



27 February 2020

Reckitt Benckiser Group plc (RB)

## 2019 RESULTS AND CONCLUSIONS OF STRATEGIC REVIEW £2BN INVESTMENT FOR SUSTAINABLE GROWTH

Results at a glance (unaudited)	Q4 £m	% change actual exchange	% change constant exchange	FY £m	% change actual exchange <sup>3</sup>	% change constant exchange <sup>3</sup>
<b>Continuing operations</b>						
Net Revenue	3,321	-0.5%	+0.4%	12,846	+2.0%	+0.8%
- Like-for-like growth <sup>1</sup>			+0.3%			+0.8%
Operating loss – reported				(1,954)	-163.9%	-166.0%
Operating profit – adjusted <sup>1</sup>				3,367	-0.1%	-1.9%
Net loss <sup>2</sup> – reported				(2,785)	-228.7%	-231.0%
Net income <sup>2</sup> – adjusted <sup>1</sup>				2,473	+2.7%	+0.7%
Loss per share (diluted) – reported				(393.0)	-228.8%	
Earnings per share (diluted) – adjusted <sup>1</sup>				349.0	+2.8%	
<b>Total operations (including discontinued operations)</b>						
Net loss <sup>2</sup> – reported				(3,683)	-270.6%	-272.9%
Net income <sup>2</sup> – adjusted <sup>1</sup>				2,473	+2.7%	+0.7%
Loss per share (diluted) – reported				(519.7)	-270.7%	
Earnings per share (diluted) – adjusted <sup>1</sup>				349.0	+2.8%	

<sup>1</sup> Non-GAAP measures are defined on page 6

<sup>2</sup> Net (loss)/ income attributable to the owners of the parent company

<sup>3</sup> Restated for the adoption of IFRS 16 (see Note 14).

### Operational Highlights (continuing operations)

- **LFL net revenue growth in 2019 of +0.8%**. -2% from volume and +3% from price / mix with balanced growth in Hygiene Home offset by volume decline in Health. Continued strong progress in e-commerce channels, share trends improving across both Hygiene Home and Health.
- **LFL net revenue growth in Q4 of +0.3%**. Improving consumption trends in Health, however net revenue decline of -2.2% impacted by supply challenges. Hygiene Home, LFL growth of +4.3% reflects continued delivery, combined with seasonal strength in Lysol.
- **Full year adjusted operating margin of 26.2%**. 50bps decline driven by 60bps increase in brand equity investment (BEI).
- **Impairment of Mead Johnson Nutrition (MJN)** - £5,037m impairment of goodwill in respect of MJN acquisition (refer Note 6).
- **Full year reported operating loss of £1,954m**.
- **Adjusted diluted EPS was 349.0p**, benefitting from significant items in net financial expense (refer to p14).
- **Full year dividend of 174.6p (2018: 170.7p)** reflecting Board recommendation of a final dividend of 101.6p per share (2018: 100.2p).
- **Free cash flow generation of £2,145m (2018: £2,099m<sup>3</sup>)** reflecting 87% cash conversion, held back by exceptional items expenditure (refer p15).

### Total Operations (includes charges related to discontinued operations)

- **Net loss of £3,683m includes £898m from discontinued operations** reflecting the \$1.4bn settlement agreed with the DoJ in respect of Indivior related matters (refer Note 13).

## Strategic Review Highlights

- **Strong presence in three attractive categories and growth markets:** mid-single digit growth in the medium term, led by penetration, market share improvement; expansion to new places and adjacencies; strong presence in e-Commerce and a global presence, particularly in key emerging markets
- **RB brands are strong, anchored in purpose, and well supported:** growth underpinned by strong #1 or #2 market positions in most categories; our brands address powerful social causes with strong consumer trust
- **Recent performance issues are executional, not structural:** driven mainly by significant recent disruption and change, combined with under-investment in capabilities across supply and sales
- **RB's future structure to benefit from both scale and focus:** Organisation to centre around three category global business units (GBUs) – Hygiene, Health and Nutrition; Greater China to have a unique focus due to its long-term importance
- **Three phase plan to rejuvenate RB and rebuild a strong earnings model:** mid-single digit top-line growth, mid-20s margins and 7-9% EPS growth
- **Rejuvenation funded by a temporary margin reduction (see 2020 guidance on page 5) and enhanced multi-year productivity programme (see page 3):** Three-year programme of investment to drive growth initiatives and improvements to core capabilities

### 2020 Outlook (see page 5)

- 2020 a transitional year; work to rejuvenate RB to accelerate growth and create long-term shareholder value
- Expect higher level LFL revenue growth than last year (2019: 0.8%), with steady progress toward our medium-term target. Year off to a strong start, although uncertain environment due to an evolving COVID-19 impact
- 2020 adjusted operating margin expected to reflect 100bps of headwinds and 150bps from recurring investment, with additional finite-life transformation costs of c.100bps in 2020 and 2021 only

Commenting on these results, Laxman Narasimhan, Chief Executive Officer, said:

**“We ended 2019 broadly in line with our expectations for net revenue growth and adjusted operating profit from October, as our Hygiene business delivered another stable performance. Health remained weak from a net revenue perspective, but consumption and market share trends are encouraging.**

**We now look forward to a new decade.**

I am inspired by our purpose-driven brands that consumers love and have seen in action the benefit they bring to our communities. I have met customers around the world, and terrific talent in various parts of the organisation, who act as owner entrepreneurs. While the recent years have been difficult, I believe strongly in our ability to restore performance credibility, and over time, outperform, while making a positive impact on the world. I know that my leadership team and the broader organisation is inspired and ready to take on the work to make this happen.

Our strategy will be to play in three attractive spaces of Hygiene, Health and Nutrition and we will invest in our organisation accordingly, to leverage both the significant scale RB has in key markets, but also the benefits of focus which has already been proven in Hygiene Home. In addition to doubling down on our focus on penetration and category creation, we will expand where we play, by increasing our reach from 75 core category market units (CMUs) to 100 and build on our proven strengths in digital and e-Commerce – a critical capability for the future. We will elevate our focus on Greater China and manage it as an integrated business region, and also elevate e-Commerce in a similar way, to ensure we deliver on their significant growth potential.

We have started a journey of three phases: first stabilise and perform, then perform and build, and finally, outperform. We will create a strong company which can consistently generate mid-single digit organic revenue growth, 7-9 percent EPS growth and strong cash conversion.

We have a clear plan to invest £2 billion in our business over the next 3 years to make this happen. Specifically, in 2020 we will increase investment behind our digital capability, in-market competitiveness and operational resilience, particularly in customer service, as well as innovations, as we align around

our new organisation. While we are growing faster than last year - and in some areas, significantly faster - we are targeting a higher level of like-for-like net revenue growth than we achieved in 2019, reflecting some of the uncertainty around the impact of the COVID-19. Our recurring investment of around £200m, combined with a step up in productivity of £1.3 billion over 3 years, builds a more stable and sustainable growth business.

RB operates in strong, structural growth categories and has an outstanding collection of trusted, market leading brands. When combined with an organisation structure that leverages both its category focus with its investment in capabilities at scale, RB is positioned well for faster growth and significant value creation as we look towards the new decade.”

## Conclusions from Strategic Review

Since September 2019 the team have undertaken a thorough review of the portfolio of RB, including a detailed evaluation of markets, growth opportunities, brands, competitive position, core capabilities, cost structure and organisational effectiveness and efficiency.

The conclusions from the review are clear.

### **RB can rebuild a strong earnings model and outperform with mid-single digit top-line growth, mid-20s margins and 7-9 percent EPS growth**

RB operates in attractive spaces with strong inherent growth characteristics helped by tailwinds from favourable underlying mega-trends. Within these spaces RB has additional growth opportunities around driving penetration, market share improvement through better innovation, better brand building and better execution, and expanding our power brands into underrepresented channels, geographies and product adjacencies. Growth will also be enhanced by accelerating development of our digital and eCommerce capabilities – already a strength of the business, but increasingly the backbone of consumer convenience and effective execution.

The challenges and underperformance over the last few years have been driven by significant change programmes in the business, compounded by some underinvestment in core capabilities which impacted customer service, volume growth and RB’s ability to benefit optimally from innovation and other investments.

### **Rejuvenation funded by a temporary margin reduction and enhanced multi-year productivity programme**

The journey will be undertaken in three phases that will initially establish consistent performance, then build revenue momentum and finally achieve sustained outperformance.

Rejuvenating RB will require investment and changes to the organisation. The changes to the organisation will largely be undertaken in 2020. Over the course of 3 years the business will invest around £2bn in principally growth led initiatives. These will be funded by internal productivity savings of £1.3 billion over 3 years and a recurring P&L investment of around £200m from 2020 onwards, together with one off transformation costs of £250m and a higher level of capital expenditure, of around 4% of net revenue, over the next two years.

The first phase, starting in 2020, is about addressing competitive gaps, fixing the foundations and launching the productivity program, with targeted capability investments. The focus will be to sustain the growth rate of Hygiene, as well as reignite volume growth in Health and Nutrition. We have already launched the productivity program companywide. Savings generated this year will support investment in competitiveness in selected markets, as well as continuing to invest in foundational capabilities such as our end-to-end supply chain planning, as well as targeted investments in eCommerce, digital, technology and research and development, particularly base health product development. We also expect to reinvest some of the efficiencies into the ongoing program to environmentally future proof our product portfolio.

The second phase, from around mid-2021 to 2023, is about sustaining, and building on, the momentum from the first phase. In this phase, we expect the productivity program savings to further kick in across Hygiene, Health and Nutrition. Additionally, we expect volume growth to provide fixed cost leverage across the company. We intend to use productivity savings and cost leverage to drive additional growth, for example by broadening our Category Market Units from 75 to 100 and additional under-represented channels, redeploying savings to invest in brand building, innovation and execution, and investing in stronger research and development,

eCommerce and digital capabilities. These will further accelerate growth, as well as delivering margin improvement in Health.

By 2023 we expect to be starting to outperform our underlying category growth rates of c.3% and heading towards our target growth of mid-single digits, reflecting our ability to better capitalise on RB's market opportunities, thereafter delivering progressive improvements to both revenue growth and operating margins over time.

The Strategic Review covered all aspects of the business, with the support of the Board, and focused on ensuring we maximised value creation for our shareholders. Additionally, we continue to rigorously evaluate our portfolio to actively migrate it to higher growth.

The conclusions of the review, in respect of the opportunities for growth and rationale for developing RB as a business focused on three categories, or spaces, are set out below.

### **RB has a strong presence in three attractive categories and growth markets**

The three spaces RB plays in – Hygiene<sup>1</sup>, Health and Nutrition - fit well together with a very attractive mix of market dynamics, loved brands, premium products, customer pull supported by innovation and long-held trust.

RB can regain momentum and return to mid-single digit growth through investing in core capabilities which will benefit RB's brands in all three spaces. Each space shares and contributes to the Group's e-Commerce, innovation and marketing capabilities. All three provide essential scale for retailers and fulfilment channels (e.g. online market places and logistics). The three spaces also provide the platform and the optionality to extend our existing brands into geographic spaces, where our products are under-represented, or new adjacent spaces, where we can benefit from existing local scale and agility, or leverage our brands and technology to address new consumer demands.

### **RB brands are strong, well supported and anchored in purpose**

RB's strong brand portfolio occupies the #1 or #2 market positions in targeted segments in most of our categories. These loved brands can deliver strong growth in these attractive categories with strong, incremental innovation, market place execution and digital and e-Commerce initiatives. We are comfortable with the level of brand equity investment. RB's loved brands are anchored in a purpose to protect, heal and nurture in a relentless pursuit of a clean and healthy world. The organisation is inspired by a fight to ensure access to the highest quality hygiene, health and nourishment is a right, not a privilege. We are committed to working through our brands to reduce, reuse of recycle plastics; minimise water use; and achieve science based environmental targets. We however expect to over-index our commitment to the social commitments that our brands authentically impact.

### **Recent performance issues are executional, not structural**

The strategic review examined the recent performance issues and causes. The conclusions highlighted that most of these reflect the amount of change the organisation was put through, coupled with underinvestment in core capabilities around supply chain management, product pipeline development and poor customer service. These can be addressed by upgrading capabilities by investment drawn from both incremental costs but also, substantially over time, reinvesting efficiencies from a wide range of opportunities identified through a comprehensive analysis of our performance, capabilities and costs.

### **RB's future structure to benefit from both scale and focus**

In order to maximise the opportunities arising and to focus management on creating sustainable momentum in the business, RB will align around its three spaces with category led business units - Hygiene, Health and Nutrition. Additionally, given the importance of the Greater China market, we will elevate our focus on it and manage it as integrated business across our categories. We will also elevate our focus and investment on our global e-Commerce capability, which will be a substantial driver of our long-term growth and competitiveness.

<sup>1</sup>The name Hygiene Home has been simplified to Hygiene

At the same time, we will expand “where we play”, investing in our teams to focus on 100 core category market units (CMUs) (previously 75). The development of our digital and e-Commerce platforms will also enable the business to optimise returns from strong local brands and incubate new products, internally or externally, which can ride on open digital platforms – for example in China.

To bring focus to our efforts in new product development, we will also contemporise, sharpen and accelerate “how we play”. One of RB’s core strengths has been the ability to create or access and then scale innovations fast across markets. To capitalise on this, we will invest further in consumer insights and analytics, access the best science and design, leverage existing and rebuild some of our traditional commercial capabilities that will reduce innovation leakage.

We will also be making substantial changes to our supply chain with technology, analytics and process improvements to drive plant modernisation, improve production systems, enhance supply chain planning and reorganise older facilities.

## **Capital Allocation and Dividend Policy**

Effective capital allocation will remain a key priority with a focus on making material reductions to net debt. As a result, the first priority of surplus cash generated is reinvestment into the continued operations of the business - with a focus on maximising our return on investment - to drive high quality cash flows in the long-term.

In line with the investment priorities highlighted in the Strategic Review, particularly around supply chain and IT, capital expenditure is expected to be around 4% of net revenue for the next two years. In addition, net working capital is likely to increase modestly in 2020 as we improve product availability in a number of areas. However, this should progressively unwind as we deliver the benefits of more effective and efficient supply chains.

Recognising the importance of a consistent dividend, we intend to sustain our dividend pay-out at the 2019 sterling level until we rebuild cover to around 2 times.

In respect of RB’s brand portfolio, we intend to rigorously manage it to maximise shareholder value. We will actively evaluate brands for strategic fit and will actively migrate the portfolio to higher growth and returns.

## **2020 Outlook**

2020 is a transitional year, as we rejuvenate RB to accelerate growth to deliver long-term shareholder value. For 2020 we should generate a higher level of revenue growth on a like-for-like basis than achieved in 2019 (2019: 0.8%) and make steady progress toward our medium-term target. While we have started the year strong, there are a number of challenges, including the uncertainty already being seen around the impact of COVID-19 (see below). In addition, we expect our 2020 revenue growth to be stronger in H2 as we lap weaker quarters in 2019 and we start to see the benefit of the strategic actions announced today.

From an operating margin perspective, in addition to the 100 basis points of operating margin headwinds, principally normalising variable pay assumptions, we will invest a further £200m (c.150 bps) in the business to rejuvenate our commercial capabilities and address issues where needed with consumer service and value. In addition, we will invest in cost-to-achieve transformation spending of roughly £125m (c.100 bps) in each of the next two years (total of £250m). These one time costs to achieve will be included within adjusted operating profit. As a result, we expect 2020 adjusted operating margins to be around 350 bps lower in 2020 than those achieved in 2019.

## **COVID-19**

It is too early to fully assess the impact of the COVID-19 outbreak on the operational and financial performance of the Group. We are committed to China, to the health of our consumers in China and to the health and safety of our employees in China. We are seeing some increased demand for Dettol and Lysol products and are working to support the relevant healthcare authorities and agencies, including through donations, information and education. We do see increased activity online for our consumers in China. Conversely we are seeing some disruption to offline retailers, distribution channels and the supply chain connected to China.

## Basis of Presentation and Non-GAAP measures

Throughout the report, certain measures are used to describe the Group's financial performance which are not defined by International Financial Reporting Standards (IFRS).

### Adjusted Measures

The Executive Committee of the Group assesses the performance based on net revenue and certain adjusted measures which exclude the effect of adjusting items.

As described in Note 3, adjusting items are significant items included in operating profit, net finance expense or income tax expense, which are relevant to an understanding of the underlying performance of the business. These comprise exceptional items, other adjusting items, and the reclassification of finance expenses on tax balances. Management believes that the use of adjusted measures provides additional useful information about underlying trends.

The table below reconciles the Group's reported statutory earnings measures to its adjusted measures for the year ended 31 December 2019. Descriptions of the adjusting items are included in Note 3.

Year ended 31 December 2019	Reported £m	Adjusting: Exceptional items £m	Adjusting: Other items £m	Adjusting: Finance expense reclass £m	Adjusted £m
<b>Operating (Loss)/Profit</b>	<b>(1,954)</b>	<b>5,240</b>	<b>81</b>	<b>-</b>	<b>3,367</b>
Net finance expense	(153)	-	-	(35)	(188)
(Loss)/ profit before income tax	(2,107)	5,240	81	(35)	3,179
Income tax (expense)/credit	(665)	(45)	(18)	35	(693)
Net (loss)/ income for the year from continuing operations	(2,772)	5,195	63	-	2,486
Less: Attributable to non-controlling interests	(13)	-	-	-	(13)
Continuing net (loss)/ income attributable to owners of the parent company	(2,785)	5,195	63	-	2,473
Net loss for the year from discontinued operations	(898)	898	-	-	-
<b>Total net (loss)/ income attributable to owners of the parent company</b>	<b>(3,683)</b>	<b>6,093</b>	<b>63</b>	<b>-</b>	<b>2,473</b>

Adjusted net income is used in the calculation of adjusted EPS. Adjusted EPS is defined as adjusted net income attributable to owners of the parent company divided by the weighted average number of ordinary shares. A reconciliation is included in Note 5.

The adjusted tax rate is defined as the adjusted continuing income tax expense as a percentage of adjusted profit before tax.

### Other non-GAAP measures and terms

Like-for-Like ("LFL") growth excludes the impact on net revenue of changes in exchange rates, acquisitions, disposals and discontinued operations. LFL growth also excludes Venezuela. A reconciliation of LFL to reported net revenue growth by operating segment is shown on page 9.

Constant exchange rate adjusts the actual consolidated results such that the foreign currency conversion uses the same exchange rates as were applied in the prior year.

Free cash flow, the Group's principal measure of cash flow, is defined as net cash generated from operating activities (excluding discontinued operations) less net capital expenditure. Free cash flow reflects cash flows that could be used for payment of dividends, repayment of debt, to fund acquisitions or other strategic objectives. A reconciliation of cash generated from operations to Free cash flow is shown on page 15.

Brand equity investment ("BEI") is the marketing support designed to capture the voice, mind and heart of our consumers.

Continuing operations excludes any charges related to the previously demerged RB Pharmaceuticals business that became Indivior. Net loss from discontinued operations is presented as a single line item in the Group Income Statement.

Return on capital employed ("ROCE") is defined as adjusted operating profit after tax divided by monthly average capital employed. Capital employed comprises total assets less current liabilities other than borrowings-related liabilities. Total assets exclude cash, retirement benefit surplus, current tax and a technical gross-up to goodwill that arises because of deferred tax liabilities recorded against identified assets acquired in business combinations. Current liabilities exclude legal provisions recorded as a result of exceptional items and current tax.

## Detailed Operating Review: Total Group

### Full Year 2019

Total full year (“FY”) net revenue was £12,846m, with growth of +0.8% on a LFL and constant exchange basis. The majority of our revenue and profits are generated outside of the UK, and the translation impact of consolidating local business into our reporting currency, resulted in a +1.2% increase to net revenue due to the depreciation of sterling against the weighted average of currencies we operated in during 2019. Total net revenue growth at actual rates was therefore +2.0% for the year.

Our Health business unit (“Health”) declined by -1.0% on a LFL basis, with positive benefits from price/mix offsetting lower volumes in Health due to a combination of share loss and retailer destocking. Within Health, IFCN grew +2.6% reflecting a strong performance in North America, partially offset by weaker performance elsewhere. Over-the-counter (“OTC”) revenues declined -4.4% following lower than average incidence of cold and flu at the beginning of 2019 and retailer destocking in the US. OTC share and in-market consumption trends were positive. The “rest of Health” (our wellness, VMS and hygiene brands) declined by -2.2% on a LFL basis. Dettol was weak due to a slowdown in India and the Middle East and a competitive pricing environment. Durex saw competitive challenges in China, and Scholl remained weak.

Our Hygiene Home business unit saw a stable and consistent performance in 2019 with +3.6% LFL growth. Growth was broad-based across our brands, with growth in Finish, Lysol, Harpic and Vanish, and comprised balanced price/mix and volume growth.

On a geographical basis, Europe, Australia and New Zealand (“Europe/ANZ”) returned to growth across both Health and Hygiene Home. North America saw in-market consumption growth ahead of net revenue, due mainly to retailer destocking and supply challenges in the Health business. Developing Markets (“DvM”) delivered strong growth in our Hygiene Home portfolio but weakness in Health, particularly across Africa, the Middle East, ASEAN and LATAM.

The year on year movement in our operating margin comprised:

<i>(bps impact on Adjusted operating margin)</i>	<b>% of Net Revenue</b>	<b>Impact on operating margin</b>
Gross Margin	60.5%	(10bps)
Brand Equity Investment (“BEI”)	14.4%	(60bps)
Other costs	<u>19.9%</u>	<u>20bps</u>
Operating Margin (adjusted)	26.2%	(50bps)

FY gross margin was 60.5%, a decline of -10bps, reflecting a decline in Health offset by expansion in Hygiene Home. Health experienced a combination of negative volume leverage, cost increases, and negative mix. Hygiene Home benefitted from net positive pricing and mix.

Investment behind our brands (as defined by our BEI metric), was 14.4% of net revenue, a 60bps increase from the prior year. Investment increased in both businesses behind the launch of new initiatives.

Our fixed cost base was relatively stable during the year, reflecting a modest underlying increase, more than offset by lower variable incentive accruals due to the weak performance of Health. We expect a return to long term levels of variable pay to provide a headwind of approximately 100 bps.

Following the annual impairment review, the value of the IFCN net assets was impaired by £5,037m. The book value of the IFCN net assets prior to the impairment was £14,927m. The relevant IFRS impairment test focused only on the current geographies and current product types of the business. Future “white space” was not included.

At the time of the acquisition of MJN in H1 2017, we expected medium-term market growth of 3-5%; and we expected to move the annual growth of the business from an inherited decline to c.5% over a few years. We also expected to be able to increase the inherited c.23% operating margin by an incremental 6-7% with £200m annual synergies, largely from removing duplicated corporate costs and greater procurement effectiveness. The acquisition model implied a 3% terminal growth rate.

The most significant changes, evident over the last year, have been in the China market. The prospects for market growth have lowered, as a sustained materially lower birth rate has become likely. In addition, the competitive dynamics have changed with evolving regulation and the progress of a number of local competitors. We have also revised our view on the optimum long-term design of the supply network for the business as a whole. This will be more capital intensive than we had expected. More short-term in nature, the integration of the MJN and Health businesses has progressed more slowly than expected, particularly in LATAM and ASEAN, which has led to weaker performance. When combined, these factors have led to a reduction in expected revenue growth to c.3% at constant rates over the next five years; and only a moderate net margin improvement from the current position. The geographies we serve have on average general inflation about 1% higher than sterling. In this context, we now also see a 2.5% terminal growth rate to be more appropriate. Valuing these cash flows at a pre-tax discount rate of 9.0% gives a value-in-use of £9,890m. We continue to see opportunities in nutrition more broadly, in “white spaces” outside the impairment model.

As a result, operating loss as reported was £1,954m. Operating profit adjusting items were a pre-tax charge of £5,321m (2018: £311m). On an adjusted basis, operating profit was marginally lower (down -0.1%, -1.9% on a constant basis) to £3,367m. Overall, the adjusted operating margin for the Group declined -50bps to 26.2%, driven primarily by increased investment in BEI.

Net finance expense was £153m (2018: £338m<sup>1</sup>) benefitting from significant items that went in our favour in the year (see page 14). Excluding these items, net finance expense approaches an approximate cost of 3% on net debt of around £11bn.

The adjusted tax rate was 22%, (2018: 21%), slightly lower than guidance. Our tax charge in 2018 benefitted from the settlement of a number of tax issues during the year. We continue to expect our ongoing adjusted tax rate to be approximately 23%.

Continuing net loss attributable to owners of the parent company as reported was £2,785 including the £5,037m MJN impairment charge. Diluted earnings per share from continuing operations were -519.7 pence on a reported basis; on an adjusted basis, the growth was +2.8% to 349 pence.

Total reported net loss attributable to owners of the parent company was £3,683m. This includes the charge of £898m in respect of the settlement of Indivior related matters with the US Department of Justice (“DoJ”) reported at the half year. On an adjusted basis, total net income was £2,473m, +2.7% (+0.7% constant) versus 2018.

#### **Fourth Quarter 2019**

Q4 net revenue was £3,321m, an increase of +0.3% on a LFL basis and a decline of -0.5% on an actual basis, reflecting negative translational foreign exchange movement. There was an +0.1% impact from M&A in the quarter.

Health declined -2.2% LFL in the quarter. In-market consumption (i.e. sell-out from retailers) increased around 2% and market share, whilst still in decline, showed improving trends. IFCN declined by -1.1% LFL with strong growth in the US, offset by a small decline in China due to continued but improving share loss, and mixed performances in LATAM and ASEAN. Our OTC brands declined by -2.2% LFL in the quarter with strong performances across the portfolio in Europe more than offset by the US, where we had some limited supply challenges. Consumption in the US in the quarter was strong, due to higher incidences of cold and flu, and shares of Mucinex, our leading US OTC brand, were relatively stable. Other Health declined by -3.3% LFL reflecting a weak quarter from Dettol (India market weakness and competitive challenges), Durex (innovation cycle in China) and Scholl. Vitamins, Minerals and Supplements (“VMS”) grew with strong growth from Move Free in China.

Hygiene Home grew by +4.3% on a LFL basis. This reflected market growth of around +3%, a stable market share position, and a small tailwind from a go to market change, which will be lapped in early 2020. The majority of our power brands grew, with particularly strong performances from Finish, Lysol, Vanish and Veja (Brazil).

On a geographic basis Europe/ANZ had a good quarter with Health growth of +2.6% LFL, underpinned by a strong OTC performance, and Hygiene Home growth of +4.8%, with broad-based growth across the power brand portfolio. The US had a weak quarter due to Health, where a strong comparator period in 2018 and some limited supply challenges impacted net revenue. In-market consumption and share trends remain encouraging. DvM was mixed, with double digit growth in Hygiene Home offset by a -3.4% decline in Health due to a combination of macro and competitive challenges.



**FY 2019 Business Review**

**Summary: % Net Revenue growth (continuing)**

**Review by Operating Segment**

<u>Quarter ended</u> <u>31 December</u>					<u>Year ended</u> <u>31 December</u>			
2019 £m	2018 £m	% change			2019 £m	2018 <sup>2</sup> £m	% change	
		exch. Actual	Rates const.				exch. rates actual	const.
<b>Total Net Revenue</b>								
727	739	-1.6	-1.1	IFCN	2,980	2,839	+5.0	+2.6
1,291	1,329	-2.9	-2.5	Rest of Health	4,835	4,923	-1.8	-2.9
<b>2,018</b>	<b>2,068</b>	<b>-2.4</b>	<b>-2.0</b>	Health	<b>7,815</b>	<b>7,762</b>	<b>+0.7</b>	<b>-0.9</b>
<b>1,303</b>	<b>1,271</b>	<b>+2.5</b>	<b>+4.3</b>	Hygiene Home	<b>5,031</b>	<b>4,835</b>	<b>+4.1</b>	<b>+3.6</b>
<b>3,321</b>	<b>3,339</b>	<b>-0.5</b>	<b>+0.4</b>	<b>Total</b>	<b>12,846</b>	<b>12,597</b>	<b>+2.0</b>	<b>+0.8</b>

<b>Operating profit</b>				
	Health	2,088	2,213	-5.6 -7.7
	Hygiene Home	1,279	1,156	+10.6 +9.2
	<b>Operating profit – adjusted<sup>1</sup></b>	<b>3,367</b>	<b>3,369</b>	<b>-0.1 -1.9</b>
	Adjusting items	(5,321)	(311)	
	<b>Total Operating (loss)/ profit</b>	<b>(1,954)</b>	<b>3,058</b>	<b>-163.9 -166.0</b>

<b>Operating margin – adjusted<sup>1</sup></b>				
		%	%	
	Health	26.7	28.5	-180bps
	Hygiene Home	25.4	23.9	+150bps
	<b>Total</b>	<b>26.2</b>	<b>26.7</b>	<b>-50bps</b>

<sup>1</sup> Adjusted to exclude the impact of adjusting items.

<sup>2</sup> Restated for the adoption of IFRS 16 (see Note 14).

## Health

61% of Net Revenue, 62% of Adjusted Operating Profit

By Category	Q4				FY			
	£m	LFL <sup>1</sup>	FX <sup>2</sup>	Reported	£m	LFL <sup>1</sup>	FX	Reported
IFCN	727	-1.1%	-0.5%	-1.6%	2,980	+2.6%	+2.4%	+5.0%
OTC	575	-2.2%	-0.3%	-2.5%	1,946	-4.4%	+0.9%	-3.5%
Other	716	-3.3%	+0.2%	-3.1%	2,889	-2.2%	+1.6%	-0.6%
<b>Total</b>	<b>2,018</b>	<b>-2.2%</b>	<b>-0.2%</b>	<b>-2.4%</b>	<b>7,815</b>	<b>-1.0%</b>	<b>+1.7%</b>	<b>+0.7%</b>

By Geography	Q4				FY			
	£m	LFL <sup>1</sup>	FX <sup>2</sup>	Reported	£m	LFL <sup>1</sup>	FX	Reported
North America	582	-4.3%	+1.6%	-2.7%	1,916	-6.1%	+4.6%	-1.5%
Europe / ANZ	505	+2.6%	-2.0%	+0.6%	2,006	+0.5%	-0.7%	-0.2%
DvM	931	-3.4%	-0.4%	-3.8%	3,893	+0.8%	+1.5%	+2.3%
<b>Total</b>	<b>2,018</b>	<b>-2.2%</b>	<b>-0.2%</b>	<b>-2.4%</b>	<b>7,815</b>	<b>-1.0%</b>	<b>+1.7%</b>	<b>+0.7%</b>

<sup>1</sup> Non-GAAP measures are defined on page 6

<sup>2</sup> Includes Q4 +0.2% and FY +0.1% Net M&A impact

North America comprises United States and Canada.

Europe / ANZ comprises Europe, Russia / CIS, Turkey, Israel, Australia and New Zealand.

DvM comprises all remaining countries in the Group.

- FY 2019 total net revenue was £7,815m, with LFL decline of -1.0%, comprised of -4% volume and +3% price/mix.
- Q4 total net revenue was £2,018m, with LFL decline of -2.2%, comprised of -5% volume, +3% price/mix.
- Category growth during 2019 has been within the range of +3-5%.
- From a channel perspective, we continue to make strong progress in e-Commerce as we meet consumers' changing shopping habits. E-Commerce<sup>3</sup> contributed 11% of total Health net revenue during 2019 led by IFCN, VMS and our Sexual Wellbeing brands.
- Adjusted operating profit was £2,088m, a 26.7% margin and -180bps versus the prior year. This was due to a combination of gross margin decline (negative product mix, lack of operational leverage, and investment in capacity), and increased investment in brand building initiatives (BEI).

### Infant and Child Nutrition

- In the first full two years of ownership of the MJN business, we have grown revenue at 3% per annum, compared to two years of net revenue decline previously. From a macro perspective, however, we have seen a slowing of volume growth and more competitive market conditions in Greater China in particular. Following the 2018 supply disruption, we have also identified a need to focus on key aspects of the IFCN supply chain. As a result, we no longer expect to improve margins to the levels originally envisaged at the time of acquisition. These factors have been considered within our annual impairment review of IFCN goodwill and other intangible assets. As a result of this review, we have recognised an impairment of £5,037m as a non-cash exceptional item in our 2019 income statement. Detailed information can be found in Note 6.
- The market in China continues to see growing demand for premium products, offset by a recent decline in births. Revenue in our IFCN business in China declined by low single digits in Q4 due to share loss more than offsetting modest market growth. We are however seeing improving shares trends, and the recent launch of our grass-fed innovation has been well received by consumers to date. We expect Q1 2020 to see some weakness as these factors remain relevant, the timing of Chinese New Year impacts phasing of shipments, and disruption from the COVID-19 is leading to some temporary channel and "pantry" destocking. IFCN net revenue was lapping the manufacturing disruptions in the prior year.

<sup>3</sup>Sales achieved on our brands' own websites + estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data)

- Our North American business had another strong year following the successful launch of Enfamil NeuroPro during 2018 in the mainstream IFCN segment, and strong growth in the specialist allergy segment which is both a faster growing segment, and one where our key brand Nutramigen is gaining market share.
- Other IFCN markets continue to be mixed, and they remain a focus area.

#### Over-The -Counter

- Our OTC brands declined -4.4% with solid growth in Europe, offset by a decline in the US following lower than average incidence of cold and 'flu at the beginning of the year, significant retailer destocking in the US and some limited supply challenges. Overall share trends were positive, as were in-market consumption trends.
- Gaviscon and Nurofen delivered mid-single digit growth behind a combination of recent innovations, such as Guardium PPI (by Gaviscon), and improved execution and education from medical marketing, doctor detailing and digital activation.
- Mucinex delivered an extremely weak net revenue performance in 2019 due to the reduction in retailer inventory impacting Q1 and Q3 in our US business, in addition to a strong comparative in Q4. This is not reflective of in-market trends where we saw mid-single digit market growth and improving share trends during the course of the year as we lapped the re-entry of private label competition. Mucinex continues to build on its strong brand equity via the launch of its new innovation – Mucinex Night Shift, for relief at night, and better mornings.
- Local OTC brands experienced a mixed year with growth in Lemsip (UK), Luftal and Naldecon (Brazil) more than offset by Delsym (US) due to retailer destocking and declines in a number of other small, local brands.

#### Other Health (wellness / hygiene / VMS)

- Our Other Health segment declined by -2.2% on an LFL basis in 2019, and -3.3% in Q4.
- Dettol, our largest brand in Other Health grew despite a competitive pricing environment across multiple emerging markets, combined with slowing market conditions in India impacted our net revenue performance. Measures have been put in place to restore our price competitiveness and we have returned to share growth in recent months. Dettol's powerful purpose agenda, and trusted Health equity across emerging markets position this brand well to drive significant value creation over the coming decade.
- Durex also experienced a tough year with a relatively flat net revenue performance as we faced increased competitive pressures in China. We expect these pressures to remain throughout 2020 as we build a strong innovation pipeline, consistent with the Durex promise of quality excellence.
- Our VMS brands grew in Q4, with a strong performance from Move Free in China via our e-Commerce channels. For FY19, our overall performance was subdued given seasonal factors at the beginning of the year and some channel destocking in the US.
- Scholl was a drag in the year, as we were implementing a strategic re-focus of the brand towards a more sustainable portfolio. Our foot aid segment stabilised during the year. Gadgets now represent 17% of the Scholl portfolio.

## Hygiene Home

39% of Net Revenue, 38% of Adjusted Operating Profit

By Geography	Q4				FY			
	£m	LFL <sup>1</sup>	FX	Reported	£m	LFL <sup>1</sup>	FX	Reported
North America	415	-0.5%	+0.7%	+0.2%	1,598	+1.0%	+4.4%	+5.4%
Europe / ANZ	577	+4.8%	-2.7%	+2.1%	2,187	+2.7%	-1.2%	+1.5%
DvM	311	+10.1%	-3.6%	+6.5%	1,246	+8.6%	-1.6%	+7.0%
<b>Total</b>	<b>1,303</b>	<b>+4.3%</b>	<b>-1.8%</b>	<b>+2.5%</b>	<b>5,031</b>	<b>+3.6%</b>	<b>+0.5%</b>	<b>+4.1%</b>

<sup>1</sup> Non-GAAP measures are defined on page 6

North America comprises United States and Canada.

Europe / ANZ comprises Europe, Russia / CIS, Turkey, Israel, Australia and New Zealand.

DvM comprises all remaining countries in the Group.

Note: due to rounding, this table will not always cast.

- FY19 total net revenue was £5,031m, with LFL growth of +3.6%. Growth comprised +1% volume and +3% price/mix.
- Q4 total net revenue was £1,303m, with LFL growth of +4.3% (+3% volume, +1% price/mix).
- Market growth in 2019 was slightly above the upper end of +2-3%. Our growth was broad-based across all our leading brands – delivering growth in both developed and emerging market areas.
- In North America, Lysol had a strong H2 and was a key driver of growth in the region in 2019. Our laundry sanitiser innovation performed well, as did our new thicker wipes innovation. Lysol was aided by some seasonal benefit in Q4. Finish also delivered a good performance in a competitive environment, behind Finish Quantum Ultimate and a focus on machine cleaner and rinse aid additives. This was offset by a slow performance from Air Wick which experienced competitive market conditions.
- Europe / ANZ delivered a strong performance, led by the region's largest brands of Finish and Air Wick. Finish saw strong growth behind the rollout of Finish Quantum Ultimate in multiple markets across Europe, the launch of our new eco range of products, combined with new purpose campaigns aimed at reducing water usage. Air Wick saw success from its new electrical range, aided by its new i8 electrical plug with improved air diffusion compared to a normal plug.
- DvM saw broad-based growth across our Powerbrands. Harpic saw success from its recently launched premium liquid, continued progress on its purpose campaign in India around toilets and water sanitation, and the expansion of its range to all areas of the bathroom. Lizol saw good growth in India following the launch of its cement surface cleaner. Vanish and Finish also delivered strong growth.
- From a channel perspective, e-Commerce<sup>2</sup> continued to grow strongly in Hygiene Home, contributing 4% to total 2019 net revenue. We continue to focus on this important high growth channel with increased investment and channel specific innovation.
- Adjusted operating profit was £1,279m, with a 25.4% margin and +150bps versus the prior year. This was driven by strong expansion in gross margin, plus operating leverage and efficiencies in the fixed cost base, partly offset by increased BEI.

<sup>2</sup>Sales achieved on our brands' own websites + estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data)

## New Product Initiatives: H1 2020

New product initiatives for the first half of 2020 include:

### Health and Nutrition:

- **Enfa A2 initiatives:** containing A2 protein, for easier digestion. Launching in Hong Kong
- **Durex global pack update to address un-met consumer needs:** including improved navigation to find the right size and fit for a better experience, and condom orientation to enable 2X faster donning for more pleasure and less pressure.
- **Dettol Cool 2X:** removes 99.9% of odour causing germs, plus 2X activated menthol giving a burst of icy cool freshness.
- **Dettol Disinfection spray – India and China:** taking Dettol's germ-kill benefit across all surfaces at home in a modern and convenient format. Disinfects hard surfaces, sanitises soft surfaces, deodorises surface and air.
- **Schiff Nutrition:** relaunch of this VMS pioneer brand. Schiff has an updated and authentic consumer proposition via transparency on the source and commitment to sustainability.
- **Airborne immunity and energy liquid shots:** a great tasting immune support liquid, in an easy, on-the-go, ready-to-drink pouch.
- **Neuriva De-Stress and gummies:** brain performance and mood have never been more relevant. Neuriva De-Stress has clinically proven ingredients to support brain performance and promote relaxation. Neuriva is now available in a gummy format – the first gummy in the brain category.
- **Scholl and Schollmed Athletes foot range:** the complete solution to treat and beat athletes foot.

### Hygiene:

- **Air Wick Botanica range:** superior fragrance experience, using responsibly sourced ingredients.
- **Finish Quantum with ActivBlu technology:** delivers extra scrubbing action for even better dishwashing results – even without pre-rinsing.
- **Lizol cement floor cleaner:** newly designed, removes tough stains (including white residue (kills 99.9% of germs and leaves a fresh fragrance.
- **Air Wick Essential Mist Bluetooth:** fragrance when you want it, how you want it. New Air Wick app enables you to set scent schedules, adjust intensity, and repurchase refills.
- **Lysol laundry sanitiser:** with clear messaging against cold and flu viruses.
- **Vanish Oxi Advance:** improved formulation with new benefits, including colour protection, odour removal, and stain removal – even in cold water.

## Other Matters

### Korea HS Issue

The HS issue in South Korea is a tragic event, with many parties involved. We continue to make both public and personal apologies to victims.

### **Lung Injury Categorisation**

The status of the South Korean government's lung injury categorisation is outlined in the table below:

Round	Total HS Injury applicants	Applicants Assessed for lung injury	Category I & II	Cat I&II percentage	Oxy RB users – Category I & II <sup>2</sup>	Assessment completion (expected)
1	361	361	174	48%	140	Completed
2	169	169	53	31%	46	Completed
3	752	669 <sup>3</sup>	84	13%	76	Completed
4	5,453 <sup>1</sup>	4,490	176	4%	158	Round 4 is open indefinitely
Total	6,735	5,689	487	9%	420	

1. Round 4 remains open to applicants. The number of applicants shown in the table are the applicants set out on the KEITI website as at 20 February 2020.
2. Both sole Oxy RB users and users of multiple manufacturers' products, including Oxy RB.
3. All of the remaining unassessed Round 3 applicants have withdrawn their applications.

We have continued throughout the year to compensate Round 4 HS injury victims as they are categorised by KEITI.

Details of existing provisions and contingent liabilities relating to the HS issue can be found in Note 10.

## Financial Review

**Net finance expense.** Net finance expense was £153m (2018<sup>1</sup>: £338m). The decrease reflects the repayment of term loans and bonds, £35m finance income on tax balances (2018: £29m expense) and other significant items that went in the Group's favour in the year. These include a favourable settlement of litigation in Latin America, a gain due to a fair value credit relating to a downward revaluation of a put option held by our partners in a joint venture and a higher hedged return from temporary intercompany deposits with group treasury. Adjusted finance expense excludes £35m of finance income on tax balances reclassified into income tax expense (2018: £29m expense).

**Tax.** The adjusted tax rate, which excludes the effect of adjusting items, was 22% (2018: 21%), benefiting from the settlement of a number of tax issues during the year. We continue to expect our ongoing adjusted tax rate to be approximately 23%.

**Adjusting items.** In 2019, adjusting items comprised of £5,321m of expenses recorded in operating profit (2018: £311m) driven primarily by the impairment of goodwill in respect of the MJN acquisition of £5,037m. See Note 6. Other adjusting items include £79m due to the impairment of intangible assets on Oriental Pharma, acquired in 2012, £113m of costs relating to MJN/RB2.0 restructuring programs and £81m due to the amortisation of certain intangible assets. Further details of these items can be found in Note 3.

**Discontinued operations.** The £898m loss reported in discontinued operations (2018: loss of £5m) reflects the \$1.4bn settlement agreed with the DoJ. See Note 13.

**Net working capital.** During the year, inventories increased to £1,314m (2018: £1,276m), trade and other receivables decreased to £2,079m (2018: £2,097m), and trade and other payables increased to £4,820m (2018<sup>1</sup>: £4,811m). Net working capital was minus £1,427m (2018: minus £1,438m). Net working capital as a percentage of net revenue is -11% (2018: -11%).

<sup>1</sup>Restated for the adoption of IFRS 16 (see note 14)

**Cash flow.** Cash generated from continuing operations was £3,408m (2018: £3,400m). Net cash generated from operating activities was £1,411m (2018: £2,524m) after net interest payments of £210m (2018: £321m) and tax payments of £647m (2018: £567m) and net cash out flow attributable to discontinued operations of £1,140m (2018: cash inflow of £12m)

Free cash flow is the net cash generated from operating activities (excluding discontinued operations) 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, to fund acquisitions or other strategic objectives. Free cash flow as a percentage of continuing adjusted net income was 87% (2018<sup>1</sup>: 87%).

	31 December 2019 £m	(Restated) <sup>1</sup> 31 December 2018 £m
<b>Cash generated from continuing operations</b>	<b>3,408</b>	3,400
Less: net interest paid	<b>(210)</b>	(321)
Less: tax paid	<b>(647)</b>	(567)
Less: purchase of property, plant & equipment	<b>(306)</b>	(342)
Less: purchase of intangible assets	<b>(137)</b>	(95)
Plus: proceeds from the sale of property, plant & equipment	<b>37</b>	24
<b>Free cash flow</b>	<b>2,145</b>	2,099

**Net debt.** At the end of the year, net debt was £10,749m (2018<sup>1</sup>: £10,746m). This reflected strong free cash flow generation of £2,145m, offset by the payment of dividends totalling £1,242m (2018: £1,200m) and payments relating to the DoJ for the Indivior PLC settlement of £1,140m. The Group regularly reviews its banking arrangements and currently has adequate facilities available to it.

**Balance sheet.** At the end of 2019, the Group had total equity of £9,407m (2018<sup>1</sup>: £14,771m), a decrease of 36%.

The Group has non-current assets of £27,106m (2018<sup>1</sup>: £33,002m), of which £24,261m (2018: 30,278m) is goodwill and other intangible assets, lower this year primarily due to the impairment of goodwill in relation to the MJN acquisition of £5,037m. Property, plant and equipment is £2,140m (2018<sup>1</sup>: £2,162m) and includes £289m (2018<sup>1</sup> £304m) of right of use assets as a result of the adoption of IFRS 16. The Group has net working capital of minus £1,427m (2018: minus £1,438m), current provisions of £178m (2018<sup>1</sup>: £537m) and long-term liabilities other than borrowings of £5,256m (2018<sup>1</sup>: £5,564m).

The Group continues to focus on employing capital appropriately to drive long term value creation for its shareholders. The Group's ROCE, excluding the impairment of goodwill and other intangible assets, is 10.3%, a decrease against 10.7% (restated for IFRS 16) for 2018. The decrease was principally due to a 1.9% reduction in adjusted operating profit at constant exchange rates and slight increase in the adjusted tax rate.

Return on Shareholders' funds (total net income attributable to owners of the parent company divided by total equity) was -39.3% on a reported basis and 26.4% on an adjusted basis (2018<sup>1</sup>: 14.7% on a reported basis and 16.4% on an adjusted basis).

**Dividends.** The Board of Directors recommends a final dividend of 101.6 pence (2018: 100.2 pence), to give a full year dividend of 174.6 pence (2018: 170.7 pence). The dividend, if approved by shareholders at the AGM on 12 May 2020, will be paid on 28 May 2020 to shareholders on the register at the record date of 17 April 2020. The ex-dividend date is 16 April 2020. 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, including reducing debt and through value-adding acquisitions.

The Board intends to maintain our policy of paying an ordinary dividend equivalent to around 50% of total adjusted net income over the medium term. However, in anticipation of a reduction in adjusted earnings in the short term, it is the Board's current intent to maintain the 2019 sterling value of the dividend until the 50% of adjusted net income policy indicates an increase.

<sup>1</sup>Restated for the adoption of IFRS 16 (see note 14)

**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 8.

**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 10.

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**Notice to shareholders**

**This announcement contains inside information**

**Cautionary note concerning forward-looking statements**

This presentation 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, the Group 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.



## Group Income Statement

### For the 12 months ended 31 December 2019 (unaudited)

For the year ended 31 December	Note	Unaudited 2019 £m	Unaudited 2018 (restated) <sup>1</sup> £m
<b>CONTINUING OPERATIONS</b>			
<b>Net Revenue</b>	2	<b>12,846</b>	12,597
Cost of sales		<b>(5,068)</b>	(4,962)
Gross profit		<b>7,778</b>	7,635
Net operating expenses		<b>(4,616)</b>	(4,577)
Impairment of goodwill and other intangible assets		<b>(5,116)</b>	-
<b>Operating (loss)/ profit</b>	2	<b>(1,954)</b>	3,058
Adjusted operating profit		<b>3,367</b>	3,369
Adjusting items <sup>2</sup>	3	<b>(5,321)</b>	(311)
<b>Operating (loss)/ profit</b>		<b>(1,954)</b>	3,058
Finance income		<b>161</b>	78
Finance expense		<b>(314)</b>	(416)
<b>Net finance expense</b>		<b>(153)</b>	(338)
<b>(Loss)/ profit before income tax</b>		<b>(2,107)</b>	2,720
Income tax expense	4	<b>(665)</b>	(536)
<b>Net (loss)/ income from continuing operations</b>		<b>(2,772)</b>	2,184
<b>Net loss from discontinued operations</b>	3	<b>(898)</b>	(5)
<b>Net (loss)/ income</b>		<b>(3,670)</b>	2,179
Attributable to non-controlling interests		<b>13</b>	20
Attributable to owners of the parent company		<b>(3,683)</b>	2,159
<b>Net (loss)/ income</b>		<b>(3,670)</b>	2,179
<b>Basic (loss)/ earnings per ordinary share</b>			
From continuing operations (pence)	5	<b>(393.0)</b>	306.6
From discontinued operations (pence)	5	<b>(126.7)</b>	(0.7)
From total operations (pence)	5	<b>(519.7)</b>	305.9
<b>Diluted (loss)/ earnings per ordinary share</b>			
From continuing operations (pence)	5	<b>(393.0)</b>	305.2
From discontinued operations (pence)	5	<b>(126.7)</b>	(0.7)
From total operations (pence)	5	<b>(519.7)</b>	304.5

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

<sup>2</sup> Adjusting items include impairment of goodwill and other intangible assets of £5,116m (See Note 3).

## Group Statement of Comprehensive Income For the 12 months ended 31 December 2019 (unaudited)

	Unaudited 2019 £m	Unaudited 2018 (restated) <sup>1</sup> £m
<b>For the year ended 31 December</b>		
Net (loss)/ income	(3,670)	2,179
<b>Other comprehensive (expense)/ income</b>		
<i>Items that may be reclassified to the income statement in subsequent years</i>		
Net exchange (losses)/ gains on foreign currency translation, net of tax	(579)	67
Gains/ (losses) on net investment hedges, net of tax	70	(44)
(Losses)/ gains on cash flow hedges, net of tax	(9)	8
	(518)	31
<i>Items that will not be reclassified to the income statement in subsequent years</i>		
Remeasurements of defined benefit pension plans, net of tax	14	123
Revaluation of equity instruments – FVOCI	(13)	-
	1	123
<b>Other comprehensive (expense)/ income, net of tax</b>	(517)	154
<b>Total comprehensive (expense)/ income</b>	(4,187)	2,333
Attributable to non-controlling interests	12	20
Attributable to owners of the parent company	(4,199)	2,313
<b>Total comprehensive (expense)/ income</b>	(4,187)	2,333
<b>Total comprehensive (expense)/ income attributable to owners of the parent company arising from:</b>		
Continuing operations	(3,301)	2,318
Discontinued operations	(898)	(5)
	(4,199)	2,313

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

## Group Balance Sheet As at 31 December 2019 (unaudited)

As at 31 December	Note	Unaudited 2019 £m	Unaudited 2018 (Restated) <sup>1</sup> £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill and other intangible assets		24,261	30,278
Property, plant and equipment		2,140	2,162
Equity instruments – FVOCI		58	53
Deferred tax assets		224	209
Retirement benefit surplus		268	191
Other non-current receivables		155	109
		<b>27,106</b>	<b>33,002</b>
<b>Current assets</b>			
Inventories		1,314	1,276
Trade and other receivables		2,079	2,097
Derivative financial instruments		30	38
Current tax recoverable		61	48
Cash and cash equivalents		1,549	1,483
		<b>5,033</b>	<b>4,942</b>
Assets classified as held for sale		-	10
		<b>5,033</b>	<b>4,952</b>
<b>Total assets</b>		<b>32,139</b>	<b>37,954</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short-term borrowings		(3,650)	(2,269)
Provisions for liabilities and charges	8	(178)	(537)
Trade and other payables		(4,820)	(4,811)
Derivative financial instruments		(138)	(42)
Current tax liabilities		(145)	(10)
		<b>(8,931)</b>	<b>(7,669)</b>
<b>Non-current liabilities</b>			
Long-term borrowings		(8,545)	(9,950)
Deferred tax liabilities		(3,513)	(3,619)
Retirement benefit obligations		(351)	(318)
Provisions for liabilities and charges	8	(56)	(74)
Non-current tax liabilities		(969)	(1,105)
Other non-current liabilities		(367)	(448)
		<b>(13,801)</b>	<b>(15,514)</b>
<b>Total liabilities</b>		<b>(22,732)</b>	<b>(23,183)</b>
<b>Net assets</b>		<b>9,407</b>	<b>14,771</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital		74	74
Share premium		245	245
Merger reserve		(14,229)	(14,229)
Hedging reserve		(2)	7
Foreign currency translation reserve		(78)	430
Retained earnings		23,353	28,197
Attributable to owners of the parent company		9,363	14,724
Attributable to non-controlling interests		44	47
<b>Total equity</b>		<b>9,407</b>	<b>14,771</b>

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

**Group Statement of Changes in Equity**  
**For the 12 months ended 31 December 2019 (unaudited)**

	Note	Share capital £m	Share premium £m	Merger reserves <sup>2</sup> £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 2018 (Reported)</b>		<b>74</b>	<b>243</b>	<b>(14,229)</b>	<b>406</b>	<b>27,039</b>	<b>13,533</b>	<b>40</b>	<b>13,573</b>
Effect of IFRS 16		-	-	-	-	(16)	(16)	-	(16)
<b>Balance at 1 January 2018 (Restated)<sup>1</sup></b>		<b>74</b>	<b>243</b>	<b>(14,229)</b>	<b>406</b>	<b>27,023</b>	<b>13,517</b>	<b>40</b>	<b>13,557</b>
<b>Comprehensive income</b>									
Net income		-	-	-	-	2,159	2,159	20	2,179
Other comprehensive (expense)/ income		-	-	-	31	123	154	-	154
<b>Total comprehensive (expense)/income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>2,282</b>	<b>2,313</b>	<b>20</b>	<b>2,333</b>
<b>Transactions with owners</b>									
Treasury shares re-issued		-	2	-	-	103	105	-	105
Share-based payments		-	-	-	-	14	14	-	14
Current tax on share awards		-	-	-	-	7	7	-	7
Deferred tax on share awards		-	-	-	-	(12)	(12)	-	(12)
Cash dividends	9	-	-	-	-	(1,187)	(1,187)	(13)	(1,200)
Transactions with non-controlling interests		-	-	-	-	(33)	(33)	-	(33)
<b>Total transactions with owners</b>		<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(1,108)</b>	<b>(1,106)</b>	<b>(13)</b>	<b>(1,119)</b>
<b>Balance at 31 December 2018 (Restated)<sup>1</sup></b>		<b>74</b>	<b>245</b>	<b>(14,229)</b>	<b>437</b>	<b>28,197</b>	<b>14,724</b>	<b>47</b>	<b>14,771</b>
<b>Comprehensive income</b>									
Net income		-	-	-	-	(3,683)	(3,683)	13	(3,670)
Other comprehensive (expense)/ income		-	-	-	(517)	1	(516)	(1)	(517)
<b>Total comprehensive (expense)/ income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(517)</b>	<b>(3,682)</b>	<b>(4,199)</b>	<b>12</b>	<b>(4,187)</b>
<b>Transactions with owners</b>									
Treasury shares re-issued		-	-	-	-	61	61	-	61
Share-based payments		-	-	-	-	18	18	-	18
Current tax on share awards		-	-	-	-	4	4	-	4
Cash dividends	9	-	-	-	-	(1,227)	(1,227)	(15)	(1,242)
Transactions with non-controlling interests		-	-	-	-	(18)	(18)	-	(18)
<b>Total transactions with owners</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,162)</b>	<b>(1,162)</b>	<b>(15)</b>	<b>(1,177)</b>
<b>Balance at 31 December 2019</b>		<b>74</b>	<b>245</b>	<b>(14,229)</b>	<b>(80)</b>	<b>23,353</b>	<b>9,363</b>	<b>44</b>	<b>9,407</b>

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14)

<sup>2</sup> 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.

## Group Cash Flow Statement

### For the 12 months ended 31 December 2019 (unaudited)

For the year ended 31 December	Note	Unaudited 2019 £m	Unaudited 2018 (Restated) <sup>1</sup> £m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from continuing operations	11	3,408	3,400
Interest paid		(371)	(396)
Interest received		161	75
Tax paid		(647)	(567)
Net cash flows attributable to discontinued operations	13	(1,140)	12
<b>Net cash generated from operating activities</b>		<b>1,411</b>	<b>2,524</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(306)	(342)
Purchase of intangible assets		(137)	(95)
Proceeds from the sale of property, plant and equipment		37	24
Acquisition of businesses, net of cash acquired	12	(18)	-
Purchase of equity instruments - FVOCI		(18)	(9)
<b>Net cash used in investing activities</b>		<b>(442)</b>	<b>(422)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Treasury shares re-issued		61	105
Proceeds from borrowings		1,548	697
Repayment of borrowings		(1,122)	(2,314)
Dividends paid to owners of the parent company	9	(1,227)	(1,187)
Dividends paid to non-controlling interests		(15)	(13)
Other financing activities		(75)	24
<b>Net cash used in financing activities</b>		<b>(830)</b>	<b>(2,688)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>139</b>	<b>(586)</b>
Cash and cash equivalents at beginning of the year		1,477	2,117
Exchange losses		(69)	(54)
<b>Cash and cash equivalents at end of the year</b>		<b>1,547</b>	<b>1,477</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and cash equivalents		1,549	1,483
Overdrafts		(2)	(6)
		<b>1,547</b>	<b>1,477</b>

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

## 1 ACCOUNTING POLICIES

### General

Reckitt Benckiser Group plc is a public limited company listed on the London Stock Exchange and incorporated and domiciled in England. The address of its registered office is 103-105 Bath Road, Slough, Berkshire, SL1 3UH.

These condensed Financial Statements have not been audited.

### Basis of Preparation

These condensed Financial Statements for the year ended 31 December 2019 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. They have been prepared in accordance with the recognition, measurement and presentation requirements of EU endorsed International Financial Reporting Standards ("IFRSs") but do not comply with the full disclosure requirements. The condensed Financial Statements have also been prepared in accordance with the recognition, measurement and presentation requirements of IFRS as issued by the IASB but do not comply with the full disclosure requirements.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2019 or 2018. The financial information for 2018 is derived from the statutory accounts for 2018 after making adjustments for the adoption of IFRS 16 (see note 14). The statutory accounts for 2018 have been delivered to the registrar of companies. The auditor has reported on the 2018 statutory accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2019 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

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 is well placed to manage its business risks successfully despite the current uncertain global economic outlook. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence. The Group therefore continues to adopt the going concern basis of accounting in preparing these condensed Financial Statements.

### Accounting Policies and Estimates

With the exception of those changes described below, the accounting policies adopted in the preparation of the condensed Financial Statements are consistent with those described on pages 142-150 of the Annual Report and Financial Statements for the year ended 31 December 2018.

#### *IFRIC 23 Uncertainty over Income Tax Treatments*

On 1 January 2019 the Group adopted *IFRIC 23 Uncertainty over Income Tax Treatments*. IFRIC 23 further clarifies the accounting for uncertainty in income taxes under IAS 12. The adoption did not lead to any changes to the opening balance of retained earnings and no material impact on the Income Statement.

#### *IFRS 16 Leases*

On 1 January 2019, the Group adopted *IFRS 16 Leases*, using the full retrospective approach to previous periods and applying *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*. Comparative reported numbers relating to 2018 have been restated. Deferred tax adjustments relating to the restatement have not been made as they are not material. The impact of the restatement is included in Note 14.

The standard requires recognition of a 'right of use' asset, representing the right to use the underlying asset and a liability, representing the obligation to make lease payments, for almost all lease contracts. The impact on the Income Statement is that former lease-operating expenses are replaced by depreciation and interest. Total expenses (depreciation for 'right of use' assets and interest on lease liabilities) are higher in the earlier years of a typical lease and lower in the later years, in comparison with former accounting for operating leases. The main

impact on the Statement of Cash Flows is higher cash flows from operating activities, since cash payments for the principal part of the lease liability are classified in the net cash flow from financing activities.

For leases in place on 1 January 2019 *IFRS 16* is only applied for contracts that constituted a lease under *IAS 17 Leases* or *IFRIC 4 Determining Whether an Arrangement Contains a Lease*.

In response to *IFRS 16*, the Group has updated its lease accounting policy as follows:

The Group has various lease arrangements for buildings (such as offices and warehouses), cars, and IT and other equipment. Lease terms are negotiated on an individual basis locally and furthermore subjected to domestic rules and regulations. This results in a wide range of different terms and conditions. At the inception of a lease contract, the Group assesses whether the contract conveys the right to control the use of an identified asset for a certain period in exchange for a consideration, in which case it is identified as a lease. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. Lease related assets and liabilities are measured on a present value basis. Lease related assets and liabilities are subjected to re-measurement when either terms are modified or lease assumptions have changed. Such an event results in the lease liability being re-measured to reflect the measurement of the present value of the remaining lease payments, discounted using the discount rate at the point of the change. The lease assets are adjusted to reflect the change in the re-measured liabilities.

#### Right of use assets

Right of use assets are measured at cost and at the inception of the lease may include the following components:

- The initial measurement of the lease liability;
- Prepayments before commencement date of the lease;
- Initial direct costs; and
- Costs to restore.

The right of use assets are reduced for lease incentives relating to the lease. The right of use assets are depreciated on a straight-line basis over the duration of the contract. In the event that the lease contract becomes onerous, the right of use asset is impaired for the part which has become onerous.

#### Lease liabilities

Lease liabilities include the net present value of the following components:

- Fixed payments excluding lease incentive receivables;
- Future contractually agreed fixed increases; and
- Payments related to renewals or early termination, when options to renew or for early termination are reasonably certain to be exercised.

The lease payments are discounted using the interest rate implicit in the lease. If such a rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The discount rate that is used to calculate the present value reflects the interest rate applicable to the lease at inception of the contract. Lease contracts entered into in a currency different than the local functional currency are subjected to periodic foreign currency revaluations that are recognised in the Income Statement in net finance expenses.

The lease liabilities are subsequently increased by the interest costs on the lease liabilities and decreased by lease payments made.

#### Subleases

The Group subleases some of its right of use assets. In these instances, the Group is an intermediate lessor. The majority of the Group's sublease arrangements are classified as operating leases. Sublease contracts with the classification of operating leases results in sublease income being recognised periodically during the sub-  
rental period. Operating subleases have no impact to the right of use asset measurement.

A number of new IFRS amendments and interpretations are effective for annual periods beginning on or after 1 January 2020 and have not yet been applied in preparing these condensed Financial Statements. None of these are expected to have a significant effect on the Financial Statements of the Group.

In preparing these condensed Financial Statements, the significant estimates and judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group financial statements for the year ended 31 December 2018.

## 2 OPERATING SEGMENTS

The Group's operating segments comprise of RB Health and RB Hygiene Home business units reflecting the way in which information is presented to and reviewed by the Group's Chief Operating Decision Maker (CODM) for the purposes of making strategic decisions and assessing group-wide performance.

The CODM is the Group Executive Committee. This Committee is responsible for the implementation of strategy (approved by the Board), the management of risk (delegated by the Board) and the review of group operational performance and ongoing business integration.

The Executive Committee assesses the performance of these 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 each is managed on a centralised basis.

The segment information provided to the Executive Committee for the periods ended 31 December 2019 and 31 December 2018 is as follows:

Year ended 31 December 2019	RB Health	RB Hygiene	Total
	£m	Home £m	
Net revenue	7,815	5,031	12,846
Adjusted operating profit	2,088	1,279	3,367
Adjusting items <sup>2</sup>			(5,321)
Operating loss			(1,954)
Net finance expense			(153)
Loss before income tax			(2,107)

Year ended 31 December 2018 (restated) <sup>1</sup>	RB Health	RB Hygiene	Total
	£m	Home £m	
Net revenue	7,762	4,835	12,597
Adjusted operating profit	2,213	1,156	3,369
Adjusting items <sup>2</sup>			(311)
Operating profit			3,058
Net finance expense			(338)
Profit before income tax			2,720

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

<sup>2</sup> Adjusting items are set out in Note 3.

## 3 ADJUSTING ITEMS

The Group uses certain adjusted earnings measures, including Adjusted Operating Profit and Adjusted Net Income, to provide additional clarity about the underlying performance of the business.

The Group makes reference to adjusting items in presenting the Group's principal adjusted earnings measures. These comprise exceptional items, other adjusting items, and the reclassification of finance expenses on tax balances:

- Exceptional items are material, non-recurring items of expense or income, which are relevant to an understanding of the underlying performance and trends of the business.
- Other adjusting items comprise the amortisation of certain fair value adjustments recorded in respect of finite-life intangible assets recognised in the purchase price allocation for the acquisition of MJN. We adjust for these charges because their pattern of recognition is largely uncorrelated with the underlying



performance of the business.

- Adjusting items include a reclassification of finance expenses on tax balances into income tax expense, to align with the Group's tax guidance. As a result, these expenses are presented as part of income tax expense in the adjusted profit before income tax measure.

The table below provides a reconciliation of the Group's reported statutory earnings measures to its adjusted measures for the year ended 31 December 2019:

Year ended 31 December 2019	Reported £m	Adjusting: Exceptional items £m	Adjusting: Other items £m	Adjusting: Finance expense reclass £m	Adjusted £m
<b>Operating (Loss)/ Profit</b>	(1,954)	5,240 <sup>2</sup>	81 <sup>3</sup>	-	3,367
<b>Net finance expense</b>	(153)	-	-	(35) <sup>4</sup>	(188)
<b>(Loss)/ profit before income tax</b>	(2,107)	5,240	81	(35)	3,179
<b>Income tax expense</b>	(665)	(45) <sup>2</sup>	(18) <sup>3</sup>	35 <sup>4</sup>	(693)
<b>Net (loss)/ income for the year from continuing operations</b>	(2,772)	5,195	63	-	2,486
<b>Less: Attributable to non-controlling interests</b>	(13)	-	-	-	(13)
<b>Continuing net (loss)/ income attributable to owners of the parent company</b>	(2,785)	5,195	63	-	2,473
<b>Net loss for the year from discontinued operations</b>	(898) <sup>1</sup>	898	-	-	-
<b>Total net (loss)/ income attributable to owners of the parent company</b>	(3,683)	6,093	63	-	2,473

1. Exceptional items within discontinued operations of £898 million relate to the current year charge of the settlement amount for US Department of Justice ("DoJ") and the US Federal Trade Commission investigations. Refer to Note 13 for further details.
2. Exceptional items within Operating Profit of £5,240 million relate to:
  - MJN integration / RB2.0 costs of £113 million;
  - Restructuring and other projects of £11 million;
  - IFCN impairment of goodwill of £5,037 million; and
  - Oriental Pharma impairment of intangible assets of £79 million.

Included within income tax expense is a £45 million income tax credit for these exceptional costs.
3. Other adjusting items of £81 million relate to the amortisation of certain intangible assets recognised as a result of the acquisition of MJN, charged during the period ended 31 December 2019. Included within income tax expense is a £18 million income tax credit in respect of these costs.
4. Adjusting items of £35 million relate to the reclassification of interest on income tax balances from finance expense to income tax expense in the adjusting measure.

The table below provides a reconciliation of the Group's reported statutory earnings measures to its adjusted measures for the year ended 31 December 2018:

Year ended 31 December 2018 (Restated) <sup>5</sup>	Reported <sup>5</sup> £m	Adjusting: Exceptional items £m	Adjusting: Other items £m	Adjusting: Finance expense reclass £m	Adjusted £m
<b>Operating Profit</b>	3,058	233 <sup>2</sup>	78 <sup>3</sup>	-	3,369
<b>Net finance expense</b>	(338)	-	-	29 <sup>4</sup>	(309)
<b>Profit before income tax</b>	2,720	233	78	29	3,060
<b>Income tax expense</b>	(536)	(50) <sup>2</sup>	(17) <sup>3</sup>	(29) <sup>4</sup>	(632)
<b>Net income for the year from continuing operations</b>	2,184	183	61	-	2,428
<b>Less: Attributable to non-controlling interests</b>	(20)	-	-	-	(20)
<b>Continuing net income attributable to owners of the parent company</b>	2,164	183	61	-	2,408
<b>Net loss for the year from discontinued operations</b>	(5) <sup>1</sup>	5	-	-	-
<b>Total net income attributable to owners of the parent company</b>	2,159	188	61	-	2,408

1. Exceptional items within discontinued operations relate to a foreign exchange loss of £17 million on the provision booked in prior year for ongoing investigations by the US Department of Justice ("DoJ") and the US Federal Trade Commission, offset by further consideration from McCormick & Company, Inc of £12 million relating to the 2017 sale of RB Food.
2. Exceptional items within Operating Profit of £233 million relate to:
  - MJN integration / RB2.0 costs of £185 million; and
  - Restructuring, Supercharge and other project costs of £48 million.

Included within income tax expense is a £50 million income tax credit for these exceptional costs.
3. Other adjusting items of £78 million relate to the amortisation of certain intangible assets recognised as a result of the acquisition of MJN, charged during the period ended 31 December 2018. Included within income tax expense is a £17 million income tax credit in respect of these costs.
4. Adjusting items of £29 million relate to the reclassification of interest on income tax balances from finance expense to income tax expense in the adjusting measure.
5. Restated for the adoption of IFRS16 (Note 14).

## 4 INCOME TAXES

	2019	2018
	£m	£m
Current tax	640	545
Adjustment in respect of prior periods	36	50
<b>Total current tax</b>	<b>676</b>	<b>595</b>
Origination and reversal of temporary differences	(10)	(59)
Impact of changes in tax rates	(1)	-
Total deferred tax	(11)	(59)
<b>Income tax expense</b>	<b>665</b>	<b>536</b>

The reported tax rate was -32% (2018: 20%). The adjusted tax rate on ordinary activities, which excludes the impact of adjusting items, was 22% (2018: 21%), as per Note 3.

On 25 April 2019 the European Commission (“EC”) released its decision concluding that the UK Controlled Foreign Company (“CFC”) Legislation up to 31 December 2018 partially represented State Aid. On 12 June 2019 the UK government applied to annul the EC decision.

The Group’s application to annul the EC decision on the CFC Group Financing Exemption was registered in the General Court on 4 November 2019. The Group believes no provision is required at this time.

## 5 EARNINGS PER SHARE

	2019	2018
	pence	(Restated) <sup>1</sup> pence
Basic (loss)/ earnings per share		
From continuing operations	(393.0)	306.6
From discontinued operations	(126.7)	(0.7)
<b>Total basic (loss)/ earnings per share</b>	<b>(519.7)</b>	<b>305.9</b>
Diluted (loss)/ earnings per share		
From continuing operations	(393.0)	305.2
From discontinued operations	(126.7)	(0.7)
<b>Total diluted (loss)/ earnings per share</b>	<b>(519.7)</b>	<b>304.5</b>
Adjusted basic earnings per share		
From continuing operations	349.0	341.1
From discontinued operations	-	-
<b>Total adjusted basic earnings per share</b>	<b>349.0</b>	<b>341.1</b>
Adjusted diluted earnings per share		
From continuing operations	349.0	339.6
From discontinued operations	-	-
<b>Total adjusted diluted earnings per share</b>	<b>349.0</b>	<b>339.6</b>

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

### Basic

Basic earnings per share is calculated by dividing the net income attributable to owners of the parent company from continuing operations (2019: £2,785 million loss; 2018: £2,164 million income) and discontinued operations (2019: £898 million loss; 2018: £5 million loss) by the weighted average number of ordinary shares in issue during the year (2019: 708,688,420; 2018: 705,903,566).

### 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 2019 there were 7,970,362 (2018: 4,628,897) Executive Share Awards excluded from the dilution because the exercise price for the options was greater than the average share price for the year or the performance criteria have not been met. In 2019, there were potential dilutive ordinary shares of 6,736,386 Executive Share Awards and 1,355,909 Employee Sharesave Scheme Options excluded from the dilution. As there is a net loss from continuing operations in 2019, the effect of these potentially dilutive shares is anti-dilutive.

	<b>2019 Average number of shares</b>	2018 Average number of shares
On a basic basis	<b>708,688,420</b>	705,903,566
Dilution for Executive Share Awards <sup>1</sup>	-	2,908,086
Dilution for Employee Sharesave Scheme Options outstanding <sup>1</sup>	-	192,973
On a diluted basis	<b>708,688,420</b>	709,004,625

<sup>1</sup> As there is a loss in 2019, the effect of potentially dilutive shares is anti-dilutive.

## Adjusted earnings

Details of the adjusted net income attributable to owners of the parent company are as follows:

	<b>2019 £m</b>	2018 (Restated) <sup>1</sup> £m
<b>Continuing operations</b>		
Net (loss)/ income attributable to owners of the parent company	<b>(2,785)</b>	2,164
Exceptional items, net of tax (Note 3)	<b>5,195</b>	183
Other Adjusting items, net of tax (Note 3)	<b>63</b>	61
Adjusted net income attributable to owners of the parent company	<b>2,473</b>	2,408
<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).		
<b>Discontinued operations</b>		
Net (loss) attributable to owners of the parent company	<b>(898)</b>	(5)
Exceptional items, net of tax (Note 3)	<b>898</b>	5
Adjusted net income attributable to owners of the parent company	<b>-</b>	-

## 6 GOODWILL AND INTANGIBLE ASSETS

	<b>Brands £m</b>	<b>Goodwill £m</b>	<b>Software £m</b>	<b>Other £m</b>	<b>Total £m</b>
<b>Net book value</b>					
<b>At 1 January 2018</b>	<b>17,700</b>	<b>11,501</b>	<b>152</b>	<b>134</b>	<b>29,487</b>
Additions and arising on business combinations	-	28	94	-	122
Disposals, amortisation and impairment	(61)	-	(40)	(22)	(123)
Reclassification and exchange adjustments	481	304	4	3	792
<b>At 31 December 2018</b>	<b>18,120</b>	<b>11,833</b>	<b>210</b>	<b>115</b>	<b>30,278</b>
Additions and arising on business combinations	1	14	136	-	151
Disposals, amortisation and impairment	(141)	(5,037)	(48)	(24)	(5,250)
Reclassification and exchange adjustments	(559)	(348)	(18)	7	(918)
<b>At 31 December 2019</b>	<b>17,421</b>	<b>6,462</b>	<b>280</b>	<b>98</b>	<b>24,261</b>

## Annual Impairment Review

Goodwill and indefinite life intangible assets must be tested for impairment on at least an annual basis. An impairment loss is recognised when the recoverable amount of a cash generating unit (CGU) or group of cash generating units (GCGU) falls materially below its net book value at the date of testing.

The determination of recoverable amount, being the higher of value-in-use and fair value less costs to dispose, is inherently judgemental and requires management to make multiple estimates, for example around individual market pressures and forces, future price and volume growth, future margins, terminal growth rates and discount rates.

When forecasting the annual cashflows that support the recoverable amount calculations, the Group generally uses its short-term budgets and medium-term strategic plans, with additional senior management and board-level review. Cashflows beyond the five-year period are projected using steady or progressively declining growth rates followed by a terminal growth rate. These rates do not exceed the long-term average growth rate for the products and markets in which the GCGU or CGU operates.

The cashflows are discounted back to their present value using a pre-tax rate considered appropriate for each GCGU and CGU. In 2019, as in 2018, these rates have been derived from management's views on the relevant weighted average cost of capital, subsequently converted to the pre-tax equivalent rate.

## IFCN

On 15 June 2017, the Group acquired 100% of the issued share capital of MJN for cash consideration of £13,044 million (\$16,642 million). The acquisition was treated as a business combination and hence both the assets acquired, and liabilities assumed, were brought onto the Group Balance Sheet at their fair value.

In 2018, the IFCN impairment assessment indicated that the IFCN recoverable amount exceeded the net book value by less than 10 percent. This was largely expected given the original 2017 fair valuation exercise and the 2018 disruption at our European manufacturing plant which negatively impacted supply to a number of markets, in particular China. Given the lack of headroom, relevant sensitivity disclosures were included in the 2018 Annual Report and Financial Statements.

As 2019 progressed, IFCN financials fell below forecasts. This was primarily due to:

- increased competition in China, particularly from domestic infant nutrition companies;
- an ongoing weakening of China market growth as a result of lower-than-expected birth rates;
- disruption to Hong Kong cross-border trade, leading to a loss of customers using this channel;
- tougher-than expected trading conditions in ASEAN and LATAM;
- increased investment within the IFCN supply chain in order to provide increased resilience and long-term flexibility; and
- a longer and more challenging process relating to the integration of MJN within the wider RB Group.

In response to its assessment of these drivers, the Group revised down in late 2019 its short and medium-term expectations relating to IFCN net revenue and margins. These updated expectations were incorporated into the 2019 IFCN impairment assessment, which was performed as of 31 December 2019.

The tables below show the expected growth rates included within both the 2019 impairment assessment and the 2018 impairment assessment. In the 2019 assessment, management has assumed that net revenue growth over the medium-term (2025 to 2029) will be consistent with the terminal growth rate (applied from 2030 onwards) and that margins will remain reasonably stable.

	<b>2019</b>
Annual growth in Net Revenue between 2020 and 2029 <sup>1</sup>	<b>2% to 4%</b>
Annual growth in Gross Margin between 2020 and 2029 <sup>1</sup>	<b>2% to 4%</b>
<hr/>	
	2018
Annual growth in Net Revenue between 2019 and 2028 <sup>1</sup>	3% to 6%
Annual growth in Gross Margin between 2019 and 2028 <sup>1</sup>	4% to 9%

<sup>1</sup> At constant exchange rates, excluding the impact of future foreign exchange movements

The 2019 assessment indicated that the recoverable amount was equal to £9,890m. The recoverable amount was calculated on a value-in-use basis using an implied pre-tax discount rate of 9.0% (2018: 10.0%) and an IFCN-specific terminal growth rate of 2.5% (2018: 3.0%).

As a result, the Group has recognised an impairment loss of £5,037m. In accordance with IFRS, this impairment loss has been fully recognised against IFCN goodwill recognised on acquisition and subsequently reported within the Health operating segment.

Given its nature and size, the IFCN recoverable amount incorporates multiple key estimates. These are summarised in the table on the next page.

Key estimates	Commentary
Greater China market	In the short to medium-term, management expects that Greater China will continue to be impacted by increased competition and regulation combined with generally subdued domestic birth rates.
US market	In the US, management expects to benefit from reasonably stable market conditions. Tendering for WIC contracts is expected to remain highly competitive.
Net Revenue	In the short to medium-term, management expects to achieve Net Revenue growth (excluding the impact of foreign exchange movements) of between 2% and 4% per annum. This is expected to be achieved through ongoing premiumisation, price growth and volume growth.
Margins	In the short to medium-term, management has assumed that IFCN will generally be able to maintain current actual margins (both gross and operating).
Discount rate	As in prior years, management engaged a third-party expert to help calculate an IFCN-specific weighted-average cost of capital (WACC) and the implied pre-tax discount rate. In addition, management performed benchmarking against other comparable companies. For valuation purposes, management used the mid-point of the calculated range. The current year movement in the discount rate is primarily due to the incorporation of additional risk and inflation-rate differentials within the underlying cashflows rather than within the discount rate.
Terminal growth rate	As in prior years, management engaged a third-party expert to help calculate an IFCN-specific terminal growth rate. Management is satisfied with the reasonableness of this rate when compared against independent market growth projections and long-term country inflation rates.

Following the recognition of the impairment loss in 2019, there is now no headroom between the IFCN recoverable amount and the IFCN carrying value. Consequently, any material deterioration in the macro or business-level assumptions supporting the IFCN recoverable amount as of 31 December 2019 would necessitate the recognition of further impairment losses.

The table below shows the sensitivity of the 2019 valuation to reasonable changes in key assumptions. The table assumes no related response by management (e.g. to drive further cost savings) and is hence theoretical in nature.

	(£m)
Expected Net Revenue growth rates (2020 to 2029) adjusted by 100 bps	+/- 1,000
Expected EBIT growth rates (2020 to 2029) adjusted by 100 bps	+/- 700
Terminal growth rate (applied from 2030) adjusted by 50 bps	+/- 700
Pre-tax discount rate adjusted by 50 bps	+/- 800

Despite the recognition of the current year impairment loss, management remains confident about the long-term prospects of IFCN. Since 2017, the strength of the IFCN innovation pipeline has improved and the benefits of this are expected to be seen over coming years. In addition, management is working to progress and capitalise on multiple “white space” opportunities, the potential benefits of which have not been incorporated into the 2019 IFCN valuation in accordance with IFRS.

### ***Oriental Pharma***

Following the 2019 impairment assessment (performed as of 31 December 2019), management recognised a £79 million impairment loss relating to the Oriental Pharma CGU. The incurrence of this loss was due to lower than expected growth compared to 2019 forecasts and a subsequent reassessment of future growth expectations.

The impairment loss was calculated on a value-in-use basis using a pre-tax discount rate of 15.0% (2018: 13.3%) and a terminal growth rate of 3.0% (2018: 3.0%). The loss impacted intangible assets included within the Health operating segment. The remaining net book value is £62 million.

## **7 NET DEBT**

	2019	2018
	(Restated) <sup>1</sup>	
	£m	£m
<b>Analysis of net debt</b>		
Cash and cash equivalents	1,549	1,483
Overdrafts	(2)	(6)
Cash and cash equivalents(excluding overdrafts)	1,547	1,477
Borrowings (excluding overdrafts)	(11,866)	(11,872)
Derivative financial instruments (debt)	(105)	(10)
Lease Liabilities <sup>2</sup>	(325)	(341)
Financing liabilities	(12,296)	(12,223)
<b>Net debt at end of year</b>	<b>(10,749)</b>	<b>(10,746)</b>

<sup>1</sup> Restated for the adoption of IFRS16 (Note 14)

<sup>2</sup> Borrowings as at 31 December 2018 has been restated to present £1m of finance leases under IAS17 as lease liabilities under IFRS16

The Group uses derivative financial instruments to hedge certain elements of interest rate and exchange risk on its net debt. The split between these items and other derivatives on the Balance Sheet is shown below:

£m	Assets	Liabilities
	Current	Current
Derivative financial instruments (debt)	4	(109)
Derivative financial instruments (non-debt)	26	(29)
<b>At 31 December 2019</b>	<b>30</b>	<b>(138)</b>

Note that non-current derivative assets are presented within other non-current receivables on the Balance Sheet.

	Cash and cash equivalents	Financing liabilities	2019 Net Debt	2018 Net Debt
	£m	£m	(Restated) <sup>1</sup>	(Restated) <sup>1</sup>
At 1 January	1,477	(12,223)	(10,746)	(11,095)
Net (decrease)/increase in cash and cash equivalents	139	-	139	(586)
Proceeds from borrowings	-	(1,548)	(1,548)	(697)
Repayment of borrowings	-	1,122	1,122	2,314
Other financing cash flows	-	75	75	(24)
New lease liabilities	-	(63)	(63)	(48)
Exchange, fair value and other movements	(69)	341	272	(610)
<b>At 31 December</b>	<b>1,547</b>	<b>(12,296)</b>	<b>(10,749)</b>	<b>(10,746)</b>

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

## 8 PROVISIONS FOR LIABILITIES AND CHARGES

	Legal provisions	Restructuring provisions	Other provisions	Total provisions
	£m	£m	£m	£m
At 1 January 2018 (Restated) <sup>1</sup>	501	26	71	598
Charged to the Income Statement	38	44	30	112
Arising on business combinations	-	-	31	31
Utilised during the year	(74)	(18)	(28)	(120)
Released to the Income Statement	(5)	(1)	(5)	(11)
Exchange adjustments	1	1	(1)	1
<b>At 31 December 2018 (Restated)<sup>1</sup></b>	<b>461</b>	<b>52</b>	<b>98</b>	<b>611</b>
Charged to the Income Statement	82	19	24	125
Utilised during the year	(381)	(45)	(14)	(440)
Released to the Income Statement	(7)	(14)	(35)	(56)
Exchange adjustments	(4)	-	(2)	(6)
<b>At 31 December 2019</b>	<b>151</b>	<b>12</b>	<b>71</b>	<b>234</b>

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

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

	2019	2018
	(Restated) <sup>1</sup>	(Restated) <sup>1</sup>
Current	£m 178	£m 537
Non-current	£m 56	£m 74
	<b>234</b>	<b>611</b>

<sup>1</sup> Restated for the adoption of IFRS 16 (see Note 14).

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 £151 million (2018: £461 million) include exceptional legal provisions of £126 million (2018: £431 million) in relation to a number of historic regulatory matters in a number of markets, predominantly the HS issue in South Korea and the “DoJ” investigation. During the year, a number of payments were made to claimants in respect of the HS issue in South Korea, and settlement of the DOJ investigation.

The restructuring provision relates principally to business integration costs associated with the acquisition of MJN and subsequent RB2.0 reorganisation, the majority of which is expected to be utilised within one year.

Other provisions include environmental and other obligations throughout the Group, the majority of which are expected to be utilised within five years.

## 9 DIVIDENDS

### Cash dividend distributions

	2019	2018
	£m	£m
<b>Cash dividends on equity ordinary shares:</b>		
2018 Final paid: 100.2p (2017: Final 97.7p) per share	709	688
2019 Interim paid: 73p (2018: Interim 70.5p) per share	518	499
Total dividends for the year	1,227	1,187

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2019 of 101.6p per share which will absorb an estimated £721 million of Shareholders' funds. If approved by Shareholders it will be paid on 28 May 2020 to Shareholders who are on the register on 17 April 2020, with an ex-dividend date of 16 April 2020.

## 10 CONTINGENT LIABILITIES AND ASSETS

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*

The Humidifier Sanitiser ("HS") issue in Korea is a tragic event. The Group continues to make both public and personal apologies to victims. There are a number of further expected costs relating to the issue that either cannot be reliably estimated or are not considered probable at the current time. In particular:

1. Round 4 lung injury: The South Korean government opened Round 4 to new applicants on 25 April 2016 for an indefinite period. It has received 5,453 applications to participate in Round 4 as at 20 February 2020 and continues to receive applications. Oxy RB has continued to make payments under a compensation plan during 2019 and made provision for the Round 4 Oxy RB Category I & II users categorised to date. The number of additional victims in Round 4 cannot be reliably estimated at the current time as it is open for an indefinite period.
2. Asthma related injury and other potential lung or non-lung injuries: A damage relief committee set up by the Ministry of Environment ("MOE") announced a recognition standard for asthma caused by HS, based on the increased incidence of asthma in HS users. From 23 July 2018 HS users can apply for asthma-only categorisation as part of Round 4. No provision has been made because:
  - a) No detailed underlying data has yet been made available in respect of general causation of asthma injuries by HS, although 397 victims have been announced by the MOE as at 17 January 2020; and
  - b) It is not possible to estimate the total number of applicants across all rounds (including future asthma-only claims in Round 4) and therefore the total number of potential victims with potential asthma injuries or for any other injuries that the MOE may decide to recognise.
3. On 18 September 2019, a South Korean appellate court overturned a lower court's decision and awarded damages of KRW 5 million (approximately £3,200) to an Oxy RB HS user who had been classified as category 3 claimant. The South Korean government classifies HS claimants into 4 categories depending on the degree of causation between their lung injury and HS exposure. Category 1 and 2 HS claimants are defined by law as those being "almost certain" or having a "high possibility" of having been injured by HS products, with category 3 claimants being considered to have only a "low possibility" of a connection between their lung injuries and HS exposure. The appellate court became the first to rule that category 3 plaintiffs can be entitled to damages from HS manufacturers. Oxy RB disagrees with the court's ruling and has appealed to the Supreme Court. There are currently 327 category 3 claimants classified by the South Korean government. We are currently unable to quantify the liability for category 3 claimants, if any, at this juncture. Category 4 claimants are also advocating that they should receive compensation.
4. On 26 July 2019, the South Korean government announced the recognition of toxic hepatitis as a HS injury. No data supporting the South Korean government's finding has been made available. The government plans to develop categorisation standards for HS-induced toxic hepatitis and start categorising existing HS applicants after the standards have been developed.

5. On 15 November 2019, the South Korean government announced the recognition of child interstitial lung disease as a HS injury. The South Korean government has not yet publicly made available the underlying data supporting its finding that the disease can be caused by HS exposure. Although the South Korean government announced that it had established the criteria for categorising child interstitial lung disease victims, the criteria have not yet been publicly disclosed.
6. The Group continues to assess and, where appropriate, pursue rights which Oxy RB may have to recover sums from other involved parties.
7. On 9 August 2017, the Humidifier Sanitiser Injury Special Relief Act became effective and further amendments have since been introduced and are currently pending in the National Assembly. These would further expand the scope of liability of HS companies and lower the burden of proof required for claimants to make an HS claim. Given the high profile and complex nature of this issue, the amendments to this Act, the rules and regulations issued pursuant to this Act and other legal or governmental proposals or developments in South Korea may give rise to further financial liability for RB.

## 11 CASH GENERATED FROM OPERATIONS

	Unaudited 2019 £m	Unaudited 2018 <sup>1</sup> (Restated) £m
<b>For the year ended 31 December</b>		
<b>Operating (loss)/ profit from continuing operations<sup>2</sup></b>	<b>(1,954)</b>	3,058
Depreciation, amortisation and impairment	5,554	409
(Losses)/ gains on sale of property, plant and equipment	(4)	9
(Increase) in inventories	(87)	(68)
(Increase) in receivables	(150)	(103)
Increase in payables and provisions	31	81
Share-based payments	18	14
<b>Cash generated from continuing operations</b>	<b>3,408</b>	3,400

<sup>1</sup>Restated for adoption of IFRS 16 (see Note 14)

<sup>2</sup> Includes adjusting items of £81 million (2018: £78 million) amortisation on acquisition-related intangibles and £5,116 million of impairment on goodwill and intangible assets (note 6).

## 12 ACQUISITIONS

On 22 February 2019, the Group completed the acquisition of 100% of the issued share capital of UpSpring, Ltd, an innovative pre and post-natal healthcare company based in Texas, USA.

## 13 DISCONTINUED OPERATIONS

On 11 July 2019, the Group announced it had reached agreements with the U.S. Department of Justice (“DoJ”) and the U.S. Federal Trade Commission (“FTC”) to resolve the long-running investigation into the sales and marketing of Suboxone Film by its former prescription pharmaceuticals business Indivior, a business that was wholly demerged from the Group in 2014.

Under the terms of the agreements, the Group agreed to pay a total of \$1.4 billion (£1.1 billion) to fully resolve all federal investigations into the Group in connection with the subject matter of the Indivior indictment and claims relating to state Medicaid programs for those states choosing to participate in the settlement. The resolution will also protect the Group’s participation in all U.S. government programmes. As of 31 December 2019, \$1.4 billion has been paid.

While the Group has acted lawfully at all times and expressly denies all allegations that it engaged in any wrongful conduct, after careful consideration, the Board of the Group determined that the agreement is in the best interests of the company and its shareholders. It avoids the costs, uncertainty and distraction associated with continued investigations, litigation and the potential for an indictment at a time of significant transformation under RB 2.0 and during CEO transition. This is a non-criminal resolution and is on the basis that there is no admission of any violation of law or any wrongdoing by the Group or any of the Group’s employees.



Details of the amount recorded are as follows:

	£m
<b>Amounts charged within discontinued operations:</b>	
In year ended 31 December 2019	898
In previous periods	313
<b>Total liability</b>	<b>1,211</b>
<b>Amounts recorded in the Balance Sheet at 31 December 2019:</b>	
Provisions	61
Accrual	10
	<b>71</b>
<b>Amounts recorded in the Cash Flow Statement for the year ended 31 December 2019:</b>	
<b>Cash Flows from Operating Activities</b>	
Net cashflow attributable to discontinued operations	1,140
	<b>1,140</b>

## 14 EFFECT OF IMPLEMENTATION OF IFRS 16 'LEASES'

### Group Income Statement

	31 December 2018	Effects of IFRS 16	31 December 2018
	Reported £m	£m	Restated £m
Net operating expenses	(4,588)	11	(4,577)
<b>Operating profit</b>	3,047	11	3,058
Adjusted operating profit	3,358	11	3,369
<b>Operating profit</b>	3,047	11	3,058
Finance expense	(403)	(13)	(416)
Net finance expense	(325)	(13)	(338)
<b>Profit before income tax</b>	2,722	(2)	2,720
<b>Net income for the period from continuing operations</b>	2,186	(2)	2,184
<b>Net income for the period</b>	2,181	(2)	2,179
Attributable to owners of the parent	2,161	(2)	2,159
<b>Net income for the period</b>	2,181	(2)	2,179
<b>Basic earnings per ordinary share:</b>			
From continuing operations (pence)	306.8	(0.2)	306.6
From total operations	306.1	(0.2)	305.9
<b>Diluted earnings per ordinary share:</b>			
From continuing operations (pence)	305.5	(0.3)	305.2
From total operations	304.8	(0.3)	304.5

## Group Balance Sheet

	31 December 2018	Effects of IFRS 16	31 December 2018
	Reported £m	£m	Restated £m
<b>ASSETS</b>			
Property, plant and equipment	1,858	304	2,162
<b>Total non-current assets</b>	<b>32,698</b>	<b>304</b>	<b>33,002</b>
<b>Total assets</b>	<b>37,650</b>	<b>304</b>	<b>37,954</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short-term borrowings (including lease liabilities)	(2,209)	(60)	(2,269)
Provisions for liabilities and charges	(542)	5	(537)
	(7,614)	(55)	(7,669)
<b>Non-current liabilities</b>			
Long-term borrowings (including lease liabilities)	(9,670)	(280)	(9,950)
Provisions for liabilities and charges	(87)	13	(74)
	(15,247)	(267)	(15,514)
<b>Total liabilities</b>	<b>(22,861)</b>	<b>(322)</b>	<b>(23,183)</b>
<b>Net assets</b>	<b>14,789</b>	<b>(18)</b>	<b>14,771</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Retained earnings	28,215	(18)	28,197
Attributable to owners of the parent	14,742	(18)	14,724
<b>Total equity</b>	<b>14,789</b>	<b>(18)</b>	<b>14,771</b>

## Group Cash Flow Statement

	31 December 2018	Effects of IFRS 16	31 December 2018
	Reported £m	£m	Restated £m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from continuing operations	3,330	70 <sup>1</sup>	3,400
<b>Net cash generated from operating activities</b>	<b>2,454</b>	<b>70</b>	<b>2,524</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Net cash used in investing activities</b>	<b>(422)</b>	<b>-</b>	<b>(422)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings (including lease liabilities)	(2,244)	(70)	(2,314)
<b>Net cash (used in) / from financing activities</b>	<b>(2,618)</b>	<b>(70)</b>	<b>(2,688)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(586)</b>	<b>-</b>	<b>(586)</b>
<b>Cash and cash equivalents at end of the period</b>	<b>1,477</b>	<b>-</b>	<b>1,477</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and cash equivalents	1,483	-	1,483
Overdrafts	(6)	-	(6)
	1,477	-	1,477

<sup>1</sup> Includes £60m depreciation, amortisation and impairment.

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