the Quality Management System including change control;
- Environment and Human rights – Further strengthen our internal and external programme to actively manage compliance to RB standards in our own operations and with our direct supplier. We will continue to review and update our environmental guidelines and standards;
- Continue to drive significant reductions on our carbon and water footprint of our products.

All of these actions together will help RB to continue to drive and improve our approach to SQC.

### Focus for 2017

Our focus over the coming year is to ensure that our compliance programmes are embedded in business practice and to build on our commitments. Deep-dive reviews have been scheduled to assess human rights and sustainability; employee safety and occupational health; ethical conduct; product and consumer safety; legal compliance; global regulatory matters; and data privacy.

At the start of 2017, the Company assembled a working party to review the steps the business is taking to identify and prevent modern slavery within our organisation and supply chain and provided the Committee with the assurance to be able to recommend the approval by the Board of the statement under the UK Modern Slavery Act 2015.

A number of training and compliance initiatives have already been implemented to increase awareness and understanding of human rights and slavery for both our employees and our suppliers, including mandatory eLearning for functions involved in supply chain management and supplier workshops. We will continue to further improve our due diligence and remediation processes to ensure that we do not have slavery and trafficking in our operations and supply chain. Our Modern Slavery Act Statement can be found on our website at [www.rb.com](http://www.rb.com)

Over the next 12 months, we will thoroughly review the Company's procedures and policies in respect of regulatory, legal compliance, ethical conduct, employee safety, consumer safety and human rights matters. We will ensure that we monitor and review implementation of, compliance with and enforcement of policies, establish targets and KPIs and champion integration and inclusion of corporate responsibility and sustainability into the current and future business activities of the Company. Subject to the successful completion of the proposed Mead Johnson acquisition, the committee intends to adopt a cross-functional in depth focus on the infant and nutrition category and for the new head of that function to provide feedback to the Committee at its meetings.

I look forward to reporting progress on our achievements in next year's Annual Report.

**Pam Kirby / Chair of the Corporate Responsibility, Sustainability, Ethics and Compliance Committee**  
 20 March 2017

# Directors' Remuneration Report



"Central to our remuneration philosophy are the principles of pay for performance, Shareholder alignment and simplicity."

**Judy Sprieser**  
 Chair of the Remuneration Committee

On behalf of the Board of Directors, it gives me great pleasure to present to you the Directors' Remuneration Report for the year ended 31 December 2016.

I trust that you find this a clear and comprehensive report that illustrates the strong alignment between RB's performance and our Executive Directors' remuneration.

In this section I have set out the key decisions taken by the Remuneration Committee during the year, RB's approach to remuneration and how we have implemented the Remuneration Policy. The remainder of the report summarises RB's policy and then details the Annual Report on Remuneration.

This will be my last Directors' Remuneration Report as I will be stepping down from the post of Chair in November 2017. Mary Harris will join the Committee following the AGM and will succeed me. I will remain as a member of the Remuneration Committee and give her my full support. I wish her well in her new role.

This Directors' Remuneration Report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Report meets the requirements of the FCA Listing Authority's Listing Rules and the Disclosure Guidance and Transparency Rules. In this Report we describe how the principles of good governance relating to Directors' remuneration, as set out in the UK Corporate Governance Code (September 2014) (the Code), are applied in practice. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions.

## Remuneration Committee actions on remuneration outcomes

Before I outline RB's approach to remuneration and how the Remuneration Committee ("the Committee") has implemented the policy approved by Shareholders at last year's AGM, I would like to cover the Committee's actions and use of discretion in determining remuneration outcomes.

The last year has brought both challenges and opportunities for RB. One of the Board's top priorities has been absorbing the lessons from the tragic events in South Korea surrounding humidifier sanitisers (HS) and RB's involvement in this industry-wide issue. In response, RB has taken meaningful action to further strengthen our safety, quality and compliance culture. In February 2017, we announced the proposed acquisition of Mead Johnson Nutrition, a significant step forward in RB's journey as a leader in consumer health.

The Remuneration Committee has taken action in respect of both of these one-off events; in addition to those taken by the Committee following extensive engagement with our Shareholders throughout the year, as part of our annual review of remuneration arrangements.

## Significant reductions in 2016 pay outcomes for CEO

2016 has been a difficult year in RB's long and otherwise successful history. Pages 14 to 15 of this report set out further background to the HS issue in South Korea and the events which took place between 2001 and 2011, together with actions subsequently taken by the Company.

Whilst acknowledging that the events occurred before the tenure of the current CEO, the Committee has considered the HS issue in the context of pay decisions for 2016.

RB's strong financial performance over the last three years has created over £18 billion of value for our Shareholders. However, in the context of the HS issue, the Remuneration Committee considered it appropriate to exercise discretion to reduce the payout levels in respect of both the annual bonus and the long-term incentive plan (LTIP):

- No annual bonus will be paid to the CEO for 2016; and
- The LTIP vesting for the CEO will be reduced by 50%.

The impact of this discretion is to reduce the CEO's single figure by £14 million from that which would have been earned based on the 2016 financial performance and RB's continued outperformance of long-term financial measures and delivery of shareholder value. Further details are set out in the remainder of the report.

### Treatment of potential acquisition

All outstanding LTIP awards are subject to an earnings per share (EPS) growth performance measure and the Remuneration Policy approved by shareholders requires future awards to vest based on EPS growth.

The Remuneration Committee remains of the view that a single LTIP measure of EPS growth is the approach most in the interests of Shareholders, provided that it is implemented in such a manner as to continually ensure alignment between management and Shareholder interests. We have long recognised that management should not be rewarded through incentives due to an increase in EPS deriving simply from a material gearing of the Balance Sheet.

The proposed acquisition of Mead Johnson requires the Remuneration Committee to consider the manner in which the EPS measure is calculated for outstanding awards in order to maintain the alignment between LTIP participants and Shareholders. We have therefore considered how to ensure that there is no benefit to LTIP participants from any gearing benefit of the acquisition, and we are grateful for the feedback from our major Shareholders on this issue.

If the proposed acquisition of Mead Johnson proceeds then the Committee intends to make appropriate adjustments to the way in which the EPS growth is calculated in order to ensure that the targets remain as stretching as prior to the acquisition and that management's and Shareholders' interests remain fully aligned.

Full details of any adjustments will be disclosed at the time the awards vest, but a summary of the intended treatment is set out below:

- In calculating EPS growth from 2016 to 2017, 2017 EPS will be adjusted to exclude the contribution of Mead Johnson on a proforma basis. The Committee will also reserve the right to exercise downward discretion in the event that the results of Mead Johnson between completion of the transaction and the end of 2017 are materially below the acquisition plan.
- In calculating EPS growth from 2017 to 2018, the 2017 EPS figure will be adjusted on a pro-forma basis to include Mead Johnson results for the full year, including notional interest and tax.
- The Remuneration Committee will also make corresponding adjustments for any other transactions linked to the financing or other aspects of the proposed Mead Johnson acquisition.

The approach outlined above will ensure that any increase in EPS deriving simply from the acquisition will be excluded from the calculation of the LTIP vesting, i.e. EPS growth in each year will be measured on a like-for-like basis such that management will only be rewarded for delivering growth in EPS in respect of ongoing business performance, either before or after the potential acquisition, but not due to it.

The approach described above is consistent with that taken by the Remuneration Committee in respect of the LTIP that vested in May 2015, following the demerger of RBP as Indivior PLC. The gain on demerger and historic earnings related to RBP were excluded from the calculation of EPS for the purposes of LTIP vesting. This reduced the vesting from 100% to 40%.

Executive Directors and senior management have significant share ownership requirements that ensure an ongoing focus on sustainable creation of Shareholder value. However, in addition to the adjustments to EPS described above the Remuneration Committee will also exercise downwards discretion on LTIP vesting if the return on capital in respect of the proposed acquisition of Mead Johnson does not meet the expectations agreed by the Board, at the time of the approval of the acquisition. More information would be provided at the time of vesting.

### 2017 and 2018 LTIP awards

The Remuneration Committee keeps the LTIP awards made to Executive Directors under regular review. As set out in detail later in this report, the Committee has significantly reduced the 2017 awards to the CEO and CFO under the LTIP.

The number of performance shares awarded to the CEO in December 2016 was reduced by 37.5%, with the number of share options reduced by 25% compared to the 2016 LTIP, awarded December 2015. For the CFO, the number of shares and options are 15% lower.

The performance conditions attached to the awards are set out in full on page 87 and require adjusted diluted EPS growth of 10% per annum over the three year period for the awards to vest in full.

The Remuneration Committee has also determined that the CEO's 2018 LTIP awards will have a further significant reduction. The number of shares and options to be awarded in December 2017 will be reduced by a further one-third. The overall impact of these changes in 2017 and 2018 is that the LTIP award for the CEO will have reduced by more than half:

CEO LTIP award	2016	2017	2018	Change 2016-18
Number of Options	400,000	300,000	200,000	↓ 50%
Number of Shares	240,000	150,000	100,000	↓ 58%

### Shareholder engagement

In the Remuneration Committee reaching the decisions outlined above, I have had extensive discussions with Shareholders and I am grateful for the time taken to engage on these issues and the feedback provided throughout the process which has been reflected in the decisions that have been made.

I trust that the Committee can count on your support in respect of the actions outlined above, together with how we have implemented the Remuneration Policy approved by Shareholders at the 2016 AGM.

The remainder of my letter summarises our Directors' Remuneration Policy and its implementation, in order to assist Shareholders in understanding RB's remuneration structure and the link to performance and Shareholder value creation.

Our Annual Report on Remuneration is on pages 82 to 92 and sets out how we have implemented the Remuneration Policy in 2016 and the decisions made for 2017 remuneration. We will be seeking Shareholder approval for this report at the AGM on 4 May 2017.

# Directors' Remuneration Report

continued

## Context for executive remuneration at RB

It is RB's purpose combined with our passion that drives our performance. RB has a unique culture that focuses around four key values: Achievement, Ownership, Entrepreneurship and Partnership (see pages 36 to 37). At RB these values are interlinked and define how decisions are made, how people act and how we assess and reward them. Senior management at RB are driven to outperform by acting like owners and having the drive and passion of entrepreneurs.

RB strives for top global performance which requires us to compete for top global talent. Our management team is multinational, globally mobile and we compete for this talent against a peer group of global companies. The Committee believes that RB's approach to remuneration plays an important part in supporting this strong performance culture, reflects the global nature of our business and delivers significant benefits to all Shareholders.

## Key principles central to our remuneration philosophy

- Pay for performance
- Shareholder alignment
- Simplicity

This philosophy is implemented in RB through our long-standing, highly performance-driven approach which is cascaded throughout the Company, such that our "Top400" executives participate in the same annual bonus and LTIP structures as the Executive Directors.

This ensures we all strive towards the same performance outcomes and the Committee believes this has been a key factor in RB's success in delivering significant value to Shareholders.

**£100 invested in RB on 1 January 2000, following the merger of Reckitt & Colman and Benckiser, was worth £1,926 on 31 December 2016, compared to growth in the FTSE 100 to £185 over the same period.**

## Delivering on RB's strategy

At the core of our remuneration philosophy also lies the commitment to align our remuneration arrangements to the execution of our corporate strategy.

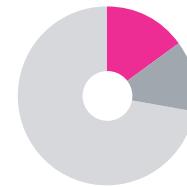
As outlined on pages 22 to 35, the three fundamental concepts better**financials**, better**society** and better**environment** are the pillars behind our better**business** strategy that is driving our growth and outperformance versus our peers.

Our Remuneration Policy is designed to drive the Company's financial strategy of growth and outperformance in revenue and profit, while incentivising sustainable long-term growth in Shareholder value.

## Objectives of the Remuneration Policy approved by Shareholders at 2016 AGM

- Drive outperformance and Shareholder value through a high proportion of long-term variable pay
- Attract and retain the best global talent
- Align the interests of management and Shareholders through a meaningful share ownership policy
- Ensure simplicity and transparency for management and Shareholders

To reinforce this philosophy, the Committee ensures that the majority of the Executive Directors' remuneration packages are made up of variable at-risk pay, linked to stretching financial targets that align with our strategy, with a large proportion of the package delivered in RB shares. This approach is cascaded to our senior management.



### Proportion of on-target variable pay for CEO

Fixed pay	15%
Annual bonus	13%
LTIP	72%

In line with growth objectives outlined under better**financials**, we use stretching Net Revenue and Adjusted Net Income growth targets in our executives' annual bonus structure and adjusted diluted EPS growth in our LTIP.

## Evolution of Remuneration Policy demonstrates commitment to pay for performance and Shareholder alignment

Whilst the principles of RB's remuneration philosophy have remained the same over time, the Committee continues to review RB's Remuneration Policy and engage with our Shareholders on a regular basis to gather valuable feedback and better understand their perspectives.

The Committee has considered the feedback received from Shareholders in its discussions to ensure that relevant areas of concern are addressed.

This has resulted in RB making a number of changes to our remuneration framework in recent years.

We have continued to lead discussions with a number of Shareholders during 2016 and 2017.

As outlined elsewhere in this report, changes made by the Committee this year include the use of discretion to reduce the 2016 pay outcomes, treatment of the proposed Mead Johnson acquisition and significant reductions to LTIP awards in 2017, with a commitment to further reduce the CEO's award in 2018.

### Key changes to the Remuneration Policy over the last five years include:

- Reflecting best practice in the Executive Directors' contracts so that payment upon termination no longer includes bonus
- Further enhancing the longer-term pay for performance link by stretching the LTIP performance conditions. The Committee reduced the level of vesting at threshold performance to 20%, and increased the performance required for maximum vesting to adjusted diluted EPS growth of 10% per annum, thereby reducing the number of shares vesting at the previously required maximum
- Enhancing the level of disclosure in our Remuneration Report, including the disclosure of annual bonus targets on a retrospective basis
- Exercising downward discretion for the LTIP vesting in May 2015 to ensure it was fair and appropriate, by excluding the gain made on the demerger of Indivior and the historic earnings of RBP from the EPS calculation for purposes of determining vesting. This resulted in a reduction in the vesting from 100% to 40%
- Introducing malus and clawback provisions into the LTIP
- Reducing the maximum number of performance shares and options in the Remuneration Policy that may be awarded under the LTIP
- Introducing an additional two-year holding period in respect of unvested share options and performance share awards upon cessation of employment

### RB's management are owners

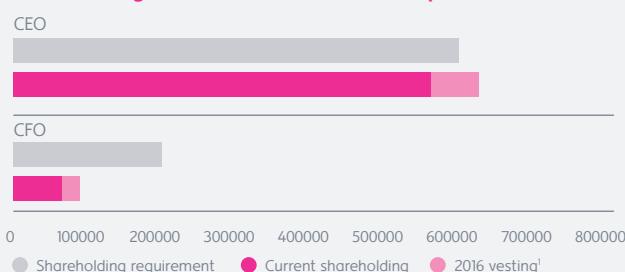
RB's performance-driven remuneration philosophy is underpinned by an ownership culture throughout the Company, which is reinforced by our significant shareholding requirements.

The CEO is required to hold 600,000 shares and the CFO 200,000 shares within eight years of appointment, which currently represent more than 44x salary and 23x salary respectively. This shareholding requirement is significantly the most demanding in the market; the highest share ownership requirement in our peer group is 8x salary and amongst other FTSE 100 companies is 7x salary.

The Remuneration Committee believes that our ownership requirements ensure that senior executives focus on the creation of sustainable long-term Shareholder value. Given this substantial share ownership requirement, the Committee believes that extended holding periods are not necessary.

This focus on encouraging every senior executive to think as an owner and act in the long-term interests of Shareholders is cascaded throughout RB. For EVPs the ownership requirement is 200,000 shares, and for the remainder of our "Top40" executives is between 30,000 and 50,000 shares, on average representing 10x salary. The aggregate current shareholding for our "Top40" executives is in excess of £190 million.

### Shareholding of Executive Directors vs requirement



### Implementing the Policy approved by Shareholders

At RB, the remuneration packages are designed to support the philosophy of pay for performance and alignment between management and Shareholders, whilst being underpinned by simplicity and transparency.

There were no changes made to the remuneration structure during 2016. All awards were made in line with the Remuneration Policy approved by Shareholders at the 2016 AGM, to ensure continued pay for performance and Shareholder alignment. The Policy is summarised on page 81.

However, as set out in more detail above, the Committee has exercised discretion in operation of the Policy for 2016 in connection with the annual bonus and LTIP vesting for the CEO. He will not receive a 2016 bonus and the LTIP vesting was reduced from 100%, based on the performance against the vesting schedule, to 50% vesting. Further details on the impact of this on the CEO's 2016 pay is set out on page 84.

### Pay for performance

Annual bonus	<ul style="list-style-type: none"> <li>Packages focus on variable pay, designed to reward outperformance</li> <li>Aligned fully with KPIs of Net Revenue and Adjusted Net Income growth</li> <li>Measures are multiplicative to incentivise both top and bottom line growth</li> </ul>
Long-term incentive plan	<ul style="list-style-type: none"> <li>Packages focus on variable pay, designed to reward outperformance</li> <li>Aligned with long-term growth strategy through KPIs of EPS and share price growth</li> <li>Malus and clawback provisions apply</li> </ul>
Shareholding requirements	<ul style="list-style-type: none"> <li>Promotes focus on management of corporate risks</li> </ul>

### Shareholder alignment

<ul style="list-style-type: none"> <li>Incentivises KPIs which lead to creation of shareholder value</li> <li>Clawback provisions apply</li> </ul>
<ul style="list-style-type: none"> <li>Vesting based on long-term growth in adjusted, diluted EPS</li> <li>Value of shares and share options directly linked to increase in share price</li> <li>Additional two year holding period after leaving</li> <li>Most demanding in the market</li> <li>CEO: 600,000 shares (c.44x salary)</li> <li>CFO: 200,000 shares (c.23x salary)</li> </ul>

# Directors' Remuneration Report

continued

The key decisions taken during the year are summarised below and are set out in more detail in the Annual Report on Remuneration.

## Fixed pay

Base salaries for the Executive Directors were reviewed and increased by 3% in line with general employee salary increases effective from 1 January 2016. The Committee has also maintained this approach when reviewing 2017 Executive Director salaries, with increases of 3% granted with effect from 1 January 2017.

## Annual bonus

In line with our approved Remuneration Policy, RB operates an annual bonus plan that is strongly aligned to performance, measured against stretching growth targets set by the Committee at the start of the year.

2016 was a year of broad-based growth and excellent margin expansion. Despite challenging markets, we achieved like-for-like Net Revenue growth of 3% and our virtuous earnings model continued to deliver significant value creation for Shareholders.

However, the 2016 results fell short of the stretching outperformance targets set by the Committee for Net Revenue growth and Adjusted Net Income growth and the outcome is a 2016 bonus at 18% of maximum (65% of target). As set out above, the Remuneration Committee has determined that the CEO will not receive a 2016 bonus payment.

The annual bonus for 2017 will operate based on the same structure with performance remaining subject to stretching NR and NI targets.

## Long Term Incentive Plan – vesting of 2014 LTIP awards

The performance period for awards made under the LTIP in December 2013 ended on 31 December 2016.

Our key long-term measure of performance is EPS growth. The Remuneration Committee continues to consider it is the most appropriate measure of value creation over the long term. LTIP vesting requires significant growth over the performance period in order to vest, with full vesting only achieved if the Company significantly outperforms the industry benchmark.

Earnings per share over the three year period from 2014 to 2016, measured on adjusted, diluted basis, grew by 36%, equivalent to compound average annual growth of 10.8% per annum.

This outstanding performance over the last three years results in vesting of 100% being achieved when measured against the vesting schedule approved by Shareholders.

The sustained underlying growth in our key financial metrics has generated substantial value for our Shareholders over this period. £100 invested in RB on 1 January 2014, was worth £158 by 31 December 2016, compared with growth in the FTSE 100 to just £118 over the same period.

In addition to this excellent relative outperformance, RB has delivered significant absolute value to Shareholders over the three year performance period. Since 1 January 2014 RB has created value for our Shareholders of £18 billion, through the increase in the share price, dividends paid to Shareholders and the demerger of Indivior.

However, as set out above, despite this excellent financial performance, the Remuneration Committee has considered the HS issue in making decisions on LTIP vesting for the CEO. Whilst acknowledging that the events occurred before his tenure as CEO, the Committee has exercised its discretion to reduce the LTIP vesting from 100% to 50%.

In addition, in respect of 2017, long-term incentive awards for Executive Directors have been significantly reduced from previous years. The number of performance shares awarded to the CEO were reduced by 37.5% with the number of options reduced by 25%. For the CFO the number of shares and options were 15% lower than the 2016 LTIP award. The Committee has also committed to making further reductions of one-third for the CEO awards due to be made in December 2017 in respect of 2018.

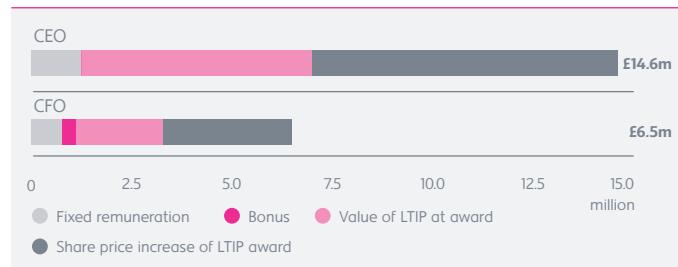
## Summary

	2016	2017
<b>Salary</b>	<ul style="list-style-type: none"> <li>• 3% increase</li> </ul>	<ul style="list-style-type: none"> <li>• 3% increase</li> </ul>
<b>Annual Bonus</b>	<ul style="list-style-type: none"> <li>• CEO: zero bonus</li> <li>• CFO: 18% of maximum</li> </ul>	<ul style="list-style-type: none"> <li>• Same structure as 2016</li> <li>• Stretching NR and NI targets</li> </ul>
<b>LTIP</b>	<ul style="list-style-type: none"> <li>• CEO: 50% vesting</li> <li>• CFO: 100% vesting</li> </ul>	<ul style="list-style-type: none"> <li>• Same structure as 2016</li> <li>• Significant reductions in awards</li> </ul>

## 2016 Single figure

The resultant "single figure" of total remuneration is detailed on page 84 and summarised in the chart below. As can be seen, the majority of RB's total remuneration package is variable pay linked to delivery of financial outperformance and creation of value for Shareholders.

More than 90% of the CEO's 2016 total remuneration is made up of variable remuneration linked to achievement of stretching long-term outperformance of the Company and delivered in RB shares. In particular, more than half of the value of the CEO's package is as a direct result of the significant share price growth over the last three years, which has seen RB create £18 billion of value for our Shareholders.



## Conclusion

I hope that you find this a clear and comprehensive report that demonstrates RB's commitment to a strong link between pay and performance and delivery of value to our Shareholders, as well as the Committee's responsiveness to Shareholder feedback.

I trust that we can count on your support at the forthcoming AGM for the decisions we have taken as a Committee during the year.

**Judy Sprieser / Chair of the Remuneration Committee**  
 20 March 2017

# RB's Remuneration Policy at a glance

## RB's consciously differentiated remuneration philosophy drives outperformance and delivery of shareholder value

Shareholders approved RB's Directors' Remuneration Policy at the AGM on 5 May 2016, which is summarised below. The Policy was set out in full in the 2015 Annual Report and can also be found in the Corporate Governance section of our website.

### RB's remuneration philosophy

- ⌚ Pay for performance
- ⌚ Shareholder alignment
- ⌚ Simplicity

### RB's virtuous earnings model



### RB's values

- ⌚ Achievement
- ⌚ Ownership
- ⌚ Entrepreneurship
- ⌚ Partnership

See more on pages 36-37

### RB's remuneration strategy

#### 1 Drive outperformance and Shareholder value

- ⌚ High proportion of long-term variable pay



RB's proportion of variable pay	
Fixed pay	15%
Annual bonus	13%
LTIP	72%

#### 2 Attract and retain the best global talent

- ⌚ Engage highly performance-driven individuals
- ⌚ Reflect global competitive practice across our industry peer group

#### 3 Align the interests of management and Shareholders

- ⌚ Meaningful share ownership policy

Executive	# shares	Value of shares <sup>1</sup>	% of salary
CEO	600,000	£41.8m	44x
CFO	200,000	£13.9m	23x

<sup>1</sup> Based on £69.69 share price (three-month average to year end)

#### 4 Ensure simplicity and transparency

- ⌚ Simplicity and transparency for both management and Shareholders
- ⌚ Management wins only when Shareholders win

### RB's remuneration policy

A simple Remuneration Policy, reflecting philosophy of pay for performance and Shareholder alignment over the short, medium and long term.

	2017	2018	2019	2020	2021	2022	KEY FEATURES OF POLICY	HOW WE IMPLEMENT POLICY	LINK TO STRATEGY
Base salary	→						<ul style="list-style-type: none"> <li>• Salaries at median of peers</li> </ul>	<ul style="list-style-type: none"> <li>• Salary increases of 3% in 2016 and 2017</li> </ul>	<ul style="list-style-type: none"> <li>• Supports recruitment and retention</li> </ul>
Annual bonus	→						<ul style="list-style-type: none"> <li>• Based on Net Revenue and Adjusted Net Income growth</li> <li>• Target bonus of 120% for CEO and 90% for CFO</li> <li>• Clawback provisions apply</li> </ul>	<ul style="list-style-type: none"> <li>• Stretching Net Revenue and Adjusted Net Income growth targets, in excess of peer performance</li> <li>• Threshold performance results in zero payout, with maximum of 3.5x target level</li> </ul>	<ul style="list-style-type: none"> <li>• Drive short-term overachievement in KPIs which leads to creation of Shareholder value</li> </ul>
LTIP		→	→				<ul style="list-style-type: none"> <li>• Based on adjusted, diluted EPS growth over a three year performance period</li> <li>• Two year malus and clawback provisions</li> <li>• Two year post-retirement holding period</li> <li>• Options have seven years to exercise post vesting</li> </ul>	<ul style="list-style-type: none"> <li>• Vesting linked to stretching adjusted, diluted EPS growth conditions requiring significant outperformance of our peers</li> <li>• Growth of 10% per annum needed for full vesting</li> </ul>	<ul style="list-style-type: none"> <li>• Incentivises long-term financial outperformance of KPIs of EPS and sustained Shareholder value creation</li> </ul>
Performance shares		→	→						
Share options		→	→						
Shareholding requirements		→	→				<ul style="list-style-type: none"> <li>• The most demanding shareholding requirements in the market</li> <li>• CEO: 600,000 shares (c.44x salary)</li> <li>• CFO: 200,000 shares (c.23x salary)</li> </ul>	<ul style="list-style-type: none"> <li>• Promotes long-term alignment with Shareholders</li> <li>• Promotes focus on management of corporate risks</li> </ul>	

# Annual Report on Remuneration

## Remuneration Committee membership in 2016

The Remuneration Committee is made up entirely of Non-Executive Directors who are appointed by the Board on the recommendation of the Nomination Committee. Membership of the Remuneration Committee during the year was as follows:

Name
Judy Sprrieser (Chair)
Nicandro Durante
Chris Sinclair <sup>1</sup>
Doug Tough <sup>2</sup>
Adrian Bellamy

1 Appointed to the Committee on 16 March 2016  
 2 Stepped down from the Board and Committee at the conclusion of the Company's AGM on 5 May 2016

The SVP, Human Resources was secretary to the Committee throughout the year.

During the year the Committee held four scheduled meetings and one additional meeting. The attendance of members at meetings is set out in the table on page 63.

The Committee's purpose is to assist the Board of Directors in fulfilling its oversight responsibility by ensuring that Remuneration Policy and practices reward fairly and responsibly; are linked to corporate and individual performance; and take account of the generally accepted principles of good governance.

On behalf of, and subject to approval by, the Board of Directors, the Committee primarily:

- Sets and regularly reviews the Company's overall remuneration strategy;
- Determines the general Remuneration Policy for senior executives; and
- In respect of the Chairman, the Executive Directors and members of the Executive Committee sets, reviews and approves:
  - Remuneration policies, including annual bonuses and long-term incentives;
  - Individual remuneration and compensation arrangements;
  - Individual benefits including pension and superannuation arrangements;
  - Terms and conditions of employment including the Executive Directors' service agreement;
  - Participation in any of the Company's bonus and long-term incentive plans (LTIPs); and
  - The targets for any of the Company's performance-related bonus and LTIPs.

The Executive Directors are responsible for evaluating and making recommendations to the Board of Directors on the remuneration of the Non-Executive Directors.

Members of the Remuneration Committee and any person attending its meetings do not participate in any discussion or decision on their own remuneration.

Shareholders approved RB's Directors' Remuneration Policy at the AGM on 5 May 2016. This was set out in full in the 2015 Annual Report and can also be found in the Corporate Governance section of our website at [www.rb.com](http://www.rb.com)

## 2016 base salary

Base salaries are reviewed taking into account the salary increases for the wider workforce and individual performance. For additional context the Remuneration Committee also reviews market practice for similar roles in the Company's remuneration peer group, comprising 19 international companies. As disclosed in last year's report, following the review of salary levels in late 2015, the Committee approved the following base salary increases with effect from 1 January 2016:

Executive Director	Base salary from 1 January 2016		Percentage increase
	Base salary at 1 January 2015	Base salary at 1 January 2016	
Rakesh Kapoor	£890,950	£917,679	3%
Adrian Hennah	£577,830	£595,165	3%

The base salary increases for Executive Directors take into account performance and follow the same base salary merit increase guidelines as other UK employees. The average salary increase for our UK employees was c.3%, effective 1 January 2016.

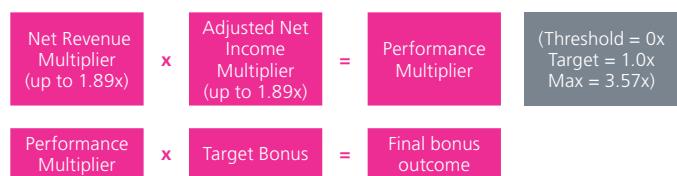
## Annual bonus in respect of 2016 performance

### How RB's bonus design incentivises outperformance

Prior to the start of the year, the Remuneration Committee set stretching performance targets for the Executive Directors in 2016. As set out in last year's report, these were based on Net Revenue growth and Adjusted Net Income growth, both measured in GBP at a constant exchange rate.

In line with the Remuneration Policy, the CEO and CFO had target bonus opportunities of 120% of salary and 90% of salary respectively. Actual payments can range from zero to 3.57x target depending on performance against the stretching performance ranges as follows:

- For each performance measure a range is set.
- A performance multiplier is calculated for each measure, calculated by the extent to which the performance for that measure is achieved. These multipliers can be up to 1.89 for outperformance of the stretching range set by the Committee.
- The two individual multipliers are then multiplied together to provide the total performance multiplier.
- This total performance multiplier is then applied to the target bonus opportunity to calculate the overall bonus outcome.
- The performance multiplier can range from zero for performance at threshold or below, to 3.57 for truly exceptional performance on both metrics (i.e. 1.89 x 1.89).



The effect of the multiplicative approach means that a high performance multiplier can only be achieved for outperformance on both top line and bottom-line growth. Similarly, underperformance in one of the performance metrics will reduce the overall bonus payout, despite outperformance of the other. For example, if we grow Net Revenue above the stretching requirement for maximum performance but fail to convert it into profit growth the bonus payout will be zero (i.e. 1.89 x 0).

## 2016 bonus outcomes

2016 was a year of broad-based growth and excellent margin expansion, despite challenging markets.

Our virtuous earnings model continued to deliver significant value creation for Shareholders and the highlights of 2016 performance include:

- Like-for-like (LFL) Net Revenue growth of 3%. Total Net Revenue growth (at actual rates) of 11% reflecting the net positive impact of translational FX and M&A.
- Gross Margin expansion of +180bps to 60.9% driven by mix, commodity cost tailwinds and cost optimisation initiatives.
- Adjusted Operating Margin up +130bps to 28.1%.
- This results in Adjusted Net Income growth of +15% at actual rates and +4% at constant rates.
- Strong free cash flow generation of £2,036 million.
- This performance has resulted in a dividend payment that is a 10% increase on 2015.

However, the 2016 results fell short of the stretching outperformance ranges set by the Remuneration Committee at the start of the year.

The chart below illustrates RB's 2016 performance compared to the threshold and maximum performance levels set by the Committee.



As illustrated above, the 2016 growth in both Net Revenue and Adjusted Net Income did not achieve the stretching performance required for maximum performance.

The NR and NI results combined give an overall multiplier of 0.65 x target; this is 18% of maximum.

As described in detail earlier in this report, in the context of the HS issue, the Remuneration Committee exercised its discretion in determining the outcomes for 2016, such that the CEO received zero bonus.

This resulted in a 2016 bonus for the CEO and CFO, as follows:

	Target Salary	x	Target bonus	x	Performance multiplier	=	2016 bonus
CEO	£917,679	x	120%	x	0	=	-
CFO	£595,165	x	90%	x	0.65	=	£348,172

Audited

## LTIP vesting for performance to 2016

The RB LTIP policy, approved by Shareholders, is designed to align participants with Shareholders through making awards with stretching performance conditions denominated in both share options and performance shares.

This ensures that value is only realised for participants if meeting the performance conditions is combined with sustainable long-term growth in RB's share price.

Vesting of awards is dependent on compound average annual growth (CAAG) in adjusted diluted EPS over the three-year performance period, with the vesting schedule requiring performance above industry benchmarks for awards to be released.

For the 2014 LTIP award, granted in December 2013, the Remuneration Committee set performance conditions attached to vesting that required earnings per share (EPS) growth over the three years to 2016 to be 6% per annum for threshold vesting and 10% per annum for the awards to vest in full i.e. equivalent to 33.1% growth over the three year period.

There has been significant exchange rate volatility over the three year period, resulting in translational exchange rates negatively impacting the excellent underlying performance delivered over the last three years. EPS growth over the three year period 2014 to 2016, measured on constant currency basis, was 40%. However, given the translation FX impact this reduced to 36% when measured on actual currency basis. This is equivalent to CAAG of 10.8% per annum.

This outstanding performance over the last three years results in vesting of 100% being achieved as the growth in adjusted diluted EPS is greater than 10% per annum required for full vesting.

Over this performance period, the sustained outperformance of RB's core underlying financial metrics has delivered an additional £18 billion in value to our Shareholders over the last three years, through the increase in the share price, dividends paid to Shareholders and the demerger of Indivior.

£100 invested in RB on 1 January 2014 was worth £158 by 31 December 2016, compared with growth in the FTSE 100 to £118 over the same period.

Despite this sustained financial performance and Shareholder value creation, as set out in more detail earlier in this report, in the context of the HS issue, the Remuneration Committee exercised its discretion in determining the outcomes for 2016, such that the CEO's LTIP vesting was reduced to 50%.

The significant value generated for Shareholders over the last three years is reflected in the value of the LTIP vesting. Around 60% of the value of the vesting for the CEO and the CFO is due to the significant share price growth, as illustrated in the chart below:



# Annual Report on Remuneration

continued

## Further details on LTIP vesting (Audited)

Based on the performance assessment above, combined with the excellent sustained share price growth over the period, the 2014 LTIP awards to the CEO and CFO may vest to the following extent on 4 May 2017 for performance over the completed three-year period:

CEO awards	Interests held	Exercise price	Vesting <sup>4</sup> %	Interests vesting	Share price <sup>1</sup>	Estimated value
Shares	246,772	n/a		123,386	£69.69	£8,598,770
Options <sup>2</sup>	627	£47.83	50%	627 <sup>3</sup>	£69.69	£13,706
Options	410,642	£46.51		205,007	£69.69	£4,752,062

## CFO awards

Shares	46,270	n/a	100%	46,270	£69.69	£3,224,556
Options	92,540	£46.51		92,540	£69.69	£2,145,077

Audited

- As the share price on the date of vesting is unknown at the time of reporting, the value is estimated using the average market value over the last quarter of 2016 of £69.69. The actual value at vesting will be disclosed in the 2017 Annual Report.
- The share option award made to Rakesh Kapoor in December 2013 included 627 options awarded under an HMRC approved option scheme. As set out in the 2014 Annual Report, following the demerger of Indivior PLC exercise prices of outstanding share option awards were adjusted. The exception to this was the HMRC approved options, for which the exercise price remained unchanged.
- The vesting percentage shown is the total vesting percentage of an award. Under the vesting schedule of awards, the vesting percentage applies to the combined total amount of an award which may be split into HMRC approved and unapproved parts. Where a portion of an award has been granted under the HMRC approved part of the scheme, those shares are counted first when assessing the vested number of shares.
- CAAG in adjusted EPS was 10.8% p.a. over the performance period, when measured on actual currency basis. The Committee therefore determined vesting in line with vesting schedule at 100%. The Committee exercised discretion to reduce vesting for the CEO to 50%.

## Single total figure of remuneration for Executive Directors (Audited)

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2016, based on the information set out in the previous sections. This is compared to the prior year figure:

	Rakesh Kapoor		Adrian Hennah	
	2016 £	2015 £	2016 £	2015 £
Base salary	<b>917,679</b>	890,950	<b>595,165</b>	577,830
Taxable benefits <sup>1</sup>	<b>53,991</b>	47,658	<b>21,872</b>	28,256
Annual bonus <sup>2</sup>	–	3,816,830	<b>348,172</b>	1,856,568
LTIP <sup>3</sup>	<b>13,364,538</b>	20,465,542 <sup>4</sup>	<b>5,369,633</b>	4,353,332 <sup>4</sup>
Pension benefit <sup>5</sup>	<b>272,904</b>	264,885	<b>146,791</b>	142,458
<b>Total</b>	<b>14,609,112</b>	25,485,865	<b>6,481,633</b>	6,958,444

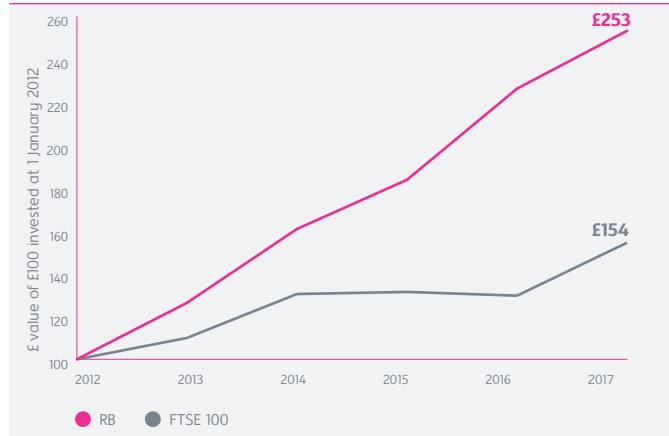
- Taxable benefits consist primarily of car allowance and healthcare. During 2016 Rakesh Kapoor received an award under the all employee sharesave scheme. He participated on the same terms as all UK employees, receiving a 20% discount to the share price and full details are set out on page 91. A value of £7,490 is included above in respect of this participation in 2016.
- Cash payment for performance during year based on multiplier of 0.65 of target for CFO. See 'Annual Bonus in respect of 2016 performance' on page 82 for details.
- Reflects the estimated value of LTIP shares and options granted in December 2013, which are due to vest on 4 May 2017 at 50% for CEO and 100% for CFO. Valued using an average share price over Q4 of £69.69. £7.6 million and £3.2 million of the total LTIP value for Rakesh Kapoor and Adrian Hennah respectively is directly attributable to the share price growth over the period since award. See the relevant section on pages 83 to 84 for more details.
- These values have been restated from last year, which used an average share price of £62.19 over Q4 2014 to estimate the value of the vesting. The actual values shown above are based on the share price on the date of vesting of £66.84 on 5 May 2016.
- The Company paid the Executive Directors a cash allowance in respect of pension provision to the value shown in the table above. These payments reflect the full pension provision outlined in the policy table. Directors are only entitled to prospective pension on defined contribution basis, with no defined benefit accrual.

## Review of past performance

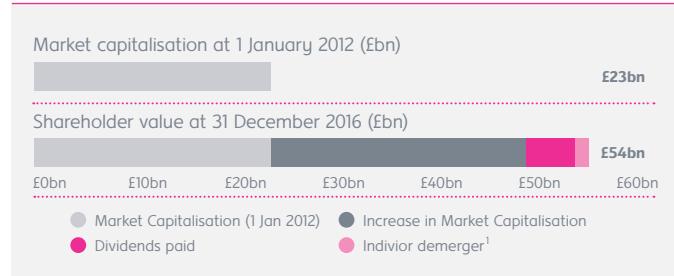
The chart below shows the Total Shareholder Return (TSR) of the Company compared to the UK FTSE 100 Index over the five-year period from 1 January 2012 to 31 December 2016. We have also shown how this translates into creation of value for our Shareholders.

This period represents the full financial years of the tenure of Rakesh Kapoor as CEO.

### Relative Total Shareholder Return since 1 January 2012



### Creation of Shareholder value since 1 January 2012



1 Average market cap of Indivior over the six months following demerger.

The table below sets out the single figure of total remuneration for Rakesh Kapoor in his tenure as Chief Executive. It should be noted that the LTIP vesting included in the single figure for 2011 to 2013 are in respect of awards made to him prior to his appointment as CEO.

CEO single figure of remuneration (£'000)	2011	2012	2013	2014	2015	2016
Rakesh Kapoor	£4,497	£8,411	£6,840	£12,777	£25,486	<b>£14,609</b>
Annual bonus (as a percentage of maximum)	31%	53%	100%	72%	100%	<b>0%</b>
LTIP vesting	100%	100%	40%	40%	80%	<b>50%</b>

### Executive Directors' shareholding requirements (Audited)

Our performance-linked remuneration package is underpinned by a meaningful share ownership policy, which drives a culture of ownership throughout the Company. The shareholding requirements for our Executive Directors are amongst the most demanding in the market and ensure a focus on delivery of sustainable creation of value for Shareholders.

Executive Directors are expected to acquire significant numbers of shares over eight years and retain these until retirement from the Board. The table below shows the shareholding of each Executive Director against their respective shareholding requirement as of 31 December 2016:

	Shareholding requirement (number of shares)	Shares owned outright	Other interests in shares and options under the LTIP				
			Performance shares	To vest in May 2017	Unvested, subject to performance	Vested but not exercised	To vest in May 2017
Rakesh Kapoor	600,000	562,762	123,386	630,000	493,542	205,634	1,100,000
Adrian Hennah	200,000	65,397	46,270	128,250	74,016	92,540	256,500

Rakesh Kapoor has exceeded his pro-rated target based on tenure to date and Adrian Hennah has made good progress towards his target to the satisfaction of the Committee. Further details of the scheme interests contained in the table above are provided in the table on page 91.

The Executive Directors also participate in the all employee sharesave scheme. Details of options held under this plan are set out on page 91.

# Annual Report on Remuneration

continued

## Implementation of Executive Director Remuneration Policy for 2017

### Base salary

Base salaries are reviewed taking into account the salary increases for the wider workforce and individual performance. For additional context the Remuneration Committee also reviews market practice for similar roles in the Company's remuneration peer group, comprising 19 international companies. Following its review of salary levels in late 2016, the Committee approved the following base salary increases with effect from 1 January 2017:

	Base salary at 1 January 2016	Base salary from 1 January 2017	Percentage increase
Executive Director			
Rakesh Kapoor	£917,679	£945,209	3%
Adrian Hennah	£595,165	£613,020	3%

The base salary increases for Executive Directors take into account performance and follow the same base salary merit increase guidelines as other UK employees. The average salary increase was c.3%, effective 1 January 2017.

### Pension

The CEO and CFO are eligible to receive pension contributions, or equivalent cash allowances, of 30% and 25% of pensionable salary, respectively.

### Annual bonus in respect of 2017 performance

For 2017, there will be no changes to the annual bonus opportunities for Executive Directors. Bonuses will continue to be based on RB's Net Revenue growth and Adjusted Net Income growth, measured in GBP at a constant exchange rate, with the outcome under each of the measures combined multiplicatively to give a maximum bonus outcome of 3.57x the target bonus opportunity if both stretch targets are met.

We have not disclosed the performance targets for 2017 as we consider them to be commercially sensitive. However, we commit to retrospectively disclosing the performance ranges in the Directors' Remuneration Report for the year ending December 2017.

### LTIP (Audited)

The Remuneration Policy approved by Shareholders at the AGM in May 2016 sets out the operation of the LTIP. Whilst the structure for the awards made to Executive Directors remained in line with the approved Policy, the Committee made a significant reduction in the size of the awards granted for FY 2017.

The number of performance shares awarded to the CEO was reduced by 37.5% and the award of share options is 25% lower than the previous year. For the CFO the LTIP award was reduced by 15%.

The table below sets out the awards made to Executive Directors on 1 December 2016. These awards do not accrue dividends during the vesting period. Vesting of these awards in full requires achievement of stretching performance conditions over the three-year period.

	Date of grant	Shares over which awards granted	Market price at date of award <sup>1</sup>	Exercise price <sup>2</sup>	Face value <sup>3</sup>	Performance period	Exercise/vesting period
<b>Performance shares</b>							
Rakesh Kapoor	1 December 2016	150,000	£66.28	n/a	£9,942,000	1 Jan 2017–31 Dec 2019	May 2020
Adrian Hennah	1 December 2016	38,250	£66.28	n/a	£2,535,210	1 Jan 2017–31 Dec 2019	May 2020
<b>Share options</b>							
Rakesh Kapoor	1 December 2016	300,000	£66.28	£67.68	–	1 Jan 2017–31 Dec 2019	May 2020–Dec 2026
Adrian Hennah	1 December 2016	76,500	£66.28	£67.68	–	1 Jan 2017–31 Dec 2019	May 2020–Dec 2026

1 The market price on the date of award is the closing share price on the date of grant

2 The exercise price is based on the average closing share price over the five business days prior to the date of grant

3 For performance shares based on the market price at the date of award and assumes the stretching performance criteria are met in order to achieve full vesting. For share options the face value at award was zero as the exercise price is higher than the market price at time of award. The face value of shares under option is £19.88 million for Rakesh Kapoor and £5.07 million for Adrian Hennah if calculated as the number of shares multiplied by the market price at date of award

In line with RB's Directors' Remuneration Policy, vesting of the LTIP awards is dependent on the achievement of stretching targets relating to growth in EPS over a three-year period, which require outperformance of peer benchmarks. EPS is measured on an adjusted diluted basis, as shown in the Group's Financial Statements, as this provides an independently verifiable measure of performance. However, the Remuneration Committee maintains the discretion to make adjustments to the measure if this is considered to be appropriate and intends to do so for the proposed acquisition of Mead Johnson, as set out earlier in this report. Any adjustments will be disclosed in the Annual Report on Remuneration.

There is no retesting. Awards granted in December 2016 will vest on the following schedule, which requires significant compound annual growth in EPS in order for the awards to vest, as follows:

<b>EPS CAAG</b>	<6%	6%	Between 6% and 10%	≥10%
<b>Equivalent to three-year EPS growth of</b>	<19.1%	19.1%		≥33.1%
<b>Proportion of awards vesting (%)</b>	Nil	20%	Straight-line vesting between 20% and 100%	100%

Rakesh Kapoor also received an award of share options under the all employee sharesave scheme. Details are set out on page 91.

#### Percentage change in CEO remuneration

The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for all UK employees who form part of the management team ("Top400"). This group has been chosen as it represents the most appropriate comparator group for reward purposes for our UK-based Group Chief Executive.

The analysis excludes part-time employees and is based on a consistent set of employees, i.e. the same individuals appear in the 2014-2015 and 2015-2016 populations.

	CEO		Other employees	
	% change 2015-2016	% change 2014-2015	% change 2015-2016	% change 2014-2015
Base salary	3%	3%	4%	3%
Taxable benefits	13%	31%	-12%	18%
Annual bonus	-100%	43%	-62%	69%

The difference in the percentage change of the annual bonus for the CEO and other employees is primarily a result of the fact that different targets are set for different areas of the business which are subject to different challenges. The Committee exercised discretion in determining the CEO's 2016 pay outcomes, resulting in a zero bonus. Had they not exercised discretion the change in the CEO's annual bonus between 2015 and 2016 would have been -81%.

The percentage change in taxable benefits for other employees excludes international transfer benefits as this is volatile from year to year based on each individual's circumstances. During 2015 a cash payment was made in respect of the Indivior demerger to all participants in the HMRC approved share option and sharesave scheme and is included as a taxable benefit for 2015. This was a one-off payment in 2015 and causes volatility in the 2014-2015 and 2015-2016 change in benefits; excluding this payment from 2015 the year-on-year change in benefits for all employees would have been +3%. For 2016 the CEO's benefit value set out in the single figure table and above includes £7,490 (14% of his total benefit value) in respect of participation in sharesave. As this is not a taxable benefit, sharesave participation is not included in benefit values for all other employees.

#### Relative importance of spend on pay

The table below shows Shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for 2015 and 2016, along with the percentage change in both.

	2016 £	2015 £	% change 2015-2016
Dividends	1,035m	924m	12%
Share buyback	802m	804m	-
<b>Total Shareholder distribution (dividends and share buyback)</b>	<b>1,837m</b>	<b>1,728m</b>	<b>6%</b>
<b>Total employee expenditure</b>	<b>1,222m</b>	<b>1,158m</b>	<b>6%</b>

#### Exit payments made in the year (Audited)

No exit payments were made to Executive Directors during the year.

#### Payments to past Directors (Audited)

No payments were made to past Directors in the year.

# Annual Report on Remuneration

continued

## Single total figure of remuneration for Non-Executive Directors (Audited)

The following Non-Executive Director fee policy was in place for the year ended 31 December 2016:

Role	Cash fee	Fee delivered in RB shares
<b>Base fees</b>		
Chairman	£324,000	£71,000
Deputy Chairman	£90,150	£19,850
Non-Executive Director	£73,750	£16,250
<b>Additional fees</b>		
Chair of Committee	£30,000	–
Member of Committee	£15,000	–
Senior Independent Director	£20,000	–

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2016 and the prior year:

	2016 fees			2015 fees		
	Cash	Shares	2016 Total	Cash	Shares	2015 Total
Adrian Bellamy	£324,000	£71,000	£395,000	£316,000	£69,000	£385,000
Jaspal Bindra <sup>1</sup>	£30,928	£5,625	£36,553	£86,750	£15,750	£102,500
Nicandro Durante	£95,119	£16,250	£111,369	£86,750	£15,750	£102,500
Peter Harf	–	–	–	£103,150	£19,350	£122,500
Mary Harris	£85,652	£16,250	£101,902	£63,977	£14,016	£77,993
Ken Hydon	£103,750	£16,250	£120,000	£101,750	£15,750	£117,500
Pamela Kirby	£98,390	£16,250	£114,640	£63,977	£14,016	£77,993
André Lacroix	£108,750	£16,250	£125,000	£106,750	£15,750	£122,500
Sue Shim <sup>1</sup>	£30,928	£5,625	£36,553	£86,750	£15,750	£102,500
Christopher Sinclair	£85,652	£16,250	£101,902	£63,977	£14,016	£77,993
Judy Sprieser	£103,750	£16,250	£120,000	£101,750	£15,750	£117,500
Doug Tough <sup>1</sup>	£30,928	£5,625	£36,553	£86,750	£15,750	£102,500
Warren Tucker	£88,750	£16,250	£105,000	£86,750	£15,750	£102,500

<sup>1</sup> Stepped down from the Board and Committee at the conclusion of the Company's AGM on 5 May 2016 and were able to receive share payments in cash

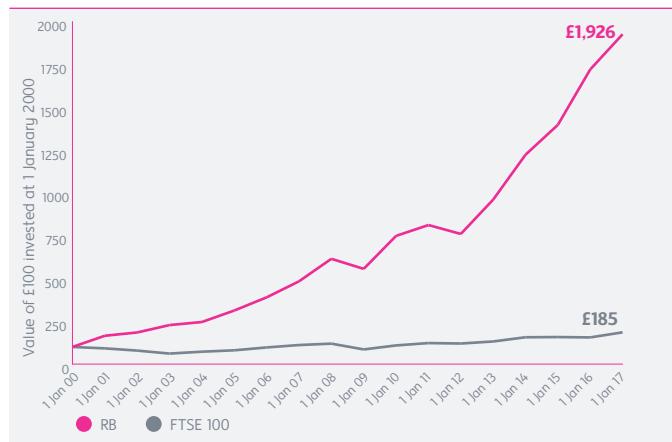
## Implementation of Non-Executive Director Remuneration Policy for 2017

There are no changes to the Remuneration Policy for the Chairman of the Board of Directors and Non-Executive Directors, which remain as set out in the table above.

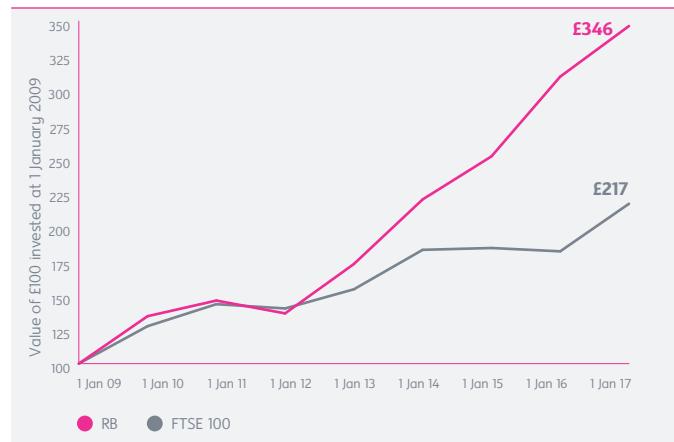
## Performance graph

The graph below shows the TSR of the Company and the UK FTSE 100 Index over the period since 1 January 2000, representing the period of full financial years since the merger of Reckitt & Colman plc and Benckiser N.V. and the listing on the London Stock Exchange of Reckitt Benckiser Group plc. This shows the growth in the value of a hypothetical holding of £100 invested on 31 December 1999. We have also shown the growth in value of a holding of £100 invested on 31 December 2008, as required by disclosure regulations. The FTSE 100 Index was selected on the basis of companies of a comparable size in the absence of an appropriate industry peer group in the UK.

### Total Shareholder Return since 1 January 2000



### Total Shareholder Return since 1 January 2009



The table below sets out the single figure of total remuneration received by the previous CEO (Bart Becht) between 2009 and 2011:

Year	Single figure (£000)	Annual Bonus (% of max)	LTI vesting
2009	£28,881	100%	100%
2010	£17,150	76%	100%
2011	£18,076	31%	100%

## Summary of Shareholder voting at the 2016 AGM

The following table shows the results of the voting on the Directors' Remuneration Policy and the 2015 Directors' Remuneration Report, at the 2016 AGM:

	Votes for	For %	Votes against	Against %	Total	Votes withheld
Approve the Directors' Remuneration Policy	377,323,671	76%	117,846,630	24%	495,170,301	30,453,974
Approve the 2015 Directors' Remuneration Report	418,444,442	82%	89,915,549	18%	508,359,991	17,265,166

The level of support for the 2015 Directors' Remuneration Report (82%) was broadly the same as for the 2014 report (83%), which was a marked increase from the prior year, reflecting changes made by the Committee during 2014-2015.

The Committee believes our remuneration packages are simple, reinforce our pay-for-performance philosophy and drive a strong alignment between executives and the interests of our Shareholders. The enhanced Directors' Remuneration Policy implemented by the Committee was supported by our Shareholders at the 2016 AGM.

The Committee continues to have ongoing dialogue with Shareholders with a view to obtaining Shareholder support for our remuneration arrangements. In particular, over recent years following consultation with our major Shareholders, we have made a number of changes to the Remuneration Policy, to further align executives with Shareholders. These are set out in more detail in the letter from the Remuneration Committee Chair, on page 76.

The Committee has made further changes to the implementation of the Remuneration Policy during 2016 and 2017, which are set out in more detail earlier in this report. We discussed our proposals with Shareholders and the Committee is grateful for the feedback provided by Shareholders throughout our engagement on these matters.

# Annual Report on Remuneration

continued

## Directors' service contracts

Non-Executive Directors have letters of engagement which set out their duties and time commitment expected. They are appointed for an initial three-year term, subject to election and annual re-election by Shareholders. Appointments are renewable for subsequent three-year terms by mutual consent. Details are set out below:

Name	Date of appointment	Length of service as at 31 Dec 2016	
		Years	Months
Adrian Bellamy	3 December 1999 (Chairman from 7 May 2003)	17	1
Nicandro Durante	1 December 2013	3	1
Mary Harris	10 February 2015	1	11
Ken Hydon	1 December 2003	13	1
Pamela Kirby	10 February 2015	1	11
André Lacroix	1 October 2008	8	3
Christopher Sinclair	10 February 2015	1	11
Judy Sprieser	21 August 2003	13	4
Warren Tucker	24 February 2010	6	10

Executive Directors' service contracts contain a 12-month notice period, as set out in the Directors' Remuneration Policy. The date of appointment to the Board for Rakesh Kapoor was 1 September 2011 and for Adrian Hennah was 12 February 2013.

Directors' service contracts and letters of engagement are available for inspection at the registered office.

## External appointments

With the approval of the Board of Directors in each case, and subject to the overriding requirements of the Company, Executive Directors may accept external appointments as a Non-Executive Director of another company and retain any fees received. Adrian Hennah was paid £90,000 during the year in respect of his directorship of RELX Group PLC. He also served as a director of Indivior PLC for the period to 11 May 2016, for which he received fees of £23,600.

## Advisors

Deloitte LLP (Deloitte) was appointed by the Remuneration Committee as independent advisor effective from 1 January 2014 following a review of the advisor in late 2013. The Committee undertakes due diligence periodically to ensure that Deloitte remains independent of the Company and that the advice provided is impartial and objective. Deloitte is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). During 2016, Deloitte provided support to the Committee in relation to benchmarking executive remuneration structure and levels, and the consultation of Shareholders on remuneration matters. Deloitte also provided the Group with financial advisory support, international transfer tax compliance, global mobility services, ad-hoc advice on employment/share schemes matters as well as international corporate and indirect tax advisory services during 2016. These services are provided under separate engagement terms and the Committee is satisfied that the provision of these services did not impair Deloitte's ability to advise the Committee independently. Their total fees for the provision of remuneration services to the Committee in 2016 were £183,450 on the basis of time and materials.

### Directors' interests in shares and options under the LTIP (Audited)

LTIP	Notes	Grant date	At 1.1.16	Granted during the year	Exercised/ vested during the year	Lapsed during the year	At 31.12.16	Option price (£)	Market price at date of award (£)	Market price at date of exercise/ vesting (£)	Exercise/vesting period
<b>Adrian Hennah</b>											
Options	1	13.2.13	704	—	—	—	704	42.61	—	—	May 16–Feb 23
	1	13.2.13	91,816	—	—	18,504	73,312	41.44	—	—	May 16–Feb 23
	2	11.12.13	92,540	—	—	—	92,540	46.51	—	—	May 17–Dec 23
	2	1.12.14	90,000	—	—	—	90,000	50.57	—	—	May 18–Dec 24
	2	2.12.15	90,000	—	—	—	90,000	63.25	—	—	May 19–Dec 25
	2	1.12.16	—	76,500	—	—	76,500	67.68	—	—	May 20–Dec 26
Performance-based restricted shares	1	13.2.13	46,270	—	37,016	9,254	—	—	44.19	66.84	May 16
	2	11.12.13	46,270	—	—	—	46,270	—	46.69	—	May 17
	2	1.12.14	45,000	—	—	—	45,000	—	52.40	—	May 18
	2	2.12.15	45,000	—	—	—	45,000	—	64.15	—	May 19
	2	1.12.16	—	38,250	—	—	38,250	—	66.28	—	May 20
<b>Rakesh Kapoor</b>											
Options	5.12.11	164,514	—	—	—	—	164,514	31.20	—	—	May 15–Dec 21
	1	3.12.12	411,286	—	—	82,258	329,028	38.06	—	—	May 16–Dec 22
	2	11.12.13	627	—	—	—	627	47.83	—	—	May 17–Dec 23
	2	11.12.13	410,642	—	—	—	410,642	46.51	—	—	May 17–Dec 23
	2	1.12.14	400,000	—	—	—	400,000	50.57	—	—	May 18–Dec 24
	2	2.12.15	400,000	—	—	—	400,000	63.25	—	—	May 19–Dec 25
	2	1.12.16	—	300,000	—	—	300,000	67.68	—	—	May 20–Dec 26
Performance-based restricted shares	1	3.12.12	205,643	—	164,514	41,129	—	—	39.66	66.84	May 16
	2	11.12.13	246,772	—	—	—	246,772	—	46.69	—	May 17
	2	1.12.14	240,000	—	—	—	240,000	—	52.40	—	May 18
	2	2.12.15	240,000	—	—	—	240,000	—	64.15	—	May 19
	2	1.12.16	—	150,000	—	—	150,000	—	66.28	—	May 20

#### Notes

1 As disclosed in last year's report, 80% of the LTIP awarded in December 2012/February 2013 vested following the AGM in May 2016. The remainder of the award lapsed

2 Vesting of the LTIP is subject to the achievement of the following compound average annual growth CAAG in adjusted EPS over a three year period

EPS CAAG for awards granted in December 2013–2016	<6%	6%	Between 6% and 10%	≥10%
Proportion of awards vesting (%)	Nil	20%	Straight-line vesting between 20% and 100%	100%

Executive employees also participate in the all employee Sharesave Scheme on the same basis as all other employees. The table below details options held.

Sharesave Scheme	Grant date	At 1.1.16	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.16	Option price (£)	Market price at exercise (£)	Exercise period
Rakesh Kapoor	8.9.08	796	—	796	—	—	21.92	65.13	Feb 16–Jul 16
	2.9.16	—	509	—	—	509	58.86	—	Feb 22–Jul 22
Adrian Hennah	4.9.13	403	—	—	—	403	37.20	—	Feb 19–Jul 19
	1.9.15	307	—	—	—	307	48.71	—	Feb 21–Jul 21

There have been no changes to the Directors' interests as set out in the above tables between 31 December 2016 and 20 March 2017.

# Annual Report on Remuneration

continued

## Directors' interests in the share capital of the Company (Audited)

The Directors in office at the end of the year and those in office at 20 March 2017 had the following beneficial interests in the ordinary shares of the Company:

	20 March 2017	31 December 2016	31 December 2015
Adrian Bellamy	<b>24,915</b>	24,915	24,299
Nicandro Durante	<b>323</b>	323	199
Adrian Hennah	<b>65,397</b>	65,397	36,851
Mary Harris	<b>1,744</b>	1,744	137
Ken Hydon	<b>5,946</b>	5,946	5,817
Rakesh Kapoor	<b>562,762</b>	562,762	474,217
Pamela Kirby	<b>3,190</b>	3,190	3,066
André Lacroix	<b>2,672</b>	2,672	2,548
Christopher Sinclair	<b>324</b>	324	136
Judy Sprieser	<b>4,264</b>	4,264	4,133
Warren Tucker	<b>2,200</b>	2,200	2,017

### Notes

1 No person who was a Director (or a Director's connected person) on 31 December 2016 and at 20 March 2017 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 for shares

# Report of the Directors

The Directors submit their Annual Report and audited Financial Statements of the Group for the year ended 31 December 2016 to the members of the Company.

## Directors

The Directors who held office during the year and those serving at the date of this report are:

Adrian Bellamy	Ken Hydon	Christopher Sinclair
Jaspal Bindra <sup>1</sup>	Rakesh Kapoor	Judy Sprieser
Nicandro Durante	Pamela Kirby	Doug Tough <sup>1</sup>
Mary Harris	André Lacroix	Warren Tucker
Adrian Hennah	Sue Shim <sup>1</sup>	

<sup>1</sup> Did not stand for re-election and stood down as a Director following the conclusion of the AGM on 5 May 2016

Biographical details of the current Directors are set out on pages 54 to 56.

A statement of Directors' interests in the share capital of the Company is shown on page 92.

Details of Executive Directors' options to subscribe for shares in the Company are included on page 91 in the audited part of the Directors' Remuneration Report.

No Director had a material interest at any time during the year in any derivative or financial instrument relating to the Company's shares. The details of the Directors' remuneration and service agreements are set out in the Directors' Remuneration Report on pages 76 to 92.

No Director has a material interest in any 'contract of significance' (as that term is defined by the FCA) to which the Company, or any of its subsidiary undertakings, is a party.

## Takeover directive

The Company is required to disclose certain additional information required by s.992 of the Companies Act 2006 (CA 2006) which implemented the EU Takeover Directive. The following sets out disclosures 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 submit themselves for election at the first AGM following their appointment. Under the Articles, all Directors are required to offer themselves for re-election every three years. However, in accordance with the principles of the UK Corporate Governance Code (the Code), Directors submit themselves annually.

The Board is responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of the Company's Articles.

The Articles contain specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the alteration of share capital 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 from the Company's website at [www.rb.com](http://www.rb.com) or can be obtained on written request from the Company Secretary or from the UK Registrar of Companies.

Unless expressly specified to the contrary in the Articles, the Company's Articles may be amended by a special resolution of the Company's Shareholders.

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 employee 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.

There are no significant agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

There is no information that the Company would be required to disclose about persons with whom it has contractual or other arrangements which are essential to the business of the Company.

## Dividend

In July 2016, the Directors resolved to pay an interim dividend of 58.2 pence per ordinary share (2015: 50.3 pence). The dividend was paid on 29 September 2016. The Directors recommend a final dividend for the year of 95.0 pence per share (2015: 88.7 pence) which, together with the interim dividend, makes a total for the year of 153.2 pence per share (2015: 139 pence). The final dividend, if approved by the Shareholders, will be paid on 25 May 2017 to Shareholders on the register at the close of business on 18 April 2017.

## Share capital

As at 31 December 2016, the Company's issued share capital consisted of 736,535,179 ordinary shares of 10p each, of which 700,076,212 were with voting rights and 36,458,967 ordinary shares were held in Treasury. Details of changes to the ordinary shares issued and of options and awards granted during the year are set out in Notes 23 and 24 to the Financial Statements.

The rights and obligations attached to the Company's ordinary shares are set out in the Articles.

# Report of the Directors

continued

There are no restrictions on the voting rights attached to the Company's ordinary shares or the transfer of securities in the Company except, in the case of transfers of securities:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the United Kingdom Listing Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

No person holds securities in the Company which carry special voting rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

## Allotment of shares

Under the CA 2006, Directors may only allot shares or grant rights to subscribe for, or convert any security into, shares if authorised to do so by Shareholders in general meeting. The authority conferred on the Directors at the 2016 AGM under s.551 CA 2006 will expire at the conclusion of this year's AGM. At the AGM, Directors will ask Shareholders to renew their authority to allot equity shares representing approximately one-third of the Company's issued share capital as at the latest practicable date prior to the publication of the Notice of AGM.

In accordance with the Investment Association Share Capital

Management Guidelines, Directors will once again seek authority to allot further ordinary shares, in connection with a pre-emptive offer by way of a rights issue, up to a further one-third of the Company's existing issued share capital on the same date. The authorities sought would, if granted, expire at the earlier of six months after the Company's next accounting reference date, or at the conclusion of the AGM of the Company held in 2018, whichever is the sooner.

Under s.561 CA 2006, Shareholders have a right of first refusal in relation to certain issues of new shares. A special resolution will also be proposed to renew the Directors' power to make non-pre-emptive issues for cash up to a nominal amount representing less than 10% of the Company's issued share capital as at the latest practicable date prior to the publication of the Notice of AGM. The resolution would also permit Directors, within the same aggregate limit, to sell for cash, shares that may be held by the Company in Treasury. In accordance with the Pre-Emption Group's Statement of Principles and the Investment Association and the Pensions and Lifetime Savings Associations' supporting guidelines, the Directors confirm their intention that, other than in relation to a rights issue, no more than 5% of the issued ordinary share capital of the Company, exclusive of treasury shares, will be issued for cash on a non-pre-emptive basis and no more than 7.5% of the share capital of the Company, exclusive of treasury shares, will be allotted for cash under a non-pre-emptive basis over a rolling three-year period without prior consultation with Shareholders, in each case other than in connection with an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding six-month period and is disclosed in the announcement of the allotment.

In line with recommended best practice, the Company has split the section 561 resolution to be proposed at the AGM into two separate resolutions. The first resolution seeks authorisation for 5% of the issued ordinary share capital to be issued on an unrestricted basis, whilst the second resolution seeks authority for the additional 5% of the issued ordinary share capital to be used for an acquisition or a specified capital investment. The Directors have no present intention of exercising the authority sought under the resolutions other than to fulfil the Company's obligations under its executive and employee share plans, and this authority will maintain the Company's flexibility in relation to future share issues, including issues required to finance business opportunities, should appropriate circumstances arise.

## Authority to purchase own shares

On 30 December 2015, the Company announced its intention to commence a share repurchase programme for 2016 to offset the dilutive impact of employee share schemes and to maintain borrowings at around current levels. In accordance with that announcement and subsequent announcements made on 10 May 2016, 28 June 2016 and 20 October 2016, during the period from 4 January 2016 to 5 December 2016, a total of 11,658,939 ordinary shares of 10 pence (representing 1.58% of the ordinary shares in issue on 30 December 2016) were repurchased for a consideration of £802 million, including expenses, and subsequently transferred to be held in Treasury for the purpose of satisfying the Company's obligations under employee equity incentive schemes.

The authority granted to Directors at the 2016 AGM to repurchase shares in the market remains valid until the conclusion of this year's AGM. At the 2017 AGM, Directors will seek to renew the authority granted to them. Such authority, if approved, will be limited to a maximum of 69 million ordinary shares, representing less than 10% of the Company's issued ordinary share capital (excluding treasury shares) calculated as at the latest practicable date prior to publication of the Notice of AGM, and sets the minimum and maximum prices which may be paid. The Company's present intention is to hold shares acquired under such authority in Treasury to satisfy outstanding awards under employee share incentive plans.

## Employees

During 2016, the Group employed an average of 34,700 (2015: 34,700) employees worldwide, of whom 3,384 (2015: 3,176) 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, race, ethnicity 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 Group'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 development.

Regular departmental meetings are held where opinions of employees are sought on a variety of issues. The Group operates multi-dimensional internal communications programmes which include the provision of a Group intranet and the publication of regular Group newsletters.

Group incentive schemes reinforce financial and economic factors affecting the performance of the business. Employees typically have three to five performance objectives which are directly linked to their job and their specific contribution to the overall performance of the Group. In addition, presentations and videos are given to employees around the Group on publication of the Group's financial results.

The Board encourages employees to become Shareholders and to participate in the Group's employee share ownership schemes, should they so wish. Savings-related share plans covering most of the world give employees the opportunity to acquire shares in the Company by means of regular savings.

#### Political donations

Authority is sought each year from Shareholders, on a precautionary basis, to approve political donations and incur political expenditures in accordance with the requirements of Part 14 CA 2006 as the definitions in the Act are broad. No political donations or expenditure of the type requiring disclosure under s.366 and s.367 of CA 2006 were made in the year ended 31 December 2016 nor are any contemplated.

#### Independent Auditor

The External Auditor, PricewaterhouseCoopers LLP (PwC), has indicated its willingness to continue in office and a resolution that PwC be reappointed will be proposed at the AGM.

#### Further disclosures

Further information, including information fulfilling the further disclosure requirements contained in CA 2006, Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules can be found in the following sections of the Annual Report for the period ended 31 December 2016 which are incorporated into the Report of the Directors by reference:

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There is no additional information requiring disclosure under Listing Rule 9.8.4R.

#### Substantial shareholdings

As at 31 December 2016 and as at 20 March 2017, pursuant to DTR5 of the FCA's Disclosure Guidance and Transparency Rules, the Company had received the following notices of substantial interests (3% or more) in the total voting rights of the Company:

Holder	Date of last TR-1 notification	Nature of interest	% of voting rights
JAB Holdings B.V.	27 January 2016	Direct	8.93
Massachusetts Financial Services Company and/or its subsidiaries	16 January 2013 <sup>1</sup>	Indirect	5.00

<sup>1</sup> Under a s.793 CA 2006 request Massachusetts Financial Services Company confirmed on 2 February 2017 that their holding had increased to 8.07%, of which they had the ability to vote 6.62%.

#### Corporate Governance Statement

In compliance with the Disclosure Guidance and Transparency Rules 7.2.1, the disclosures required by DTR 7.2.2 to 7.2.7 are set out in this Report of the Directors and in the Corporate Governance Statement on pages 60 to 67 which together with the Directors' Statement of Responsibilities are incorporated by reference into this Report of the Directors.

#### Annual General Meeting

The tenth AGM of Reckitt Benckiser Group plc will be held on 4 May 2017 at 11.15 am at the London Heathrow Marriott Hotel, Bath Road, Hayes, Middlesex UB3 5AN. The Notice of Meeting, setting out the resolutions to be proposed, is contained in a separate document for Shareholders and is also available at [www.rb.com](http://www.rb.com). The Board considers that each of the resolutions is in the best interests of the Company and the Shareholders as a whole. The Directors unanimously recommend that Shareholders vote in favour of all the resolutions as they intend to do in respect of their own beneficial holdings.

By Order of the Board

#### Rupert Bondy / Company Secretary

Reckitt Benckiser Group plc  
103-105 Bath Road  
Slough, Berkshire SL1 3UH

Company registration number: 6270876

20 March 2017

# Directors' Statement of Responsibilities

The Directors are responsible for preparing the Annual Report, and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law). In preparing the Group Financial Statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the Parent Company Financial Statements, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Parent Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group and Parent Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 54 to 56 confirm that, to the best of his/her knowledge:

- the Parent Company Financial Statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU and IFRSs as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 53. The financial position of the Group and Parent Company, its cash flows, liquidity position and borrowing facilities, as well as the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk are described in the Strategic Report on pages 1 to 53 and in Note 14 to the Group Financial Statements.

The Group has considerable financial resources together with a diverse customer and supplier base across different geographical areas and categories. As a consequence, the Directors believe that the Group and Parent Company are well placed to manage their business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Group and Parent Company have adequate resources to continue in operational existence for at least 12 months. Thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements in accordance with the FRC's 'Guidance on risk management, internal control and related financial business reporting'. This statement is also to fulfil the requirements of Listing Rules 9.8.6R(3) and 9.8.10R(1) and C.1.3 of the Code.

## Disclosure of information to Auditor

The Directors, having made appropriate enquiries, state that:

- 1) so far as each Director is aware, there is no relevant audit information of which the Auditor is unaware; and
- 2) 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 Auditor is aware of that information.

By Order of the Board

## Rupert Bondy / Company Secretary

Reckitt Benckiser Group plc  
 103–105 Bath Road  
 Slough, Berkshire SL1 3UH

Company registration number: 6270876

20 March 2017

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# Independent Auditors' Report to the members of Reckitt Benckiser Group plc

## Report on the Group Financial Statements

### Our opinion

In our opinion, Reckitt Benckiser Group plc's Group Financial Statements (the "Financial Statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1 to the Financial Statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Financial Statements comply with IFRSs as issued by the IASB.

### What we have audited

The Financial Statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Group Balance Sheet as at 31 December 2016;
- the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the Financial Statements. These are cross-referenced from the Financial Statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Financial Statements is IFRSs as adopted by the European Union, and applicable law.

### Our audit approach

#### Overview

Materiality	<ul style="list-style-type: none"> <li>• Overall Group materiality: £138 million which represents 5% of profit before income tax, adjusted for non-recurring exceptional items.</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We conducted audit work in 18 countries in which the Group has significant operations.</li> <li>• The reporting units where we performed an audit of their complete financial information accounted for 77% of Group revenue and 77% of Group profit before income tax, adjusted for non-recurring exceptional items.</li> <li>• The Group engagement team visited 16 of the 18 component audit teams to attend audit clearance meetings and discuss the audit approach and findings with those local teams.</li> <li>• For those countries not visited we maintained regular contact with the local team and evaluated the outcome of their audit work.</li> </ul>
Areas of focus	<ul style="list-style-type: none"> <li>• Accounting for customer trade spend.</li> <li>• Provision for uncertain tax exposures.</li> <li>• Accounting for provisions and impairments resulting from the RB Oxy Humidifiers issue.</li> <li>• Valuation of provisions for liabilities arising from legal investigations.</li> <li>• The classification of exceptional items.</li> <li>• Goodwill and intangible asset impairment assessment.</li> </ul>

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the Financial Statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

#### Area of focus

##### **Accounting for customer trade spend**

Refer to page 72 (Audit Committee review of areas of significant judgement) and page 114 (accounting policies).

As is industry practice, in each country in which the Group operates there are numerous types of complex commercial arrangements with retailers and other customers that have a range of terms (for example promotions, rebates and discounts).

Trade spend arrangements have varying terms, some of which are supported by annual contracts or joint business plans, whilst others are based on shorter term agreements entered into during the year. In addition, the level and timing of promotions for individual products or ranges varies from period to period, and activity can span over a year end. These judgements impact the reported results of the country, segment and the Group and in particular influence the calculation of net revenue and country operating profit, both of which are key performance indicators for management incentive schemes.

We consider there to be a specific risk associated with the accuracy of the trade spend that has been incurred in the year as this is material and can be complex and judgemental. In particular we focused on the approval of the arrangements, the period to which the spend relates and whether balances had been settled. In addition, we focused on estimates of the obligations at the reporting date in respect of all trade spend arrangements ("trade spend accruals"). We focused on this area due to the complexity and level of judgement required in making the key assumptions underpinning the estimates. For example:

- The date of shipment to the retailer and the period over which the promotion will run may differ;
- Details of the retailers' EPOS data may be required to determine the accuracy of trade spend committed at the reporting date; and
- Promotions may span over the year end and therefore estimation of the future volume or margin levels of the retailer must be forecast to determine the level of the accrual required.

Therefore, our areas of focus included whether the accruals were understated and appropriately valued, whether trade spend was recorded in the correct period and whether the significant one-off transactions had been accurately recorded in the Income Statement.

##### **Provision for uncertain tax exposures**

Refer to page 52 (Principal risks) and page 71 (Audit Committee review of areas of significant judgement) and Note 7 (Income Tax Expense).

Due to the Group operating across a number of different tax jurisdictions it is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business. These challenges include transaction related tax matters, financing and transfer pricing arrangements arising from centralised functions that drive value across a number of different countries.

Where the amount of tax payable is uncertain, the Group establishes provisions based on management's judgement of the probable amount of the liability.

We focused on the judgements made by management in assessing the quantification and likelihood of certain potential exposures and therefore the level of provision required for specific cases. We also considered the impact of changes in country tax environments across the Group, which could materially impact the amounts recorded in the Financial Statements.

#### How our audit addressed the area of focus

Our audit procedures included understanding and evaluating the controls and systems related to the trade spend process, and where appropriate obtaining audit evidence through testing operating effectiveness of relevant controls together with substantive audit procedures.

Testing of controls included examining appropriate authorisation for trade spend agreements and contracts, considering segregation of duties over the creation and approval of the accruals and testing the resolution of variations between actual and expected trade spend.

The substantive audit procedures performed for each individual component varied depending upon the component team and the nature of the trade spend and type of agreement but included the following tests, on a sample basis:

- Agreeing costs incurred during the year to invoices and other correspondence from the customers and subsequent settlement;
- Agreeing key elements of the estimates to supporting documentation such as joint business plans, contracts and EPOS data;
- Circularising external confirmations to the customers to confirm the existence of specific promotions and the underlying key assumptions of the accrual calculation;
- Recalculating management's estimates;
- Evaluating the accuracy of the prior year trade spend balance by comparing the historic accruals to actual spend incurred; and
- Testing trade spend transactions around the year end to determine whether they had been recognised in the appropriate period.

As the Group engagement team, we were specifically involved in determining and assessing the appropriateness of the audit approach for each component in this area. This satisfied us that sufficient focus was placed on the more judgemental areas and that, whilst complex, the area was well understood and sufficient focus was placed on the risk area.

We updated our detailed understanding of the Group's tax strategy and Group transfer pricing policy, particularly in relation to any changes implemented during 2016, we assessed key technical tax issues and risks related to business and legislative developments using, where applicable, our local and international tax specialists.

We obtained explanations from management and corroborative evidence including, communication with local tax authorities, details of progress with Advanced Pricing Agreements and copies of external tax advice reports relating to tax treatments applied and the corresponding provisions recorded.

We challenged management's key assumptions, in particular on cases where there had been significant developments with local tax authorities, noting no significant deviations from our expectations.

We also evaluated whether the liabilities and potential exposures were appropriately disclosed in the Financial Statements.

# Independent Auditors' Report to the members of Reckitt Benckiser Group plc continued

## Area of focus

### **Accounting for provisions and impairments resulting from the RB Oxy Humidifiers issue**

Refer to pages 14 to 15, Note 17 (Provisions for liabilities and charges) and Note 3 (analysis of net operating expenses).

In 2001, RB acquired Oxy, a South Korean company which manufactured and sold Humidifier Sanitiser (HS) products. The product was subsequently withdrawn following an epidemiology study that concluded that certain HS products may be the cause of reported lung and respiratory injuries and deaths.

In 2016 management publicly apologised for its role and committed to set up a compensation fund for the victims. Management recorded a total exceptional charge of £300 million in the year, principally associated with the provision for the compensation fund and associated costs and the write off of certain local brands following the significant decline in trading.

There is significant complexity and a high level of management judgement associated with determining the likelihood and magnitude of the required provision, in particular due to the number of people who meet the criteria to be compensated by the RB scheme and the severity of their injuries.

There is a risk that the provisions are not held at the correct value and that there may be associated assets which should be impaired. Finally, there is a risk that management includes insufficient disclosure within the Financial Statements.

### **Valuation of provisions for liabilities arising from legal investigations**

Refer to page 51 (Principal risks), Note 17 (Provisions for liabilities and charges) and Note 19 (Contingent liabilities and assets).

The Group has been subject to a number of legal investigations, for example in respect of violations of antitrust and competition laws, and has recorded a provision on its Balance Sheet of £329 million, including the provision held for the RB Oxy Humidifiers issue referenced above. In addition, the Group is currently involved in ongoing investigations by the US Department of Justice, which has been disclosed as a contingent liability.

There is a high level of management judgement associated with determining the need for, and the magnitude of, provisions for any liabilities arising from these investigations.

Therefore, we consider there to be a risk that the provisions may be held at the incorrect value on the Balance Sheet and that disclosure within the Annual Report in respect of these cases and their potential impact on the Financial Statements may not be sufficient.

## How our audit addressed the area of focus

Our audit procedures focused on understanding the basis for management's provisions and impairments and in particular the assumptions and judgements made by management.

In respect of the asset impairments we obtained detailed trading analysis for the year and an understanding of future plans for the local South Korean brands to determine whether there was any recoverable value to the brands.

In respect of the provision we substantively tested management's model, including performing the following procedures:

- Discussed and corroborated the key facts of the situation and key assumptions within the provision with external legal counsel.
- Obtained confirmations from external legal counsel and compared their assessment of the facts and circumstances of the case with management's.
- Verified assumptions associated with the number of people eligible for compensation to official South Korean Government body press releases.
- Confirmed the settlements agreed to date to signed agreements and verified that the basis of the provision is consistent with these settlements.
- Assessed the work of management's experts used to estimate the future medical costs.
- Checked the mathematical accuracy of the model.
- Performed our own sensitivities to assess the appropriateness of management's assumptions.

We have also assessed the completeness of the contingent liability disclosures in respect of other potential exposures which cannot currently be reliably estimated.

Based upon the procedures performed we considered management's provisions, impairments and disclosures to be appropriate.

Our audit procedures focused on the assumptions and judgements made by management in determining the recognition and valuation of associated provisions and contingent liabilities.

We confirmed that, where applicable, discussions took place with in-country legal teams and audit evidence was sought in that location, such as obtaining external confirmations. This was corroborated with the Group legal team to understand the status of any significant investigations or litigation, the associated risks and the basis for any provision recorded.

We obtained and read relevant legal documents that confirmed the existence of each case and quantified expected liabilities.

We obtained confirmations from the Group's external legal counsel, and where considered necessary held calls with external counsel, and compared their description and assessment of the facts and circumstances of the cases and, where applicable the potential outcome against management's and the internal legal team's assessment. We did not identify any significant inconsistencies.

Area of focus

**The classification of exceptional items**

Refer to page 111 (accounting policies) and Note 3 (Analysis of net operating expenses).

In the past few years the Group has had significant levels of 'exceptional items' which are disclosed separately within the Income Statement and are excluded from management's reporting of the underlying results of the business.

The nature of these 'exceptional items' are explained within the Group accounting policy and includes restructuring costs, gains or losses arising on acquisitions or disposals and costs resulting from non-recurring legal or regulatory matters.

This year the Group has identified £367 million of net exceptional items which relate primarily to the South Korea issue discussed above and the 'Group-led' restructuring programme associated with Project Supercharge.

Our specific area of focus was to assess whether the items identified by management met the definition within the Group's accounting policy and have been treated consistently, as the identification of such items required judgement by management. Consistency in the identification and presentation of these items is important to ensure comparability of year-on-year reporting within the Annual Report and Financial Statements.

**Goodwill and intangible asset impairment assessment**

Refer to page 71 (Audit Committee review of areas of significant judgement) and Note 9 (Goodwill and other intangible assets)

The Group has goodwill of £3,920 million and other indefinite lived intangible assets of £9,428 million as at 31 December 2016 which are required to be tested for impairment on an annual basis. Management has allocated these assets to individual cash generating units (CGUs) and groups of CGUs (GCGUs) and there is judgement around how these are determined, specifically in respect of changes in the year. In 2016 the Group exercised its option to acquire the legal title to intellectual property associated with the collaboration agreement with Bristol Myers Squibb (BMS) and as a result created a new CGU.

There is further judgement around the determination of the recoverable amount, being the higher of value in use and fair value less costs of disposal. Recoverable amounts are based on management's view of the future results and prospects of the business, the appropriate discount rates to be applied and specific risk factors applied to the GCGUs and CGUs.

Due to VMS, BMS and Oriental Pharma being recent acquisitions, the brands remain relatively more sensitive to impairment. These three indefinite life CGUs are primarily concentrated in single markets, the US, Brazil and Mexico and China respectively, although the VMS brand continues to be rolled out across Europe and Asia. The key judgements in determining the recoverable amount of these GCGUs are in respect of the forecast cash flows within these primary markets, the use of appropriate discount rates and the long-term growth rates applied.

How our audit addressed the area of focus

We obtained corroborative evidence for the items presented within 'exceptional items'.

We challenged management's rationale for the designation of certain items as 'exceptional' and assessed such items against the Group's accounting policy and the consistency of treatment with prior periods.

We also considered whether there were items that were recorded within underlying profit that we determined to be 'exceptional' in nature and should have been included within 'exceptional items'. No such items were identified.

We evaluated the process by which management prepared its cash flow forecasts and compared them against the latest Board approved plans and management approved forecasts. We evaluated the historical accuracy of the plans and forecasts, for example by comparing the forecasts used in the prior year model to the actual performance of the business in the current year. These procedures enabled us to determine the accuracy of the forecasting process and apply appropriate sensitivities to the cash flows.

We assessed the appropriateness of management's discount rates, future cash flows and long-term growth rates, specifically focusing on the CGUs identified opposite. We benchmarked assumptions against industry and peer group comparators and metrics such as country inflation rates.

Based upon our assessments described above, we challenged management on the appropriateness of its sensitivity calculations by applying our own sensitivity analysis to the forecast cash flows, long-term growth rates and discount rates to ascertain the extent to which reasonable adverse changes would, either individually or in aggregate, require an impairment of either the goodwill or indefinite life assets. Following these assessments we concluded that sensitivity disclosures were only required for the BMS and Oriental Pharma CGUs.

We determined that no impairment charges were required, based on the results of our work. Management has described the key sensitivities applied in the 'Goodwill and other intangible assets' note to the Financial Statements.

# Independent Auditors' Report to the members of Reckitt Benckiser Group plc continued

## *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is organised into two geographical regions being DvM (Developing Markets including North Africa, Middle East (excluding Israel), North Africa and Turkey, Africa, South Asia, North Asia, Latin America and ASEAN) and ENA (Europe (including Russia and Israel), North America and Australia and New Zealand). There is also a separate segment for the Food business.

Each country within the aforementioned geographical regions and Food business consists of a number of management reporting entities which are consolidated by Group management. The Group Financial Statements are a consolidation of 715 reporting units representing the operating businesses within these geographical-based divisions and the centralised functions.

The reporting units vary in size and we identified 56 reporting units from across the two geographic regions and Food business that required an audit of their complete financial information due to their individual size or risk characteristics. The reporting units where we performed an audit of their complete financial information accounted for 77% of the Group's profit before income tax, adjusted for non-recurring exceptional items and 77% of the Group's revenue. Included within these 56 reporting units were three reporting units that were audited by the Group engagement team, including the Group's treasury company and the parent company.

Audits of the revenue financial statement line item were performed in a further two reporting units.

The 53 reporting units, excluding those audited by the Group engagement team, are audited by 18 component auditor teams. The Group engagement team visited 16 of the 18 local component teams to meet with local management, attend audit clearance meetings and discuss the audit approach and findings with the local audit teams. For those countries not visited we had regular communication with the local teams, both before and after their audit. Our attendance at the clearance meetings, review and discussion of the audit results at overseas locations, together with the additional procedures performed at a Group level described below, gave us the evidence we needed for our opinion on the Group Financial Statements as a whole.

Our audit procedures at the Group level included the audit of the consolidation, the UK pension schemes (due to their size) and certain tax procedures.

## *Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the Financial Statements as a whole.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Overall Group materiality	£138 million (2015: £117 million).
How we determined it	5% of profit before income tax, adjusted for non-recurring exceptional items.
Rationale for benchmark applied	Profit before income tax, adjusted for the impact of all non-recurring exceptional items, provides us with a consistent year-on-year basis for determining materiality and is, we believe, the metric most commonly used by the Shareholders as a body in assessing the Group's performance.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £8 million and £72 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6 million (2015: £6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## *Going concern*

Under the Listing Rules we are required to review the Directors' Statement, set out on page 96, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' Statement about whether they considered it appropriate to adopt the going concern basis in preparing the Financial Statements. We have nothing material to add or to draw attention to.

As noted in the Directors' Statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the Financial Statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these Statements are not a guarantee as to the Group's ability to continue as a going concern.

### **Other required reporting**

#### **Consistency of other information and compliance with applicable requirements**

##### *Companies Act 2006 reporting*

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

##### *ISAs (UK & Ireland) reporting*

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- |   |                                  |
|---|----------------------------------|
| <ul style="list-style-type: none"> <li>• information in the Annual Report is:           <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited Financial Statements; or</li> <li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>– otherwise misleading.</li> </ul> </li> </ul>   | We have no exceptions to report. |
| <ul style="list-style-type: none"> <li>• the statement given by the Directors on page 96, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.</li> </ul> | We have no exceptions to report. |
| <ul style="list-style-type: none"> <li>• the section of the Annual Report on pages 70 and 71, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>   | We have no exceptions to report. |

### **The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group**

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• the Directors' confirmation on page 67 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.</li> </ul>   | We have nothing material to add or to draw attention to. |
| <ul style="list-style-type: none"> <li>• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>   | We have nothing material to add or to draw attention to. |
| <ul style="list-style-type: none"> <li>• the Directors' explanation on page 46 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul> | We have nothing material to add or to draw attention to. |

Under the Listing Rules we are required to review the Directors' Statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' Statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

# Independent Auditors' Report to the members of Reckitt Benckiser Group plc continued

## Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

## Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

## Responsibilities for the Financial Statements and the audit

### Our responsibilities and those of the Directors

As explained more fully in the Directors' Statement of Responsibilities set out on page 96, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

## What an audit of Financial Statements involves

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

## Other matter

We have reported separately on the parent company Financial Statements of Reckitt Benckiser Group plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

**Mark Gill (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
 Chartered Accountants and Statutory Auditors  
 London  
 20 March 2017

# Group Income Statement

For the year ended 31 December	Note	2016 £m	2015 £m
<b>Net Revenue</b>	2	<b>9,891</b>	8,874
Cost of sales		<b>(3,865)</b>	(3,628)
Gross profit		<b>6,026</b>	5,246
Net operating expenses	3	<b>(3,616)</b>	(3,005)
<b>Operating profit</b>	2	<b>2,410</b>	2,241
Adjusted operating profit		<b>2,777</b>	2,374
Exceptional items	3	<b>(367)</b>	(133)
<b>Operating profit</b>		<b>2,410</b>	2,241
Finance income	6	<b>42</b>	21
Finance expense	6	<b>(58)</b>	(54)
<b>Net finance expense</b>		<b>(16)</b>	(33)
<b>Profit before income tax</b>		<b>2,394</b>	2,208
Income tax expense	7	<b>(558)</b>	(463)
<b>Net income</b>		<b>1,836</b>	1,745
Attributable to non-controlling interests		<b>4</b>	2
Attributable to owners of the parent		<b>1,832</b>	1,743
<b>Net income</b>		<b>1,836</b>	1,745
<b>Basic earnings per ordinary share (pence)</b>	8	<b>260.2</b>	244.4
<b>Diluted earnings per ordinary share (pence)</b>	8	<b>256.5</b>	240.9

# Group Statement of Comprehensive Income

For the year ended 31 December	Note	2016 £m	2015 £m
Net income		<b>1,836</b>	1,745
<b>Other comprehensive income/(expense)</b>			
<i>Items that may be reclassified to profit or loss in subsequent years</i>			
Net exchange gains/(losses) on foreign currency translation, net of tax	7	<b>1,618</b>	(124)
Losses on net investment hedges, net of tax	7	<b>(128)</b>	(49)
(Losses)/gains on cash flow hedges, net of tax	7	<b>(22)</b>	14
Reclassification of foreign currency translation reserves on disposal of foreign operations, net of tax	7	–	33
		<b>1,468</b>	(126)
<i>Items that will not be reclassified to profit or loss in subsequent years</i>			
Revaluation of available for sale financial assets	7	<b>(2)</b>	–
Remeasurements of defined benefit pension plans, net of tax	7	<b>(138)</b>	46
		<b>(140)</b>	46
<b>Other comprehensive income/(expense), net of tax</b>		<b>1,328</b>	(80)
<b>Total comprehensive income</b>		<b>3,164</b>	1,665
Attributable to non-controlling interests		<b>4</b>	2
Attributable to owners of the parent		<b>3,160</b>	1,663
<b>Total comprehensive income</b>		<b>3,164</b>	1,665

# Group Balance Sheet

As at 31 December	Note	2016 £m	2015 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill and other intangible assets	9	<b>13,454</b>	11,296
Property, plant and equipment	10	<b>878</b>	730
Available for sale financial assets	14	<b>39</b>	—
Deferred tax assets	11	<b>81</b>	57
Retirement benefit surplus	22	<b>36</b>	63
Other non-current receivables	13	<b>81</b>	240
		<b>14,569</b>	12,386
<b>Current assets</b>			
Inventories	12	<b>770</b>	681
Trade and other receivables	13	<b>1,623</b>	1,331
Derivative financial instruments	14	<b>158</b>	121
Current tax recoverable		<b>14</b>	9
Short-term investments	14	<b>3</b>	—
Cash and cash equivalents	15	<b>882</b>	740
		<b>3,450</b>	2,882
<b>Total assets</b>		<b>18,019</b>	15,268
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short-term borrowings	16	<b>(1,585)</b>	(1,749)
Provisions for liabilities and charges	17	<b>(251)</b>	(229)
Trade and other payables	20	<b>(3,495)</b>	(2,948)
Derivative financial instruments	14	<b>(58)</b>	(22)
Current tax liabilities	21	<b>(12)</b>	(91)
		<b>(5,401)</b>	(5,039)
<b>Non-current liabilities</b>			
Long-term borrowings	16	<b>(804)</b>	(671)
Deferred tax liabilities	11	<b>(1,983)</b>	(1,692)
Retirement benefit obligations	22	<b>(361)</b>	(257)
Other provisions	17	<b>(174)</b>	(115)
Non-current tax liabilities	21	<b>(740)</b>	(559)
Other non-current liabilities	20	<b>(130)</b>	(29)
		<b>(4,192)</b>	(3,323)
<b>Total liabilities</b>		<b>(9,593)</b>	(8,362)
<b>Net assets</b>		<b>8,426</b>	6,906
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	23	<b>74</b>	74
Share premium		<b>243</b>	243
Merger reserve		<b>(14,229)</b>	(14,229)
Hedging reserve	25	<b>(4)</b>	18
Foreign currency translation reserve	25	<b>526</b>	(964)
Retained earnings		<b>21,811</b>	21,762
Attributable to owners of the parent		<b>8,421</b>	6,904
Attributable to non-controlling interests		<b>5</b>	2
<b>Total equity</b>		<b>8,426</b>	6,906

The Financial Statements on pages 105 to 151 were approved by the Board of Directors and signed on its behalf on 20 March 2017 by:

**ADRIAN BELLAMY**  
Director

**RAKESH KAPOOR**  
Director

# Group Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
<b>Balance at 1 January 2015</b>	74	243	(14,229)	(820)	21,564	6,832	2	6,834	
<b>Comprehensive income</b>									
Net income		—	—	—	—	1,743	1,743	2	1,745
Other comprehensive (expense)/income		—	—	—	(126)	46	(80)	—	(80)
<b>Total comprehensive (expense)/income</b>		—	—	—	(126)	<b>1,789</b>	<b>1,663</b>	<b>2</b>	<b>1,665</b>
<b>Transactions with owners</b>									
Treasury shares re-issued	23	—	—	—	—	74	74	—	74
Share-based payments	24	—	—	—	—	50	50	—	50
Current tax on share awards	7	—	—	—	—	5	5	—	5
Deferred tax on share awards	7	—	—	—	—	8	8	—	8
Shares repurchased and held in Treasury	17,23	—	—	—	—	(804)	(804)	—	(804)
Cash dividends	28	—	—	—	—	(924)	(924)	(2)	(926)
<b>Total transactions with owners</b>		—	—	—	—	<b>(1,591)</b>	<b>(1,591)</b>	<b>(2)</b>	<b>(1,593)</b>
<b>Balance at 31 December 2015</b>	74	243	(14,229)	(946)	21,762	6,904	2	6,906	
<b>Comprehensive income</b>									
Net income		—	—	—	—	1,832	1,832	4	1,836
Other comprehensive income/(expense)		—	—	—	1,468	(140)	1,328	—	1,328
<b>Total comprehensive income</b>		—	—	—	<b>1,468</b>	<b>1,692</b>	<b>3,160</b>	<b>4</b>	<b>3,164</b>
<b>Transactions with owners</b>									
Treasury shares re-issued	23	—	—	—	—	79	79	—	79
Share-based payments	24	—	—	—	—	66	66	—	66
Current tax on share awards	7	—	—	—	—	14	14	—	14
Deferred tax on share awards	7	—	—	—	—	(4)	(4)	—	(4)
Shares repurchased and held in Treasury	17,23	—	—	—	—	(702)	(702)	—	(702)
Cash dividends	28	—	—	—	—	(1,035)	(1,035)	(1)	(1,036)
Transactions with non-controlling interests	—	—	—	—	—	(61)	(61)	—	(61)
<b>Total transactions with owners</b>		—	—	—	—	<b>(1,643)</b>	<b>(1,643)</b>	<b>(1)</b>	<b>(1,644)</b>
<b>Balance at 31 December 2016</b>	74	243	(14,229)	522	21,811	8,421	5	8,426	

The merger reserve relates to the 1999 combination of Reckitt & Colman plc and Benckiser N.V. and a Group reconstruction in 2007 treated as a merger under Part 27 of the Companies Act 2006.

Refer to Note 25 for an explanation of other reserves.

# Group Cash Flow Statement

For the year ended 31 December	Note	2016 £m	2015 £m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit		<b>2,410</b>	2,241
Depreciation, amortisation and impairment		<b>183</b>	171
Other non-cash gains		–	(33)
Decrease in inventories		<b>14</b>	22
Increase in trade and other receivables		<b>(39)</b>	(218)
Decrease in payables and provisions		<b>(1)</b>	(23)
Non-cash exceptional items		<b>318</b>	85
Share-based payments		<b>66</b>	50
<b>Cash generated from operations</b>		<b>2,951</b>	2,295
Interest paid		<b>(56)</b>	(54)
Interest received		<b>40</b>	23
Tax paid		<b>(513)</b>	(480)
<b>Net cash generated from operating activities</b>		<b>2,422</b>	1,784
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(179)</b>	(154)
Purchase of intangible assets		<b>(214)</b>	(25)
Proceeds from the sale of property, plant and equipment		<b>7</b>	51
Acquisition of businesses, net of cash acquired		<b>(158)</b>	(10)
Purchase of available for sale financial assets		<b>(36)</b>	–
Purchase of short-term investments		<b>(3)</b>	–
Maturity of short-term investments		–	3
Proceeds on disposal of subsidiaries		–	1
<b>Net cash used in investing activities</b>		<b>(583)</b>	(134)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Shares repurchased and held in Treasury	23	<b>(802)</b>	(804)
Treasury shares re-issued	23	<b>79</b>	74
Proceeds from borrowings		<b>469</b>	23
Repayment of borrowings		<b>(695)</b>	(165)
Dividends paid to owners of the parent	28	<b>(1,035)</b>	(924)
Dividends paid to non-controlling interests		<b>(1)</b>	(2)
Other financing activities		<b>219</b>	–
<b>Net cash used in financing activities</b>		<b>(1,766)</b>	(1,798)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>73</b>	(148)
Cash and cash equivalents at beginning of the year		<b>737</b>	913
Exchange gains/(losses)		<b>63</b>	(28)
<b>Cash and cash equivalents at end of the year</b>		<b>873</b>	737
<b>Cash and cash equivalents comprise:</b>			
Cash and cash equivalents	15	<b>882</b>	740
Overdrafts	16	<b>(9)</b>	(3)
<b>Net cash flow from operations</b>		<b>873</b>	737
<b>RECONCILIATION OF NET CASH FLOWS FROM OPERATIONS</b>			
Net cash generated from operating activities		<b>2,422</b>	1,784
Net purchases of property, plant and equipment		<b>(172)</b>	(103)
<b>Net cash flow from operations</b>		<b>2,250</b>	1,681

# Notes to the Financial Statements

## 1 Accounting Policies

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), IFRS Interpretations Committee (IFRS IC) interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements are also in compliance with IFRSs as issued by the International Accounting Standards Board.

These Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss. A summary of the Group's more important accounting policies is set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

The preparation of Financial Statements that conform to IFRSs 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.

### Adoption of New and Revised Standards

There are no new standards, amendments or interpretations which have been adopted for the first time and have a significant impact on the accounting policies applied in preparing the annual consolidated Financial Statements of the Group.

In these Financial Statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 15: *Revenue from Contracts with Customers* which will be effective for annual periods beginning on or after 1 January 2018;
- IFRS 9: *Financial Instruments* which will be effective for annual periods beginning on or after 1 January 2018; and
- IFRS 16: *Leases* which will be effective for annual periods beginning on or after 1 January 2019.

The Group is in the process of evaluating the impact of each of these new standards, focusing on IFRS 9 and IFRS 15, given their application dates. IFRS 9 is likely to impact the measurement and disclosure of financial instruments and IFRS 15 may have an impact on revenue recognition. IFRS 16 will impact the treatment of the Group's operating leases. It is not practicable to provide an impact of these new standards until this evaluation has been completed.

A number of other new standards, amendments and interpretations are

effective for annual periods beginning on or after 1 January 2017 and have not yet been applied in preparing these Financial Statements. None of these are expected to have a significant effect on the Financial Statements of the Group.

### Going Concern

Having assessed the principal risks and other matters discussed in connection with the Viability Statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the consolidated Financial Statements. Further detail is contained in the Strategic Report on pages 46 to 53.

### Basis of Consolidation

The consolidated Financial Statements include the results of Reckitt Benckiser Group plc, a company registered in the UK, and all its subsidiary undertakings made up to the same accounting date. Subsidiary undertakings are those entities controlled by Reckitt Benckiser Group plc. Control exists where the Group is exposed to, or has the rights to variable returns from its involvement with, the investee and has the ability to use its power over the investee to affect its returns.

Intercompany 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.

### 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 Group's presentational 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 year 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 Financial Statements 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 year.

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 equity on consolidation.

### Business Combinations

The acquisition 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.

Where the measurement of the fair value of identifiable net assets acquired is incomplete at the end of the reporting period in which the combination occurs, the Group will report provisional fair values. Final fair values are determined within a year of the acquisition date and retrospectively applied.

## 1 Accounting Policies continued

The excess of the consideration transferred and the amount of any non-controlling interest over the fair value of the identifiable assets (including intangibles), liabilities and contingent liabilities acquired is recorded as goodwill.

The consideration transferred 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.

Acquisition related costs are expensed as incurred.

The results of the subsidiaries acquired are included in the consolidated Financial Statements from the acquisition date.

### Disposal of Subsidiaries

The financial performance of subsidiaries is included in the Group results up to the point the Group ceases to have control over that subsidiary. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of related assets and liabilities. This may mean amounts previously recognised in other comprehensive income are reclassified to profit or loss.

### Non-Controlling Interests

On an acquisition-by-acquisition basis the non-controlling interest is measured at either fair value or a proportionate share of the acquiree's net assets.

Purchases from non-controlling interests are accounted for as transactions with the owners and therefore no goodwill is recognised as a result of such transactions.

### Revenue

Revenue from the sale of products is recognised in the Income Statement when the risks and rewards of ownership of the products are passed to the customer.

Net Revenue is defined as the amount invoiced to external customers during the year and comprises gross sales net of trade spend, customer allowances for credit notes, returns and consumer coupons. The methodology and assumptions used to estimate credit notes, returns and consumer coupons are monitored and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions.

Trade spend, which consists primarily of customer pricing allowances, placement/listing fees and promotional allowances, are governed by sales agreements with our trade customers (retailers and distributors). Accruals are recognised under the terms of these agreements, to reflect the expected promotional activity and our historical experience. These accruals are reported within Trade and other payables.

Net Revenue also includes royalty income arising from the licensed use of our brands' recognised on an accruals basis.

Value added tax and other sales taxes are excluded from Net Revenue.

### Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee.

### Exceptional Items

Where material, non-recurring expenses or income are incurred during a period, these items are disclosed as exceptional items in the Income Statement. Examples of such items are:

- Restructuring and other expenses relating to the integration of an acquired business and related expenses for reconfiguration of the Group's activities.
- Impairments of current and non-current assets.
- Gains/losses on disposal of businesses.
- Acquisition-related costs.
- Costs arising as a result of material and non-recurring regulatory and litigation matters.

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

Management believes 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.

### Research and Development

Research expenditure is expensed in the year in which it is incurred.

Development expenditure is expensed 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.

### 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 in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted in each jurisdiction, or substantively 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. Deferred 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 tax is determined using tax rates (and laws) that have been enacted or substantively 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.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the investor is able to control the timing of temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities within the same tax jurisdiction are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where there is an intention to settle these balances on a net basis.

# Notes to the Financial Statements continued

## 1 Accounting Policies continued

### Goodwill and Other Intangible Assets

#### (i) Goodwill

Goodwill is allocated to the cash generating unit (CGU), or group of CGUs, to which it relates and is tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

#### (ii) Brands

Separately acquired brands are shown at cost less accumulated amortisation and impairment. Brands acquired as part of a business combination are recognised at fair value at the acquisition date, where they are separately identifiable. Brands are amortised over their useful economic life, except when their life is determined as being indefinite.

Applying indefinite lives to certain acquired brands 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 increasing marketing investment. Within the Group, 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 these lives are still appropriate. If a brand is considered to have a finite life, its carrying value is amortised over that period.

#### (iii) Distribution Rights

Payments made in respect of product registration, acquired and re-acquired 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.

#### (iv) Software

Acquired computer software licences are capitalised at cost. These costs are amortised on a straight-line basis over a period of seven years for Enterprise Resource Planning systems and five years or less for all other software licences.

### Property, Plant and Equipment

Property, plant and equipment is 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 and assets under construction, 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 is 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.

### 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. Leased property, plant and equipment are 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.

### Impairment of Assets

Assets that have indefinite lives, including goodwill, are tested annually for impairment at the level where cash flows are considered to be largely independent. This is at either a CGU level, or as a group of CGUs. 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 of disposal 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 pre-tax discount rate used in asset impairment reviews is based on a weighted average cost of capital for comparable companies operating in similar markets and geographies as the Group including, where appropriate, an adjustment for the specific risks associated with the relevant CGU.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and an appropriate portion of overhead expenses (based on normal operating capacity) required to get the inventory to its present location and condition. Inventory valuation is determined on a first in, first out (FIFO) basis. Net realisable value represents the estimated selling price less applicable selling expenses.

### Trade Receivables

Trade receivables are initially recognised at fair value and subsequently held at amortised cost, less provision for impairment. 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.

## 1 Accounting Policies continued

### 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.

Bank overdrafts are included within short-term borrowings in the Balance Sheet.

### 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.

### Derivative Financial Instruments and Hedging Activity

The Group may use derivatives to manage its exposures to fluctuating interest and foreign exchange rates. These instruments are initially recognised at fair value on the date the contract is entered into 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 a hedge of a highly probable forecast transaction (cash flow 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.

- Derivatives classified as cash flow hedges:* the effective portion of changes in the fair value is recognised in other comprehensive income. Any gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts recognised in other comprehensive income 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 other comprehensive income at that time remains in other comprehensive income, 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 other comprehensive income is immediately transferred to the Income Statement.

- 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 Investment Hedges

Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognised in other comprehensive income to the extent that the hedging relationship is effective. Gains and losses accumulated in the foreign currency translation reserve are recycled to the Income Statement when the foreign operation is disposed of.

### Employee Share Schemes

Incentives in the form of shares are provided to employees under share option and restricted share schemes vested in accordance with non-market conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each Balance Sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Additional employer costs in respect of options and awards are charged, including social security taxes, to the Income Statement over the same period with a corresponding liability recognised.

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

### Pension Commitments

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

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

The deficit or surplus 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 projected 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 plans are accrued over the period of employment. Actuarial gains and losses are recognised immediately in other comprehensive income.

Past-service costs are recognised immediately in profit or loss.

The net interest amount is calculated by applying the discounted rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset.

The net pension plan interest is presented as finance income/expense.

### 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.

### 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.

# Notes to the Financial Statements continued

## 1 Accounting Policies continued

### Share Capital Transactions

When the Group purchases equity share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Purchased 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 would be transferred from retained earnings to the capital redemption reserve.

### Dividend Distribution

Dividends to owners of the parent are recognised as a liability in the period in which the dividends are approved by the Company's Shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Dividend payments are recorded at fair value. Where non-cash dividend payments are made, gains arising as a result of fair value remeasurements, are recognised in profit or loss in the same period.

### Accounting Estimates and Judgements

In the application of the Group's accounting policies the Directors are required to make a number of estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Critical judgements in applying the Group's accounting policies*

The following are the critical judgements, that the Directors have made in the process of applying the Group's accounting policies, that have the most significant effect on the amounts recognised in the Group's Financial Statements.

- The Group recognises legal and regulatory provisions in line with the Group's provisions policy. The level of provisioning for regulatory civil and/or criminal investigation is an issue where management and legal judgement is important (Note 17). These are valued based on the Directors' best estimates taking into account all available information, external advice and historical experience.
- The Group has identified matters which may incur liabilities in the future, but do not recognise these where it is too early to determine the likely outcome or make a reliable estimate (Note 19).
- The continuing enduring nature of the Group's brands supports the indefinite life assumption of these assets (Note 9).
- 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 7).
- 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 11).

• The Group is subject to tax audits and uncertainties in a number of jurisdictions. The issues involved can be complex and disputes may take a number of years to resolve. Each uncertainty is separately assessed and the provision recognised depends on the specific context of each case. The accounting estimates and judgements considered include:

- Status of the unresolved matter;
- Strength of technical argument and clarity of legislation;
- External advice;
- Resolution process, past experience and precedents set with the particular taxing authority;
- Agreements previously reached in other jurisdictions on comparable issues; and
- Statute of limitations.

Management is of the opinion that the carrying values of the provisions made in respect of these matters represent the most accurate measurement once all facts and circumstances have been taken into account. Nevertheless, the final amounts paid to discharge the liabilities arising (either through negotiated settlement or litigation) will in all likelihood be different from the provision recognised. The net liabilities are included in amounts disclosed in Note 21.

#### *Key sources of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Balance Sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Estimates of future business performance and cash generation, discount rates and long-term growth rates supporting the net book amount of indefinite life intangible assets at the Balance Sheet date (Note 9). If the actual results should differ, or changes in expectations arise, impairment charges may be required which would adversely impact operating results.
- Measurement of intangible assets both in business combinations and other asset acquisitions requires the Group to identify such assets. Assumptions and estimates are made about future cash flows and appropriate discount rates to value identified intangible assets (Note 27).
- The Group provides for amounts payable to our trade customers for promotional activity. Where a promotional activity spans across the year end, an accrual is reflected in the consolidated Financial Statements based on our estimation of customer and consumer uptake during the promotional period and the extent to which temporary promotional activity has occurred. Details of trade spend accrued as at year end are provided in Note 20.
- The value of the Group's defined benefit pension plan obligations are dependent on a number of key assumptions. These include assumptions over the rate of increase in pensionable salaries, the discount rate to be applied, the level of inflation and the life expectancy of the schemes members. Details of the key assumptions and the sensitivity of the principal schemes carrying value to changes in the assumptions are set out in Note 22.

## 2 Operating Segments

The Executive Committee is the Group's Chief Operating Decision Maker (CODM). Management has determined the operating segments based on the reports reviewed by the Executive Committee for the purposes of making strategic decisions and assessing performance. The Executive Committee considers the business principally from a geographical perspective, but with Food being managed separately given the significantly different nature of this business and the associated risks and rewards.

The Group's geographical segments comprise ENA and DvM. ENA comprises Europe, Russia/CIS, Israel, North America, Australia and New Zealand. DvM principally comprises North Africa, Middle East (excluding Israel) and Turkey, Africa, South Asia, North Asia, Latin America, Japan, South Korea and ASEAN.

The geographical segments derive their revenue primarily from the sale of branded products in the Health, Hygiene and Home categories. Food derives its revenue from food products primarily sold in ENA countries.

The Executive Committee assesses the performance of the operating segments based on Net Revenue from external customers and Adjusted Operating Profit. Intercompany transactions between operating segments are eliminated. Finance income and expense are not allocated to segments, as they are managed on a central Group basis.

The segment information provided to the Executive Committee for the operating segments for the year ended 31 December is as follows:

Year ended 31 December 2016	ENA £m	DvM £m	Food £m	Total £m
<b>Net Revenue</b>	<b>6,410</b>	<b>3,070</b>	<b>411</b>	<b>9,891</b>
Depreciation, amortisation and impairment	117	60	6	183
<b>Adjusted operating profit</b>	<b>1,978</b>	<b>681</b>	<b>118</b>	<b>2,777</b>
Exceptional items				(367)
<b>Operating profit</b>				<b>2,410</b>
Net finance expense				(16)
<b>Profit before income tax</b>				<b>2,394</b>
Year ended 31 December 2015	ENA £m	DvM £m	Food £m	Total £m
Net Revenue	5,830	2,695	349	8,874
Depreciation, amortisation and impairment	104	62	5	171
Adjusted operating profit	1,744	528	102	2,374
Exceptional items				(133)
Operating profit				2,241
Net finance expense				(33)
Profit before income tax				2,208

The Executive Committee reviews Net Working Capital by segment and other assets and liabilities on a Group basis. The split of assets and liabilities by segment provided to the Executive Committee is shown below. Assets and liabilities not presented to the Executive Committee are shown below as a reconciling item.

2016	ENA £m	DvM £m	Food £m	Total £m
<b>Inventories</b>	<b>516</b>	<b>272</b>	<b>24</b>	<b>812</b>
<b>Trade and other receivables</b>	<b>930</b>	<b>624</b>	<b>48</b>	<b>1,602</b>
<b>Total segment assets</b>	<b>1,446</b>	<b>896</b>	<b>72</b>	<b>2,414</b>
<b>Trade and other payables</b>	<b>(2,050)</b>	<b>(1,118)</b>	<b>(78)</b>	<b>(3,246)</b>

## Notes to the Financial Statements continued

### 2 Operating Segments (continued)

	ENR £m	DvM £m	Food £m	Total £m
2015				
Inventories	491	208	22	721
Trade and other receivables	785	474	29	1,288
Total segment assets	1,276	682	51	2,009
Trade and other payables	(1,745)	(912)	(58)	(2,715)

The assets and liabilities are reported based upon the operations of the segment and the physical location of the asset or liability. There are a number of Group assets and liabilities that are not specifically attributable to one segment. Reconciliation of these assets and liabilities to total assets or liabilities in the Balance Sheet is shown below:

	2016 £m	2015 £m
Inventories for operating segments	812	721
<b>Unallocated:</b>		
Group adjustments	(42)	(40)
<b>Total inventories per the Balance Sheet</b>	<b>770</b>	681
Trade and other receivables for operating segments	1,602	1,288
<b>Unallocated:</b>		
Group items	21	43
<b>Total trade and other receivables per the Balance Sheet</b>	<b>1,623</b>	1,331
<b>Total inventories and trade and other receivables per the Balance Sheet</b>	<b>2,393</b>	2,012
Other unallocated assets	15,626	13,256
<b>Total assets per the Balance Sheet</b>	<b>18,019</b>	15,268
Trade and other payables for operating segments	(3,246)	(2,715)
<b>Unallocated:</b>		
Group items	(249)	(233)
<b>Total trade and other payables per the Balance Sheet</b>	<b>(3,495)</b>	(2,948)
Other unallocated liabilities	(6,098)	(5,414)
<b>Total liabilities per the Balance Sheet</b>	<b>(9,593)</b>	(8,362)

Group adjustments to inventory relate to the elimination of intercompany profit in inventory.

Unallocated assets include goodwill and intangible assets, property, plant and equipment, deferred and current tax, available for sale assets, retirement benefit surplus, other receivables, derivative financial assets, and cash and cash equivalents. Unallocated liabilities include borrowings, provisions for liabilities and charges, current and deferred tax liabilities, other liabilities and retirement benefit obligations.

The Company is domiciled in the UK. The split of Net Revenue from external customers and Non-Current Assets (other than available for sale financial assets, deferred tax assets and retirement benefit surplus assets) between the UK, the US (being the single biggest country outside the country of domicile) and that from all other countries is:

2016	UK £m	US £m	All other countries £m	Total £m
<b>Net Revenue</b>	<b>747</b>	<b>2,648</b>	<b>6,496</b>	<b>9,891</b>
<b>Goodwill and other intangible assets</b>	<b>1,927</b>	<b>5,624</b>	<b>5,903</b>	<b>13,454</b>
<b>Property, plant and equipment</b>	<b>154</b>	<b>183</b>	<b>541</b>	<b>878</b>
<b>Other non-current receivables</b>	<b>12</b>	<b>53</b>	<b>16</b>	<b>81</b>
2015	UK £m	US £m	All other countries £m	Total £m
Net Revenue	729	2,338	5,807	8,874
Goodwill and other intangible assets	1,916	4,710	4,670	11,296
Property, plant and equipment	143	153	434	730
Other non-current receivables	12	38	190	240

## 2 Operating Segments (continued)

The Net Revenue from external customers reported on a geographical basis above is measured consistently with that in the operating segments. Major customers are typically large grocery chains, mass markets and multiple retailers. The Group's customer base is diverse with no single external customer accounting for more than 10% of Net Revenue.

### Analysis of Categories

The primary analysis within the information provided to the Executive Committee is based on the geographical areas above. An analysis of Net Revenue by category is given below.

	Net Revenue	
	2016 £m	2015 £m
Health	3,332	2,942
Hygiene	4,066	3,589
Home	1,828	1,715
Portfolio Brands (including Food)	665	628
	<b>9,891</b>	<b>8,874</b>

Health, Hygiene, Home and Portfolio Brands categories are all split across the two geographical segments of ENA and DvM. Food is sold primarily in ENA but is recognised within a separate operating segment.

## 3 Analysis of Net Operating Expenses

	2016 £m	2015 £m
Distribution costs	(2,457)	(2,165)
Administrative expenses:		
Research and development	(149)	(140)
Other	(648)	(575)
Total administrative expenses	(797)	(715)
Other net operating income	5	8
Exceptional items	(367)	(133)
<b>Net operating expenses</b>	<b>(3,616)</b>	<b>(3,005)</b>

Net foreign exchange gains of £9 million (2015: £7 million loss) have been recognised through the Income Statement. These amounts exclude foreign exchange gains and losses recognised directly in the foreign currency translation reserve.

### Exceptional Items

	2016 £m	2015 £m
South Korea 'HS' issue	300	–
Acquisition, integration and restructuring costs	67	76
Loss on disposal of Russian hospital business	–	57
<b>Total exceptional items</b>	<b>367</b>	<b>133</b>

Exceptional items totalling £367 million (2015: £133 million) have been recognised during the year.

These relate primarily to the HS issue in South Korea. A background to this issue is set out in the South Korea HS section of the Strategic Report. Details of the exceptional costs recognised in 2016, mainly in respect of the Compensation Plan, are set out in this Note.

The Compensation Plan was established by Oxy RB to provide fair compensation to Oxy HS product users categorised by the South Korean government in Rounds 1 and 2 of the South Korean Government's categorisation process as suffering, or having suffered, lung damage which was "almost certainly" (Category I) or had a "high possibility" (Category II) of being a result of their use of Oxy RB's HS product. It was designed in consultation with these victims and their families, informed by four overarching values of Fairness, Transparency, Respect and Speed and is aimed at addressing each person according to their own individual circumstances, including those who have previously entered into settlement agreements with us.

# Notes to the Financial Statements continued

## 3 Analysis of Net Operating Expenses (continued)

Compensation for Category I and II Oxy HS victims categorised in Rounds 1 and 2 comprises two elements:

- A payment to reflect mental distress/pain and suffering, lost income (past and future), past medical, certain legal and other expenses plus interest. This payment for a victim could be up to approximately KRW 1 billion (c.£700k) for death or severe disability.
- Compensation proposals for victims living with the ongoing effects of the Oxy HS product, include a commitment to cover their future medical costs and care needs which are incurred as a reasonably foreseeable consequence of their HS-related lung condition.

In 2014, Oxy RB announced the creation of a Humanitarian Fund of KRW 5 billion (£3 million) for HS-affected individuals to be administered in cooperation with two governmental organisations in South Korea. In April 2016, Oxy RB announced its intention to add another KRW 5 billion (£3 million) to the fund.

We expect to incur a number of other non-recurring costs in relation to the HS issue. These include advisers' fees, costs in administering the Compensation Plan and costs associated with operation of the local business.

We have classified the expected costs as follows:

- where we consider the costs to be probable and we are currently able to estimate the quantum of costs, we have provided for them; and
- where we do not consider the costs to be probable or are currently unable to estimate the quantum or likely outcome of potential future costs, we have disclosed them as a contingent liability.

## Exceptional costs recognised in 2016

During 2016, we have charged £300 million to exceptional costs in relation to this issue, comprising of both cash and non-cash items. These include:

- Expected compensation payments, including the value of expected future medical costs, to be paid on an "as incurred" basis where borne by the Group, to Oxy HS Round 1 and 2 victims categorised as Category I or II (a total of 183 victims, four of whom have already received settlements from another manufacturer). 97% of these victims have registered for the Compensation Plan.
- An estimate of compensation payments and future medical costs for victims who could be categorised as Category I and II Round 3 applicants. As of 25 January 2017, 353 (47% of the total 752 applicants) Round 3 cases have been reviewed. Of them, 53 (15%) have been recognised as Category I or II HS victims, 49 of whom indicated that they used the Oxy HS product either on its own or in conjunction with another HS product. The South Korean government has stated its intention to complete categorisation of the remaining Round 3 applicants by the end of 2017.
- Legal and other associated costs directly linked to the HS issue including civil and criminal proceedings – including both legal fees and potential fines. On 6 January 2017, the South Korean criminal court found Oxy RB guilty of false labelling under South Korea's Fair Labelling & Advertising Act, a charge which the company did not contest, and fined Oxy RB KRW 150 million (£0.1 million). Two current Oxy RB employees were sentenced to five and seven years' imprisonment respectively for occupational negligence and false labelling. Oxy RB's former General Manager and former Head of R&D were each sentenced to seven years' imprisonment for the same offences. All four individuals were employees of Oxy at the time it was acquired by the Group in 2001. Some of the conduct that was the object of the criminal prosecution took place prior to the acquisition. A former General Manager was acquitted of all charges. These sentences were generally less than the prosecutor had requested. The current and former employees who were convicted have appealed. The Prosecutor's Office has appealed against (i) the acquittal of four of the current and former employees of charges of criminal fraud, (ii) the acquittal of the former General Manager of all charges; and (iii) the sentences of all those convicted (except Oxy RB because the maximum fine was imposed).
- Costs associated with the set-up and operation of the Compensation Plan infrastructure.
- A provision for the additional amount committed to the Humanitarian Fund in April 2016.
- An impairment charge against the carrying value of a number of Oxy RB local brands (c. £44 million).
- Other directly connected costs of the local business.

The provision does not include any costs associated with the reported 4,059 Round 4 applicants who registered for categorisation between April and December 2016, nor any contributions to a Special Relief Account contemplated by the HS Damage Relief Act passed by the South Korean National Assembly on 20 January 2017. These are disclosed as a contingent liability, in Note 19.

The remaining £67 million (2015: £76 million) of exceptional items relate to the restructuring of the Group's operations, and the integration of acquisitions. Costs incurred consist primarily of legal and other professional fees, redundancy and business integration costs which have been included within net operating expenses.

In the prior year, a loss of £57 million was recognised on the disposal of Medcom-MP, the entity owning the Russian hospital business. This included a loss of £33 million arising from the recycling, from equity, of previous exchange losses arising on the consolidation of the legal entity sold.

#### 4 Auditor's Remuneration

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's Auditor and its associates.

	2016 £m	2015 £m
Audit services pursuant to legislation		
Audit of the Group's Annual Report and Financial Statements	2.0	2.0
Audit of the Financial Statements of the Group's subsidiaries	3.9	3.6
Audit related assurance services	0.2	0.2
Total audit and audit-related services	<b>6.1</b>	5.8
Fees payable to the Company's Auditor and its associates for other services:		
Taxation compliance services	0.2	0.1
Taxation advisory services	1.0	1.2
Other assurance services	0.1	0.1
All other non-audit services	–	–
Total non-audit services	<b>1.3</b>	1.4
	<b>7.4</b>	7.2

Included within Audit of the Financial Statements of the Group's subsidiaries is £nil (2015: £0.2 million) in relation to the audit of the Financial Statements of associated pension plans of the Group.

#### 5 Employees

**Staff Costs**

	Note	2016 £m	2015 £m
The total employment costs, including Directors, were:			
Wages and salaries		969	923
Social security costs		179	158
Other pension costs	22	8	27
Share-based payments	24	66	50
		<b>1,222</b>	1,158

Executive Directors aggregate emoluments were £2,356,574 (2015: £7,625,435).

Compensation awarded to key management (the Executive Committee) was:

	2016 £m	2015 £m
Short-term employee benefits	7	17
Post-employment benefits	1	1
Share-based payments	29	22
Termination benefits	–	–
	<b>37</b>	40

Termination benefits and share-based payments include contractual commitments made to key management in 2016, comprising cash payments and share awards.

#### Staff Numbers

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

	2016 '000	2015 '000
ENA	14.2	15.5
DvM	18.8	18.0
Other	1.7	1.2
	<b>34.7</b>	34.7

# Notes to the Financial Statements continued

## 6 Net Finance Expense

	2016 £m	2015 £m
<b>Finance income</b>		
Interest income on cash and cash equivalents	42	21
Total finance income	<b>42</b>	<b>21</b>
<b>Finance expense</b>		
Interest payable on borrowings	(47)	(36)
Net pension plan interest	(6)	(8)
Amortisation of issue costs of bank loans	(4)	(5)
Other finance expense	(1)	(5)
Total finance expense	<b>(58)</b>	<b>(54)</b>
<b>Net finance expense</b>	<b>(16)</b>	<b>(33)</b>

## 7 Income Tax Expense

	2016 £m	2015 £m
Current tax	530	483
Adjustment in respect of prior periods	16	92
Total current tax	<b>546</b>	575
Origination and reversal of temporary differences	48	(48)
Impact of changes in tax rates	(36)	(64)
Total deferred tax (Note 11)	12	(112)
<b>Income tax expense</b>	<b>558</b>	463

Current tax includes tax incurred by UK entities of £81 million (2015: £75 million). This is comprised of UK corporation tax of £61 million (2015: £53 million) and overseas tax suffered of £20 million (2015: £22 million). UK current tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year, net of relief for overseas taxes where available. Taxation in other jurisdictions is calculated at the rates prevailing in those jurisdictions.

The deferred tax impact of changes in tax rates of £36 million (2015: £64 million) primarily relates to the enactment of reductions in the future UK corporation tax rate from 18% to 17%. This results in a reduction in closing deferred tax assets and liabilities.

Origination and reversal of temporary differences includes adjustment in respect of prior periods of £12 million (2015: £14 million).

The total tax charge on the Group's profits for the year can be reconciled to the notional tax charge calculated at the UK tax rate as follows:

	2016 £m	2015 £m
Profit before income tax	<b>2,394</b>	2,208
Tax at the notional UK corporation tax rate of 20% (2015: 20.25%)	<b>479</b>	447
Effect of:		
Overseas tax rates	(45)	(145)
Movement in provision related to uncertain tax positions	35	51
Unrecognised tax losses	54	5
Withholding and local taxes	22	13
Reassessment of prior year estimates	28	106
Impact of changes in tax rates	(36)	(64)
Exceptional items	9	19
Other permanent differences	12	31
<b>Income tax expense</b>	<b>558</b>	463

The effect of overseas tax rates represents the impact of profits arising outside the UK that are taxed at different rates to the UK rate.

Amounts recognised in the Income Statement in respect of tax contingencies (Note 21) are shown in the movement in provision related to uncertain tax positions.

## 7 Income Tax Expense continued

The unrecognised tax loss arising in 2016 predominantly relates to the tax value of losses arising in South Korea from the HS issue, for which recovery is not anticipated in the foreseeable future.

Reassessment of prior year estimates arose as a result of revised tax filings and differences between final tax return submissions and liabilities accrued in these Financial Statements. Other permanent differences relate to non-tax deductible expenditure.

The Group's future effective tax rate will continue to be sensitive to the levels of profit arising in those jurisdictions where the applicable tax rate is materially higher or lower than the Group's underlying rate.

Changes in tax legislation and other circumstances that affect tax calculations could adversely affect our financial condition and results of operations. We conduct business operations in a number of countries, and are therefore subject to tax and intercompany pricing laws in multiple jurisdictions, including those relating to the flow of funds between RB and its subsidiaries. Our effective tax rate in any given financial year reflects a variety of factors that may not be present in succeeding financial years, and may be affected by changes in the tax laws of the jurisdictions in which we operate, or the interpretation of such tax laws. Certain tax positions taken by us are based on industry practice, tax advice and drawing similarities from our facts and circumstances to those in case law. In particular, international transfer pricing is an area of taxation that depends heavily on the underlying facts and circumstances and generally involves a significant degree of judgement.

Changes in tax laws, regulations and related interpretations (including those arising as a result of the OECD's base erosion and profit shifting project and from the EU's investigations into potential breach of State Aid rules in respect of tax rulings) and increased enforcement actions and penalties may alter the environment in which we do business, and tax planning arrangements are frequently scrutinised by tax authorities worldwide. We have in the past faced, and may in the future face, audits and challenges brought by tax authorities, and we are involved in ongoing tax investigations in a number of jurisdictions around the world. If material challenges were to be successful, our effective tax rate may increase, we may be required to modify structures at significant costs to us, we may also be subject to interest and penalty charges and we may incur costs in defending litigation or reaching a settlement. Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	2016			2015		
	Before tax £m	Tax credit/ (charge) £m	After tax £m	Before tax £m	Tax credit/ (charge) £m	After tax £m
Net exchange gains/(losses) on foreign currency translation	<b>1,618</b>	–	<b>1,618</b>	(124)	–	(124)
Losses on cash flow and net investment hedges	<b>(158)</b>	<b>8</b>	<b>(150)</b>	(34)	(1)	(35)
Reclassification of foreign currency translation reserves on disposal of foreign operations	–	–	–	33	–	33
Remeasurement of defined benefit pension plans (Note 22)	<b>(176)</b>	<b>38</b>	<b>(138)</b>	63	(17)	46
Revaluation of available for sale financial assets	<b>(2)</b>	–	<b>(2)</b>	–	–	–
Other comprehensive income	<b>1,282</b>	<b>46</b>	<b>1,328</b>	(62)	(18)	(80)
Current tax		<b>10</b>			4	
Deferred tax (Note 11)		<b>36</b>			(22)	
		<b>46</b>			(18)	

The tax credited/(charged) directly to the Statement of Changes in Equity during the year is as follows:

	2016 £m	2015 £m
Current tax	<b>14</b>	5
Deferred tax (Note 11)	<b>(4)</b>	8
	<b>10</b>	13

# Notes to the Financial Statements continued

## 8 Earnings per Share

	2016 pence	2015 pence
Basic earnings per share	<b>260.2</b>	244.4
Diluted earnings per share	<b>256.5</b>	240.9
Adjusted basic earnings per share	<b>306.3</b>	262.4
Adjusted diluted earnings per share	<b>302.0</b>	258.6

### Basic

Basic earnings per share is calculated by dividing the net income attributable to owners of the parent (2016: £1,832 million; 2015: £1,743 million) by the weighted average number of ordinary shares in issue during the year (2016: 704,164,106; 2015: 713,063,230).

### 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 the following categories of potentially dilutive ordinary shares: Executive Share Awards (including Executive Share Options and Executive Restricted Share Scheme Awards) and Employee Sharesave Scheme Options. 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 2016 there were nil (2015: 4 million) Executive Share Awards excluded from the dilution because the exercise price for the options was greater than the average share price for the year.

	2016 Average number of shares	2015 Average number of shares
On a basic basis	<b>704,164,106</b>	713,063,230
Dilution for Executive Share Awards	<b>9,405,777</b>	9,680,716
Dilution for Employee Sharesave Scheme Options outstanding	<b>730,750</b>	802,516
On a diluted basis	<b>714,300,633</b>	723,546,462

### Adjusted earnings

Details of the adjusted net income attributable to owners of the parent are as follows:

	2016 £m	2015 £m
Net income attributable to owners of the parent	<b>1,832</b>	1,743
Exceptional items	<b>367</b>	133
Tax effect of exceptional items	<b>(42)</b>	(5)
Adjusted net income attributable to owners of the parent	<b>2,157</b>	1,871

## 9 Goodwill and Other Intangible Assets

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
<b>Cost</b>					
At 1 January 2015	7,938	3,282	97	115	11,432
Additions	–	–	25	–	25
Arising on business combinations	–	6	–	–	6
Disposals	–	–	(1)	–	(1)
Exchange adjustments	31	15	–	(8)	38
<b>At 31 December 2015</b>	<b>7,969</b>	<b>3,303</b>	<b>121</b>	<b>107</b>	<b>11,500</b>
Additions	359	–	25	–	384
Arising on business combinations	24	148	–	–	172
Disposals	–	–	(12)	(44)	(56)
Exchange adjustments	1,197	491	3	2	1,693
<b>At 31 December 2016</b>	<b>9,549</b>	<b>3,942</b>	<b>137</b>	<b>65</b>	<b>13,693</b>
<b>Accumulated amortisation and impairment</b>					
At 1 January 2015	89	24	23	44	180
Amortisation and impairment charge	3	–	15	15	33
Disposals	–	–	(1)	–	(1)
Exchange adjustments	–	(3)	–	(5)	(8)
<b>At 31 December 2015</b>	<b>92</b>	<b>21</b>	<b>37</b>	<b>54</b>	<b>204</b>
Amortisation and impairment charge	59	–	14	6	79
Disposals	–	–	(12)	(41)	(53)
Exchange adjustments	5	1	2	1	9
<b>At 31 December 2016</b>	<b>156</b>	<b>22</b>	<b>41</b>	<b>20</b>	<b>239</b>
<b>Net book value</b>					
<b>At 31 December 2015</b>	<b>7,877</b>	<b>3,282</b>	<b>84</b>	<b>53</b>	<b>11,296</b>
<b>At 31 December 2016</b>	<b>9,393</b>	<b>3,920</b>	<b>96</b>	<b>45</b>	<b>13,454</b>

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

Software includes intangible assets under construction of £26 million (2015: £14 million).

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 therefore 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.

During the year, the Group exercised its option to acquire the legal title to intellectual property associated with the collaboration agreement with Bristol Myers Squibb (BMS), as described in the Annual Report and Financial Statements 2013. The amount capitalised reflects a cash payment of £189 million and a prepayment made in 2013 of £170 million (at 2016 exchange rates).

Goodwill arising on business combinations during the year primarily relates to the Hypermarcas acquisition discussed in Note 27.

# Notes to the Financial Statements continued

## 9 Goodwill and Other Intangible Assets continued

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

Net book amount	2016 £m	2015 £m
Indefinite life assets:		
Brands	9,383	7,857
Goodwill	3,920	3,282
Other	45	40
Total indefinite life assets	13,348	11,179
Finite life assets:		
Brands	10	20
Software	96	84
Other	—	13
Total finite life assets	106	117
Total net book amount of intangible assets	13,454	11,296

Goodwill and other intangible assets with indefinite lives are allocated to either individual cash generating units (CGUs), or groups of cash generating units (together 'GCGU's). The goodwill and intangible assets with indefinite lives are tested for impairment at the level at which identifiable cash inflows are largely independent. Generally this is at a GCGU level, but for certain intangible assets this is at a CGU level.

### Cash Generating Units

After considering all the evidence available, including how brand and production assets generate cash inflows and how management monitors the business, the Directors have concluded that for the purpose of impairment testing of goodwill and intangible assets, the Group's GCGUs are as follows: Health, Hygiene, Home, and Food.

An analysis of the net book value of indefinite life assets and goodwill by GCGU is shown below:

GCGU	Powerbrands	2016			2015		
		Indefinite life assets £m	Goodwill £m	Total £m	Indefinite life assets £m	Goodwill £m	Total £m
Health <sup>1</sup>	Durex, Gaviscon, Mucinex, Nurofen, Scholl, Strepsils	7,182	3,713	10,895	5,937	3,091	9,028
Hygiene	Bang, Clearasil, Dettol, Finish, Harpic, Lysol, Mortein, Veet	1,371	162	1,533	1,175	146	1,321
Home <sup>2</sup>	Air Wick, Calgon, Vanish, Woolite	835	45	880	751	45	796
Food	French's	40	—	40	34	—	34
		9,428	3,920	13,348	7,897	3,282	11,179

1 Within the Health GCGU, the cash flows in relation to certain groups of brands are separately identifiable. As a result, the carrying value of these brand-related intangible assets, in conjunction with associated property, plant and equipment, have been tested for impairment as CGUs. This is in addition to the impairment testing over goodwill and indefinite life assets for the wider GCGU. The CGUs tested separately are shown below, all of which fall under the Health GCGU in the above table.

2 Includes Portfolio Brands other than Food.

Carrying Value of CGU	2016 £m	2015 £m
Sexual Wellbeing	2,124	2,041
Oriental Pharma	127	118
BMS	355	—
VMS	914	892

Indefinite life assets relating to the Food GCGU are not considered significant relative to the Group's total indefinite life assets. As such the disclosures below do not include discussion on the assumptions specific to Food.

## 9 Goodwill and Other Intangible Assets continued

### Annual Impairment Review

The annual impairment review of goodwill and indefinite life assets is based on an assessment of each GCGU's or CGU's value in use. Value in use is calculated from cash flow projections, based on historical operating results, short-term budgets, and medium-term business plans, which have each been approved by management and covers a five-year period. These projections exclude any estimated future cash inflows or outflows expected to arise from restructuring not yet implemented.

The value in use calculation is based on the following key assumptions used in the cash flow projections:

- Net Revenue growth based upon forecast future sales volumes and prices, which take account of the expected impact from committed new product initiatives, geographical expansion and the maturity of the markets in which each GCGU or CGU operates;
- Gross Margin based on historical experience adjusted for the impact of forecast production costs, cost optimisation initiatives and changes in product mix; and
- Marketing and other expenditure, reflecting historical experience, expected levels of cost inflation, committed cost saving initiatives and future levels of marketing support required to sustain, grow and further innovate brands.

Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rates stated below. The long-term growth rates applied do not exceed the long-term average growth rate for the products and markets in which the GCGU or CGU operates.

Management has assessed the appropriate discount rate for each individual GCGU and CGU. This has been done using a Weighted Average Cost of Capital (WACC) for comparable companies operating in similar markets and geographies as the Group, adjusted for risks specific to each GCGU and CGU.

Due to the wide geographic and product diversification of their respective markets, and the diverse risks associated with a number of GCGUs and CGUs, a pre-tax discount rate of 10% was determined for each of the Health, Hygiene and Home GCGUs as well as the Sexual Wellbeing CGU (2015: 10%).

The VMS and Oriental Pharma CGUs are predominantly concentrated in single markets, being the US and China respectively. BMS is predominantly concentrated in the Mexican and Brazilian markets. A pre-tax discount rate of 13% (2015: 13%) was therefore applied to VMS, 12% (2015: 12%) was applied to Oriental Pharma and 13% was applied to BMS, to reflect the risks specific to these businesses.

GCGU/CGU	2016		2015	
	Terminal growth rate %	Pre-tax discount rate %	Terminal growth rate %	Pre-tax discount rate %
Health	4	10	4	10
Hygiene	2	10	2	10
Home	1	10	1	10
Oriental Pharma	4	12	4	12
Sexual Wellbeing	4	10	4	10
BMS	4	13	–	–
VMS	2	13	3	13

Following the Group's annual impairment review, no impairments have been identified.

Any reasonably possible change in the key assumptions on which the recoverable amounts of the Health, Hygiene and Home GCGUs, and the Sexual Wellbeing and VMS CGU, are based would not imply possible impairments.

With a value in use exceeding its carrying value by £100 million (28%), the BMS CGU is sensitive to reasonably possible changes in key assumptions. The sensitivity of the recoverable amount has been assessed to identify the impact of reasonably possible changes in assumptions. If all other assumptions were held constant, a reduction in assumed growth rates in the first five years by 20% of those forecast would lead to a reduction in the value in use of this CGU of £54 million. In addition, a further reduction of 100 bps in the terminal growth rate would result in an additional reduction in the value in use of £35 million. Applying these sensitivities together would result in the value in use of this CGU exceeding its carrying value by £16 million.

The value in use of the Oriental Pharma CGU exceeds its carrying value by £55 million (43%) (2015 equal to carrying value), and as such is also sensitive to changes in key assumptions. If all other assumptions were held constant, a reduction in assumed growth rates in the first five years by 20% of that forecast would lead to a reduction in the value in use of this CGU of £24 million. In addition, a further reduction of 100 bps in the terminal growth rate would result in an additional reduction in the value in use of £17 million. Applying these sensitivities together would result in the value in use of this CGU exceeding its carrying value by £17 million.

# Notes to the Financial Statements continued

## 10 Property, Plant and Equipment

	Land and buildings £m	Plant and equipment £m	Total £m
<b>Cost</b>			
At 1 January 2015	531	1,190	1,721
Additions	15	139	154
Disposals	(10)	(60)	(70)
Reclassifications	39	(39)	–
Exchange adjustments	(17)	(64)	(81)
<b>At 31 December 2015</b>	<b>558</b>	<b>1,166</b>	<b>1,724</b>
Additions	6	173	179
Acquisitions	30	8	38
Disposals	(14)	(50)	(64)
Reclassifications	16	(16)	–
Exchange adjustments	80	154	234
<b>At 31 December 2016</b>	<b>676</b>	<b>1,435</b>	<b>2,111</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2015	191	773	964
Charge for the year	30	107	137
Disposals	(8)	(50)	(58)
Impairment losses	5	5	10
Exchange adjustments	(8)	(51)	(59)
<b>At 31 December 2015</b>	<b>210</b>	<b>784</b>	<b>994</b>
Charge for the year	32	116	148
Disposals	(12)	(47)	(59)
Impairment losses	11	10	21
Exchange adjustments	29	100	129
<b>At 31 December 2016</b>	<b>270</b>	<b>963</b>	<b>1,233</b>
<b>Net book value</b>			
<b>As at 31 December 2015</b>	<b>348</b>	<b>382</b>	<b>730</b>
<b>As at 31 December 2016</b>	<b>406</b>	<b>472</b>	<b>878</b>

The net book amount of assets under construction is £109 million (2015: £57 million). Assets under construction are included within plant and equipment and are not depreciated.

The reclassification from plant and equipment to land and buildings of £16 million (2015: £39 million) shows the transfer of completed assets.

Impairment losses of £9 million (2015: £10 million) have been charged to exceptional items (Note 3).

Capital expenditure which was contracted but not capitalised at 31 December 2016 was £103 million (2015: £44 million).

## 11 Deferred Tax

	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
<b>Deferred tax assets</b>						
At 1 January 2016	7	(20)	59	–	11	57
Credited/(charged) to the Income Statement	1	(1)	17	–	–	17
(Charged)/credited to other comprehensive income	–	–	(1)	–	3	2
Arising on acquisition	–	(7)	1	–	–	(6)
Exchange differences	1	(4)	12	–	2	11
<b>At 31 December 2016</b>	<b>9</b>	<b>(32)</b>	<b>88</b>	<b>–</b>	<b>16</b>	<b>81</b>
<b>Deferred tax liabilities</b>						
At 1 January 2016	14	2,017	(284)	(11)	(44)	1,692
(Credited)/charged to the Income Statement	(3)	(47)	63	5	11	29
(Credited)/charged to other comprehensive income	–	–	(9)	–	(25)	(34)
Charged directly to equity	–	–	4	–	–	4
Exchange differences	3	333	(35)	(2)	(7)	292
<b>At 31 December 2016</b>	<b>14</b>	<b>2,303</b>	<b>(261)</b>	<b>(8)</b>	<b>(65)</b>	<b>1,983</b>

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

Certain deferred tax assets in respect of corporation tax losses and other temporary differences totalling £326 million (2015: £98 million) have not been recognised at 31 December 2016 as the likelihood of future economic benefit is not sufficiently assured. These assets will be recognised if utilisation of the losses and other temporary differences becomes sufficiently probable.

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.

## 12 Inventories

	2016 £m	2015 £m
Raw materials and consumables	168	144
Work in progress	29	23
Finished goods and goods held for resale	573	514
<b>Total inventories</b>	<b>770</b>	<b>681</b>

The total cost of inventories recognised as an expense and included in cost of sales amounted to £3,667 million (2015: £3,431 million). This includes inventory write-offs and losses of £93 million (2015: £51 million).

The Group inventory provision at 31 December 2016 was £84 million (2015: £63 million).

## 13 Trade and Other Receivables

	2016 £m	2015 £m
<b>Amounts falling due within one year</b>		
Trade receivables	1,501	1,190
Less: Provision for impairment of receivables	(45)	(26)
Trade receivables – net	1,456	1,164
Other receivables	127	129
Prepayments and accrued income	40	38
<b>Total</b>	<b>1,623</b>	<b>1,331</b>

# Notes to the Financial Statements continued

## **13 Trade and Other Receivables** continued

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

	2016 £m	2015 £m
US dollar	<b>442</b>	359
Euro	<b>287</b>	248
Brazil real	<b>141</b>	89
Sterling	<b>97</b>	109
Other currencies	<b>656</b>	526
	<b>1,623</b>	1,331

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.

### **a Trade Receivables**

Trade receivables consist of amounts due from customers. The Group's customer base is large and diverse and therefore there is limited concentrations of credit risk. Credit risk is assessed at a subsidiary and Group level, taking into account their financial positions, past experiences and other relevant factors. Individual credit limits are imposed based on those factors. Balances are considered for impairment on an individual basis in addition to reference to the extent that they become overdue.

As at 31 December 2016, trade receivables of £160 million (2015: £126 million) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

<b>Amounts past due but not impaired</b>	2016 £m	2015 £m
Up to 3 months	<b>160</b>	126

At 31 December 2016, a provision for impairment of £45 million (2015: £26 million) was recorded against certain trade receivables. The total amount of receivables against which this provision was recorded is included in the table below. The total amount of these receivables was not impaired because having given consideration to the nature of the receivables and their historical collection, recovery of the unprovided amount is expected in due course. The ageing analysis of these receivables is as follows:

<b>Ageing analysis</b>	2016 £m	2015 £m
Up to 3 months	<b>26</b>	34
Over 3 months	<b>31</b>	21
	<b>57</b>	55

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.

### **b Other Receivables**

Other Receivables include recoverable sales tax of £74 million (2015: £59 million). This contains £5 million (2015: £5 million) of impaired assets all aged over three months from a broad range of countries within the Group.

#### **Other non-current receivables**

Non-current other receivables at 31 December 2016 were £81 million (2015: £240 million).

During the year, the Group exercised its option to acquire the legal title to intellectual property associated with the collaboration agreement with Bristol Myers Squibb (BMS), as described in the Annual Report and Financial Statements 2013. As part of the transaction, a prepayment made in 2013 of £170 million (at 2016 exchange rates) was capitalised to intangible assets.

In the prior year, the balance included an insurance receivable of £36 million, which was settled during 2016.

## 14 Financial Instruments and Financial Risk Management

### Financial Instruments by Category

	Loans and receivables £m	Derivatives used for hedging £m	Fair value through the P&L £m	Available for sale £m	Carrying value total £m
<b>At 31 December 2016</b>					
<b>Assets as per the Balance Sheet</b>					
Short-term deposits <sup>1</sup>	3	–	–	–	3
Trade and other receivables <sup>2</sup>	1,627	–	–	–	1,627
Derivative financial instruments – FX forward exchange contracts	–	36	125	–	161
Available for sale financial assets <sup>8</sup>	–	–	–	39	39
Cash and cash equivalents	882	–	–	–	882
<b>Liabilities as per the Balance Sheet</b>					
Borrowings (excluding finance lease obligations and bond) <sup>3</sup>	–	–	–	1,584	1,584
US\$1bn bond (two tranches of US\$500m at 2.125% and 3.625% respectively) <sup>4</sup>	–	–	–	804	804
Finance lease obligations <sup>3</sup>	–	–	–	1	1
Derivative financial instruments – FX forward exchange contracts	47	11	–	–	58
Trade and other payables <sup>5,6</sup>	–	–	–	3,317	3,317
Other non-current liabilities <sup>5,7</sup>	–	–	–	97	97
	Loans and receivables £m	Derivatives used for hedging £m	Fair value through the P&L £m	Other financial liabilities at amortised cost £m	Carrying value total £m
<b>At 31 December 2015</b>					
<b>Assets as per the Balance Sheet</b>					
Short-term deposits <sup>1</sup>	–	–	–	–	–
Trade and other receivables <sup>2</sup>	1,328	–	–	–	1,328
Derivative financial instruments – FX forward exchange contracts	–	38	83	–	121
Cash and cash equivalents	740	–	–	–	740
<b>Liabilities as per the Balance Sheet</b>					
Borrowings (excluding finance lease obligations and bond) <sup>3</sup>	–	–	–	1,748	1,748
US\$1bn bond (two tranches of US\$ 500m at 2.125% and 3.625% respectively) <sup>4</sup>	–	–	–	671	671
Finance lease obligations <sup>3</sup>	–	–	–	1	1
Derivative financial instruments – FX forward exchange contracts	19	3	–	–	22
Trade and other payables <sup>5,6</sup>	–	–	–	2,801	2,801
Other non-current liabilities <sup>5</sup>	–	–	–	2	2

- 1 These short-term deposits do not meet the requirements to be classified as cash equivalents as they have maturities greater than three months. They are however highly liquid assets.
- 2 Prepayments and employee benefit assets are excluded from the trade and other receivables balance as they are out of scope of IFRS 7.
- 3 The categories in this disclosure are determined by IAS 39. Borrowings largely relate to Commercial Paper. As at 31 December 2016, the Group had Commercial Paper in issue amounting to US\$1,412 million (nominal values) at rates of between 0.95% and 1.38% with maturities ranging from 4 January 2017 to 15 September 2017, and €500 million (nominal values) at the rate of negative 0.26% with maturities ranging from 21 February 2017 to 23 February 2017. Finance leases are outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.
- 4 The fair value of bonds at 31 December 2016 is a liability of £821 million (2015: £683 million). This value is derived using a quoted market rate in an active market (level 1 classification).
- 5 Social security liabilities and other employee benefit liabilities are excluded as they are out of scope of IFRS 7.
- 6 Included in trade and other payables is £nil (2015: £25 million) relating to the acquisition of the remaining shareholding of RB & Manon Business Co. Ltd.
- 7 Other non-current liabilities principally comprise a new written put-option, related to item 6, over the non-controlling interests of certain Group subsidiaries in China of £94 million (2015: £nil).
- 8 Available for sale financial assets relates to an investment of less than 1% of the shares in issue of China Resources Pharmaceutical Group Limited (CRP).

# Notes to the Financial Statements continued

## 14 Financial Instruments and Financial Risk Management continued

Except for the US\$1,000 million bond, the fair values of other financial assets and liabilities at amortised cost approximate their carrying values.

Within the IFRS 13 fair value hierarchy, the bond and available for sale financial assets are classified as level 1, and the derivative financial instruments are classified as level 2. Fair value for financial instruments held at amortised cost has been estimated by discounting cash flows at prevailing interest rates and by applying year end exchange rates. The fair value measurement hierarchy levels have been defined as follows:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
3. Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

The fair value of forward foreign exchange contracts at 31 December 2016 is a liability of £58 million (2015: £22 million) and an asset of £161 million (2015: £121 million). This value is determined using forward exchange rates derived from market sourced data at the Balance Sheet date, with the resulting value discounted back to present value (level 2 classification).

There have been no movements of financial instruments between levels (2015: nil).

### Offsetting financial assets and financial liabilities

The Group has forward foreign exchange contracts and cash that are subject to enforceable master netting arrangements.

#### (a) Financial assets

	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the Balance Sheet £m	Net amounts of financial assets presented in the Balance Sheet £m	Financial instruments not set off in the Balance Sheet £m	Net amount £m
<b>As at 31 December 2016</b>					
<b>Forward foreign exchange contracts</b>	<b>161</b>	<b>–</b>	<b>161</b>	<b>(58)</b>	<b>103</b>
<b>Cash and cash equivalents</b>	<b>882</b>	<b>–</b>	<b>882</b>	<b>–</b>	<b>882</b>
	<b>1,043</b>	<b>–</b>	<b>1,043</b>	<b>(58)</b>	<b>985</b>

	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the Balance Sheet £m	Net amounts of financial assets presented in the Balance Sheet £m	Financial instruments not set off in the Balance Sheet £m	Net amount £m
<b>As at 31 December 2015</b>					
Forward foreign exchange contracts	121	–	121	(22)	99
Cash and cash equivalents	740	–	740	–	740
	861	–	861	(22)	839

#### (b) Financial liabilities

	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the Balance Sheet £m	Net amounts of financial liabilities presented in the Balance Sheet £m	Financial instruments not set off in the Balance Sheet £m	Net amount £m
<b>As at 31 December 2016</b>					
<b>Forward foreign exchange contracts</b>	<b>(58)</b>	<b>–</b>	<b>(58)</b>	<b>58</b>	<b>–</b>
<b>Bank overdrafts</b>	<b>(9)</b>	<b>–</b>	<b>(9)</b>	<b>–</b>	<b>(9)</b>
	<b>(67)</b>	<b>–</b>	<b>(67)</b>	<b>58</b>	<b>(9)</b>

## 14 Financial Instruments and Financial Risk Management continued

<b>As at 31 December 2015</b>	<b>Gross amounts of recognised financial liabilities £m</b>	<b>Gross amounts of recognised financial assets set off in the Balance Sheet £m</b>	<b>Net amounts of financial liabilities presented in the Balance Sheet £m</b>	<b>Financial instruments not set off in the Balance Sheet £m</b>	<b>Net amount £m</b>
Forward foreign exchange contracts	(22)	–	(22)	22	–
Bank overdrafts	(3)	–	(3)	–	(3)
	<b>(25)</b>	<b>–</b>	<b>(25)</b>	<b>22</b>	<b>(3)</b>

### Financial Risk Management

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

The Board of Directors review and agree policies, guidelines and authority levels for all areas of Treasury activity and individually approves significant activities. GT operates under the close control of the CFO and is subject to periodic independent reviews and audits, both internal and external.

#### 1. Market Risk

##### (a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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.

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 GT to manage these exposures where practical and allowed by local regulations. GT matches the Group exposures, and hedges the position where possible, using spot and forward foreign currency exchange contracts.

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2016 was £4,614 million payable (2015: £5,606 million payable).

As at 31 December 2016, the Group designated bonds totalling US\$1,000 million as the hedging instrument in a net investment hedge relationship. The hedged risk is the foreign exchange currency risk on the value of the Group's net investment in assets and liabilities denominated in US dollars. On 21 November 2016, the Group designated commercial paper totalling €500 million as the hedging instrument in a net investment hedge relationship. This is to hedge the risk of loss in value of the Group's Euro denominated intangible brand assets (Durex and Nurofen) due to exchange rate fluctuations. The net gain or loss under these arrangements is recognised in other comprehensive income. The net effect on other comprehensive income for the year ended 31 December 2016 was a £128 million loss (2015: £49 million loss). If Sterling strengthens/weakened by 5% against the US dollar and Euro, the maximum impact on Shareholders' equity due to net investment hedging by US dollar bond and Euro commercial paper would be £43 million and £22 million respectively.

# Notes to the Financial Statements continued

## **14 Financial Instruments and Financial Risk Management** continued

The Group's strategy is to minimise Income Statement volatility by monitoring foreign currency balances, external financing, and external hedging arrangements. The Group's hedging profile is regularly reviewed to ensure it is appropriate and to mitigate these risks as far as possible. The Group held forward foreign exchange contracts denominated as cash flow hedges primarily in Euro, US dollars, Sterling, Australian dollars, Canadian dollars and Brazilian real. Notional value of the payable leg resulting from these financial instruments was as follows:

Cash Flow Hedge Profile	2016 £m	2015 £m
Euro	<b>368</b>	597
US dollars	<b>260</b>	396
Sterling	<b>259</b>	163
Australian dollars	<b>87</b>	118
Brazilian real	<b>86</b>	70
Canadian dollars	<b>70</b>	74
Other	<b>311</b>	405
	<b>1,441</b>	1,823

These forward foreign exchange contracts are expected to mature over the period January 2017 to December 2020 (2015: January 2016 to March 2017).

The ineffective portion recognised in the Income Statement arising from cash flow hedges is immaterial (2015: immaterial).

Gains and losses recognised in the hedging reserve in other comprehensive income on forward exchange contracts in 2016 of £29 million loss (2015: £14 million gain) are recognised in the Income Statement in the year or years during which the hedged forecast transaction affects the Income Statement, which is generally within 48 months from the Balance Sheet date.

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

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 Income Statement or Shareholders' equity. A fluctuation analysis has been performed for all currencies. The four largest currency pairs and their potential fluctuations are as Euro/Polish zloty, Euro/US dollar, US dollar/Sterling, and Euro/Sterling. If the Euro had strengthened/weakened by 5% against any of the stated currencies, with all other variables held constant, the impact on Shareholders' equity by currency pair would have been maximum £33 million, which is in Euro/Polish zloty currency pair hedges (2015: £31 million). As at 31 December 2016, if all other currencies had strengthened/weakened by 5% against Sterling with all other variables held constant, this would have had an immaterial effect on the Income Statement or Shareholders' equity (2015: immaterial).

The remaining major monetary financial instruments (liquid assets, receivables, interest and non-interest bearing liabilities) are directly denominated in the functional currency of the Group or are transferred to the functional currency of the local entity through the use of derivatives.

The gains and losses from fair value movements on derivatives held at fair value through the profit or loss, recognised in the Income Statement in 2016 was a £537 million gain (2015: £75 million gain).

### (b) Price risk

Due to the nature of its business the Group is exposed to commodity price risk related to the production or packaging of finished goods, such as oil-related, and a diverse range of other raw materials. This risk is, however, managed primarily through medium-term contracts with certain key suppliers and is not therefore viewed as being a material risk.

### (c) Cash flow and fair value interest rate risk

The Group has both interest-bearing and non interest-bearing assets and liabilities. The Group monitors its interest income and expense rate exposure on a regular basis. The Group manages its interest income rate exposure on its gross financial assets by using a combination of fixed rate term deposits.

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 the Income Statement of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies, calculated on a full year and pre-tax basis.

The scenarios are only run for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on the Income Statement of a 50 basis-point shift in interest rates would be a maximum increase of £7 million (2015: £5 million) or decrease of £7 million (2015: £5 million), respectively for the liabilities covered. The simulation is done on a periodic basis to verify that the maximum loss simulated is within the limit given by management.

## 14 Financial Instruments and Financial Risk Management continued

### 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 13. 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 Group uses BBB and higher rated counterparties to manage risk, and operationally only uses sub BBB rated counterparties by exception. 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 of Directors. Derivative financial instruments are only traded with counterparties approved in accordance with the approved policy. Derivative risk is measured using a risk weighting method.

The Group has counterparty risk from asset positions held with financial institutions. This is comprised of short-term investments, cash and cash equivalents and derivatives positions as stated on the face of the Balance Sheet. For risk management purposes the Group assesses the exposure to major financial institutions by looking at the deposits, cash and cash equivalents and 5% of derivative notional position. The table below summarises the Group's assessment of its exposure:

Counterparty	2016			2015		
	Credit rating	Limit £m	Exposure £m	Credit rating	Limit £m	Exposure £m
Bank A	AA-	200	191	AA-	200	150
Bank B	AAA	300	150	AAA	300	133
Bank C	A+	150	127	A+	150	117
Bank D	A-	75	92	A	125	118
Bank E	A	125	90	A-	75	93
Bank F	A	125	90	A	125	93
Bank G	A	125	71	A-	75	58
Bank H	A-	75	53	A+	150	44
Bank I	AAA	300	50	BBB+	50	36
Bank J	AAA	300	47	A	125	24

### 3. Liquidity Risk

Cash flow forecasting is performed by the local business units and on an aggregated basis by GT. GT monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Funds over and above those required for short-term working capital purposes by the local businesses are generally remitted to GT. 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 various borrowing facilities available to it. 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 2016, the Group had, in addition to its long-term debt of £804 million (2015: £671 million), committed borrowing facilities totalling £3,500 million (2015: £3,500 million), of which £3,500 million exceeded 12 months' maturity (2015: £3,500 million). Of the total facilities at the year end, £nil (2015: £nil) 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.

The undrawn committed facilities available, in respect of which all conditions precedent have been met at the Balance Sheet date, were as follows:

	2016 £m	2015 £m
Undrawn committed borrowing facilities:		
Expiring within one year	—	—
Expiring between one and two years	—	—
Expiring after more than two years	<b>3,500</b>	3,500
	<b>3,500</b>	3,500

All borrowing facilities are at floating rates of interest.

The facilities have been arranged to cover general corporate purposes including support for commercial paper issuance. All facilities incur commitment fees at market rates.

# Notes to the Financial Statements continued

## 14 Financial Instruments and Financial Risk Management continued

Headroom between net debt and available facilities at 31 December 2016 was £2,109 million (2015: £1,880 million).

The Group's borrowing limit at 31 December 2016 calculated in accordance with the Articles of Association was £67,949 million (2015: £63,399 million).

The table below analyses the Group's financial liabilities and the derivatives which will be settled on a net basis into relevant maturity groupings based on the remaining period at the Balance Sheet date 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.

	Total £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 December 2016</b>					
Commercial paper	(1,570)	(1,570)	–	–	–
Bonds	(930)	(23)	(428)	(44)	(435)
Other borrowings	(25)	(25)	–	–	–
Trade payables	(1,243)	(1,243)	–	–	–
Other payables	(2,170)	(2,073)	(97)	–	–
<b>At 31 December 2015</b>					
Commercial paper	(1,712)	(1,712)	–	–	–
Bonds	(799)	(20)	(20)	(383)	(376)
Other borrowings	(43)	(43)	–	–	–
Trade payables	(981)	(981)	–	–	–
Other payables	(1,822)	(1,820)	(2)	–	–

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 between the Balance Sheet and 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.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 December 2016</b>				
Forward exchange contracts				
Outflow	(4,598)	(6)	(10)	–
Inflow	4,690	8	14	–
<b>At 31 December 2015</b>				
Forward exchange contracts				
Outflow	(5,602)	(4)	–	–
Inflow	5,693	4	–	–

### 4. Capital Management

The Group considers capital to be net debt plus total equity. Net debt is calculated as total borrowings less cash and cash equivalents, short-term available for sale financial assets and financing derivative financial instruments (Note 16). Total equity includes share capital, reserves and retained earnings as shown in the Group Balance Sheet.

	2016 £m	2015 £m
Net debt (Note 16)	1,391	1,620
Total equity	8,426	6,906
	<b>9,817</b>	<b>8,526</b>

## 14 Financial Instruments and Financial Risk Management continued

The 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 provided returns to Shareholders in 2016 in the form of dividends and the buyback of shares – refer to Notes 28 and 23 respectively.

The Group monitors net debt and at year end the Group had net debt of £1,391 million (2015: £1,620 million). The Group seeks to pay down net debt using cash generated by the business to maintain an appropriate level of financial flexibility.

## 15 Cash and Cash Equivalents

	2016 £m	2015 £m
Cash at bank and in hand	<b>316</b>	334
Short-term bank deposits	<b>566</b>	406
Cash and cash equivalents	<b>882</b>	740

The Group operates in a number of territories where there are either foreign currency exchange restrictions, or where it is difficult for the Group to extract cash readily and easily in the short-term. As a result, £120 million (2015: £65 million) of cash included in cash and cash equivalents is restricted for use by the Group, yet available for use in the relevant subsidiary's day-to-day operations.

## 16 Financial Liabilities – Borrowings

	2016 £m	2015 £m
<b>Current</b>		
Bank loans and overdrafts <sup>1</sup>	<b>25</b>	42
Commercial paper <sup>2</sup>	<b>1,559</b>	1,706
Finance lease obligations	<b>1</b>	1
	<b>1,585</b>	1,749
 <b>Non-current</b>		
Bonds	<b>804</b>	671

1. Bank loans are denominated in a number of currencies; all are unsecured and bear interest based on the relevant LIBOR equivalent.

2. Commercial paper was issued in US dollars and Euros, is unsecured and bears interest based on the relevant LIBOR equivalent.

	2016 £m	2015 £m
<b>Maturity of debt</b>		
<b>Bank loans and overdrafts repayable:</b>		
Within one year or on demand	<b>25</b>	42
<b>Other borrowings repayable:</b>		
Within one year:		
Commercial paper	<b>1,559</b>	1,706
Finance leases	<b>1</b>	1
Between two and five years:		
Bonds	<b>402</b>	337
Over five years:		
Bonds	<b>402</b>	334
	<b>2,364</b>	2,378
<b>Gross borrowings (unsecured)</b>	<b>2,389</b>	2,420

# Notes to the Financial Statements continued

## 16 Financial Liabilities – Borrowings continued

	2016 £m	2015 £m
<b>Analysis of net debt</b>		
Cash and cash equivalents	<b>882</b>	740
Overdrafts	(9)	(3)
Borrowings (excluding overdrafts)	<b>(2,380)</b>	(2,417)
Short-term investments	3	–
Derivative financial instruments	113	60
<b>Net debt at end of year</b>	<b>(1,391)</b>	(1,620)
<b>Reconciliation of net debt</b>		
Net debt at beginning of year	<b>(1,620)</b>	(1,543)
Net increase/(decrease) in cash and cash equivalents	73	(148)
Proceeds from borrowings	(469)	(23)
Repayment of borrowings	695	165
Purchase of short-term investments	3	–
Exchange and other movements	(73)	(71)
<b>Net debt at end of year</b>	<b>(1,391)</b>	(1,620)

## 17 Provisions for Liabilities and Charges

	Legal provisions £m	Restructuring provisions £m	Other provisions £m	Total provisions £m
At 1 January 2015	201	13	176	390
Charged to the Income Statement	18	33	24	75
Charged to equity	–	–	800	800
Separate recognition of related insurance receivable	36	–	–	36
Utilised during the year	(95)	(13)	(815)	(923)
Released to the Income Statement	(18)	–	(16)	(34)
Exchange adjustments	(1)	–	1	–
At 31 December 2015	141	33	170	344
Charged to the Income Statement	264	23	12	299
Charged to equity	–	–	702	702
Utilised during the year	(90)	(33)	(806)	(929)
Released to the Income Statement	–	(2)	(8)	(10)
Exchange adjustments	14	1	4	19
<b>At 31 December 2016</b>	<b>329</b>	<b>22</b>	<b>74</b>	<b>425</b>

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

	2016 £m	2015 £m
Current	251	229
Non-current	174	115
	<b>425</b>	344

Provisions are recognised when the Group has a present 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.

Legal provisions of £329 million (2015: £141 million) include exceptional legal provisions of £277 million (2015: £116 million) in relation to a number of historic regulatory matters in a number of markets, predominantly the HS issue in South Korea (Note 3).

The restructuring provision relates principally to business integration costs, the majority of which is expected to be utilised within one year.

Other provisions include obligations of the Group to acquire its own equity ordinary shares of £nil (2015: £100 million) within one year, and environmental and other obligations throughout the Group, the majority of which are expected to be used within five years. Provisions to acquire equity ordinary shares are charged to equity.

## 18 Operating Lease Commitments

Future minimum lease payments under non-cancellable operating leases due	2016 £m	2015 £m
Within one year	48	49
Later than one and less than five years	124	95
After five years	29	9
	<b>201</b>	<b>153</b>

Operating lease rentals charged to the Income Statement in 2016 were £64 million (2015: £60 million).

As at 31 December 2016, total amounts expected to be received under non-cancellable sub-lease arrangements were £nil (2015: £1 million).

Amounts credited to the Income Statement in respect of sub-lease arrangements were £1 million (2015: £1 million).

## 19 Contingent Liabilities and Assets

The Group is involved in a number of civil and/or criminal investigations by government authorities as well as litigation proceedings and has made provisions for such matters where appropriate. Where it is too early to determine the likely outcome of these matters, or to make a reliable estimate, the Directors have made no provision for such potential liabilities.

We noted in our 2015 Annual Report and 2016 interim announcements that the Group was involved in ongoing investigations by the US Department of Justice (DOJ) and the US Federal Trade Commission and related litigation proceedings arising from certain matters relating to the RB Pharmaceuticals business prior to its demerger in December 2014 to form Indivior PLC and may incur liabilities in relation to such matters. These investigations and related proceedings are continuing and we are in active discussions with the DOJ. The Group is cooperating with the relevant agencies and remains committed to ensuring that these investigations and related proceedings are concluded or resolved satisfactorily. The outcome for the Group in relation to ultimate resolution and/or cost at this stage remains uncertain.

From time to time, the Group is involved in discussions in relation to ongoing tax matters in a number of jurisdictions around the world. Where appropriate, the Directors make provisions based on their assessment of each case.

### HS South Korea

As set out in Note 3 on exceptional items, provision has been made for certain costs arising as a result of the HS issue, including costs arising from compensating Oxy HS category I and II victims classified within Rounds 1, 2 and 3 of the Korean Centre for Disease Control (KCDC) classification process.

There are, in addition, a number of further costs/income relating to the HS issue that are either not able to be estimated or quantified or are considered not probable at the current time.

1. Round 4 applicants: The South Korean government opened Round 4 to new applicants on 22 April 2016 for an indefinite period. As of 13 January 2017, the Ministry of Environment (MoE) reported it had received 4,059 applications to participate in Round 4. Because no categorisation has been published, we are currently unable to determine how many applicants may be eligible for compensation through the Compensation Plan. The MoE has stated its intention to complete and announce the results of the review by the end of 2017. We note that the recognition of HS victims as Category I or II has steadily declined, from 48% in Round 1 to 30% for Round 2, and to date, 15% for the two tranches of categorisations released in respect of Round 3.
2. Costs associated with the wider HS issue: We are considering how best to contribute to addressing the wider HS issue including contributions to a Special Relief Account contemplated by the HS Damage Relief Act (the "Act") passed on 20 January 2017. The Act, among other things, requires South Korean Government Agencies to establish and operate a Special Relief Account for the benefit of certain HS victims, funded through contributions by HS manufacturers and ingredient suppliers (the "Account"). The size of the contributions will be determined through the application of a formula, the full details of which are still to be determined through secondary legislation that has not yet been published. The Act contemplates an initial Account of KRW 125 billion (£84 million) towards which HS manufacturers will be required to contribute collectively KRW 100 billion (£67 million). The Act provides that the maximum size of the Account will be KRW 200 billion (£134 million).
3. Potential recoveries from other HS manufacturers: Oxy RB has committed to compensating Category I and II Oxy HS victims from Rounds 1 and 2 in full under the terms of our Compensation Plan, even if they used other manufacturers' HS products in conjunction with that of Oxy, taking into account the delay that had occurred. Of the 183 Oxy RB Round 1 and 2, Category I and II victims, approximately 50 used both Oxy; and at least one other PHMG HS manufacturer's product. For these "multi-user" cases we are seeking to recover an element of compensation costs from the relevant other HS manufacturer. Oxy RB has yet to agree a fair recovery mechanism with the other HS manufacturers and have therefore not recognised any potential receivable.
4. We continue to assess and, where appropriate, pursue rights which Oxy RB may have to recover sums from other involved parties.
5. Given the high profile and complex nature of this issue, rules and regulations to be determined under the Act and other legal or governmental proposals or developments in South Korea may give rise to further financial liability for RB.

## Notes to the Financial Statements continued

### **19 Contingent Liabilities and Assets** continued

Reports by the United Nations ("Report of the Special Rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and waste" and "Report of the Special Rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and wastes on its mission to the Republic of Korea") and by a special committee of the South Korean National Assembly ("Report on the Results of the National Assembly Investigation for Fact, Finding, Injury Relief and Reoccurrence Prevention Regarding the Humidifier Sanitizer Incident") have identified multiple causes of this tragedy. Both reports identify the role of government, of ingredient manufacturers, and private label suppliers as contributing to the tragedy.

In addition, given the elapse of time since relevant HS products were used by consumers (from seventeen to six years ago), it is difficult to demonstrate which products contributed to harm caused to victims.

We also believe that victims should be provided with a single, consistent and readily accessible source of compensation which also covers uncertain long-term medical needs, regardless of which products they used, and whether they can demonstrate this.

We believe this requires a single, industry-wide approach to compensation, funded fairly by all the contributors to this tragedy. We are working hard to try to find such an approach to compensating Category I and II victims for Round 4 with the South Korean government, other manufacturers and other relevant stakeholders.

### **20 Trade and Other Payables**

	2016 £m	2015 £m
Trade payables	<b>1,243</b>	981
Other payables	<b>128</b>	159
Other tax and social security payable	<b>121</b>	97
Accruals	<b>2,003</b>	1,711
	<b>3,495</b>	2,948

Included within accruals is £624 million (2015: £526 million) in respect of amounts payable to our trade customers for trade spend.

In addition to US employee related payables of £33 million (2015: £25 million), within other non-current liabilities is a financial liability of £94 million. This liability is in respect of the present value of the expected redemption amount of a written put option granted to the non-controlling interest of certain Group subsidiaries in China (Note 26). The amortised cost of the liability is subject to estimation of the future performance of certain Group products. Future changes in estimation would result in the remeasurement of the liability through the income statement.

### **21 Current and Non-current Tax Liabilities**

	2016 £m	2015 £m
Current tax liabilities	<b>(12)</b>	(91)
Non-current tax liabilities	<b>(740)</b>	(559)
<b>Total current and non-current tax liabilities</b>	<b>(752)</b>	(650)

Included in Total current and non-current tax liabilities is an amount of £756 million (2015: £619 million) relating to tax contingencies primarily arising in relation to transfer pricing and financing. These balances are subject to significant management judgement. Tax assets and liabilities are offset where there is a legally enforceable right to do so.

The Accounting Estimates and Judgements on page 114 describe the significant judgements made in estimating the impact of uncertain tax provisions.

## 22 Pension and Post-Retirement Commitments

### Plan Details

The Group operates a number of defined benefit and defined contribution pension plans around the world covering many of its employees, which are principally funded. The Group's most significant defined benefit pension plan (UK) is a final salary plan, which closed to new entrants in 2005. Trustees of the plan are appointed by the Group, active members and pensioner membership, and are responsible for the governance of the plan, including paying all administrative costs and compliance with regulations. The plan is funded by the payment of contributions to the plan's Trust, which is a separate entity from the rest of the Group.

The Group also operates a number of other post-retirement plans in certain countries. The major plan is in the US (US Retiree Health Care Plan), where salaried participants become eligible for retiree health care benefits after they reach a combined 'age and years of service rendered' figure of 70, although the age must be a minimum of 55. This plan closed to new members in 2009. A Benefits Committee of the plan is appointed by the Group, and is responsible for the governance of the plan, including paying all administrative costs and compliance with regulations. This plan is unfunded.

The following table provides details of membership for all plans in the two principal territories:

Plan details at last valuation date	UK	US
<b>Active Participants:</b>		
Number of members	250	1,685
Proportion of funding liability	12%	28%
Total pensionable salary roll	£10.9m	£48.1m
<b>Participants with deferred benefits:</b>		
Number of members	5,115	2,746
Proportion of funding liability	37%	29%
Total deferred pensions (at date of leaving plan)	£17.9m	£3.0m
<b>Participants receiving benefits:</b>		
Number of members	6,807	4,143
Proportion of funding liability	51%	43%
Total pensions in payment	£44.2m	£8.8m

For the principal UK plan, a full independent actuarial valuation is carried out on a triennial basis. The most recent valuation was carried out at 5 April 2016. The Group has agreed that it will aim to eliminate the pension plan Technical Provisions deficit in the UK and Ireland by the end of 2020. Funding levels are monitored on an annual basis and the current agreed ongoing contribution rate is 75.5% of pensionable salaries in the UK along with annual deficit reduction contributions of £25 million. It is expected that contributions in 2017 will be £33 million to the UK defined benefit plan. The funding agreement has given rise to an additional liability on the Balance Sheet of £36 million (the other UK schemes operate under a similar framework and there has been a similar reduction in Net Assets totalling £27 million, giving an overall £63 million for all UK schemes). This additional liability has been recognised after considering the Pension Scheme Trust Deed and Rules and the requirements of IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The Group considers that the contribution rates set, and any future further contributions in excess of the contribution rate, will be sufficient to eliminate the deficit over the agreed period.

For the US Retiree Health Care Plan, a full independent actuarial valuation is carried out at on an annual basis. The most recent valuation was carried out at 1 January 2016. Funding levels are monitored on an annual basis with contributions made equal to the claims made each year. It is expected that contributions in 2017 will be £7 million to the Plan.

For the purpose of IAS19 the projected unit valuation method was used for the UK and US plans, as per the principal UK plan triennial valuation results (at 5 April 2016) and the 1 January 2016 US plan valuation to 31 December 2016. The UK plans have a weighted average duration of the deferred benefit obligation of 18.6 years (2015: 17.6 years).

### Significant Actuarial Assumptions

The significant actuarial assumptions used in determining the Group's net liability for the two major plans as at 31 December were:

	2016		2015	
	UK %	US (Medical) %	UK %	US (Medical) %
Rate of increase in pensionable salaries	<b>5.6</b>	—	3.3	—
Rate of increase in deferred pensions during deferment	<b>3.4</b>	—	3.1	—
Rate of increase in pension payments	<b>3.2</b>	—	2.9	—
Discount rate	<b>2.6</b>	<b>4.0</b>	3.8	4.2
Inflation assumption – RPI	<b>3.6</b>	—	3.3	—
Annual medical cost inflation	—	<b>5.0–8.5</b>	—	5.0–8.5

# Notes to the Financial Statements continued

## 22 Pension and Post-Retirement Commitments continued

Assumptions regarding future mortality experience are set in accordance with published statistics and experience in each territory. The expected lifetime of a participant aged 60 and the expected lifetime of a participant who will be age 60 in 15 years (20 years in the US) are detailed below:

	2016	2015		
	UK years	US years	UK years	US years
<b>Number of years a current pensioner is expected to live beyond 60:</b>				
Male	29.0	25.2	28.6	25.7
Female	29.9	27.4	30.6	27.9
<b>Number of years a future pensioner is expected to live beyond 60:</b>				
Male	30.7	27.0	30.4	27.5
Female	31.6	29.2	32.4	29.7

For the principal UK plan, the mortality assumptions were based on the standard SAPS mortality table 2NMA for males (scaled by 85%) and table 2NFA for females (scaled by 100%). Allowance for future improvements is made by adopting the 2015 edition of the CMI series with a long-term trend of 1.5% per annum. For the US plan the mortality assumptions were determined using the RP-2014 Total Employee and Health Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2016.

## Amounts Recognised on the Balance Sheet

The amounts recognised on the Balance Sheet are as follows:

	2016 £m	2015 £m
<b>Balance Sheet obligations for:</b>		
UK	(84)	–
US (Medical)	(108)	(122)
Other	(169)	(135)
<b>Liability on Balance Sheet</b>	<b>(361)</b>	<b>(257)</b>
<b>Balance Sheet assets for:</b>		
UK	–	33
Other	36	30
<b>Asset on Balance Sheet</b>	<b>36</b>	<b>63</b>
<b>Net pension liability</b>	<b>(325)</b>	<b>(194)</b>

The funded and unfunded amounts recognised on the Balance Sheet are determined as follows:

	2016				2015			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
Present value of funded obligations	(1,642)	–	(373)	(2,015)	(1,322)	–	(302)	(1,624)
Fair value of plan assets	1,621	–	381	2,002	1,355	–	321	1,676
Surplus/(deficit) of funded plans	(21)	–	8	(13)	33	–	19	52
Present value of unfunded obligations	–	(108)	(141)	(249)	–	(122)	(124)	(246)
Irrecoverable surplus	(63)	–	–	(63)	–	–	–	–
Net pension asset/(liability)	(84)	(108)	(133)	(325)	33	(122)	(105)	(194)

**22 Pension and Post-Retirement Commitments** continued

Group plan assets are comprised as follows:

	2016				2015			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
Equities – quoted	382	–	217	599	407	–	166	573
Government bonds	772	–	77	849	521	–	21	542
Corporate bonds	316	–	61	377	266	–	57	323
Real Estate/property – unquoted	141	–	16	157	150	–	1	151
Other assets – unquoted	10	–	10	20	11	–	76	87
Fair value of plan assets	1,621	–	381	2,002	1,355	–	321	1,676

The movement in the Group's net deficit is as follows:

	Present value of obligation				Fair value of plan assets			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
<b>At 1 January 2015</b>	1,400	145	417	1,962	(1,339)	–	(311)	(1,650)
Current service cost	8	2	12	22	–	–	–	–
Curtailment gains	–	(19)	–	(19)	–	–	–	–
Interest expense/(income)	48	6	10	64	(46)	–	(10)	(56)
	56	(11)	22	67	(46)	–	(10)	(56)
Remeasurements:								
Return on plan assets, excluding amounts included in interest income	–	–	–	–	35	–	(6)	29
(Gain)/loss from changes in demographic assumptions	–	(9)	2	(7)	–	–	–	–
(Gain)/loss from change in financial assumptions	(75)	(5)	(1)	(81)	–	–	–	–
Experience (gains)/losses	(5)	(1)	2	(4)	–	–	–	–
	(80)	(15)	3	(92)	35	–	(6)	29
Exchange differences	–	10	2	12	–	–	(8)	(8)
Contributions – employees	–	–	–	–	–	–	–	–
Contributions – employers	–	–	–	–	(59)	(7)	(4)	(70)
Payments from plans:								
Benefit payments	(54)	(7)	(18)	(79)	54	7	18	79
<b>At 31 December 2015</b>	<b>1,322</b>	<b>122</b>	<b>426</b>	<b>1,870</b>	<b>(1,355)</b>	<b>–</b>	<b>(321)</b>	<b>(1,676)</b>
Current service cost	6	2	11	19	–	–	–	–
Curtailment gains	–	(37)	(1)	(38)	–	–	–	–
Interest expense/(income)	49	6	16	71	(51)	–	(14)	(65)
	55	(29)	26	52	(51)	–	(14)	(65)
Remeasurements:								
Return on plan assets, excluding amounts included in interest income	–	–	–	–	(226)	–	(9)	(235)
(Gain)/loss from changes in demographic assumptions	(3)	(2)	7	2	–	–	–	–
(Gain)/loss from change in financial assumptions	384	1	5	390	–	–	–	–
Experience (gains)/losses	(53)	3	6	(44)	–	–	–	–
	328	2	18	348	(226)	–	(9)	(235)
Exchange differences	–	20	62	82	–	–	(51)	(51)
Contributions – employees	–	–	–	–	–	–	–	–
Contributions – employers	–	–	–	–	(52)	(7)	(4)	(63)
Payments from plans:								
Benefit payments	(63)	(7)	(18)	(88)	63	7	18	88
<b>As at 31 December 2016</b>	<b>1,642</b>	<b>108</b>	<b>514</b>	<b>2,264</b>	<b>(1,621)</b>	<b>–</b>	<b>(381)</b>	<b>(2,002)</b>

# Notes to the Financial Statements continued

## 22 Pension and Post-Retirement Commitments continued

### Amounts Recognised in the Income Statement

The charge for the year ended 31 December is shown below:

	2016 £m	2015 £m
<b>Income Statement charge/(credit) included in operating profit for<sup>1</sup>:</b>		
Defined contribution plans	27	24
Defined benefit plans (net charge/(credit) excluding interest)		
UK	6	8
US (Medical)	(35)	(17)
Other	10	12
Total pension costs recognised in operating profit (Note 5)	8	27
Income Statement charge included in finance expense (Note 6)	6	8
Income Statement charge included in profit before income tax	14	35
<b>Remeasurement losses/(gains) for<sup>2</sup>:</b>		
UK	102	(45)
US (Medical)	2	(15)
Other	9	(3)
	<b>113</b>	<b>(63)</b>

1 The Income Statement charge included within operating profit includes current service cost, past service costs and gains and losses on settlement and curtailment

2 Remeasurement losses/(gains) exclude £63 million recognised in OCI for irrecoverable surplus.

### Sensitivity of Significant Actuarial Assumptions

The sensitivity of the UK defined benefit obligation to changes in the principal assumptions is shown below:

2016	Change in assumption	Change in defined benefit obligation	
		Decrease by 1.9%	Increase by 0.5%
<b>Discount rate</b>	<b>Increase 0.1%</b>	<b>Decrease by 1.9%</b>	
RPI increase	Increase 0.1%	Increase by 0.5%	
<b>Life expectancy</b>	<b>Members younger by 1 year</b>	<b>Increase by 4.5%</b>	
2015	Change in assumption	Change in defined benefit obligation	
Discount rate	Increase 0.1%	Decrease by 1.8%	
RPI increase	Increase 0.1%	Increase by 1.4%	
Life expectancy	Members younger by 1 year	Increase by 2.3%	

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

### Impact of Medical Cost Trend Rates

A one percent change in the assumed health care cost trend rates would have the following effects:

	Impact on defined benefit obligation			
	2016		2015	
	+1% £m	-1% £m	+1% £m	-1% £m
Effect on service cost and interest cost	—	—	1	(1)
Effect on post-retirement benefit obligation	—	—	19	(15)

### Risk and Risk Management

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

**Asset Volatility:** The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform this yield, this will create a deficit. Both the UK and US plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. As the plans mature, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. All the UK plans have agreed with the company a plan to de-risk the investment strategy of the plans at a pace that is commensurate with a planned return to full funding over a reasonable timescale.

## 22 Pension and Post-Retirement Commitments continued

The de-risking plan provides for a proportion of the investment portfolio to move from equity holdings to government and corporate bonds over time. The corporate bonds are global securities with an emphasis on the UK and US. However, the Group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

**Changes in Bond Yields:** A decrease in government and corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

**Inflation Risk:** Some of the Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit. In the US plans, the pensions in payment are not linked to inflation, so this is a less material risk.

**Life Expectancy:** The majority of the plans' obligations are to provide benefits for the life of the member. Whilst the plans allow for an increase in life expectancy, increases above this assumption will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

**Change in Regulations:** The Group is aware that future changes to the regulatory framework may impact the funding basis of the various plans in the future. The Group's pensions department monitors the changes in legislation and analyses the risks as and when they occur.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets consists of quoted equities and quoted bonds, although the Group also invests in property, and cash. The Group believes that quoted equities offer the best returns over the long-term with an acceptable level of risk. The Trustees of all the UK funds have moved the overwhelming majority of their assets to low cost investment funds in consultation with the Company whilst maintaining a prudent diversification.

## 23 Share Capital

	Equity ordinary shares number	Nominal value £m
Issued and fully paid		
At 1 January 2015	736,535,179	74
<b>At 31 December 2015</b>	<b>736,535,179</b>	<b>74</b>
At 1 January 2016	736,535,179	74
<b>At 31 December 2016</b>	<b>736,535,179</b>	<b>74</b>

The holders of ordinary shares (par value 10p) 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.

### Allotment of Ordinary Shares and Release of Treasury Shares

During the year nil ordinary shares (2015: nil ordinary shares) were allotted and 3,662,122 ordinary shares were released from Treasury (2015: 3,111,173) to satisfy vestings/exercises under the Group's various share schemes as follows:

	2016		2015	
	Number of shares	Consideration £m	Number of shares	Consideration £m
<b>Ordinary shares of 10p</b>				
Executive Share Options – exercises	<b>2,139,330</b>	<b>72</b>	1,532,150	45
Restricted Shares Awards – vesting	<b>1,261,616</b>	–	530,992	–
Total under Executive Share Option and Restricted Share Schemes	<b>3,400,946</b>	<b>72</b>	2,063,142	45
Senior Executives Share Ownership Policy Plan – vesting	<b>9,216</b>	–	23,270	–
Savings-Related Share Option Schemes – exercises	<b>251,960</b>	<b>7</b>	1,024,761	29
<b>Total</b>	<b>3,662,122</b>	<b>79</b>	3,111,173	74

### Market Purchases of Shares

During 2016 the Company purchased 11,658,939 equity ordinary shares in accordance with its share buyback programme (2015: 13,615,832), all of which are held as Treasury shares. The total amount paid to acquire the shares was £798 million (£802 million including stamp duty), which has been deducted from Shareholders' equity (2015: £804 million including stamp duty).

3,662,122 Treasury shares were released in 2016 (2015: 3,111,173), leaving a balance held at 31 December 2016 of 36,458,967 (2015: 28,462,150). Proceeds received from the reissuance of Treasury shares to exercise share options were £79 million (2015: £74 million).

# Notes to the Financial Statements continued

## 24 Share-Based Payments

The Group operates a number of incentive schemes, including a share option scheme, a restricted share scheme, and other share award schemes. All schemes are equity settled. The charge for share-based payments for the year was £66 million (2015: £50 million).

### Executive Share Awards

Executive share awards, comprising both Executive Share Options and Restricted Share Awards, are awarded to the Top400 Management Group. Executive Share Options are awarded at an exercise price determined on grant date and become payable on exercise – following satisfaction of performance criteria. Restricted Share Awards entitle the recipient to receive shares at no cost following satisfaction of the following performance criteria.

*For awards granted before December 2012:*

Adjusted earnings per share growth over three years (%)	<6%	6%	7%	8%	≥9%
Proportion of awards vesting (%)	Nil	40%	60%	80%	100%

*For awards granted in December 2013 and thereafter:*

Adjusted earnings per share growth over three years (%)	<6%	6%	Between 6% and 10%	≥10%
Proportion of awards vesting (%)	Nil	20%	Straight-line vesting between 20% and 100%	100%

The cost is spread over the three years of the performance period. For Executive Committee and "Top40" members, vesting conditions must be met over the three-year period and are not retested. For remaining Top400 members the targets can be retested after four or five years. If any target has not been met any remaining shares or options which have not vested will lapse.

### Other Share Awards

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. Other share awards have contractual lives of between three and eight years and are generally not subject to any vesting criteria other than the employee's continued employment.

Individual tranches of these other share awards are not material for detailed disclosure and therefore have been aggregated in the tables below.

### Modifications to Share Awards

The Remuneration Committee approved modifications to all unexercised share schemes in December 2014 following the demerger of RB Pharmaceuticals to compensate for the loss of scheme value. For SAYE schemes this was in the form of a one-off payment. For executive share awards this included an adjustment to shares under the amount of each grant, and the lowering of exercise price, where applicable. There is no change to the IFRS fair value charge as a result of these modifications.

### Summary of Shares Outstanding

All outstanding Executive and Other share awards as at 31 December 2016 and 31 December 2015 are included in the tables below which analyse the charge for 2016 and 2015. The Group has used the Black-Scholes model to calculate the fair value of one award on the date of the grant of the award.

## 24 Share-Based Payments continued

**Table 1: Fair value**

The most significant awards are share options and restricted shares, details of which have been provided below.

Award	Grant date	Black-Scholes model assumptions								
		Exercise price at grant £	Modified exercise price £	Performance period	Share price on grant date £	Volatility %	Dividend yield %	Life years	Risk-free interest rate %	Fair value of one award £
<b>Share options</b>										
2007	08 December 2006	22.57	21.95	2007–09	23.00	20	2.2	4	4.65	4.23
2008	11 December 2007	29.44	28.63	2008–10	29.72	20	1.8	4	5.53	5.99
2009	08 December 2008	27.29	26.54	2009–11	27.80	25	3.1	4	2.78	4.69
2010	07 December 2009	31.65	30.78	2010–12	31.80	26	3.5	4	1.69	4.70
2011	01 December 2010	34.64	33.68	2011–13	34.08	26	4.3	4	2.16	4.49
2012	05 December 2011	32.09	31.20	2012–14	32.19	25	5.4	4	1.00	3.18
2013	03 December 2012	39.14	38.06	2013–15	39.66	20	4.3	4	0.61	3.29
2014	11 December 2013	47.83	46.51	2014–16	46.69	19	3.7	4	0.76	3.85
2015	01 December 2014	50.57	50.57	2015–17	52.40	17	4.0	4	1.03	4.34
2016	02 December 2015	63.25	63.25	2016–18	64.15	18	2.9	4	1.07	6.75
2017	01 December 2016	67.68	67.68	2017–19	66.28	18	3.0	4	0.46	5.54
<b>Restricted shares</b>										
2009	08 December 2008	–	–	2009–11	27.80	25	3.1	4	2.78	24.31
2010	07 December 2009	–	–	2010–12	31.80	26	3.5	4	1.69	27.23
2011	01 December 2010	–	–	2011–13	34.08	26	4.3	4	2.16	28.22
2012	05 December 2011	–	–	2012–14	32.19	25	5.4	4	1.00	25.30
2013	03 December 2012	–	–	2013–15	39.66	20	4.3	4	0.61	32.76
2014	11 December 2013	–	–	2014–16	46.69	19	3.7	4	0.76	39.80
2015	01 December 2014	–	–	2015–17	52.40	17	4.0	4	1.03	43.93
2016	02 December 2015	–	–	2016–18	64.15	18	2.9	4	1.07	57.13
2017	01 December 2016	–	–	2017–19	66.28	18	3.0	4	0.46	58.85

# Notes to the Financial Statements continued

## 24 Share-Based Payments continued

Table 2: Share awards movements 2016

Award	Movement in number of options				Options outstanding at 31 Dec 2016 number
	Options outstanding at 1 Jan 2016 number	Granted/adjustments number	Lapsed number	Exercised number	
<b>Share options<sup>1</sup></b>					
2007	113,346	–	(2,544)	(110,802)	–
2008	282,213	–	(4,114)	(140,187)	137,912
2009	319,343	–	(4,114)	(143,956)	171,273
2010	537,644	–	(7,254)	(284,880)	245,510
2011	831,561	–	(194,817)	(306,407)	330,337
2012	1,363,209	–	(71,179)	(368,135)	923,895
2013	2,753,968	–	(360,057)	(692,681)	1,701,230
2014	2,899,975	883	(197,898)	(85,061)	2,617,899
2015	2,893,271	–	(153,070)	(7,221)	2,732,980
2016	4,020,400	–	(992,814)	–	3,027,586
2017	–	3,200,000	–	–	3,200,000
<b>Restricted shares<sup>1</sup></b>					
2011	75,836	–	(75,836)	–	–
2012	259,471	–	(21,926)	(163,144)	74,401
2013	1,270,172	–	(161,594)	(1,016,812)	91,766
2014	1,389,865	–	(96,648)	(67,329)	1,225,888
2015	1,386,771	–	(72,031)	(14,331)	1,300,409
2016	1,985,200	23,150	(612,154)	–	1,396,196
2017	–	1,600,000	–	–	1,600,000
<b>Other share awards</b>					
UK SAYE	687,953	178,122	(66,981)	(111,459)	687,635
US SAYE	382,185	94,583	(45,486)	(107,787)	323,495
Overseas SAYE	1,058,195	2,461	(83,008)	(32,714)	944,934
SOPP	166,000	24,000	(10,784)	(9,216)	170,000
<b>Weighted average exercise price (share options)</b>	<b>£46.61</b>	<b>£67.67</b>	<b>£51.68</b>	<b>£33.43</b>	<b>£52.28</b>

1 Grant date and exercise price for each of the awards are shown in Table 1.

**24 Share-Based Payments continued**
**Table 3: Share awards movements 2015**

Award	Movement in number of options				
	Options outstanding at 1 Jan 2015 number	Granted/adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2015 number
<b>Share options<sup>1</sup></b>					
2006	106,919	—	—	(106,919)	—
2007	197,892	—	(690)	(83,856)	113,346
2008	446,292	—	—	(164,079)	282,213
2009	495,785	—	—	(176,442)	319,343
2010	843,484	—	—	(305,840)	537,644
2011	1,248,852	41,934	(94,797)	(364,428)	831,561
2012	2,625,715	—	(970,843)	(291,663)	1,363,209
2013	3,050,227	—	(261,506)	(34,753)	2,753,968
2014	3,269,887	823	(369,912)	(823)	2,899,975
2015	4,020,400	6,157	(1,133,286)	—	2,893,271
2016	—	4,020,400	—	—	4,020,400
<b>Restricted shares<sup>1</sup></b>					
2011	99,788	—	(23,952)	—	75,836
2012	1,217,369	—	(470,892)	(487,006)	259,471
2013	1,433,769	—	(136,062)	(27,535)	1,270,172
2014	1,577,388	—	(171,072)	(16,451)	1,389,865
2015	1,985,200	42,258	(640,687)	—	1,386,771
2016	—	1,985,200	—	—	1,985,200
<b>Other share awards</b>					
UK SAYE	722,696	175,344	(73,642)	(136,445)	687,953
US SAYE	565,286	110,724	(118,170)	(175,655)	382,185
Overseas SAYE	1,897,407	4,782	(131,371)	(712,623)	1,058,195
SOPP	160,000	46,000	(10,000)	(30,000)	166,000
<b>Weighted average exercise price (share options)</b>	<b>£40.08</b>	<b>£62.92</b>	<b>£42.27</b>	<b>£30.44</b>	<b>£46.61</b>

For options outstanding at the year end the weighted average remaining contractual life is 6.53 years (2015: 6.54 years). Options outstanding at 31 December 2016 that could have been exercised at that date were 3,727,376 (2015: 3,826,583) with a weighted average exercise price of £32.49 (2015: £27.92).

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 schemes, early exercise may only be granted in exceptional circumstances 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 these calculations in 2016 or 2015 for the purposes of the valuation.

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.

National Insurance contributions are payable in respect of certain share-based payment transactions and are treated as cash-settled transactions. The contribution in 2016 was £51 million (2015: £51 million).

The weighted average share price for the year was £68.77 (2015: £58.81).

# Notes to the Financial Statements continued

## 24 Share-Based Payments continued

### Options and Restricted Shares Granted During the Year

Options and restricted shares granted during the year which may vest or become exercisable at various dates between 2017 and 2022 are as follows:

	Price to be paid £	Number of shares under option
<b>Executive share option and restricted share schemes</b>		
Reckitt Benckiser 2015 Long-term Incentive Plan – share options	67.68	3,200,000
Reckitt Benckiser Long-term Incentive Plan – restricted shares	–	1,623,150
Reckitt Benckiser Group Senior Executive 2007 Share Ownership Policy Plan	–	24,000
<b>Total</b>	<b>4,847,150</b>	
<b>Savings-related share option schemes</b>		
UK Scheme	58.86	178,122
US Scheme	58.86	94,583
Overseas Scheme	41.88	2,461
<b>Total</b>	<b>275,166</b>	

### Options and Restricted Shares Outstanding at 31 December 2016

Options and restricted shares which have vested or may vest at various dates between 2017 and 2021 are as follows:

	Price to be paid £		Number of shares under option	
	From	To	2016	2015
<b>Executive share option and restricted share schemes</b>				
Reckitt Benckiser Long-term Incentive Plan 2006 – Annual Grant – options	21.95	22.57	–	113,346
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – options	26.54	67.68	15,088,622	15,901,584
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – restricted shares	–	–	5,688,660	6,369,315
Reckitt Benckiser Senior Executives Share Ownership Policy Plan	–	–	170,000	166,000
			<b>20,947,282</b>	22,550,245
<b>Savings-related share option schemes</b>				
UK Scheme	16.90	58.86	687,635	687,953
US Scheme	22.88	58.86	323,495	382,185
Overseas Scheme	21.95	41.88	944,934	1,058,195
<b>Total</b>			<b>1,956,064</b>	2,128,333

## 25 Other Reserves

	Hedging reserve £m	Foreign currency translation reserve £m	Total other reserves £m
<b>Balance at 1 January 2015</b>	4	(824)	(820)
<b>Other comprehensive income/(expense)</b>			
Gains on cash flow hedges, net of tax	14	–	14
Net exchange losses on foreign currency translation, net of tax	–	(124)	(124)
Losses on net investment hedges	–	(49)	(49)
Reclassification of foreign currency translation reserves on demerger of subsidiary	–	33	33
<b>Total other comprehensive income/(expense) for the year</b>	<b>14</b>	<b>(140)</b>	<b>(126)</b>
<b>Balance at 31 December 2015</b>	<b>18</b>	<b>(964)</b>	<b>(946)</b>
<b>Other comprehensive (expense)/income</b>			
Losses on cash flow hedges, net of tax	(22)	–	(22)
Net exchange gains on foreign currency translation, net of tax	–	1,618	1,618
Losses on net investment hedges	–	(128)	(128)
<b>Total other comprehensive (expense)/income for the year</b>	<b>(22)</b>	<b>1,490</b>	<b>1,468</b>
<b>Balance at 31 December 2016</b>	<b>(4)</b>	<b>526</b>	<b>522</b>

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 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.

## 26 Related Party Transactions

### RB & Manon Business Co. Ltd (Manon)

The Group completed new arrangements with the non-controlling Shareholders of Manon, agreeing to terminate the existing arrangement in line with the forward contract entered into in 2011. RB paid consideration totalling £27 million to the non-controlling Shareholders. An additional settlement amount of £12 million was also paid to the non-controlling Shareholders in 2015, of which £4 million was included within profit and loss in the current year, and £8 million in the prior year.

Under the terms of the new arrangements, the non-controlling Shareholders agreed to invest in two entities, RB (China Trading) Ltd and RB & Manon Business Ltd, thereby acquiring from RB 20% and 25% stakes in these entities respectively, whilst retaining their 24.95% stake in Manon, for a combined consideration of £27 million.

As part of the new arrangements, the parties are subject to symmetrical put and call options over the non-controlling Shareholdings, exercisable together after a period of six years, with possible extensions available at the agreement of the parties. The present value of the put option at year end was a liability of £94 million.

### Indivior PLC

Subsequent to the demerger of RB Pharmaceuticals on 23 December 2014, the Group continues to lease part of a building to, and provide operational services to, Indivior PLC. The transitional services between the Group and Indivior PLC are on an arm's length basis. The amount included in other operating income in respect of these services is £5 million (2015: £8 million). Certain outstanding balances, totalling £6 million, were settled with Indivior during the period. These related to adjustments in the final UK corporation tax liabilities settled on behalf of Indivior by Reckitt Benckiser Plc. Adrian Hennah, the Reckitt Benckiser Group plc CFO, also sat on the Board of Directors in Indivior PLC until his resignation in May 2016. Rupert Bondy, SVP General Counsel and Company Secretary of Reckitt Benckiser Group plc was also a director of Indivior PLC until he resigned from the Board on 30 September 2016. He joined RB in January 2017.

### Other

The Group has related party relationships with its Directors and key management personnel (Note 5) and pension schemes (Note 22).

# Notes to the Financial Statements continued

## 27 Acquisitions and Disposals

On 3 October 2016, the acquisition of 100% shareholding in Nances Holdings S.A completed with a purchase consideration of BRL 671 million. Hypermarcas is the leading Brazilian condom manufacturer, through its three brands – Jontex, Olla and Lovetex. These brands will sit alongside the RB Powerbrand Durex to create a unique portfolio of brands in the sexual wellbeing category. Their addition will immediately transform RB's sexual wellbeing category in Brazil. These brands will benefit from RB's strong innovation, brand equity investment and go-to-market capabilities. The transaction has been accounted for by the acquisition method.

All assets and liabilities were recognised at the following provisional fair values. The full consideration transferred was paid in cash in the period. The amount of consideration transferred over the net assets acquired is recognised as goodwill in the Group Financial Statements:

	Provisional fair value £m
Property, plant and equipment	4
Intangible assets	24
Deferred tax liabilities	(8)
Other liabilities	(3)
<b>Net assets acquired</b>	<b>17</b>
<b>Goodwill</b>	<b>146</b>
<b>Total consideration transferred</b>	<b>163</b>

	£m
Consideration paid on signing definitive agreement in January 2016	116
Impact of foreign exchange	47
<b>Total consideration transferred</b>	<b>163</b>

Acquisition-related costs have been expensed within exceptional items in the Income Statement.

The amount of revenue and profit on the business acquired since acquisition was not material in the context of the Group Income Statement. Had the business been acquired on 1 January 2016, the revenue and profit of the Group for the period would not have been materially different to that appearing on the Group Income Statement. Consideration paid in relation to this acquisition is included within 'Acquisition of business, net of cash acquired' in the Group Cash Flow Statement.

In October 2015, in line with RB's continued focus on its core business of Health, Hygiene and Home, the Group disposed of the Medcom business in Russia. The reported loss on sale of the entity was £57 million. This was included within exceptional items. It comprised a £24 million difference between the net sale proceeds and the net assets; and a recycling from reserves of previous exchange losses arising on consolidation of the legal entity sold. Due to the significant devaluation of the Russian rouble since acquisition, the non-cash exchange loss required to be recycled through the Income Statement was £33 million.

## 28 Dividends

	2016 £m	2015 £m
<b>Cash dividends on equity ordinary shares:</b>		
2015 Final paid: 88.7p (2014: Final 79.0p) per share	625	566
2016 Interim paid: 58.2p (2015: Interim 50.3p) per share	410	358
<b>Total dividends for the year</b>	<b>1,035</b>	924

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 95.0 pence per share which will absorb an estimated £665 million of Shareholders' funds. If approved by Shareholders it will be paid on 25 May 2017 to Shareholders who are on the register on 18 April 2017, with an ex-dividend date of 13 April 2017.

## 29 Post Balance Sheet Events

On 10 February, Reckitt Benckiser Group plc ("RB") announced it had signed a merger agreement with Mead Johnson Nutrition Company ("Mead Johnson") under which Mead Johnson shareholders will receive US\$90 in cash for each share of common stock, valuing the total equity at US\$16.6 billion.

Including Mead Johnson's net debt, the total value of the transaction is US\$17.9 billion.

The transaction is subject to Shareholder and regulatory approvals. The Boards of RB and Mead Johnson have both unanimously approved the transaction and will recommend that their respective Shareholders vote in favour of the transaction. It is expected to be completed by the end of Q3 2017.

In anticipation of this transaction, the Group has completed syndication of certain debt facilities totalling \$21.2 billion. These facilities will be available to draw down upon shareholder approval of the transaction.

# Five Year Summary

The five year summary below, is presented on a statutory basis. The years ending 31 December 2013 and 31 December 2014 show the results for continuing operations and exclude the impact of RB Pharmaceuticals. The preceding year ending 31 December 2012 reflects the Income Statement of the whole Group.

The Balance Sheet has not been restated for the impact of discontinued operations.

	2016 £m	2015 £m	2014 £m	2013 £m	2012 <sup>3</sup> £m
<b>Income Statement</b>					
<b>Net Revenue</b>	<b>9,891</b>	8,874	8,836	9,266	9,567
Operating profit	<b>2,410</b>	2,241	2,164	1,887	2,442
Adjusted operating profit	<b>2,777</b>	2,374	2,185	2,143	2,577
Exceptional Items	(367)	(133)	(21)	(256)	(135)
Operating profit	<b>2,410</b>	2,241	2,164	1,887	2,442
Net finance (expense)/income	(16)	(33)	(38)	(31)	(34)
<b>Profit before income tax</b>	<b>2,394</b>	2,208	2,126	1,856	2,408
Income tax expense	(558)	(463)	(462)	(453)	(583)
Attributable to non-controlling interests	(4)	(2)	(1)	(1)	(4)
<b>Net income attributable to owners of the parent</b>	<b>1,832</b>	1,743	1,663	1,402	1,821
<b>Balance Sheet</b>					
Net assets	<b>8,426</b>	6,906	6,834	6,336	5,922
Net Working Capital	(1,102)	(936)	(831)	(863)	(700)
<b>Statistics</b>					
<b>Reported basis</b>					
Operating margin	<b>24.4%</b>	25.3%	24.5%	20.4%	25.5%
Total interest to operating profit (times covered)	<b>150.6x</b>	67.9x	56.9x	60.9x	71.8x
Tax rate	<b>23.3%</b>	21.0%	21.7%	24.4%	24.2%
Diluted earnings per share	<b>256.5p</b>	240.9p	227.6p	192.3p	248.4p
Dividend cover <sup>1</sup>	<b>1.7x</b>	1.7x	1.6x	1.4x	1.9x
Declared dividends per ordinary share	<b>153.2p</b>	139p	139p	137p	134p
<b>Adjusted basis<sup>2</sup></b>					
Operating margin	<b>28.1%</b>	26.8%	24.7%	23.1%	26.9%
Total interest to operating profit (times covered)	<b>173.6x</b>	71.9x	57.5x	69.1x	75.8x
Diluted earnings per share	<b>302.0p</b>	258.6p	230.5p	222.1p	263.3p
Dividend cover <sup>2</sup>	<b>2.0x</b>	1.9x	1.7x	1.6x	2.0x

1 Dividend cover is calculated by dividing earnings/adjusted earnings per share by ordinary dividends per share relating to the year.

2 Adjusted basis is calculated by excluding the exceptional items from net income for the year.

3 Inclusive of RB Pharmaceuticals business.

# Parent Company – Independent Auditors’ Report to the members of Reckitt Benckiser Group plc

## Report on the Parent Company Financial Statements

### Our opinion

In our opinion, Reckitt Benckiser Group plc’s parent company Financial Statements (the “Financial Statements”):

- give a true and fair view of the state of the parent company’s affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual Report and Financial Statements (the “Annual Report”), comprise:

- the Parent Company Balance Sheet as at 31 December 2016;
- the Parent Company Statement of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the Financial Statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Financial Statements is United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law (United Kingdom Generally Accepted Accounting Practice).

### Other required reporting

#### Consistency of other information and compliance with applicable requirements

##### *Companies Act 2006 reporting*

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

##### *ISAs (UK & Ireland) reporting*

Under International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors’ remuneration

#### *Directors’ Remuneration Report – Companies Act 2006 opinion*

In our opinion, the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

##### *Other Companies Act 2006 reporting*

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors’ remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# Parent Company – Independent Auditors’ Report to the members of Reckitt Benckiser Group plc continued

## **Responsibilities for the Financial Statements and the audit**

### **Our responsibilities and those of the Directors**

As explained more fully in the Directors’ Statement of Responsibilities set out on page 96, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

### **What an audit of Financial Statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors’ judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

### **Other matter**

We have reported separately on the Group Financial Statements of Reckitt Benckiser Group plc for the year ended 31 December 2016.

**Mark Gill (Senior Statutory Auditor)**  
**for and on behalf of PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
London  
20 March 2017

# Parent Company Balance Sheet

As at 31 December	Notes	2016 £m	2015 £m
<b>Fixed Assets</b>			
Investments	2	<b>14,861</b>	14,810
<b>Current Assets</b>			
Debtors due within one year	3,6	<b>42</b>	95
Debtors due after one year	4	<b>7</b>	42
Cash and cash equivalents	6	<b>1</b>	1
		<b>50</b>	138
<b>Current Liabilities</b>			
Creditors due within one year	5,6	<b>(6,484)</b>	(8,685)
<b>Net Current Liabilities</b>			
		<b>(6,434)</b>	(8,547)
<b>Total Assets less Current Liabilities</b>			
		<b>8,427</b>	6,263
Provisions for Liabilities and Charges	7	<b>(62)</b>	(211)
<b>Net Assets</b>		<b>8,365</b>	6,052
<b>EQUITY</b>			
<b>Capital and Reserves</b>			
Share capital	8	<b>74</b>	74
Share premium		<b>243</b>	243
<b>Retained earnings</b>			
At 1 January		<b>5,735</b>	7,434
Profit/(loss) for the financial year		<b>3,906</b>	(90)
Other changes in retained earnings		<b>(1,593)</b>	(1,609)
		<b>8,048</b>	5,735
<b>Total Equity</b>		<b>8,365</b>	6,052

The Financial Statements on pages 155 to 173 were approved by the Board of Directors on 20 March 2017 and signed on its behalf by:

**ADRIAN BELLAMY**  
Director

**RAKESH KAPOOR**  
Director

Company Number: 06270876

# Parent Company Statement of Changes in Equity

	Share capital £m	Share premium £m	Retained earnings £m	Total equity £m
<b>Balance at 1 January 2015</b>	<b>74</b>	<b>243</b>	<b>7,434</b>	<b>7,751</b>
<b>Comprehensive expense</b>				
Loss for the financial year	–	–	(90)	(90)
<b>Total comprehensive expense</b>	<b>–</b>	<b>–</b>	<b>(90)</b>	<b>(90)</b>
<b>Transactions with owners</b>				
Treasury shares re-issued	–	–	74	74
Share-based payments	–	–	9	9
Shares repurchased and held in Treasury	–	–	(804)	(804)
Capital contribution in respect of share-based payments	–	–	36	36
Cash dividends	–	–	(924)	(924)
<b>Total transactions with owners</b>	<b>–</b>	<b>–</b>	<b>(1,609)</b>	<b>(1,609)</b>
<b>Balance at 31 December 2015</b>	<b>74</b>	<b>243</b>	<b>5,735</b>	<b>6,052</b>
<b>Comprehensive income</b>				
Profit for the financial year	–	–	3,906	3,906
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>3,906</b>	<b>3,906</b>
<b>Transactions with owners</b>				
Treasury shares re-issued	–	–	79	79
Share-based payments	–	–	14	14
Shares repurchased and held in Treasury	–	–	(702)	(702)
Capital contribution in respect of share-based payments	–	–	51	51
Cash dividends	–	–	(1,035)	(1,035)
<b>Total transactions with owners</b>	<b>–</b>	<b>–</b>	<b>(1,593)</b>	<b>(1,593)</b>
<b>Balance at 31 December 2016</b>	<b>74</b>	<b>243</b>	<b>8,048</b>	<b>8,365</b>

Reckitt Benckiser Group plc has £7,529 million (2015: £5,282 million) of its retained earnings available for distribution.

Details of Treasury shares and other equity transactions are included in Note 23 of the Group Financial Statements.

# Notes to the Parent Company Financial Statements

## 1 Parent Company Accounting Policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

### General Information and Basis of Accounting

Reckitt Benckiser Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 174. The nature of the Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 53.

### Statement of Compliance

The Financial Statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 ('FRS 102') issued by the Financial Reporting Council and in accordance with the Companies Act 2006.

The functional currency of Reckitt Benckiser Group plc is considered to be Pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

As permitted by s.408 of the Companies Act 2006, a Statement of Comprehensive Income is not presented for Reckitt Benckiser Group plc.

### Going Concern

The Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Company Financial Statements.

### Financial Reporting Standard 102 – Reduced Disclosure Exemptions

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with.

The Company has taken advantage of the following exemptions:

- (i) from preparing a Statement of Cash Flows, on the basis that it is a qualifying entity and the Group Cash Flow Statement, included in these Financial Statements, includes the Company's cash flows;
- (ii) from disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

The Company's results are included in the publicly available consolidated Financial Statements of Reckitt Benckiser Group plc and these Financial Statements may be obtained from 103-105 Bath Road, Slough, Berkshire SL1 3UH.

### Foreign Currency Translation

Transactions denominated in foreign currencies are translated 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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

### Taxation

The tax charge/credit is based on the result for the year 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.

A net deferred tax asset is considered recoverable if it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the Balance Sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the Balance Sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred tax is measured on an undiscounted basis.

### Fixed Asset Investments

Fixed asset investments are stated at cost less impairment. A review for the potential impairment of an investment is carried out by the Directors if events or changes in circumstances indicate that the carrying value of the investment may not be recoverable. Such impairment reviews are performed in accordance with Section 27, 'Impairment of Assets'.

### Employee Share Schemes

Incentives in the form of shares are provided to employees under share option and restricted share schemes which vest in accordance with non-market conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each Balance Sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in comprehensive income or expense such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

# Notes to the Parent Company Financial Statements

continued

## **1 Parent Company Accounting Policies** continued

Additional employer costs in respect of options and awards are charged, including social security taxes, to the Statement of Comprehensive Income over the same period with a corresponding liability recognised.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the Company Financial Statements.

### **Financial Instruments**

The Company only enters into basic financial instrument transactions that result in the recognition of basic financial assets and liabilities, including trade and other receivables and payables and loans to and from related parties. These transactions are initially recorded at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipt discounted at a market rate of interest and subsequently recognised at amortised cost.

#### *(i) Financial Assets*

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in comprehensive income or expense.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

#### *(ii) Financial Liabilities*

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expired.

### **Provisions**

Provisions are recognised when the Company has a present 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.

### **Share Capital Transactions**

When the Company purchases equity share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a charge to equity. Purchased 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.

### **Dividends**

Dividends payable are recognised when they meet the criteria for a present obligation (i.e. when they have been approved).

### **Accounting Estimates and Judgements**

In the application of the Company's accounting policies the Directors are required to make a number of estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the significant judgements made in applying the Company's accounting policies:

- The Company recognises legal and regulatory provisions in line with the Group's provisions policy. The level of provisioning for regulatory, civil and/or criminal investigation is an issue where management and legal judgement is important.
- Determine whether there are indicators of impairment of the Company's fixed asset investments.

The Company's Directors are of the opinion that there are no further judgements and no key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities for the Company within the next financial year.

## 2 Investments

	Shares in subsidiary undertakings £m
Cost	
At 1 January 2015	14,774
Additions during the year	36
<b>At 31 December 2015</b>	<b>14,810</b>
Additions during the year	51
<b>At 31 December 2016</b>	<b>14,861</b>
Provision for impairment	
At 1 January 2015	—
Provided for during the year	—
<b>At 31 December 2015</b>	<b>—</b>
Provided for during the year	—
<b>At 31 December 2016</b>	<b>—</b>
Net book amounts	
At 31 December 2015	14,810
<b>At 31 December 2016</b>	<b>14,861</b>

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

The subsidiary undertakings as at 31 December 2016, all of which are included in the Group Financial Statements, are shown in Note 16 of the Company Financial Statements.

With the exception of Reckitt Benckiser plc, none of the subsidiaries are directly held by Reckitt Benckiser Group plc. All subsidiaries have a financial year ending 31 December with the exception of Reckitt Benckiser (India) Limited, Reckitt Benckiser Healthcare India Limited, Reckitt Benckiser Scholl India Limited and Reckitt and Colman Management Services Limited which has a year ending 31 March; Lloyds Pharmaceuticals which has a year ending 24 August; Crookes Healthcare Limited which has a year ending 31 January and Reckitt Benckiser Healthcare (Ireland) Limited which has a year ending 30 November.

## 3 Debtors due within one year

	2016 £m	2015 £m
Amounts owed by Group undertakings	42	95

Amounts owed by Group undertakings are unsecured, interest free and are repayable on demand (2015: unsecured, interest free and repayable on demand).

## 4 Debtors due after more than one year

	2016 £m	2015 £m
Other debtors	—	36
Deferred tax assets	7	6
	7	42

Deferred tax assets consist of short-term timing differences.

## 5 Creditors due within one year

	2016 £m	2015 £m
Amounts owed to Group undertakings	6,473	8,677
Taxation and social security	11	8
	6,484	8,685

Included in the amounts owed to Group undertakings is an amount of £6,434 million (2015: £8,669 million) which is unsecured, carries interest at 3 month LIBOR and is repayable on demand (2015: unsecured, interest bearing at 3 month LIBOR and repayable on demand). All other amounts owed to Group undertakings are unsecured, non-interest bearing and are repayable on demand (2015: unsecured, non-interest bearing and repayable on demand).

# Notes to the Parent Company Financial Statements

continued

## 6 Financial Instruments

	2016 £m	2015 £m
<b>Financial Assets</b>		
Financial assets that are debt instruments measured at amortised cost	<b>42</b>	95
Cash and cash equivalents	1	1
<b>Financial Liabilities</b>		
Financial liabilities at amortised cost	<b>6,473</b>	8,677

## 7 Provisions for Liabilities and Charges

	Legal provisions £m	Share buyback provisions £m	Total provisions £m
At 1 January 2015	65	100	165
Charged to the Statement of Comprehensive Income	10	–	10
Charged to equity	–	800	800
Separate recognition of related insurance receivable	36	–	36
Utilised during the year	–	(800)	(800)
<b>At 31 December 2015</b>	<b>111</b>	<b>100</b>	<b>211</b>
Charged to the Statement of Comprehensive Income	12	–	12
Charged to equity	–	702	702
Utilised during the year	(5)	(802)	(807)
Released to the Statement of Comprehensive Income	(56)	–	(56)
<b>At 31 December 2016</b>	<b>62</b>	<b>–</b>	<b>62</b>

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

	2016 £m	2015 £m
Current	<b>62</b>	155
Non-current	–	56
	<b>62</b>	211

Provisions are recognised when the Company has a present 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.

Legal provisions include indemnities provided by the Company. Legal provisions released during the year relate to those for which an indemnity is no longer required.

For details of the share buyback provision during 2016 refer to Note 17 of the Group Financial Statements.

During the prior year, the Company concluded it would be more appropriate to present the amount recoverable from insurers separately from the related obligation. Accordingly, a debtor due after more than one year of £36 million was recognised (Note 4), with an equal increase in the related provision.

## 8 Share Capital

	Equity ordinary shares	Nominal value £m
Issued and fully paid		
At 1 January 2016	<b>736,535,179</b>	<b>74</b>
Allotments	–	–
At 31 December 2016	<b>736,535,179</b>	<b>74</b>
Cancelled	–	–
<b>At 31 December 2016</b>	<b>736,535,179</b>	<b>74</b>

For details of the share buyback programme and allotment of ordinary shares during 2016 refer to Note 23 of the Group Financial Statements.

The holders of ordinary shares (par value 10p) 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.

## 9 Employees and Executive Directors

### Employees

The average monthly number of persons (including executive directors) employed by the Company during the year was:

	2016 No.	2015 No.
<b>By Activity</b>		
Administration	2	2

The Executive Directors' aggregate emoluments were £2 million (2015: £8 million)

### Employee costs

	2016 £m	2015 £m
The total employment costs were:		
Wages, salaries and other pension costs	2	8
Social security costs	3	4
Share-based payments	14	9
	<b>19</b>	<b>21</b>

## 10 Share-Based Payments

Reckitt Benckiser Group plc has two employees, the Group's CEO and CFO. The tables below include details of the share awards granted to individuals whilst holding these roles, and those for any individuals previously holding these roles. Details of the share awards that are not fully vested are set out in the Directors' Remuneration Report on pages 76 to 92. The charge for share-based payments for the year was £14 million (2015: £9 million) and National Insurance contributions were £11 million (2015: £8 million). See page 91.

The Company is unable to directly measure the fair value of employee services received. Instead the fair value of the share options granted during the year is determined using the Black-Scholes model. The model is internationally recognised as being appropriate to value employee share schemes similar to the All employee and Key employee schemes.

The fair value of awards with options outstanding at 31 December 2016 is shown in Note 24 of the Group Financial Statements.

**Table 1: Share awards movements 2016**

Award	Grant date	Fair value of one award £	Options outstanding at 1 Jan 2016 number	Movement in number of options			Options outstanding at 31 Dec 2016 number
				Granted/ adjustments number	Lapsed number	Exercised number	
<b>Share options</b>							
2012	05 December 2011	3.18	164,514	—	—	—	164,514
2013	03 December 2012	3.29	503,806	—	(100,762)	—	403,044
2014	11 December 2013	3.85	503,809	—	—	—	503,809
2015	01 December 2014	4.34	490,000	—	—	—	490,000
2016	02 December 2015	6.75	490,000	—	—	—	490,000
2017	01 December 2016	5.54	—	376,500	—	—	376,500
<b>Restricted shares</b>							
2013	03 December 2012	32.76	251,913	—	(50,383)	(201,530)	—
2014	11 December 2013	39.80	293,042	—	—	—	293,042
2015	01 December 2014	43.93	285,000	—	—	—	285,000
2016	02 December 2015	57.13	285,000	—	—	—	285,000
2017	01 December 2016	58.85	—	188,250	—	—	188,250
<b>Other share awards</b>							
UK SAYE	08 September 2008	6.71	796	—	—	(796)	—
UK SAYE	04 September 2013	7.53	403	—	—	—	403
UK SAYE	01 September 2015	10.70	307	—	—	—	307
UK SAYE	01 December 2016	14.16	—	509	—	—	509
<b>Weighted average exercise price (share options)</b>			<b>£48.10</b>	<b>£67.68</b>	<b>£38.06</b>	<b>£0.00</b>	<b>£51.55</b>

# Notes to the Parent Company Financial Statements

continued

## 10 Share-Based Payments continued

Table 2: Share awards movements 2015

Award	Grant date	Fair value of one award £	Options outstanding at 1 Jan 2015 number	Movement in number of options			Options outstanding at 31 Dec 2015 number
				Granted/adjustments number	Lapsed number	Exercised number	
<b>Share options</b>							
2012	05 December 2011	3.18	411,286	–	(246,772)	–	164,514
2013	03 December 2012	3.29	503,806	–	–	–	503,806
2014	11 December 2013	3.85	503,809	–	–	–	503,809
2015	01 December 2014	4.34	490,000	–	–	–	490,000
2016	02 December 2015	6.75	–	490,000	–	–	490,000
<b>Restricted shares</b>							
2012	05 December 2011	25.30	205,643	–	(123,385)	(82,258)	–
2013	03 December 2012	32.76	251,913	–	–	–	251,913
2014	11 December 2013	39.80	293,042	–	–	–	293,042
2015	01 December 2014	43.93	285,000	–	–	–	285,000
2016	02 December 2015	57.13	–	285,000	–	–	285,000
<b>Other share awards</b>							
UK SAYE	08 September 2008	6.71	796	–	–	–	796
UK SAYE	04 September 2013	7.53	403	–	–	–	403
UK SAYE	01 September 2015	10.70	–	307	–	–	307
<b>Weighted average exercise price (share options)</b>			<b>£39.97</b>	<b>£63.25</b>	<b>£32.09</b>	<b>£0.00</b>	<b>£48.10</b>

Further details of the share awards relating to the relevant Directors are set out in the Directors' Remuneration Report on pages 76 to 92. For details of the contractual life, performance criteria, valuation assumptions and volatility of the share awards, please refer to Note 24 of the Group Financial Statements.

For options outstanding at year end the weighted average remaining contractual life of the outstanding options is 6.78 years (2015: 7.21 years). The weighted average share price for the year was £68.77 (2015: £58.81).

## 11 Auditor's Remuneration

The fee charged for the statutory audit of the Company was £0.05 million (2015: £0.05 million).

## 12 Related Party Transactions

Reckitt Benckiser Group plc has related party relationships with its pension schemes as disclosed in Note 22 of the Group Financial Statements.

Certain outstanding balances, totalling £6 million, were settled with Indivior PLC during the year. These related to adjustments to final UK corporation tax liabilities settled on behalf of Indivior PLC by Reckitt Benckiser plc.

There were no other transactions with related parties other than wholly-owned companies within the Group.

## 13 Contingent Liabilities

The Company has issued a guarantee to the Trustees of the Reckitt Benckiser Pension Fund covering the obligations of certain UK subsidiaries of the Group who are the sponsoring employers of the UK defined benefit pension fund. The guarantee covers any amounts due to the pension fund from these subsidiaries if they fail to meet their pension obligations.

We noted in our 2015 Annual Report and 2016 interim announcements that the Group was involved in ongoing investigations by the US Department of Justice (DOJ) and the US Federal Trade Commission and related litigation proceedings arising from certain matters relating to the RB Pharmaceuticals business prior to its demerger in December 2014 to form Indivior PLC and may incur liabilities in relation to such matters. These investigations and related proceedings are continuing and we are in active discussions with the DOJ. The Group is cooperating with the relevant agencies and remains committed to ensuring that these investigations and related proceedings are concluded or resolved satisfactorily. The outcome for the Group in relation to ultimate resolution and/or cost at this stage remains uncertain.

The Company has also issued a guarantee on behalf of Reckitt Benckiser Treasury Services plc in relation to the issuance of a US\$1,000 million bond (two tranches of US\$500 million). Details are included in Note 14 of the Group Financial Statements.

Other contingent liabilities are discussed in Note 19 of the Group Financial Statements.

## 14 Dividends

During 2016, the Directors declared an interim cash dividend of 58.2p (2015: 50.3p) and proposed a final cash dividend of 95.0p (2015: 88.7p). For further details, refer to Note 28 of the Group Financial Statements.

## 15 Post Balance Sheet Events

On 10 February, Reckitt Benckiser Group plc ("RB") announced it had signed a merger agreement with Mead Johnson Nutrition Company ("Mead Johnson") under which Mead Johnson shareholders will receive US\$90 in cash for each share of common stock, valuing the total equity at US\$16.6 billion.

Including Mead Johnson's net debt, the total value of the transaction is US\$17.9 billion.

The transaction is subject to Shareholder and regulatory approvals. The Boards of RB and Mead Johnson have both unanimously approved the transaction and will recommend that their respective Shareholders vote in favour of the transaction. It is expected to be completed by the end of Q3 2017.

In anticipation of this transaction, the Group has completed syndication of certain debt facilities totalling \$21.2 billion. These facilities will be available to draw down upon shareholder approval of the transaction.

## 16 Subsidiary Undertakings

Reckitt Benckiser Group plc holds 100% of Reckitt Benckiser plc, a Company incorporated in England and Wales with its registered office at 103-105 Bath Road, Slough, SL1 3UH, United Kingdom. The Company has no further shareholdings.

All subsidiary undertakings of Reckitt Benckiser Group plc are included in the consolidated Financial Statements of the Group.

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
0730033 BC Ltd	CANADA	Suite 2300, 550 Burrard Street, Vancouver BC V6C 2BS	COMMON	100.00%
103-105 Bath Road Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Airwick Industrie SAS	FRANCE	38 rue Victor Basch, 91300 Massy, France	ORD	100.00%
Anhui Guilong Pharmaceutical Trading Company Ltd	CHINA	Dangtu Economic Development Zone, Maanshan City, Anhui Province, China	ORD	100.00%
Beleggingsmaatschappij Lemore BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Benckiser	UK	4th Floor, 115, George Street, Edinburgh, EH2 4JN, Scotland	ORD	100.00%
Brevet Hospital Products (UK) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
British Surgical Industries Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/PREF	100.00%
Canterbury Square Holdings Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Central Square Holding BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Crookes Healthcare Limited	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%
Crookes Healthcare Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Cupal Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/PREF	100.00%
Dakin Brothers Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Dorincourt Holdings (Ireland) Limited	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%
Durex Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Earex Products Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
ERH Propack Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Fenla Industria, Comercio e Administracao Ltda	BRAZIL	Rodovia Raposo Tavares, 8015, km 18, Jardim Arpoador, CEP 05577-900, São Paulo, Brazil	ORD	100.00%
Gainbridge Investments (Cyprus) Limited	CYPRUS	1 Lampousas Street, P.C. 1095, Nicosia, Cyprus	ORD	100.00%
Glasgow Square Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Green, Young & Company Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Grosvenor Square Holding BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Guilong Pharmaceutical (Anhui) Co. Ltd	CHINA	Dangtu Economic Development Zone, Maanshan City, Anhui Province, China	ORD	100.00%
Guilong Pharmaceutical (Anhui) Co. Ltd – Xiamen Branch	CHINA	11F New Port Plaza, 10 Hubinbei Road, Xiamen, China	–	100.00%
Hamol Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%

# Notes to the Parent Company Financial Statements

continued

## 16 Subsidiary Undertakings continued

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Helpcentral Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Howard Lloyd & Company Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Kukident GmbH	GERMANY	Heinestrasse 9, 69469 Weinheim, Germany	ORD	100.00%
Lancaster Square Holdings SL	SPAIN	Carrer de Mataró, 28, 08403 Granollers, Barcelona, Spain	ORD	100.00%
LI Pensions Trust Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Linden Germany A Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Linden Germany B Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Lloyds Pharmaceuticals	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
London International Group Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
London International Trading Asia Ltd	HONG KONG	Units 1503-7, 15th Floor, Millennium City 6, 392 Kwun Tong, Kowloon, Hong Kong	ORD	100.00%
LRG Investments Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/PREF	100.00%
LRG North America Inc	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	COM	100.00%
LRG Products Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
LRG Products Limited – Australian Branch	AUSTRALIA	44 Wharf Road, West Ryde, NSW 2114, Australia	–	100.00%
LRG Secretarial Services Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Maddison Square Holding BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Marigold Merger Sub Inc	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	ORD	100.00%
Medcom LLC	BELARUS	220108, Minsk, Kazintsa, 121A, app.450, Belarus	ORD	100.00%
Medcom Marketing And Prodazha Ukraine LLC (In Liquidation)	UKRAINE	1 Block, 120 40-Richchia Zhevtnia Ave., Kyiv, 03127, Ukraine	ORD	100.00%
Nances Holdings Ltda (formerly Nances Holdings S.A.)	BRAZIL	Avenida Piracicaba, 137, Parte, Marmeleiro, Vila Nova São Roque, CEP 18131-230, São Roque/SP, Brasil	ORD	100.00%
New Bridge Holdings BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
New Bridge Street Invoicing Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Norwich Square Holding SL	SPAIN	Carrer de Mataró, 28, 08403 Granollers, Barcelona, Spain	ORD	100.00%
Nurofen Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Open Championship Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Optrex Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Oriental Medicine Company Limited	HONG KONG	Units 1503-7, 15th Floor, Millennium City 6, 392 Kwun Tong, Kowloon, Hong Kong	ORD	100.00%
Oxy Reckitt Benckiser LLC	SOUTH KOREA	24th Floor Two IFC, 10 Gukjegeumyung-ro, Youngdeungpo-gu, Seoul, 150-945 South Korea	ORD	100.00%
Paras Global FZE	DUBAI	Sheikh Zayed Road, 8.5 Interchange, Dubai, United Arab Emirates	ORD	100.00%
Paras Inc	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	COMMON	100.00%
Paras Overseas Holding Limited	DUBAI	Sheikh Zayed Road, 8.5 Interchange, Dubai, United Arab Emirates	ORD	100.00%
Pharmalab Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Prebbles Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/DEF	100.00%
Propack Australia Pty Limited	AUSTRALIA	44 Wharf Road, West Ryde, NSW 2114, Australia	ORD	100.00%
Propack GmbH	GERMANY	Dr. Albert-Reimann-Strasse 3, 68526 Ladenburg, Germany	ORD	100.00%

**16 Subsidiary Undertakings continued**

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Pt Reckitt Benckiser (Indonesia)	INDONESIA	Artha Graha Building, 11th Floor, Jalan Jendral Sudirman Kav 52-53, Jakarta 12190, Indonesia	ORD	100.00%
Pt Reckitt Benckiser Trading Indonesia	INDONESIA	Artha Graha Building, 11th Floor, Jalan Jendral Sudirman Kav 52-53, Jakarta 12190, Indonesia	ORD	100.00%
Qingdao London Durex Co Ltd	CHINA	No.1 Shangma, Aodong Road, Qingdao City, Shandong Province, China	ORD	100.00%
Qingdao New Bridge Corporate Management Consulting Company Ltd	CHINA	No.1 Shangma, Aodong Road, Qingdao City, Shandong Province, China	ORD	100.00%
R & C Nominees Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
R & C Nominees One Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
R & C Nominees Two Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
RB & Manon Business Ltd	HONG KONG	Unit 2001, 20/F, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Kowloon, Hong Kong	ORD	75.00%
RB & Manon Business Co. Ltd	CHINA	Room 1101, No.1033, Zhao Jia Bang Road, Shanghai, China	ORD	75.05%
RB (China Trading) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/ORD A	80.00%
RB (China) Holding Co Ltd	CHINA	6th Floor, Tower D, Parkview Green Fang Cao Di, No.9 Dongdaqiao Road, Chaoyang District, China	ORD	100.00%
RB Asia Holding Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
RB Healthcare Pte Ltd – Malaysia Branch	MALAYSIA	Level 7, Menara Milenium, Jalan Damansara, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia	ORD	100.00%
RB Healthcare Pte Ltd (in Liquidation)	SINGAPORE	1 Fifth Avenue, #04-06 Guthrie House, Singapore 268802	ORD	100.00%
RB Holding Europe Du Sud SNC	FRANCE	38 rue Victor Basch, 91300 Massy, France	ORD	100.00%
RB Holdings (Luxembourg) Sarl	LUXEMBOURG	1 Rue de la Poudre, L – 3364 Leudelange, Luxembourg	ORD	100.00%
RB Holdings (Nottingham) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
RB Manufacturing LLC	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Membership Shares	100.00%
RB Mexico Investments Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
RB Reigate (Ireland) Unlimited Company	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%
RB Reigate (UK) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
RB Square Holdings (Spain) SL	SPAIN	Carrer de Mataró, 28, 08403 Granollers, Barcelona, Spain	ORD	100.00%
RB UK Commercial Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
RB USA Holdings LLC	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Membership Shares	100.00%
RB Winchester (Ireland) Unlimited Company	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%
RBH Verwertungs GmbH	GERMANY	Darwinstrasse 2-4, 69115 Heidelberg, Germany	ORD	100.00%
Reckitt & Colman (Jersey) Limited	JERSEY	13 Castle Street, St. Helier, Jersey, JE4 5UT	ORD/PREF	100.00%
Reckitt & Colman (Overseas) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt & Colman (UK) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/PREF	100.00%
Reckitt & Colman Capital Finance Limited	JERSEY	13 Castle Street, St. Helier, Jersey, JE4 5UT	ORD	100.00%
Reckitt & Colman Guangzhou Limited	CHINA	Economic and Technological Development Zone, Eastern, Guangzhou City, Guangdong Province, China	ORD	100.00%
Reckitt & Colman Holdings Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt & Colman Management Services (Ireland) Limited	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%

# Notes to the Parent Company Financial Statements

continued

## 16 Subsidiary Undertakings continued

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Reckitt & Colman Pension Trustee Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt & Colman Sagrotan Verwaltungsgesellschaft mbH	GERMANY	Darwinstrasse 2-4, 69115 Heidelberg, Germany	ORD	100.00%
Reckitt & Colman Trustee Services Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt & Sons Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser (2012) BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser (Australia) Pty Limited	AUSTRALIA	44 Wharf Road, West Ryde, NSW 2114, Australia	ORD/PREF	100.00%
Reckitt Benckiser (Bangladesh) Limited	BANGLADESH	58/59 Nasirabad Industrial Area, Chittagong- 4209, Bangladesh	ORD	82.96%
Reckitt Benckiser (Belgium) SA/NV	BELGIUM	Researchdreef, Allée de la Recherche 20, B-1070 Brussel, Bruxelles, Belgium	ORD	100.00%
Reckitt Benckiser (Brands) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser (Brasil) Ltda	BRAZIL	Rodovia Raposo Tavares, 8015, km 18, Jardim Arpoador, CEP 05577-900, Sao Paulo, Brazil	ORD	100.00%
Reckitt Benckiser (BVI) No. 1 Limited	BRITISH VIRGIN ISLANDS	Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands	ORD	100.00%
Reckitt Benckiser (BVI) No. 1 Limited – UK Branch	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	–	100.00%
Reckitt Benckiser (BVI) No. 2 Limited	BRITISH VIRGIN ISLANDS	Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands	ORD	100.00%
Reckitt Benckiser (BVI) No. 2 Limited – UK Branch	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	–	100.00%
Reckitt Benckiser (BVI) No. 3 Limited	BRITISH VIRGIN ISLANDS	Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands	ORD	100.00%
Reckitt Benckiser (BVI) No. 3 Limited – UK Branch	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	–	100.00%
Reckitt Benckiser (BVI) No. 4 Limited	BRITISH VIRGIN ISLANDS	Palm Grove House, PO Box 438, Road Town, Tortola, British Virgin Islands	ORD	100.00%
Reckitt Benckiser (Canada) Inc	CANADA	1680 Tech Avenue Unit 2, Mississauga, Ontario L4W 5S9, Canada	NEW COMMON	100.00%
Reckitt Benckiser (Cayman Islands) Limited	CAYMAN ISLANDS	PO Box 309, Ugland House, South Church Street, George Town, Grand Cayman, KY1-1104, Cayman Islands	ORD	100.00%
Reckitt Benckiser (Centroamerica) SA	COSTA RICA	San José, Escazú Corporate Center, 7 Piso, Costado Sur de Multiplaza Escazú, San José, Costa Rica	ORD	100.00%
Reckitt Benckiser (Channel Islands) Limited	GUERNSEY	1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW	ORD	100.00%
Reckitt Benckiser (Czech Republic) Spol s r o	CZECH REPUBLIC	Vinohradská 2828/151, 130 00 Praha 3-Žižkov, Czech Republic	ORD	100.00%
Reckitt Benckiser (Egypt) Limited	EGYPT	Polyium Building 22, Off-road 90, District 1, 5th Settlement, New Cairo, Egypt	ORD	100.00%
Reckitt Benckiser (ENA) BV	NETHERLANDS	Schiphol Boulevard 267, 1118 BH Schiphol, The Netherlands	ORD	100.00%
Reckitt Benckiser (Espana) SL	SPAIN	Carrer de Mataró, 28, 08403 Granollers, Barcelona, Spain	ORD	100.00%
Reckitt Benckiser (Granollers) SL	SPAIN	Carrer de Mataró, 28, 08403 Granollers, Barcelona, Spain	ORD	100.00%
Reckitt Benckiser (Grosvenor) Holdings Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser (India) Private Limited	INDIA	227, Okhla Industrial Estate, Phase III, New Delhi, South Delhi, Delhi, India, 110020	ORD	100.00%

## 16 Subsidiary Undertakings continued

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Reckitt Benckiser (Lanka) Limited	SRI LANKA	41 Lauries Road, Colombo 4, Sri Lanka	ORD	99.99%
Reckitt Benckiser (Latvia) SIA	LATVIA	Strēlnieku iela 1A – 2, Riga, LV-1010, Latvia	ORD	100.00%
Reckitt Benckiser (Malaysia) Sdn Bhd	MALAYSIA	Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia	ORD	100.00%
Reckitt Benckiser (Near East) Limited	ISRAEL	6 Hangar Street, I.Z. Neve Neeman B Hod Hasharon 45250, P.O. ORD Box 6440., Israel		100.00%
Reckitt Benckiser (New Zealand) Limited	NEW ZEALAND	2 Fred Thomas Dr, Takapuna, Auckland 0622, New Zealand	ORD	100.00%
Reckitt Benckiser (Nordic) A/S	DENMARK	Vandtårnsvej 83 A, 2860 Søborg, Denmark	ORD	100.00%
Reckitt Benckiser (Pars) PJSC	IRAN	No 67, West Taban Avenue, Africa Boulevard, Tehran, Iran	ORD	99.80%
Reckitt Benckiser (Poland) SA	POLAND	Okunin 1, 05-100 Nowy Dwór Mazowiecki, Poland	ORD	100.00%
Reckitt Benckiser (Portugal) SA	PORTUGAL	R. Dom Cristóvão da Gama 1 – 1º Andar C/D, Edifício Restelo, 1400-113 Lisboa, Portugal	ORD	100.00%
Reckitt Benckiser (Romania) Srl	ROMANIA	Floor 5, Building A, 89-97 Grigore Alexandrescu Street, Bucarest, Romania	ORD	100.00%
Reckitt Benckiser (RUMEA) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser (RUMEA) Limited – Dubai Branch	DUBAI	Behind GAC Complex, Jebel Ali Free Zone, PO Box 61344 Dubai, UAE	–	100.00%
Reckitt Benckiser (Singapore) Pte Limited	SINGAPORE	1 Fifth Avenue, #04-06 Guthrie House, Singapore 268802	ORD	100.00%
Reckitt Benckiser (Slovak Republic) Spol s r o	SLOVAKIA	Drieňová 3, 82108 Bratislava, Slovakia	ORD	100.00%
Reckitt Benckiser (South America) Holding BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser (Spain) BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser (Switzerland) AG	SWITZERLAND	Richtistrasse 5, 8405 Wallisellen, Switzerland	ORD	100.00%
Reckitt Benckiser (Thailand) Limited	THAILAND	No. 89 AIA Capital Center, Rooms 2504 – 2507, 25th Floor, Ratchadaphisek Rd., Dindaeng Sub-District, Dindaeng District, Bangkok 10400, Thailand	ORD	45.00%
Reckitt Benckiser (UK) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser (USA) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser AG	SWITZERLAND	Richtistrasse 5, 8304 Wallisellen, Switzerland	ORD	100.00%
Reckitt Benckiser Arabia FZE	DUBAI	Behind GAC Complex, Jebel Ali Free Zone, PO Box 61344 Dubai, UAE	ORD	100.00%
Reckitt Benckiser Argentina SA	ARGENTINA	Bucarelli 2608 PB A, CABA, Buenos Aires, Argentina	ORD	100.00%
Reckitt Benckiser Asia Pacific Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Asia Pacific Limited – Japan Branch	JAPAN	3-20-14 Higashi-Gotanda, Shinagawa-Ku, Tokyo 141-0022 Japan	–	100.00%
Reckitt Benckiser Austria GmbH	AUSTRIA	Guglgasse 15, A-1110 Wien (Vienna), Austria	ORD	100.00%
Reckitt Benckiser Bahrain W.L.L	BAHRAIN	PO Box 50833, Hidd, Kingdom of Bahrain	ORD	100.00%
Reckitt Benckiser Brands Investments BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Bulgaria Eood	BULGARIA	22 Zlaten Rog Str 1407 Sofia, Bulgaria	ORD	100.00%
Reckitt Benckiser BY LLC	BELARUS	220108, Minsk, Kazintsa, 121A, app.403, Belarus	COMMON	100.00%
Reckitt Benckiser Calgon BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Chartres SAS	FRANCE	98, Rue Sours, 2800, Chartres	ORD	100.00%
Reckitt Benckiser Chile SA	CHILE	Av. Pdte. Kennedy Lateral 5454, Vitacura, Región Metropolitana, Chile	ORD	100.00%
Reckitt Benckiser Colombia SA	COLOMBIA	Calle 46 # 5 – 76. Cali, Colombia	ORD	100.00%

# Notes to the Parent Company Financial Statements

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## 16 Subsidiary Undertakings continued

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Reckitt Benckiser Commercial (Italia) Srl	ITALY	Via Spadolini, 7, 20141 Milano, Italy	ORD	100.00%
Reckitt Benckiser Corporate Services Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser d.o.o	CROATIA	Ulica grada Vukovara 269d, 10 000 Zagreb, Hrvatska, Croatia	ORD	100.00%
Reckitt Benckiser De Mexico, SA de CV	MEXICO	Circuito Dr Gustavo Baz, 7 No 7, Fracc Industrial El Pedregal, Atizapan de Zaragoza, Edomex, Mexico	ORD	100.00%
Reckitt Benckiser Detergents GmbH	GERMANY	Darwinstrasse 2-4, 69115 Heidelberg, Germany	ORD	100.00%
Reckitt Benckiser Deutschland GmbH	GERMANY	Darwinstrasse 2-4, 69115 Heidelberg, Germany	ORD	100.00%
Reckitt Benckiser East Africa Limited	KENYA	Plot Lr No 209/2462, Likoni Road, Nairobi, Kenya, Africa	ORD	99.00%
Reckitt Benckiser Ecuador SA	ECUADOR	Francisco Salazar E10-37 y Jose Luis Tamayo. Quito, Ecuador	ORD	100.00%
Reckitt Benckiser Employees Trustees (Jersey) Limited	JERSEY	Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES	ORD	100.00%
Reckitt Benckiser Europe General Partnership	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	Partnership Shares	100.00%
Reckitt Benckiser Europe General Partnership, Slough (UK), Wallisellen Branch – Swiss Branch	SWITZERLAND	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	–	0.00%
Reckitt Benckiser Expatriate Services Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Fabric Treatment BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Finance (2005) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Finance (2007)	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Finance (2010) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Finance (Ireland) Unlimited Company	Ireland	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%
Reckitt Benckiser Finance Company Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Finish BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser France SAS	FRANCE	38 rue Victor Basch, 91300 Massy, France	ORD	100.00%
Reckitt Benckiser FSIA BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Healthcare (Central & Eastern Europe) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Healthcare (CIS) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Healthcare (Ireland) Limited	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%
Reckitt Benckiser Healthcare (Italia) SpA	ITALY	Via Spadolini, 7, 20141 Milano, Italy	ORD	100.00%
Reckitt Benckiser Healthcare (MEMA) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Healthcare (Philippines), Inc	PHILIPPINES	Unit 2202 One Global Place, 5th Ave. Corner 25th St. Bonifacio Global City, Taguig City 1634, Philippines	ORD	100.00%
Reckitt Benckiser Healthcare (Russia) LLC	RUSSIA	Tverskaya 16/2 125009, Moscow, Russia	ORD	100.00%
Reckitt Benckiser Healthcare (UK) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Healthcare Australia Pty Limited	AUSTRALIA	44 Wharf Road, West Ryde, NSW 2114, Australia	ORD	100.00%
Reckitt Benckiser Healthcare BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Healthcare France SAS	FRANCE	38 rue Victor Basch, 91300 Massy, France	ORD	100.00%
Reckitt Benckiser Healthcare India Private Limited	INDIA	PLOT NO. 48, SECTOR 32,, NEAR IITM, GURGAON, Gurgaon, Haryana, India, 122001	ORD	100.00%

**16 Subsidiary Undertakings continued**

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Reckitt Benckiser Healthcare International Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Healthcare Manufacturing (Thailand) Limited	THAILAND	65 Moo 12 Lardkrabang-Bangplee Road, Bangplee Samutprakarn, Bangkok 10540, Thailand	ORD/PREF	45.00%
Reckitt Benckiser Healthcare Portugal Ltda	PORUGAL	R. Dom Cristóvão da Gama 1 – 1º Andar C/D, Edifício Restelo, 1400-113 Lisboa, Portugal	ORD	100.00%
Reckitt Benckiser Healthcare SA	SPAIN	Carrer de Mataró, 28, 08403 Granollers, Barcelona, Spain	ORD	100.00%
Reckitt Benckiser Hellas Chemicals SA	GREECE	7 Taki Kavalieratou Street, 145 64 Kifissia, Greece	ORD	100.00%
Reckitt Benckiser Holding (Thailand) Limited	THAILAND	No. 89 AIA Capital Center, Rooms 2504 – 2507, 25th Floor, Ratchadaphisek Rd., Dindaeng Sub-District, Dindaeng District, Bangkok 10400, Thailand	ORD/PREF	45.00%
Reckitt Benckiser Holding GmbH & Co KG	GERMANY	Darwinstrasse 2-4, 69115 Heidelberg, Germany	ORD	100.00%
Reckitt Benckiser Holdings (Channel Islands) Limited	GUERNSEY	1st and 2nd Floors, Elizabeth House, Les Ruettes Braye, St Peter Port, Guernsey, GY1 1EW	ORD	100.00%
Reckitt Benckiser Holdings (Channel Islands) Limited – UK Branch	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	–	100.00%
Reckitt Benckiser Holdings (Italia) Srl	ITALY	Via Spadolini, 7, 20141 Milano, Italy	ORD	100.00%
Reckitt Benckiser Holdings (Luxembourg) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/PREF	100.00%
Reckitt Benckiser Holdings (Overseas) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Holdings (USA) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Holdings (USA) Limited – Luxembourg Branch	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	–	100.00%
Reckitt Benckiser Home Chemical Products Trading (Shanghai) Co Limited	CHINA	C6-8 site, 6F, No.333 Futexi Road, Waigaoqiao Free Trade Zone, Shanghai City, China	ORD	100.00%
Reckitt Benckiser Hong Kong Limited	HONG KONG	Room 03-07, 15/F, Millennium City 6, 392 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong	ORD	100.00%
Reckitt Benckiser Hong Kong Limited – Taiwan Branch	TAIWAN	6F, No.136, Sec. 3, Ren'ai Rd., Da'an Dist., Taipei City 10657, Taiwan, R.O.C.	–	100.00%
Reckitt Benckiser Household and Healthcare Ukraine LLC	UKRAINE	28A L "G", Moscovskiy Prospekt, off.80, Kiev, Ukraine	ORD	100.00%
Reckitt Benckiser Household Products (China) Company Limited	CHINA	No.34 Beijing East Road, Jingzhou City, Hubei Province, China	ORD	100.00%
Reckitt Benckiser International GmbH	GERMANY	Darwinstrasse 2-4, 69115 Heidelberg, Germany	ORD	100.00%
Reckitt Benckiser Investments (2012) LLC	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Membership Shares	100.00%
Reckitt Benckiser Investments (No. 1) Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Reckitt Benckiser Investments (No. 2) Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Reckitt Benckiser Investments (No. 4) Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Reckitt Benckiser Investments (No. 5) Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Reckitt Benckiser Investments (No. 6) Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Reckitt Benckiser Investments (No. 7) Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Reckitt Benckiser Investments (No. 8) Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Reckitt Benckiser Investments Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser IP LLC	RUSSIA	Kozhevническая str., 14, 115114 Moscow, Russia	ORD	100.00%
Reckitt Benckiser Ireland Limited	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%

# Notes to the Parent Company Financial Statements

continued

## 16 Subsidiary Undertakings continued

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Reckitt Benckiser Italia SpA	ITALY	Via Spadolini, 7, 20141 Milano, Italy	ORD	100.00%
Reckitt Benckiser Japan Limited	JAPAN	Shinagawa-ku, 141-0022, Japan	ORD	100.00%
Reckitt Benckiser Jersey (No.1) Limited	JERSEY	13 Castle Street, St. Helier, Jersey, JE4 5UT	ORD	100.00%
Reckitt Benckiser Jersey (No.1) Limited – UK Branch	UK	103-105 Bath Road, Slough, Berkshire, SL1 3UH	–	100.00%
Reckitt Benckiser Jersey (No.2) Limited	JERSEY	13 Castle Street, St. Helier, Jersey, JE4 5UT	ORD	100.00%
Reckitt Benckiser Jersey (No.2) Limited – UK Branch	UK	103-105 Bath Road, Slough, Berkshire, SL1 3UH	–	100.00%
Reckitt Benckiser Jersey (No.3) Limited	JERSEY	13 Castle Street, St. Helier, Jersey, JE4 5UT	ORD	100.00%
Reckitt Benckiser Jersey (No.3) Limited – UK Branch	UK	103-105 Bath Road, Slough, Berkshire, SL1 3UH	–	100.00%
Reckitt Benckiser Jersey (No.5) Limited	JERSEY	13 Castle Street, St. Helier, Jersey, JE4 5UT	ORD	100.00%
Reckitt Benckiser Jersey (No.5) Limited – UK Branch	UK	103-105 Bath Road, Slough, Berkshire, SL1 3UH	–	100.00%
Reckitt Benckiser Jersey (No.7) Limited	JERSEY	13 Castle Street, St. Helier, Jersey, JE4 5UT	ORD, CLASS A, C & D	100.00%
Reckitt Benckiser Kazakhstan LLC	KAZAKHSTAN	House 15A, Koktem 1, Bostandyksky District, Almaty, 050040, Kazakhstan	ORD	100.00%
Reckitt Benckiser Kereskedelmi Kft	HUNGARY	134-146 ut Bocksai, 1113 Budapest, Hungary	ORD	100.00%
Reckitt Benckiser Laundry Detergents (No. 1) BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Laundry Detergents (No. 2) BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Lime-A-Way BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser LLC	RUSSIA	Kosmodamianskaya nab. 52/1, 115054, Moscow, Russia	ORD	100.00%
Reckitt Benckiser LLC	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Membership Shares	100.00%
Reckitt Benckiser Luxembourg (2010) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Luxembourg (No. 1) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Luxembourg (No. 2) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Luxembourg (No. 3) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Luxembourg (No. 4) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Management Services Unlimited Company	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	A, B, C, D, E, F, G, H, I, K ORD	100.00%
Reckitt Benckiser Marc BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Morocco Sarl AU	MOROCCO	322 Boulevard, Zerkouni, Residence Boissy Ler Etage – Bourgogne, Casablanca, Morocco	ORD	100.00%
Reckitt Benckiser Netherlands Brands BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Nigeria Limited	NIGERIA	12 Montgomery Road, Yaba, Lagos, Nigeria	ORD	99.53%
Reckitt Benckiser NV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser NV – Luxembourg Branch	LUXEMBOURG	1 Rue de la Poudrière, L – 3364 Leudelange, Luxembourg	–	100.00%
Reckitt Benckiser Oven Cleaners BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Pakistan Limited	PAKISTAN	QM Building, 9/11th Floor, Plot No BC – 15, Block 7, Clifton, Karachi, Pakistan	ORD	98.60%
Reckitt Benckiser Peru SA	PERU	Avenida República de Panamá No. 2557 Int. 202, La Victoria. Lima, Perú	ORD	100.00%

## 16 Subsidiary Undertakings continued

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Reckitt Benckiser Pharmaceuticals (Pty) Limited	SOUTH AFRICA	8 Jet Park Road, Elandsfontein 1406, South Africa	ORD	100.00%
Reckitt Benckiser plc	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Porto Alto Lda	PORTUGAL	Estrada Malhada dos Carrascos nr12, 2135-061, Samora Correia, Portugal	ORD	100.00%
Reckitt Benckiser Power Cleaners BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Production (Poland) Sp. z.o.o.	POLAND	Okunin 1, 05-100 Nowy Dwór Mazowiecki, Poland	ORD	100.00%
Reckitt Benckiser Produktions GmbH	GERMANY	Dr. Albert-Reimann-Strasse 3, 68526 Ladenburg, Germany	ORD	100.00%
Reckitt Benckiser Sarl	LUXEMBOURG	1 Rue de la Poudrierie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Reckitt Benckiser Scholl India Private Limited	INDIA	F73 & 74, SIPCOT Industrial Park, Irungattukottai, Sriperumbudur TK, Kancheepuram Distt. – 602 117, Tamilnadu, India	ORD	100.00%
Reckitt Benckiser Service Bureau Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser Services (Kenya) Limited	KENYA	Plot Lr No 1870/I/569, 2nd Floor Apollo Centre, Ring Road Parklands, Westlands, Pobox 764, 00606 Nairobi, Kenya, Africa	ORD	100.00%
Reckitt Benckiser Services SA de CV	MEXICO	Circuito Dr Gustavo Baz, 7 No 7, Fracc Industrial El Pedregal, Atizapan de Zaragoza, Edomex, Mexico	ORD	100.00%
Reckitt Benckiser South Africa (Pty) Limited	SOUTH AFRICA	8 Jet Park Road, Elandsfontein 1406, South Africa	ORD	100.00%
Reckitt Benckiser Taiwan Limited	TAIWAN	106 94043 Charity No. 136, Sec Taiwan	ORD	100.00%
Reckitt Benckiser Tatabanya Kft	HUNGARY	134-146 ut Bocksai, 1113 Budapest, Hungary	ORD	100.00%
Reckitt Benckiser Temizlik Malzemesi San. ve Tic. A.S.	TURKEY	Hakki Yeten Cad. Selenium Plaza K:7-8-9, Fulya, Besiktas, Istanbul, Turkey	ORD	99.96%
Reckitt Benckiser Tiret BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Benckiser Treasury (2007) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/PREF	100.00%
Reckitt Benckiser Treasury Services plc	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser USA (2010) LLC	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Membership Shares	100.00%
Reckitt Benckiser USA (2010) LLC – UK Branch	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	–	100.00%
Reckitt Benckiser USA (2012) LLC	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Membership Shares	100.00%
Reckitt Benckiser USA (2013) LLC	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Membership Shares	100.00%
Reckitt Benckiser USA (2013) LLC – UK Branch	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	–	100.00%
Reckitt Benckiser USA Finance (No.1) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser USA Finance (No.2) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser USA Finance (No.3) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Benckiser USA General Partnership	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Partnership Shares	100.00%
Reckitt Benckiser Vanish BV	NETHERLANDS	Siriusdreef 14, 2132 WT Hoofddorp, The Netherlands	ORD	100.00%
Reckitt Colman Chiswick (OTC) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Reckitt Piramal Private Limited	INDIA	8th Floor, B-Wing, Marwah Centre, Krishanlal Marwah Marg, Saki Naka, Andheri East, Mumbai – 400 072, India	ORD	100.00%
Reigate Square Holdings Sarl	LUXEMBOURG	1 Rue de la Poudrierie, L – 3364 Leudelange, Luxembourg	ORD	100.00%

# Notes to the Parent Company Financial Statements

continued

## 16 Subsidiary Undertakings continued

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
Relcamp Aie (in liquidation)	SPAIN	Carrer de Fray Pau Carbó, 24, 08403, Granollers, Barcelona, Spain	ORD	100.00%
Rivalmuster	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Scholl (Investments) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Scholl (UK) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Scholl Consumer Products Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Scholl Latin America Limited (in liquidation)	BAHAMAS	c/o 103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Scholl Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/PREF	100.00%
Seton Healthcare Group No.2 Trustee Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Seton Healthcare No.1 Trustee Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Group Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Healthcare Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Investments Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Prebbles Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Products Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Scholl Healthcare International Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Scholl Healthcare Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Scholl Overseas Investments Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Sonet Scholl UK Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
SSL (C C Manufacturing) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
SSL (C C Services) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/PREF	100.00%
SSL (MG) Polymers Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
SSL (MG) Products Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
SSL (RB) Products Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
SSL (SD) International Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
SSL Australia Pty Ltd	AUSTRALIA	225 Beach Road, Mordialloc VIC 3195, Australia	ORD	100.00%
SSL Capital Ltd	JERSEY	44 Esplanade, St Helier, Jersey, JE4 9WG	ORD/PREF	100.00%
SSL Healthcare (Shanghai) Ltd	CHINA	Room 1605, No.660 Shangcheng Road, Pudong District, Shanghai City, China	ORD	100.00%
SSL Healthcare Ireland Limited	IRELAND	3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin 1, Ireland	ORD	100.00%
SSL Healthcare Malaysia Sdn Bhd (in Liquidation)	MALAYSIA	Level 7, Menara Milenium, Jalan Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia	ORD	100.00%
SSL Healthcare Manufacturing SA	SPAIN	Av. Can Fatjó, 151, 08191 Rubí, Barcelona, Spain	ORD	100.00%
SSL Healthcare Norge AS	NORWAY	Vollsveien 9, 1366 Lysaker, Norway	ORD	100.00%
SSL Healthcare Singapore Pte Ltd	SINGAPORE	1 Fifth Avenue, #04-06 Guthrie House, Singapore 268802	ORD	100.00%
SSL Healthcare Sverige AB	SWEDEN	Waterfront, Box 190, SE-101 23 Stockholm, Sweden	ORD	100.00%
SSL Holdings (USA) Inc	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	COMMON	100.00%
SSL International plc	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%

## 16 Subsidiary Undertakings continued

Name	Country of Incorporation	Registered Office	Share Class	Proportion of shares held by Group
SSL Manufacturing (Thailand) Ltd	THAILAND	Wellgrow Industrial Estate, 100 Moo 5, Bagna Trad Rd Km 36 Bangaamak, Bangpakong, Chachoengsao, Bangkok 24180, Thailand	ORD	100.00%
SSL Mexico SA de CV	MEXICO	Av. De los Angeles No 303 Bodega 3B-1 Col. San Matin Kochinahuac, Azcapotzalco, Mexico	ORD	100.00%
SSL New Zealand Limited	NEW ZEALAND	2 Fred Thomas Dr, Takapuna, Auckland 0622, New Zealand	ORD	100.00%
SSL Products Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Suffolk Finance Company Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD/DEF	100.00%
Suffolk Insurance Limited	BERMUDA	Clarendon House, 2 Church Street, Hamilton, HM DX, Bermuda	COMMON	100.00%
Tai He Tai Lai Culture Communication Co Ltd	CHINA	1-1707, No.15 Majiapu West Road, Fengtai District, Beijing City, China	ORD	100.00%
The French's Food Company (2016) Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
The French's Food Company Inc	CANADA	1680 Tech Avenue Unit 2, Mississauga, Ontario L4W 5S9, Canada	COMMON	100.00%
The French's Food Company LLC	USA	c/o Corporation Service Company, 2711 Centerville Rd, Ste 400, Wilmington, DE 19808, United States	Membership Shares	100.00%
The French's Food Company Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
The French's Food Finance Company Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
The French's Food Finance Company Limited – Luxembourg Branch	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	–	100.00%
The R.T. French's Food Company Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
The R.T. French's Food Group Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
The RB Company (Malaysia) Sdn Bhd (in Liquidation)	MALAYSIA	Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, Damansara Heights, 50490 Kuala Lumpur, Malaysia	ORD	100.00%
Tubifoam Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Ultra Chemical Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Ultra Laboratories Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
W.Woodward,Limited	UK	103-105 Bath Road, Slough, SL1 3UH, United Kingdom	ORD	100.00%
Winchester Square Holdings Sarl	LUXEMBOURG	1 Rue de la Poudrerie, L – 3364 Leudelange, Luxembourg	ORD	100.00%
Xinzhou ZhongHeng Pharmaceutical Co Ltd	CHINA	Economic Development Zone, Xinzhou City, Shanxi Province, China	ORD	100.00%
Zhong Wei Guo Yuan (Beijing) Biotech Co Ltd	CHINA	B-1201, Area 1, Fang Zhuang Fang Cheng Yuan, Fengtai District, Beijing, China	ORD	100.00%

# Shareholder Information

## Electronic communications

The Shareholders passed a resolution at the 2008 AGM enabling the Company's website to be used as the primary means of communication with them. Shareholders who have positively elected, or are deemed to have consented, to receiving electronic communications in accordance with the Companies Act 2006 will receive written notification whenever Shareholder documents are available to view on the Company's website.

Shareholders who have received a notice of availability of a document on the Company's website are entitled to request a hard copy of any such document, at any time, free of charge from the Company's Registrar. Shareholders can also revoke their consent to receive electronic communications at any time by contacting the Registrar.

The Company's 2016 Annual Report and Notice of the 2017 AGM are available to view at [www.rb.com/online-annual-report-2016](http://www.rb.com/online-annual-report-2016). The Investor Relations section of the website contains up-to-date information for Shareholders, including:

- Detailed share price information;
- Financial results;
- Dividend payment dates and amounts;
- Access to Shareholder documents including the Annual Report; and
- Share capital information.

## Annual General Meeting

To be held on Thursday 4 May 2017 at 11.15am 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. Shareholders who have registered for electronic communication can:

- Receive an email alert when Shareholder documents are available;
- View the Annual Report and Notice of AGM on the day they are published;
- Cast their AGM vote electronically; and
- Manage their shareholding quickly and securely online.

## Dividends for the year ended 31 December 2016

The Directors have recommended a final dividend of 95.0 pence per share, for the year ended 31 December 2016. Subject to approval at the 2017 AGM, payment will be made on 25 May 2017 to all Shareholders on the register as at 18 April 2017.

## Company Secretary

Rupert Bondy

## Registered office

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

Registered and domiciled in England and Wales  
No. 6270876

## Company status

Public Limited Company

## Auditor

PricewaterhouseCoopers LLP

## Solicitors

Linklaters/Slaughter and May

## Registrar and transfer office

The Company's Registrar, Computershare, is responsible for maintaining and updating the Shareholder register and making dividend payments. If you have any queries relating to 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

Reckitt Benckiser Shareholder helpline: Tel. +44 (0)370 703 0118  
Website: [www.computershare.com/uk](http://www.computershare.com/uk)

## American Depository Receipts

Reckitt Benckiser Group plc American Depository Receipts (ADRs) are traded on the over-the-counter market (OTC) under the symbol RBGLY. Five ADRs represent one ordinary share. J.P. Morgan Chase Bank N.A. is the Depository.

If you should have any queries, please contact:

J.P. Morgan Chase Bank N.A.  
PO Box 64504, St. Paul, MN 55164-0854, US  
E-mail: [jpmorgan.adr@wellsfargo.com](mailto:jpmorgan.adr@wellsfargo.com)

Telephone number for general queries: Tel. (800) 990 1135  
Telephone number from outside the US: Tel. +1 651 453 2128

## Key dates

Announcement of Quarter 1 interim management statement	21 April 2017
Annual General Meeting	4 May 2017
Record date for 2016 final dividend	18 April 2017
Payment of 2016 final ordinary dividend	25 May 2017
Announcement of 2017 interim results	24 July 2017
Record date for 2017 interim dividend	18 August 2017 <sup>1</sup>
Payment of interim ordinary dividend	28 September 2017 <sup>1</sup>
Announcement of Quarter 3 interim management statement	24 October 2017

<sup>1</sup> Provisional dates

### Analysis of Shareholders as at 31 December 2016

Distribution of shares by type of Shareholder	No. of holdings	Shares
Nominees and Institutional Investors	5,323	720,614,489
Individuals	12,745	15,920,690
<b>Total</b>	<b>18,068</b>	<b>736,535,179</b>
Size of shareholding	No. of holdings	Shares
1 – 500	10,721	2,075,730
501 – 1,000	2,909	2,123,431
1,001 – 5,000	2,838	5,828,234
5,001 – 10,000	344	2,446,786
10,001 – 50,000	597	13,925,072
50,001 – 100,000	205	14,507,069
100,001 – 1,000,000	345	111,782,811
1,000,001 and above	109	583,846,046
<b>Total</b>	<b>18,068</b>	<b>736,535,179</b>

### 'Boiler Room' scams

Shareholders who are offered unsolicited investment advice, discounted shares, a premium price for shares, or free company or research reports, should take these steps before handing over any money:

1. Obtain the name of the person and organisation.
2. Check the Financial Services Register at <https://register.fca.org.uk/> to ensure they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or if they are out of date.
5. Search the FCA's list of unauthorised firms and individuals to avoid doing business with at [www.fca.org.uk/scams](http://www.fca.org.uk/scams)
6. If you are approached by fraudsters please contact the FCA using their helpline or share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams)
7. Consider obtaining independent financial advice.

Using an unauthorised firm to buy or sell shares or other investments will prohibit access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

### Cautionary note concerning forward looking statements

This Annual Report and Financial Statements contains statements with respect to the financial condition, results of operations and business of RB (the "Group") and certain of the plans and objectives of the Group that are forward-looking statements. Words such as "intends", "targets", or the negative of these terms and other similar expressions of future performance or results, and their negatives, are intended to identify such forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including targets for net revenue, operating margin and cost efficiency, are forward-looking statements. Such statements are not historical facts, nor are they guarantees of future performance.

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 that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including many factors outside the Group's control. Among other risks and uncertainties, the material or principal factors which could cause actual results to differ materially are: the general economic, business, political and social conditions in the key markets in which the Group operates; the ability of the Group to manage regulatory, tax and legal matters, including changes thereto; the reliability of the Group's technological infrastructure or that of third parties on which the Group relies; interruptions in the Group's supply chain and disruptions to its production facilities; the reputation of the Group's global brands; and the recruitment and retention of key management.

These forward-looking statements speak only as of the date of this announcement. Except as required by any applicable law or regulation, RB expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Any information contained in the 2016 Annual Report and Financial Statements on the price at which shares or other securities in Reckitt Benckiser Group plc have been bought or sold in the past, or on the yield on such shares or other securities, should not be relied upon as a guide to future performance.

# Notes

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