



HEALTH ▸ HYGIENE ▸ HOME

# A global force in health & hygiene

2014

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Reckitt Benckiser Group plc ('RB')  
Annual Report and Financial Statements

# RB is the global leader in consumer health and hygiene, with operations in approximately 60 countries and sales in almost 200

## Contents



**Chief Executive's Statement**

See page 10

### RB at a Glance

See page 04

- 01 Strategic Report
- 30 Corporate Governance
- 64 Financial Statements
- 126 Our Relationships and Principal Operating Risks
- 133 Management of Sustainability
- 134 Shareholder Information



**Investment Case**

See page 06

Feeling well is at the heart of RB's rapidly growing consumer health business. Making a difference to the lives of consumers means we are expanding our research and innovation to stay ahead of the game. In fact, we are changing the game in consumer health. RB combines a strong commitment to producing top quality, trusted medicines and medical devices with a fast-paced, entrepreneurial and rigorous workplace.

## Our vision

A world where people are healthier and live better.

## Our purpose

To make a difference by giving people innovative solutions for healthier lives and happier homes.



'RB – The global leader in consumer health and hygiene': Global claim based on RB's definition of combined Consumer Health and Hygiene Sales. Data sources: Consumer Health: OTC (Nicholas Hall); Condoms/Devices (ACNielsen); Footcare (ACNielsen – select markets only); Hygiene: RB select categories (Euromonitor).

2014 Highlights

# Another year of growth & outperformance

**Net Revenue (NR)**  
Total and like-for-like net revenue growth

**£8.8bn**

Like-for-like growth

**+4%**



BEI\*

**+£30m**

(at constant exchange rates;  
-10bps of net revenue)

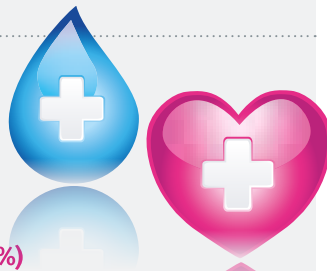
Total investment  
of £1.1 billion

\* Brand Equity Investment

Health and Hygiene

**74%**

of core net revenues (2013: 72%)



864,000 trees  
planted



Products sold annually

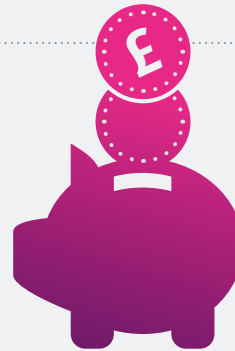
**>7bn**



Gross margin

**+100bps**

to 57.7%



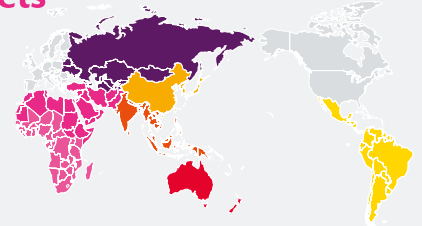
Operating margins  
up +160 bps  
exceeding targets

**24.7%**

Emerging markets  
(RUMEA and  
LAPAC) growth

**+7%**

Like-for-like



Over

**117m**

people reached with health  
and hygiene messaging



Up 14 places  
since 2004 in the  
OTC ranking

Financial performance measures quoted above and used throughout this Report are defined on page 20.

Chairman's Statement

# A year of progress



ADRIAN BELLAMY / Chairman

**“RB’s purpose driven strategy has delivered another year of growth and outperformance in 2014.”**

## Introduction

Three years ago the Group set out a clear strategy to focus its brand portfolio on the faster growth and higher margin consumer health and hygiene categories, and to redeploy its resources to deliver a more evenly balanced revenue stream from emerging and developed markets. The Group's results for 2014 are a clear testament to the validity of this strategy, which is working to create significant value for Shareholders.

Like-for-like net revenue growth was up +4%. Reported operating profit grew +15% on actual currency and +25% on a constant currency basis. Adjusted operating profit grew +2% on actual currency and +11% on a constant currency basis. Reported diluted earnings per share were 441.1p, +85% versus prior year. Total adjusted diluted earnings per share were 268.5p, consistent with 2013.

The Board is confident that the business is in a strong position to deliver sustainable, profitable growth in 2015 and beyond.

## Supercharging our earnings model

It is a testament to the Group's culture that there is a restlessness and ongoing ambition to improve both delivery to consumers and customers, as well as reigniting the earnings model. I am therefore extremely pleased to announce Project Supercharge, an initiative which is fully explained on page 17, which I am confident will make RB a more efficient and effective business. The organisational changes will provide the framework to deliver bigger, better and more scalable innovation, combined with improved in-market activation at a country level. I am confident that this, combined with the cost savings initiatives, will deliver continued growth and outperformance. This will provide rewarding returns for you, our Shareholders.

## Improved focus on our core business

The Group continued to improve its focus on its core business with a strategic acquisition and further brand rationalisation throughout the year.

## Shareholder information

- Investor presentation webcast
- RB.com
- RB Annual Report and Financial Statements 2014
- [www.happier-homes.co.uk](http://www.happier-homes.co.uk)
- Sustainability Report (available April 2015)



Following the strategic review in October 2013, RB Pharmaceuticals was demerged on 23 December 2014 and listed on the London Stock Exchange as Indivior PLC. It was the Board's view that a stand-alone business will be best placed to create value for Shareholders as it manages the challenges and seizes the opportunities within the field of addiction.

In May 2014 we acquired the K-Y brand from Johnson & Johnson in most major markets, which will improve our presence in the sexual wellbeing category, particularly in the US, Canada and Brazil where we were underrepresented.

**Board changes and governance**

As I shared in my statement last year, during 2014 we have been particularly focused on strengthening and refreshing the composition of the Board. In addition to Nicandro Durante, who was appointed as a Non-Executive member of the Board in December 2013, three Non-Executive members were appointed in 2014: Jaspal Bindra, Sue Shim and Doug Tough. Three further appointments of Non-Executive members were effected in February 2015, in Mary Harris, Pam Kirby and Chris Sinclair. These new members will bring a broad range of skills to the Board, and I would like to warmly welcome each of these new appointments. The Board completed its annual assessment of corporate governance, including Board effectiveness, and took proactive steps to address recommended improvements. Strong corporate governance is a key element of our business success and remains at the heart of the Group's delivery of its long-term strategy. My full report on Corporate Governance is given on pages 30 to 63.

**AGM resolutions**

The resolutions, which will be voted upon at our Annual General Meeting (AGM) on 7 May 2015 are fully explained in the Notice of Meeting. I encourage all our Shareholders to attend our AGM.

On behalf of the Board, I would like to thank Rakesh Kapoor and his leadership team for their excellent management of the business and nurturing of an employee culture that continues to drive such excellent results. Many thanks go to our employees globally for their achievement in delivering another strong year for RB.

My thanks go also to my Board colleagues for their continued commitment and guidance. The Board is grateful for the support of our Shareholders and we thank you for your ongoing commitment to RB. I am confident that the strategy being followed by the Group is the right one, and our strong management team is in place to continue to deliver the Group's stated aims of growth and outperformance.

**ADRIAN BELLAMY** / Chairman

**Case study**

**Dettol India – a nationwide campaign for a cleaner India (Banega Swachh)**

Since 2006, Dettol has reached over 6 million children with handwashing education. In 2014, RB launched a nationwide movement to promote a cleaner, healthier India. The programme aims to improve hand hygiene and sanitation. Over the next five years, our Swachh Express bus will reach out to 2,000 villages to co-design and deliver community-based hygiene campaigns. On Global Handwashing Day 2014, we set a world record with 1.4 million children across India.

We have partnered with Facebook and one of India's leading TV stations. Our 12 hour nationwide Cleanathon reached over 12 million people on air and online.

**12 hour nationwide Cleanathon reached**

**12m people**



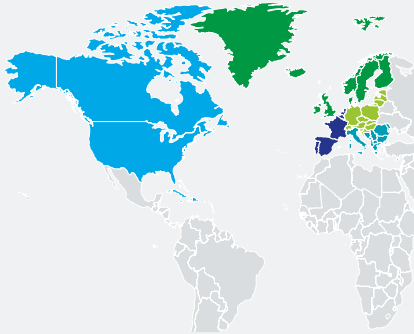
RB at a Glance

# The right markets The right categories

## ENA

**+2%**  
Like-for-like

**58%**  
Core net revenue



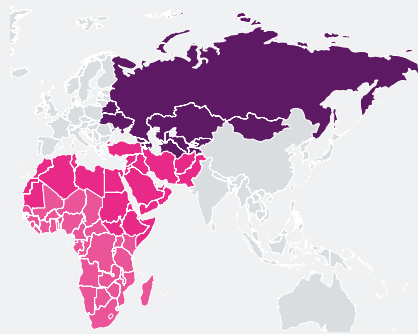
North America / Central Europe / Northern Europe / Southern Europe / Western Europe

ENA is the consumer cluster that comprises Europe and North America. RB made the unconventional step of combining Europe and North America as one organisation. Across these two markets there are many similarities in behaviours, in brand development and in how the retail trade is organised. This was the right decision as we have benefited from faster in-market execution and growth ahead of the market.

## RUMEA

**+11%**  
Like-for-like

**15%**  
Core net revenue



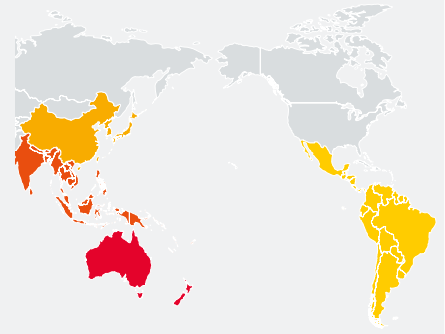
Russia & CIS / Middle East, North Africa & Turkey / Sub-Saharan Africa

RUMEA is one of two emerging market Areas and spans both developed markets in Russia and the Middle East, as well as the emerging economies of sub-saharan Africa. Brand penetration and capability strengthening in this Area helped to deliver a strong contribution to total net revenues.

## LAPAC

**+5%**  
Like-for-like

**27%**  
Core net revenue



North Asia / South East Asia / Australia & New Zealand / Latin America

LAPAC is the second emerging market consumer-centric cluster which features Asia and Latin America's growing economies. A rich tapestry of nations, this region witnessed a slow down in GDP growth in 2014 versus previous years, and negative currency effects which negatively impacted contribution.

Creating a simple, more agile organisation is one of the two objectives of Project Supercharge. Therefore, in 2015 we have announced our intention to reduce the three Areas to two.

### ENA

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

On this basis, in 2014 ENA had sales of £5,891m representing 67% of Total NR.

The learnings of combining Europe and North America will be applied to the emerging markets which we call DVM. The organisational changes will provide the framework to deliver bigger, better and more scalable innovation, combined with improved in-market activation at a country level.

### DVM (DEVELOPING MARKETS)

- North Africa, Middle East (excluding Israel), Turkey
- Africa – South Africa, West Africa, Eastern Africa
- South Asia – India, Bangladesh, Sri Lanka
- North Asia – China, Hong Kong, Taiwan
- Latin America
- ASEAN – Thailand / Philippines, Indonesia, Malaysia / Singapore, Japan, Korea

On this basis, in 2014 DVM had sales of £2,629m representing 30% of Total NR.



 **HEALTH**

**+8%**  
Like-for-like

**32%**  
Core net revenue

Generally over-the-counter (OTC) solutions in this category target relief for common ailments such as pain, fever, cold, flu, sore throat or heartburn. Living the brand promise is critical in this category as consumers seek solutions to every day health and wellbeing issues. Sexual wellbeing products including condoms, lubricants and other aids, make up part of our health portfolio promoting safe and pleasurable sex. Footcare rounds out this category with products to address hard skin and other foot and nail conditions.

**Market Position**

Nurofen and Gaviscon are leading analgesic and gastro-intestinal brands in Europe and Australia. Strepsils is No.1 in medicated sore throat globally. Mucinex is the No.1 cough brand in the US. Scholl has leading positions in many footcare markets.



 **HYGIENE**

**+3%**  
Like-for-like

**43%**  
Core net revenue

Hygiene brands help to promote both personal hygiene for good health and home hygiene to create a safe environment for families. Our range of products includes disinfectant cleaners, multipurpose and speciality cleaners, lavatory care, automatic dishwashing detergents, pest control and depilatory products.

**Market Position**

Finish is No.1 worldwide in automatic dishwashing. RB is No.1 globally in surface care with leading positions across disinfectant cleaners, multi-purpose cleaners, lavatory care and speciality cleaners. Lysol is the No.1 in North America and Dettol is the No.1 brand outside North America.



 **HOME**

**+1%**  
Like-for-like

**21%**  
Core net revenue

Home care brands help create the right environment for families to enjoy their time together. Products in this category include air care and fabric treatment.

**Market Position**

Vanish is the undisputed world leader in fabric treatment and Calgon is the No.1 in water softeners. Woolite is the No.2 in garment care and Air Wick is the No.2 in air care.



→ **Food**

Food is run as a stand-alone business. French's is the leading mustard brand in the US.



→ **Portfolio**

The main component of the Portfolio Brands category is the laundry and fabric softener business.

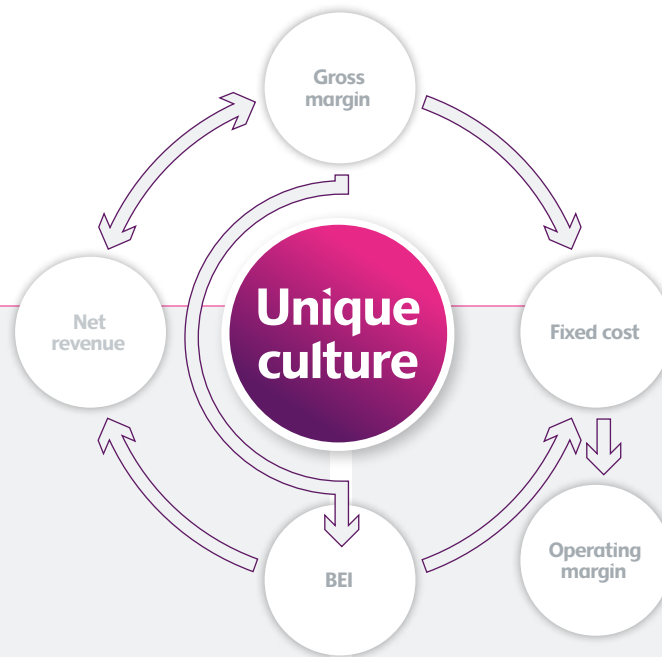
Investment Case

# 5 Reasons to invest in RB

<p><b>Right portfolio strategy</b></p> <p>1</p>	<p>We focus on underpenetrated, nascent categories with long-term growth and superior margin potential. We are not reliant on any one geography. We do, however, invest disproportionately behind our faster growing brands (Powerbrands) and high potential markets (Powermarkets).</p>	<p><b>Number of Powerbrands</b></p> <p>19</p>	<p><b>Number of Powermarkets</b></p> <p>16</p>
<p><b>Innovation</b></p> <p>2</p>	<p>Innovation is at the heart of everything we do. We listen to our consumers and develop products aimed at creating healthier lives and happier homes. We then invest heavily behind these initiatives with penetration building activities which we call "brand equity investment" (BEI).</p>	<p><b>BEI</b></p> <p>£1.1bn</p>	
<p><b>M&amp;A</b></p> <p>3</p>	<p>We are primarily an organic growth company. However M&amp;A opportunities play an important part in our consumer health strategy, due to the fragmented nature of the market. Over the years we have made a number of important value-accretive acquisitions, which have provided significant returns for our Shareholders.</p>		
<p><b>Cash conversion</b></p> <p>4</p>	<p>Converting our profit into cash is an important part of our culture and compensation ethos. All of our operational management teams have net working capital (NWC) objectives built into their annual bonus targets.</p>	<p><b>NWC % of total net revenue</b></p> <p>-9%</p>	<p><b>Cash conversion % of net income</b></p> <p>c.100%</p>
<p><b>Shareholder returns</b></p> <p>5</p>	<p>RB has demonstrated outstanding shareholder return. If you invested £100 on 1 January 2000 that investment would equate to £1,397 by the end of 2014. That same £100 invested in the FTSE 100 would be worth £158 over the same period of time.</p>	<p><b>Return from £100 invested on 1 January 2000</b></p> <p>RB 1,300%</p> <p>FTSE 100 58%</p> 	



Business Model



→ **Gross margin**

Our ethos is that the virtuous earnings model starts at gross margin. It is gross margin that creates room in the Income Statement to fund investment behind our brands, investment in people and capabilities, and operating profit. We drive gross margin expansion through superior mix (higher margin brands), pricing and cost optimisation initiatives (Project Fuel), by minimising costs within the supply chain and non-value-add product costs. We achieved 100bps of gross margin expansion in 2014.

→ **Fixed cost**

We will always invest appropriately behind our people, capabilities and infrastructure. However, we deliberately like to keep our organisation lean and encourage our people to focus and prioritise. We constantly seek to avoid duplication, inefficiency and waste, and have recently announced our new “Supercharge” project, which should deliver us £100m–£150m annual savings by 2017.

→ **BEI**

There are many ways to invest behind your brands. At RB we have a very clear intent: we focus our investment on consumer education and penetration-building activities, to build long-term equity behind our brands. BEI includes a combination of TV and print media, digital and social media investment and consumer and medical education. BEI as a percentage of total net revenue in 2014 was 12.9% or £1.1bn invested behind the long-term strength of our brands.

→ **Net revenue**

We focus on underpenetrated, nascent categories with long-term growth and superior margin potential. We have identified 19 Powerbrands which receive additional BEI to help drive growth. We have also identified 16 markets which have the highest potential for growth – these are our Powermarkets, and the majority of them are based in emerging markets. Our overall medium-term KPI is to outperform the markets and categories in which we operate by 200bps.

→ **Operating margin**

Our operating margin is already best in class at 24.7% of net revenue (on an adjusted basis), having delivered +160bps of margin expansion in 2014. But we believe our ability to further grow margins is far from over. Our virtuous earnings cycle, focuses on gross margin expansion, investment behind the long-term strength of our brands and tight fixed cost containment (helped by Project Supercharge), will enable us to deliver our medium-term KPI of moderate margin expansion.

→ **Unique culture**

We know that having the right strategy is not enough. Our strategy becomes real when it is executed with excellence, this is why our culture is central to our outperformance. We live our values of Achievement, Ownership, Entrepreneurship and Partnership. We encourage people to take ownership of their businesses and behave like Shareholders. Our compensation approach and industry leading share ownership requirement encourages our people to think, behave and act as Shareholders and treat the Company as their own.

Strategy

# Our strategy for growth & outperformance

## Unique culture

### → The four pillars of our strategy



#### Organisation

We have organised our business into two<sup>1</sup> geographical Areas (ENA and DVM), centred around a number of consumer clusters: **Latin America, North Asia, South Asia, Russia and CIS, Middle East, North Africa, Turkey and Sub-Saharan Africa and Europe, North America and ANZ.**

- Reorganisation of emerging markets to benefit from learnings within ENA
- Supercharge programme initiated to drive a faster organisation, more responsive to consumers and customers.

<sup>1</sup> Three in 2014.

# 19

#### Powerbrands

A substantial focus on our 19 Powerbrands in the **Health, Hygiene and Home** categories.

- 80% of Total NR from Powerbrands
- Growth lead by consumer health at +8% like-for-like
- Health and Hygiene now 74% of Core NR
- Continued focus and investment prioritised to Health and Hygiene.

# 16

#### Powermarkets

A clear focus on our 16 Powermarkets where we see exceptional potential for growth matched with an ability to win. A significant number of these are in emerging markets.

- Refining of Powermarkets made in 2014 with one emerging market country added and one developed market country removed
- Emerging markets areas now 42% of Core NR, impacted by devaluation of certain emerging market currencies
- Continued focus and investment prioritised to Powermarkets.



#### Margins

We focus on higher margin initiatives. This funds investments in our brands, capabilities, development and moderate margin expansion.

- Strong (adjusted) operating margin expansion in 2014 of +160bps, driven by +100bps in gross margin
- Continued heavy investment in BEI; fixed cost containment, aided by efficiency programmes
- Virtuous earnings model firmly intact
- Moderate operating margin expansion targeted in the medium term.

**RB focuses on areas where we believe the long-term potential for growth is the strongest and where our edge gives us the ability to outperform.**

Driving consumer health and self-medication is one such area with attractive demographics such as an emerging middle class keen to manage their health and an ageing population with greater needs. At the same time, people want to feel younger for longer, meaning health is increasingly becoming more of a lifestyle issue and not just a medical concern. Health brands have higher consumer trust and loyalty with superior gross margins. Finally there is a fragmented marketplace dominated by traditional pharmaceutical companies with less focus on consumer health.

RB has a vision of enabling people to lead healthier lives in happier homes. We believe these are areas with the potential to deliver long-term growth with attractive margins, as an increasing number of consumers in Europe, North America and developing markets alike are prepared to pay for products with proven clinical benefits.

We have unique advantages to help us win where we focus. Our heritage as an FMCG company means we know consumers and what they want. Our ability to execute quickly through long-established routes to market gives us the ability to deliver the products people want, when they want them.

**Growth drivers**

We are driven by innovation. We start by knowing what people need and work on how to deliver it, taking the consumer as our starting point. We don't innovate for the sake of it or just because we can, we only do it when we know we can create something new that will meet a required need, or make an existing product more effective. Going forward we set ourselves the task of concentrating on fewer, bigger, better and more scalable innovations. In this way we aim to increase our success rate of real blockbuster innovations versus many smaller incremental improvements.

**Build brands with stronger equities**

With every innovation, we invest heavily to maximise the chance of success, across all geographies and touch points with consumers, healthcare professionals and the trade. Whether these are new products, or entirely new categories, we put our investment appropriately behind the brands and markets where we are focused.

We also identify opportunities to roll out successful brands into new territories. Our strong balance sheet, supported by sector-leading cash conversion and disciplined capital allocation, provides the flexibility to pursue acquisitions where we believe they will add value and help us pursue our vision to become a leading global consumer health company. Our record in buying and successfully integrating brands such as Durex, K-Y and MegaRed is testament to our ability to create value.

This strategy has already seen us grow from number 20 in OTC to number six worldwide. In this fragmented market, we believe there is scope for further consolidation. Combined with market-leading brands in the hygiene and home categories, this strategy has helped us attain leading positions in some of the world's most important markets.

**Case study**

**Innovation: Scholl Velvet Smooth Express Pedi**

The Velvet Smooth Express Pedi has been a key contributor to Health growth across our Areas.

The electronic hard skin remover delighted consumers by not only providing a more efficient process, but also by delivering a better end result than traditional, manual methods.

After proving its potential in lead markets in 2013, for 2014 we scaled up rapidly and successfully launched into over 50 markets. It also provided the flagship product to enable Scholl/Amope brand introductions across BRIC and US markets during the year.

**Markets successfully launched in 2014**

over **50**



Chief Executive's Statement

# Supercharging performance



**RAKESH KAPOOR** / Chief Executive Officer

**“Global health trends are changing profoundly. People are living longer and are looking after themselves as they seek to prolong and enjoy their lives.”**

At RB we are passionate about providing innovative solutions for healthier lives and happier homes. This is what drives us. We know that when we do this well, our consumers reward us with their trust and their loyalty. This creates value for our customers, our partners and our Shareholders. It's so simple, yet this requires every bit of our passion and commitment if we are to realise our ambition to be a force in consumer health.

The world we live in is changing more rapidly than ever before. We see this in how consumers behave: how they engage with brands, how they seek advice on their health and hygiene needs, how they buy, and how they evaluate the products and services that we deliver. This is a challenge for us, but also an opportunity. If we can change and innovate in response to consumers' needs and maintain our focus on what we do best, we will create a platform to deliver maximum value for stakeholders.

**Results**

2014 once again demonstrated the strength of our strategy and how it translates into significant value for our Shareholders. In a year in which overall market growth slowed, RB once again delivered solid top-line growth and strong margin expansion. Importantly, our earnings model remains virtuous and I am extremely pleased that we achieved gross margin expansion of 100bps, driven by a high quality, consumer health-led product mix, pricing and optimisation of our cost base. We have continued to invest heavily behind the equity of our brands, whilst benefiting from media efficiency programmes put in place at the beginning of the year.

After investing significantly in infrastructure and capabilities over the last couple of years, we commenced a major cost savings initiative in the second half of 2014. These initiatives combined to achieve an adjusted operating margin expansion of 160bps, and with reduced tax rates, delivered an adjusted, diluted earnings per share of 230.5 pence excluding RB Pharmaceuticals, a 4% increase at actual rates.

**Sharper focus on the core**

In 2014 we took significant steps to sharpen our focus on the core business. We acquired the K-Y brand from Johnson and Johnson which significantly increased our presence in the sexual wellbeing category, particularly in key markets such as North America and Brazil. At the other end of the portfolio we delivered on our promise to demerge the pharmaceutical business (newly named Indivior PLC), which is now a separately listed public company on the London Stock Exchange. Indivior PLC is run by a highly experienced management team focused on the growing market of addiction treatment. We believe this important step has the potential to deliver significant long-term value to Shareholders.

We have taken other meaningful steps to simplify our Portfolio Brands. In Q3, we disposed of our Footwear business. We also separated the Medcom Hospital business from our core consumer business.

**Digital at the heart of everything we do**

This sharper focus on our core categories is of vital importance if we are to continue to outperform our markets. But on its own it is not enough. The digital revolution we are all witnessing is disrupting many industries, and creating opportunities in many others. In some of our markets, we are now delivering over 50% of our media impressions in digital media, rather than traditional print or broadcast. This shift is driven by both strategic and commercial considerations. We are massively stepping up our investments in digital media as we have seen how they can provide opportunities for us to build more engaging relationships with our consumers at lower cost. As an example, we have entered into a multi-year, global partnership with Facebook to better connect RB brands with users of social media. Beyond digital media, we are witnessing a revolution in digital commerce. In China, 20% of our revenue is now through e-commerce. What we learn from China we will seek to apply elsewhere in the world, a reversal of the traditional model which saw most business ideas travel in the opposite direction.

**A simpler, more agile organisation**

Our organisation needs to continually evolve and adapt to be faster and more consistent with our in-market activation.

Three years ago we made the bold and unusual move of putting Europe and North America under one Area to create a faster, leaner and more effective business unit. The results since this move have been very good and have proven to be the right organisational configuration. Over the past three years, in stagnant markets, we have delivered revenue growth and strong margin progression. From 1 January 2015, we combined both the emerging market areas under one leadership, thereby reducing our geographic structure from three Areas to two.

- ENA – consists of Europe (including Russia), Israel, North America, and Australia/New Zealand.
- DVM – consists of LATAM, Asia and Africa/Middle East and Turkey.

Our world is changing, and RB has shown that we have no intention of standing still. We continue to sharpen our portfolio focus and ensure we are organised in a way that allows us to be even faster and more customer centric.

**Better business**

Our partnership with Save the Children has taken steps towards realising our ambition to stop diarrhoea being a top five killer of children. Our campaign, 'Save a Child Every Minute', aims to reduce the nearly 550,000 children who die each year from what is a 100% preventable disease. RB has the expertise and the capacity to galvanise our partners, customers and employees to effect real change. To this end, we have launched programmes in Nigeria and Pakistan, with India due to commence in early 2015. A clear link to our business, this is an example of how we can live our values and build healthier communities.

We've reached 141m people through education and awareness programmes designed to improve health outcomes by making changes to their behaviour – a great start towards our goal of reaching 200m by 2020.

We aim to reduce our carbon and water impact by 1/3 by 2020. Since 2012, our carbon and water impact footprints have reduced by 3% and 2% per dose.

We're also embedding sustainability into the way we innovate. This year all innovations in our pipeline have been assessed to determine their sustainability performance and 50% of our pipeline is more sustainable. 4.7% of our total net revenue (Q1–Q3) was from more sustainable innovations – a solid step towards our goal for 1/3 total net revenue to be from more sustainable products by 2020, but we've still got work to do.

We continue to drive down our impacts from manufacturing too. This year we were pleased to announce that all of our manufacturing sites in ENA and LATAM are now sending zero hazardous and non-hazardous manufacturing waste to landfill.

RB's overall performance has been recognised by our inclusion in the Dow Jones Sustainability World Index, FTSE4Good Index and CDP Climate Disclosure Leadership Index. We have also been shortlisted for, and received, a number of sustainability awards. More information is available in our sustainability report, available April 2015.

**Conclusion**

2014 has been a year of progress. Three years ago, I unveiled RB's new strategy to focus on health, hygiene and home. Our continued outperformance demonstrates that it was the right strategy and that it is working. Today I am more convinced than ever that we are on the right path to move the Company forward. Despite slower global growth and economic uncertainty in many regions, I believe we are doing the right things for customers, for Shareholders, and for all our stakeholders. We can all remain excited about the many opportunities ahead.

**RAKESH KAPOOR** / Chief Executive Officer

**Case study**  
**Mucinex collaboration with WebMD**

Using digital data-driven marketing to reach consumers at the time they need relief. As the majority of Mucinex's portfolio is seasonal, it is important that the brand remains front of mind during cold and flu epidemics. However, the size of the US makes it challenging to predict and ensure that our video campaigns are targeted at the right time and place.

Working with WebMD, the No.1 online health portal in the US, we mapped visitor search data for cold and flu symptoms against their location and time of day. This allowed us to identify areas where the severity was more prevalent. As a result, Mucinex has been better aligned to seasonal peaks in incidence of cold & flu, directly impacting sales performance.



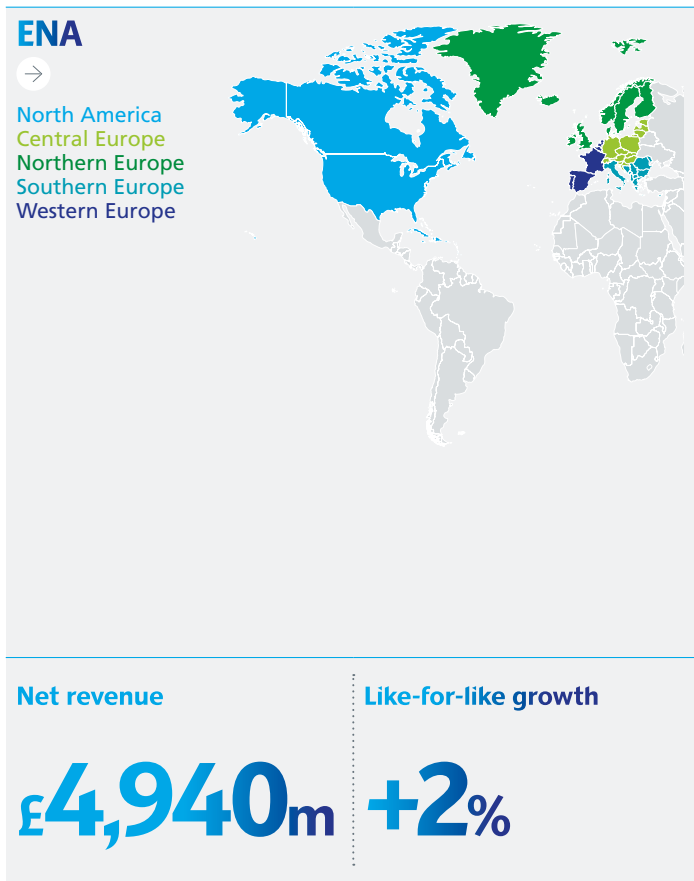
Geographical Performance Review

# Focus on Powermarkets

## Growth was balanced across our markets

Our developed market area of ENA delivered like-for-like growth of +2%, a strong performance where market growth remains weak. Our emerging market areas (LAPAC and RUMEA) delivered +7% like-for-like growth in slowing market conditions.

In May 2014 we acquired the K-Y brand from Johnson & Johnson in most major markets, which will improve our presence in the sexual wellbeing category, particularly in the US, Canada and Brazil where we were underrepresented. At the other end of the portfolio, we licensed out our Footwear division, and have separated the Russian Medcom hospital business from the consumer business. We are currently reviewing how to best realise value from this non-core part of our portfolio.



## Another solid year for ENA

In Europe all regions experienced growth, with particularly strong performances from the UK behind a successful launch of our new Vanish Gold, and strong consumer health brand performances. Germany had a strong year, and Italy and Spain returned to growth after a prolonged period of decline. Scholl Velvet Express Pedi has shown sustained success in most European markets, with additional strong performances from Durex, Gaviscon, Dettol and Vanish.

North America experienced a mixed performance, delivering a flat result versus the prior year on a like-for-like basis. The rollout of our new Velvet Express Pedi, launched under the new brand name, Amope, has had a strong sell in and seen encouraging early consumer uptake. Lysol experienced a strong performance after a slow start on the back of tough comparatives. Mucinex impacted growth with tough comparatives and the re-entry of private label products toward the end of the year.

The K-Y acquisition has been successfully integrated in most markets with the exception of the UK which is still undergoing regulatory review.

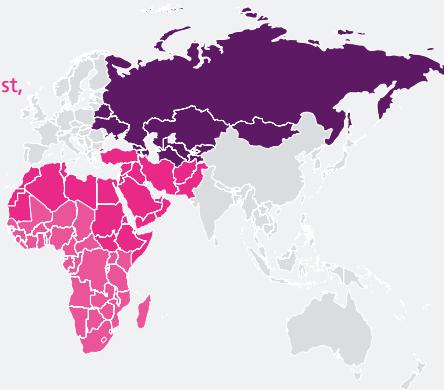
In aggregate Europe and North America are benefiting from a combined organisation that enables greater speed and scale to our initiatives. These, combined with positive mix, media efficiencies and short-term cost containment initiatives, have driven strong adjusted operating margin expansion of +270bps to 28.2%.



## RUMEA



Russia & CIS Middle East,  
North Africa & Turkey  
Sub-Saharan Africa



Net revenue

£1,239m

Like-for-like growth

+11%

## Operational changes in RUMEA gained traction

South Africa and Turkey experienced strong double-digit growth from improved in-market execution and a low comparator base. Russia had an extremely strong year, with higher focus on penetration improvement programmes, in-store execution and pricing. In Q4 in Russia we brought forward price increases, resulting in high trade sell-in and consumer loyalty in inflationary conditions.

On a category basis, growth was broad based across Health, Hygiene and Home with very strong performances from all Health Powerbrands, Dettol, Finish, Veet, Air Wick and Calgon.

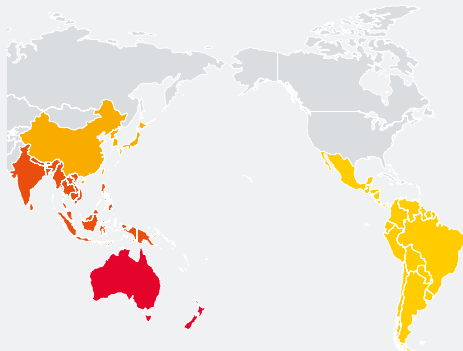
Adjusted operating profit was £247m, a -50bps decline in the adjusted operating margin to 19.9%. This was principally due to negative transactional foreign exchange impacting gross margins.

The volatility in several of RUMEA's markets is likely to remain in the near term. In particular the outlook for Russia remains uncertain given current geopolitical and currency issues. However, we remain confident that our focus and strategy to drive the penetration of our brands will continue to drive long-term growth and outperformance.

## LAPAC



North Asia  
South East Asia  
Australia & New Zealand Latin America



Net revenue

£2,341m

Like-for-like growth

+5%

## Consumer health led growth in LAPAC

Consumer health brands performed well with the successful rollout of Scholl Express Pedi in a number of markets, and successful integration of the Bristol-Myers Squibb (BMS) brands. Dettol was a large contributor to growth but at a slower rate from previous years reflecting the slowing underlying markets. Within Home, Vanish continued to perform strongly behind innovations – in particular our Vanish Super Bar and further rollout of the Vanish Tip Exchange programme.

The K-Y acquisition has been successfully integrated in most markets with the exception of New Zealand which is still undergoing regulatory review.

Adjusted operating profit was £462m, -4% versus prior year (+9% at constant exchange rates). Adjusted operating margin was +50bps higher at 19.7%.

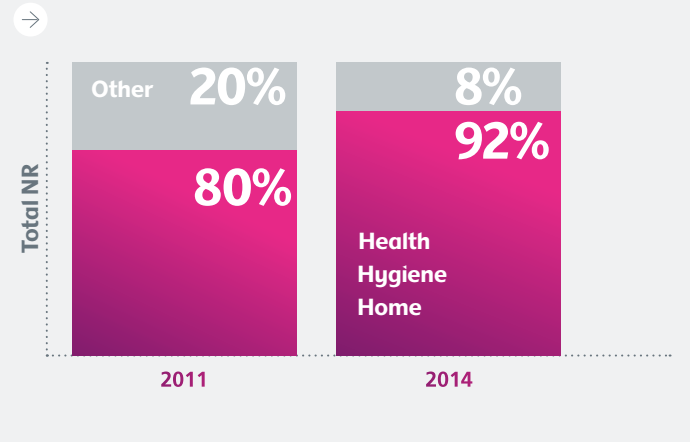
Category Performance Review

# Focus on Powerbrands

## Health and Hygiene led our growth as we invest in consumer led science based innovations.

Scholl, Durex, Dettol, Lysol and Vanish performed particularly well in 2014. The Group continued to improve its focus on its core business, with a strategic acquisition and further brand rationalisation throughout the year. By the end of 2014, Health, Hygiene and Home made up 92% of our total business, versus 80% in 2011.

## The right portfolio strategy



## Health

### Powerbrands



Net revenue

£2,701m

Like-for-like growth

+8%

## Growth was broad based

Scholl performed strongly in 2014, driven by the success of our new Velvet Express Pedi innovation, which was launched in a number of new markets during the year.

Durex performed well, with condom sales driven by our new Real Feel polyisoprene condom, lubricants behind our recently launched “Embrace” pleasure gels and our new range of pleasure toys. The lubricants segment has also been boosted by our acquisition of K-Y during the year.

Gaviscon also performed well, driven by Double Action and new liquid sachet formats. Mucinex was negatively impacted by weak category growth off a strong comparative and private label presence in some cough and congestion lines. MegaRed was launched during the first half in 20 countries throughout Europe. Given the long-term and preventative nature of the brand proposition, we continue to expect that it will take time to fully establish the brand in new markets. In the US, MegaRed has outperformed weak market conditions.

### Preview of 2015 initiatives

- Nurofen Express, targeting muscle inflammation
- Scholl Velvet Smooth Express Pedi with Diamond Crystals
- Scholl GelActiv insoles
- Durex Invisible extra thin condom
- Optrex ActiMist 2in1
- MegaRed Super Heart™
- Gaviscon Double Action roll out to DVM



## Hygiene

### Powerbrands



Net revenue

£3,627m

Like-for-like growth

+3%

## Growth was led by the Dettol / Lysol / Sagrotan franchise

New initiatives like the Power and Pure Tipp Topp innovation, launched in Germany, and market penetration programmes such as “Benaga Swachh” Clean India campaign led growth in Hygiene.

Veet had a strong year led by our Naturals range, which has been particularly successful in India and Turkey.

### Preview of 2015 initiatives

- Finish Shine and Protect
- Dettol proFresh body wash
- Dettol Body Wash and Bar Soap
- Veet Spawax
- Mortein Active Paper



## Home

### Powerbrands



Net revenue

£1,810m

Like-for-like growth

+1%

## Growth was driven by Vanish

Growth was driven by a strong performance in Vanish behind the success of our new Vanish Gold in the UK, the premium stain removal line. Our Vanish Super Bar, designed for emerging markets, performed particularly well in Brazil and we have seen further penetration gains across a number of markets on the back of our ‘Vanish Tip Exchange’ penetration programme. In our fragrance category, Air Wick has a strong pipeline for 2015 and we are particularly excited about the upcoming launch of our new Air Wick Life Scents range.

### Preview of 2015 initiatives

- Air Wick Life Scents
- Rollout of Vanish Gold
- Vanish Gold for Whites

## Food

Growth has been driven by strong performance from both French’s Fried Onions and Frank’s RedHot. Increased distribution in international markets also contributed to good growth outside the US.

## Portfolio

Net revenue was £382m, with a like-for-like decline of –5%. With the licensing out of the Scholl Footwear brand and the Medcom Hospital business now excluded from the like-for-like results of this category, Portfolio Brands predominantly comprises laundry detergents and fabric softeners.

Indivior PLC

# Realising value from RB Pharmaceuticals (RBP)



## Following the strategic review announced in October 2013, RBP was demerged on 23 December 2014 and listed on the London Stock Exchange as Indivior PLC.

Prior to demerger, Indivior PLC was managed as RBP, an independent, global, specialty pharmaceutical business, with its own management team focused solely on addiction treatment and the co-morbidities of addiction. It was the Board's view that a stand-alone business will be best placed to create value for Shareholders as it manages the challenges and seizes the opportunities within the field of addiction. We also believed that Indivior PLC would be a more attractive partner for business development opportunities as a stand-alone and separately managed entity.

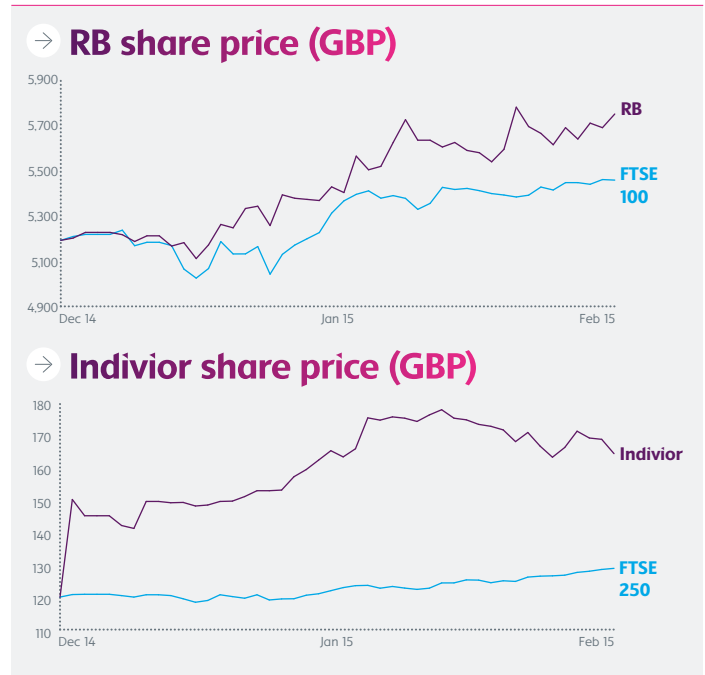
Similarly, we believed RB Shareholders would benefit from the single-minded focus of top management on its core businesses in the Health, Hygiene and Home sectors.

Adjusted net income attributable to RBP in 2014 was £278m, a decrease of -20% (-16% at constant exchange rates). This was driven by a net revenue decline of -8% at constant rates with strong volume market growth in the US offset by some share decline and pricing. Operating margins were 54.5%<sup>1</sup>, a decline of -640bps<sup>1</sup> due primarily to the decline in net revenue, and continued investment in both the pipeline and the clinical sales force. Additionally, a gain on demerger of £1,282m has been recognised.

<sup>1</sup> 2013 adjusted operating profit has been restated to exclude the allocation of RB central costs of £45m.



<sup>1</sup> As at 23 February 2015.



Project Supercharge

# Agile and efficient

## → Creating a simpler, more agile organisation



### Simpler, more agile organisation

In a fast moving consumer goods (FMCG) industry, being fast matters. However, over time organisations become bigger and can become more complex and slower. If this happens, decision making slows down and speed of execution slows down.

The RB way is to take the issue head on and simplify the business. We do this by focusing on the two things that really matter:

- 1) The consumer: We keep the consumer at the centre of what we do. At RB, our mindset is one of market penetration: how do we bring new consumers to our category and to our brands?
- 2) The customer: We then focus on the retail customer, because our strategy only becomes real in the store, physical or digital.

We focus our thinking from consumer to store, and also on working back from the store, and deciding what we should focus on from the retail customer's perspective.

### Create

We are an innovative company and every day across RB our people are generating hundreds of ideas. As a result of this, we have a huge pipeline, with many people working on many different projects. The challenge that we are giving to the business under Project Supercharge is how we dedicate even more time and resources on the blockbuster ideas that can create real value for our consumers, and therefore for our Shareholders. We are going to be even more disciplined in how many projects we work on, and cut out the waste in every step of the chain.

### Scale

How can we scale our innovations and make them bigger? The answer is by making them as global as possible. By evolving our organisation to one that creates a global launch package that can be taken everywhere, we minimise the need for reworking, and avoid inconsistency. This means that innovation can be scaled faster.

To enable RB to scale its ideas, its initiatives, to avoid duplication, rework, and waste, we have identified an opportunity to evolve our organisational structure. In a similar way to the approach we took when we created ENA, to cover our developing markets, we are now creating a unified Developing Markets organisation, from our LAPAC and RUMEA regions. In this process, we will also re-align our consumer clusters and locate them where experience has shown that they fit better. ANZ, Russia/CIS and Israel will be moved to align with other developed markets within ENA.

### Activate

Following this new organisational structure, we will have a business that can create better ideas and an organisation that can make these ideas bigger. We also need an organisation that can activate these ideas faster. Activate is something that we need to do in store and with excellence.

We are also taking the important step of creating a global customer supply services organisation which will focus on optimising our "physical" relationship with customers – logistical arrangements, service levels, the "nitty gritty" of working with customers to service consumers better. We are creating a simpler organisation, connected by a common purpose for delivering innovative solutions for healthier lives and happier homes, keeping the consumer and customer at the centre of everything we do.

The principle of our organisation under Project Supercharge is "As global as possible, as local as needed".

## → Reducing cost and driving efficiencies



### Costs and efficiencies

In mid-2014 we intensified our work on our cost levels, when it became clear that the headwinds from slowing markets and adverse foreign exchange were impacting our earnings model.

The "conventional wisdom" is that RB is a lean company, and there are no material cost areas that can be reduced. This is both true and false. As part of Project Supercharge, we have undertaken a significant exercise to identify areas of expenditure where we have the opportunity to improve efficiency. This exercise has confirmed that RB is efficient in a large number of areas – staffing, direct product spend, capital spend – which drives our high-in-class margins.

It has also identified a number of areas in indirect spend where we have substantial opportunities for improvement. Further opportunities to keep optimising our manufacturing network are also available.

As part of Project Supercharge, we aim to deliver annualised cost savings of £100m–£150m. We expect to achieve the full annualised savings goal in 2017. The costs of the Supercharge project are approximately £200m which we expect to incur over the next three years.

By driving a simpler, more agile organisation and by supercharging our earnings model, we believe we can set RB up for growth and outperformance in the future.

People and Culture

# Taking ownership



## We take great pride in our people and our culture.

### Gender diversity

The percentages of female members in the Group's director, senior manager and all employee populations at 31 December 2014 were 17%, 19% and 42% respectively. The Group has designated the members of its Top40 and Top400 populations as RB's 'senior managers' for the purposes of the gender split disclosure required by The Companies Act 2006. Of senior managers, 365 were male and 86 female, and 21,255 of all employees were male and 15,089 female. There is a variance in total employee numbers from those reported in note 5 on page 86 in respect of seasonal labour which varies significantly during the year and for which gender identifiers are not recorded.

It is the combination of great talent, diverse experiences around the world, in an environment that positively rewards and reinforces success that generates a culture which differentiates us from the competition.

Our trademark is to attract great people, give them a career packed with a truly global set of challenges and experiences, inspire them with stretching performance based rewards and nurture an achievement focused environment where winning is critical.

### A globally experienced leadership

It is no accident that our Executive Committee (EC) is made up of seven different nationalities, and the EC members who are leaders of our Areas and Categories have all experienced assignments in four or more countries during their RB career. Indeed, it is our way of life to develop leaders through a series of challenging and different international experiences across the spectrum from the most strategic to the most operational roles. We are confident that those who consistently succeed in these challenges become well rounded global leaders of distinction.

### Diverse global experiences

Our Top400 executives are comprised of 47 nationalities and 69% of our Group's General Manager, Marketing and Sales leaders are working outside of their country of origin in assignments designed to develop their abilities

in different market situations and cultures. Career paths are designed to provide the right balance of operational and strategic experiences, and developing and mature market experiences. Our people are highly mobile, thrive in taking on tough challenges, and have a winning mentality.

### Stretching performance based rewards

Our reward system is designed to attract and inspire the high achievement talent base which we seek. Competitive base salaries are augmented by significant opportunities for short and long-term incentives, which are set to deliver outstanding overall rewards when the Company or unit has outperformed. Measures are simple, unambiguous and concrete. Average performance results in low bonus pay-outs. Top performance results in excellent rewards. We believe this unique approach to rewards ensures the right people are attracted to RB.

### Achievement focused environment

We are right for those people who think big but then focus on doing rather than deliberating. We look for people who want to make their mark and change the game for themselves and our consumers.

We don't care about hierarchy. Ideas are valued and we promote lively discussion to establish the best path forward but once decided the collective spirit ensures everyone gets behind the decision. Learning from experience and each other is key and this is complemented with focused skills training.

We know that having the right strategy is not enough. Our strategy becomes real when it is executed with excellence, this is why our culture is central to our outperformance. We live our values of Achievement, Ownership, Entrepreneurship and Partnership. We encourage people to take ownership of their businesses and behave like Shareholders. Our compensation approach and industry leading share ownership requirement encourages our people to think, behave and act as Shareholders and treat the Company as their own.

### The collective success

The combination of great mobile talent, distinctive rewards and an open fast paced environment has enabled RB to consistently deliver market beating results. We believe our people and culture are the critical components for enabling this success.

## The right values

- **Achievement**  
We don't just aim high, we strive for outperformance.
- **Entrepreneurship**  
Daring to be different, taking calculated risks.
- **Ownership**  
Treat the Company as if it were your own.
- **Partnership**  
Leveraging relationships for outperformance.

## Share ownership requirement for top management

£169.8m<sup>1</sup>

1 As at 31 December 2014.

## Nationalities in "Top400" management

47



Sustainability Framework

**betterbusiness**  
Healthier lives. Happier homes.

**Healthier communities**

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**2020 goals**

Reach over

**200m**

people to improve their health and hygiene

**Summary progress**

Since 2013, we have reached:

- 70m people through hygiene education and sanitation programmes
- 70m people with sexual health messaging
- >1m people with malaria/dengue prevention education programmes

In 2014, we launched 'Save a Child Every Minute' pilot programmes in Pakistan and Nigeria.

**70%**  
of goal to reach 200m achieved

**141m**  
people reached since 2013<sup>1</sup>

1 Total has been rounded down to account for possible double counting.

 On plan

**Better design**

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**2020 goals**

**1/3**

of NR from more sustainable products and 1/3 less carbon footprint and water impact per dose

**Summary progress**

- £325m NR is from more sustainable products<sup>2</sup> (4.7% Total NR) for Q1-Q3 2014
- 3% reduction in carbon footprint per dose since 2012
- 2% reduction in water impact per dose since 2012
- Traceability to refinery for 100% of our palm volumes (excluding surfactants)

2 As defined in our Sustainability Innovation Calculator. See our 2014 Sustainability Report.

**50%**  
of our pipeline projects are more sustainable<sup>3</sup>

**£325m**  
NR is from more sustainable products<sup>3</sup>

3 Q1 to Q3 2014.

 Priority for 2015

**Better production**

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**2020 goals**

**100%**

Safety, environmental and social targets to be achieved

**Summary progress**

Since 2012, we have seen a good progress towards achieving our 2020 goals:

- 13% reduction in lost work day accident rate
- 8% reduction in greenhouse gas (GHG) emissions per unit of production
- 13% reduction in energy, 25% reduction in water use and 7% reduction in waste, all per unit of production
- Net zero emissions from manufacturing from planting over 1.2 million trees
- 100% of third party manufacturers included in RB's social compliance programme

**74%**  
factories sending zero waste to landfill (including hazardous and non-hazardous manufacturing waste)<sup>4</sup>

Since 2012 we have gone from four to 35 sites achieving zero waste to landfill.

4 As at 31 December 2014.

 On plan



The Group's GHG emissions in tonnes of carbon dioxide from 1 January 2014 to 31 December 2014 are made up of:

1. Combustion of fuel and operation of facilities (Scope 1): 86,076 (2013: 88,939) tCO<sub>2</sub>e<sup>5</sup>.
2. Electricity, heat, steam and cooling purchased for own use (Scope 2): 217,722 (2013: 213,956) tCO<sub>2</sub>e<sup>5</sup>.

Total Scope 1 and Scope 2 emissions were 303,798 tCO<sub>2</sub>e (2013: 302,895)<sup>5</sup>.

The Group's intensity measurement for the same period was 0.0406 (2013: 0.0424) tCO<sub>2</sub>e<sup>5</sup> per unit of production (tCO<sub>2</sub>e per 1000 CU).

5 Data includes all GHG emissions from operations covered by the Group Financial Statements for which we have operational control. In the case of acquisitions of businesses, the emissions are included in the first full calendar year of RB ownership. CO<sub>2</sub>e emissions were calculated using internationally recognised methodologies from the WRI/WBCSD Greenhouse Gas Protocol and International Energy Authority (IEA).

## Financial Review

# Solid growth & strong margin expansion

**In slower market conditions, RB once again delivered solid top line growth combined with strong margin expansion. Importantly, our earnings model remains 'virtuous'.**

**Total net revenue was £8,836m, an increase of +4% at constant exchange rates on both a like-for-like and total basis.**

Our like-for-like growth was led by Health and Hygiene, as we continue to focus on, and invest more in, these categories delivering consumer-led and science-based innovations, brand extensions and geographic rollouts. Scholl, Durex, Dettol, Lysol and Vanish performed particularly well in 2014.

From a geographic perspective, growth was broad based. Our developed market area of ENA delivered like-for-like growth of +2%, a strong performance where market growth remains weak. Our emerging market areas (LAPAC and RUMEA) delivered +7% like-for-like growth in slowing market conditions.

Operating profit as reported was £2,164m, +15% versus 2013 (+25% constant). On an adjusted basis, operating profit was ahead +2% (+11% constant). The adjusted operating margin increased by 160bps to 24.7%, driven by strong gross margin expansion and short-term containment initiatives on fixed costs.

Throughout the Annual Report, the following terms are used to describe RB's financial performance. These terms are defined below:

- **Like-for-like growth** on net revenue excludes the impact of changes in exchange rates, acquisitions, disposals and discontinuations.
- **Constant exchange rate** adjusts the comparative to exclude movements in exchange rates that impact actual reported results on consolidation.
- **Actual exchange rates** show the statutory performance and position of the Group, which consolidates the results of foreign currency transactions at year-end closing rates (balance sheet) or annual average rates (income statement).
- **BEI** represents our Brand Equity Investment and is the marketing support designed to capture the voice, mind, and heart of our consumers.
- **Core business** represents the ENA (Europe and North America), RUMEA (Russia, Middle East and Africa) and LAPAC (Latin America and Asia Pacific) geographic Areas. This excludes RB Pharmaceuticals and Food.
- **Total business** includes the results from RB Pharmaceuticals (up to the point of demerger) and Food.
- **Adjusted results** exclude Exceptional Items, defined as material, non-recurring expenses or income.

**Basis of preparation:** The financial information is prepared in accordance with IFRSs as endorsed by the EU and IFRSs as issued by the International Accounting Standards Board, with applicable parts of the Companies Act 2006 and with the accounting policies set out in note 1 on pages 76 to 80.

**Prior year restatements:** Prior year comparatives have been restated for the treatment of RBP or Indivior PLC as a discontinued operation.

**Net revenue:** Continuing net revenue was £8,836m (2013: £9,266m).

**Net finance expense:** Net finance expense was £38m (2013: £31m).

**Tax:** The continuing effective tax rate is 22% (2013: 24%). The continuing adjusted tax rate is 22% (2013: 23%).

**Discontinued operations:** On 23 December RB demerged its pharmaceuticals business and the newly formed company, Indivior PLC, was admitted to the London Stock Exchange on 23 December 2014. On demerger, a gain of £1,282m was recognised on distribution of this business to the existing RB Shareholders. Adjusted net profit after tax for RB Pharmaceuticals for the period to 22 December 2014 was £278m (2013: £348m), excluding the gain on distribution.

**Net working capital:** Net working capital (inventories, trade and other receivables and trade and other payables) was minus £831m, (31 December 2013: minus £863m).

**Cash flow:** Cash generated from operations was £2,324m (2013: £2,167m) and net cash generated from operating activities was £2,099m (2013: £2,121m). Net interest paid was £32m (2013: £24m) and tax payments were £416m (2013: £468m). Capital expenditure was £184m (2013: £224m). Acquisition of businesses of £340m related to expenditure on acquisitions and proceeds from disposals (2013: £418m).

**Net debt:** Net debt at the end of the year was £1,543m (2013: £2,096m). This reflected strong free cash flow generation, net debt of £272m demerged with Indivior PLC, offset by the payment of two dividends totalling £988m and net cash outflow from acquisitions and disposals of £340m. The Group regularly reviews its banking arrangements and currently has adequate facilities available to it. The Group issued two bonds in September 2013.

**Exceptional items:** A pre-tax exceptional charge of £21m has been incurred during the year; in respect of net restructuring costs and a one-off gain on the sale of fixed assets, in relation to the new organisation; acquisitions and associated integration costs. These costs are in line with previously communicated guidance.

**Balance sheet:** At the end of 2014, the Group had total equity of £6,834m (2013: £6,336m), an increase of +8%. Net debt was £1,543m (2013: £2,096m) and total capital employed in the business was £8,377m (2013: £8,432m).

This finances non-current assets of £12,336m (2013: £12,248m), of which £757m (2013: £761m) is property, plant and equipment, the remainder being goodwill, other intangible assets, deferred tax, available for sale financial assets, retirement benefit surplus and other receivables. The Group has current provisions of £317m (2013: £215m) and long-term liabilities other than borrowings of £2,737m (2013: £2,554m).

The Group's financial ratios remain strong. Return on Shareholders' funds (net income divided by total Shareholders' funds) was 47.2% on a reported basis and 28.7% on an adjusted basis (2013: 27.5% on a reported basis and 31.1% on an adjusted basis).

**Dividends:** The Board of Directors recommends a final dividend of 79p (2013: 77p), to give a full year dividend of 139p (2013: 137p), an overall increase of +1%. The dividend, if approved by Shareholders at the AGM on 7 May 2015, will be paid on 29 May 2015 to Shareholders on the register at the record date of 17 April 2015. The ex-dividend date is 16 April 2015 and the last date for election for the share alternative to the dividend is 7 May 2015. 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 through value-adding acquisitions. Through continued strong cash generation the Group has reached a net debt level of approximately £1.5bn. It is not possible to be definitive on future needs, but we consider that this provides the Group with appropriate liquidity.

We intend to continue our current policy of paying an ordinary dividend equivalent to around 50% of adjusted net income. In addition, we plan to supplement the current share buyback policy which broadly neutralises incentive plan share issuance (c. £300m p.a.) with an additional up to £500m share buyback programme in 2015.

**Contingent liabilities:** The Group is involved in a number of investigations by government authorities and has made provisions for such investigations, 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.

The Group from time to time 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.

## Case study

### Building consumer health capabilities

RB acknowledges that the changing landscape of health is to recognise the importance of promoting health and wellness: treating the consumer as well as the patient. RB builds brands that are safe, effective and gain consumer trust to promote healthy living as well as deliver fast relief.

That is why RB is working with leading academics, physicians and other health care professionals to build capabilities and deliver health education campaigns which highlight healthy living as the front line of health care. Our work with key opinion leaders plays an important role in gaining scientific expertise, an essential component to the continued improvement health outcomes. We work closely with a number of external advisory boards: GRIP (Global Respiratory Infection Partnership) and the Global Hygiene Council to help reduce the rate of infection and promote health and wellness. GRIP, a group of healthcare professionals, looks at the specific problem of antibiotic misuse while the Global Hygiene Council was established to provide consumers with guidance on trends and latest developments in hygiene.

Our commitment to building expertise with health care professionals underscores the importance we place on ensuring our consumer health portfolio has both consumer insights and medical rigor that consumers can trust.



Targets and KPIs

# 2015 targets

## Outlook

We have achieved a lot in the past three years, but there is more to do. Project Supercharge will make RB a leaner, faster and more coordinated business. It will also drive cost savings that will enable us to deliver sustainable earnings growth as we enter the second half of the decade.

Our strong margin expansion in 2014 provided a step up in operating margin, which Project Supercharge should make sustainable.

In 2015, we continue to expect tough market conditions. Therefore, we are targeting like-for-like net revenue growth of +4%, which is broadly similar to 2014 (at constant exchange rates), and moderate to “nice” operating margin expansion in 2015 (adjusted to exclude the impact of exceptional items).

## Targets

### Net revenue<sup>1</sup>



### Operating margin



1 On a like-for-like basis.  
2 Adjusted to exclude the impact of exceptional items.

## Case study

### Durex – Earth Hour – “Turn off to turn on”

For Earth Hour in March 2014, Durex spoke directly to lovers to ask them to ‘turn off to turn on’. The campaign addressed one of the biggest problems in modern relationships; technology.

The hour of darkness was the ideal time to call on couples to escape the screen and have some fun in the dark. Durex showed couples just how much their obsessions with gadgets and gizmos are leaving them totally disconnected from each other. After all, how can couples truly connect when their Facebook friends are allowed in the bedroom?

The campaign saw over 347m consumer engagements and the launch video was viewed 84.9m times in 56 countries. We introduced a new artist to the world – and even released a single.



Number of times the campaign launch video was viewed

**84.9m**  
RB's biggest global digital campaign



## 2020 KPIs

Total NR growth

# 200bps

per annum above-market growth

Operating margin expansion

# Moderate

margin expansion

2014 performance against KPIs

# +4%

200bps above market



2014 performance against KPIs

# +160bps



Other medium-term KPIs

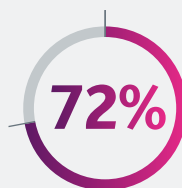
# 80%

of Total NR from Health and Hygiene by 2020

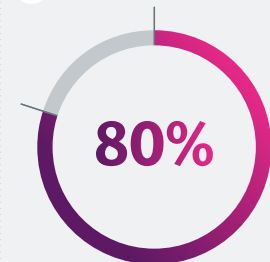
# 40%

of Total NR from DVM by 2020

→ 2014



→ 2020



→ 2014



→ 2020



Strategic Risks

# Our framework for risk management

The following table provides a summary review of the strategic risks and uncertainties that could affect the Group, as identified by management. RB operates a major risk assessment process to identify, assess, control, mitigate and review those risks it considers to be most significant to the successful execution of our strategy.

The most senior managers of our business dedicate time each year in a facilitated discussion with the Group risk team to consider the risk environment for their particular functional or geographic area of responsibility and how their emerging or known risks could impact on the achievement of the Group's strategic objectives. Similar sessions are held with the Group's external advisors. The key content from these sessions is then synthesised into the Group's 'Top Ten' risks, with each risk having an Executive Committee (EC) owner, who is accountable for executing the current control strategy and for compiling and executing a plan of mitigating actions to properly manage the Group's exposure to that risk. Progress is reviewed periodically and the full output from the major risk assessment process is formally submitted annually by the EC to the Board for its consideration and endorsement. Through the course of each year, the EC and Board agendas address all of the top risks through specific 'deep dives' to ensure proper focus and progress with mitigation.

The Group's activities also expose it to a number of other risks which, while also actively managed, may still adversely impact the business and its financials. A more detailed consideration of the full range of risks faced by the Group appears on pages 126 to 132 of this report.

#### 'Top Ten' risks

1. Health Regulatory Compliance
2. Technology Failure
3. Business Interruption
4. Legal Non-Compliance
5. Tax Legislation
6. Loss of Key Management
7. Brand Reputation
8. Actives Upscheduling
9. Developing Markets' Slow-down
10. 'Black Swan' Event

#### Exchange rate risk

A description of the exchange rate risk to the Group, and the means used to mitigate that risk, appears on page 127 (General Financial Risks of a Global Company) and on pages 127 to 128 (Currency Exchange).



**Major Risk**

**Health Regulatory Compliance**

01

**Description**

Risk that non-compliance with regulations (e.g. licences, manufacturing, products and laws) results in significant financial losses arising from regulator-enforced factory closures, product recalls, delayed launches, penalties, etc.

**Context**

Regulation is imposed in respect of, but not limited to, ingredients, manufacturing standards, labour standards, product safety and quality, marketing, packaging, labelling, storage, distribution, advertising, imports and exports, social and environmental responsibility and health and safety. These regulations can change and may become more stringent. Additionally we are required to obtain, maintain and update licences for such products. If we are found to be non-compliant with applicable laws and regulations, we could be subject to civil remedies such as fines, injunctions or product recalls, and/or criminal sanctions.

**Mitigation**

The Group has an ongoing Regulatory Excellence Programme, which continues to make good progress. RB employs senior regulatory and legal specialists at a Group, regional and local level who are responsible for setting policies and ensuring that all employees are aware of, and comply with, both Group policies and the laws and regulations relevant to their roles.

**Technology Failure**

02

Risk that targets cannot be delivered due to technology failure or a lack of growth-enabling systems and infrastructure capabilities, leading to business disruption.

Failures or disruptions to our systems or the systems of third parties on whom we rely, due to any number of causes, particularly if prolonged, or, if any failure or disruption were to impact our backup or disaster recovery plans, could result in a loss of key data and/or affect our operations. Sub-optimal implementations of new systems could occur. Our computer systems, software and networks may be vulnerable to unauthorised access, computer viruses or other malicious code and other cyber threats that could have a security impact. All of these could be costly to remedy and we may be subject to litigation.

The Group is engaged in a rolling Enterprise Resource Planning (ERP) update programme. Disaster recovery plans are in place and are tested periodically. It also invests in security measures and anti-virus software to safeguard against this threat. Maintenance of current systems throughout the execution of the ERP programme implementation is an ongoing priority.

**Business Interruption**

03

Risk that our business continuity plans, including monosourcing (materials and products) are inadequate and we face interruptions of our supply chain and disruptions in our production facilities, which could materially adversely affect our results of operations.

We may face risks to continuity of supply arising from certain specialised suppliers, both of raw materials and of third party manufactured items. Significant disruptions to our own, or our suppliers' operations, may affect our ability to source raw materials and negatively impact our costs. Suppliers may fail to fulfil their contractual obligations. Replacing suppliers may require them to be qualified under industry, governmental or our own standards, which could require investment and may take time to resolve.

Suppliers of key raw and packaging materials, co-packers of finished product and the Group's manufacturing facilities and key technologies are risk assessed for their potential impact on supply disruption for branded products. Business continuity plans are in place throughout the Group and major sites are routinely and independently assessed towards achievement of a highly protected site status.

**Legal Non-Compliance**

04

Risk that we are not fully compliant with UK and local laws including the UK Bribery Act, Competition laws and Data and Privacy Protection laws, resulting in damage to RB's reputation and significant potential fines.

Failure to comply with applicable anti-trust and competition laws, rules and regulations in any jurisdiction may result in civil and/or criminal legal proceedings. We are subject to the UK Bribery Act 2010, the US Foreign Corrupt Practices Act of 1977, as amended, and similar laws worldwide. Given our extensive international operations, we are exposed to significant risks, particularly with respect to parties not subject to our control such as agents and joint venture partners, and also through businesses we acquire. Any violation of applicable money laundering laws could also have a negative impact on us.

The Group is proactive in addressing legal risks and responds to government authorities in a forthright and co-operative manner. A Group compliance function was formally established in 2013 and an expansion made to the mandatory annual online training undertaken by employees.

## Strategic Risks

Major Risk	Description	Context	Mitigation
<b>Tax Legislation</b> 05	Risk of significant unprovisioned cash outflows as a result of tax authority challenge to filed tax positions in key territories.	We are subject to tax laws and transfer pricing regulations in multiple jurisdictions, including those relating to the flow of funds between RB and its subsidiaries. Our effective tax rate in any given financial year reflects a variety of factors that may not be present in succeeding financial years, and may be affected by changes in the tax laws of the jurisdictions in which we operate.	The Group takes appropriate care in establishing new tax positions in support of organisational operating structures; we are proactive in responding to tax authorities. The Board considers that tax exposures are adequately provided for, whilst recognising that an element of risk will always remain.
<b>Loss of Key Management</b> 06	Risk that RB cannot implement its strategies and meet objectives as a result of key management leaving the business who cannot be readily replaced by equally experienced/qualified candidates.	The market for talent is intensely competitive and we could face challenges in sourcing qualified personnel. If we are unable to achieve our performance targets, our senior management would not be entitled to their variable pay, which may operate as a disincentive for them to continue their employment with us.	The Group structures its reward programme to attract and retain the best people. The formal succession planning process continues to evolve with plans being reviewed and updated regularly for key positions and individuals.
<b>Brand Reputation</b> 07	Risk of significant reputational impact as a result of systemic product quality issues resulting in undermining of consumer confidence in our brands, particularly in the growing Health Care portfolio.	Various factors may adversely impact our reputation, including product quality inconsistencies or contamination resulting in product recalls. Reputational risks may also arise from our third parties' labour standards, health, safety and environmental standards, raw material sourcing, and ethical standards. We may also be the victim of product tampering or counterfeiting or grey imports. Any litigation, disputes on tax matters and pay structures may subject us to negative attention in the press, which can damage reputation.	The Group has a comprehensive set of policies, processes and systems to drive compliance with good manufacturing practice and monitor quality assurance, including an appropriately resourced global quality audit team.
<b>Actives Upscheduling</b> 08	Risk of upscheduling of active ingredients in Health Care to behind the counter or 'Rx' status.	We could be subject to regulatory investigations or potential enforcement actions that target active ingredients, an industry, a set of business practices or our specific operations. Regulatory authorities and consumer groups may request or conduct reviews of the use of certain of our ingredients, or ingredient legislation may change. These could result in a need to change our formulations which could be costly or may not be possible.	The Group monitors and works with health authorities and trade associations to properly influence the debate. An RB Governance Council was established during 2014 to ensure we continue to manage Health Care product lifecycles in accordance with our established high standards.

**Major Risk**

**Developing Markets' Slow-down**

09

**Description**

Risk of material impact on Group growth and profit of consumer-led slowdown in key developing markets, exacerbated by increasing currency volatility.

**Context**

A variety of factors may adversely affect our results of operations and financial condition during periods of economic uncertainty or instability, social or labour unrest or political upheaval in the markets in which we operate. Such periods may also lead to government actions, such as imposition of martial law, trade restrictions, foreign ownership restrictions, capital, price or currency controls, nationalisation or expropriation of property or other resources, or changes in legal and regulatory requirements and taxation regimes.

**Mitigation**

The Group develops and implements locally robust risk mitigation programmes designed to generate cost savings and higher returns on investment. Both results and currency volatility are closely monitored. Partnerships are strengthened with distributors to better manage local risks.

**'Black Swan' Event**

10

An absolute worst case scenario with sufficient potential impact to risk the future of RB as a strong and independent business operating in its chosen markets.

Significant reputational impact as a result of a major issue resulting in multiple fatalities, possibly compounded by apparently negligent management behaviour; extreme adverse press coverage and viral social media linking the RB name to consumer brands, leads to a catastrophic share price fall, very significant loss of consumer confidence and inability to retain and recruit quality people.

A strong governance framework and operating model are applied to drive compliance, transparency and oversight. Robust Group policies are maintained and a programme of rolling independent audits operated to ensure their proper application. Comprehensive crisis management training programme and support tools are in place and routinely updated.

**Routine Risks**

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

In order to manage the more numerous and routine risks, the Group maintains a complete and robust governance framework.

This consists of a full set of policies, processes and systems covering all aspects of compliance, with international and local laws as well as with the Group's stated minimum control standards. Management provides primary assurance by driving risk compliance through their respective area, regional or functional responsibility. This is done through regular and detailed business reviews. Secondary assurance is provided independently through a combination of internal and external audit covering all aspects of the Group's operations.

By order of the Board

**WILLIAM MORDAN** / Company Secretary  
19 March 2015



HEALTH ▸ HYGIENE ▸ HOME

# Creatin

## ➔ Our vision

A world where people are healthier and live better.

## ➔ Our purpose

To make a difference by giving people innovative solutions for healthier lives and happier homes.

## Our categories



HEALTH



HYGIENE



HOME

## Our geographies

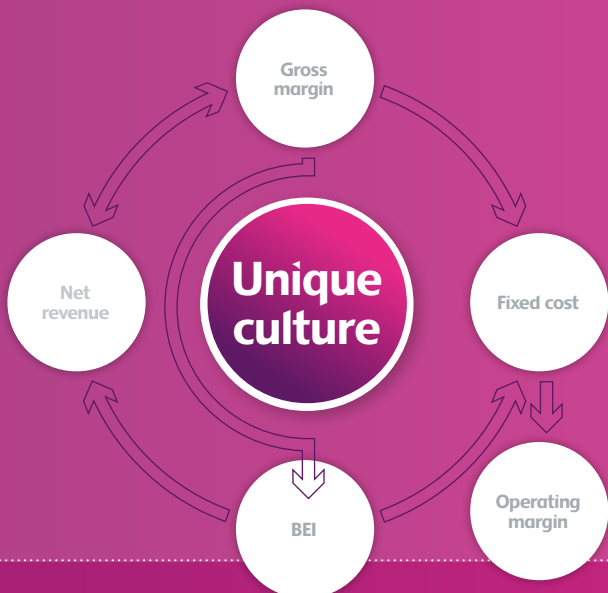
16

Powermarkets

# g value



## Our business model



## A global force in health and hygiene



## Chairman's Statement on Corporate Governance



ADRIAN BELLAMY / Chairman

**“We continue to focus on strong corporate governance, as we see it as a necessary requirement for commercial success.”**

### Introduction

Good corporate governance is a key element of our business success and remains a driver for the effective and prudent delivery of long-term success for the Group.

This year we again report against the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council (FRC) in September 2012, which was applicable to the Company throughout the financial year. I am pleased to report that standards of compliance remain high and your Board continues to strive to mitigate the minimal areas of perceived non-compliance.

#### Leadership

The Board believes that conducting RB's business in an ethical manner and safeguarding Shareholders' investments through high corporate governance standards and business performance are fundamental to achieving RB's vision and upholding its values. Good corporate governance is the starting point that enables the Board and executive management to entrepreneurially direct the Group to deliver effective and prudent long-term success that benefits our Shareholders and maintains the trust of all our stakeholders.

As I shared in my statement to you last year, the Board has been particularly focused on strengthening and refreshing its composition. All Non-Executive Directors joined the Nomination Committee to ensure that each Director's input into the selection process was comprehensive. 2014 was a year of significant change in our Non-Executive membership: in addition to Nicandro Durante who was appointed to the Board in December 2013, three additional members were appointed; Jaspal Bindra and Sue Shim in July 2014 and Doug Tough in November 2014. A further three Non-Executive Directors, Mary Harris, Pam Kirby and Chris Sinclair were appointed in February 2015. As a Board, we have taken a considered and measured approach to ensure we recruit the right calibre of candidates. We sought

to complement the Board with a broad range of skills and diversity whilst ensuring that appointments were on merit and would bring added benefits to the Company and its stakeholders. The experience added to the Board includes global markets, digital, FMCG, pharmaceuticals and healthcare. Additional information on the process taken and details of the new additions to the Board are set out in the Nomination Committee Report on page 42.

Ensuring the successful integration of our new Board members and facilitating operational continuity and a cohesive transition of Board and Board committee responsibilities will be a key focus for the Board during 2015. For this reason, we have asked Ken Hydon and Judy Sprieser to remain on the Board for an additional year, to the Annual General Meeting in May 2016, and to continue to serve as the chairs of their respective committees, Audit and Remuneration. Ken and Judy's experience and expertise will ensure that your Board continues to deliver the guidance, direction and oversight that you expect.

As part of the review of the Board's effectiveness, the documents setting out the matters reserved for the Board and the delegations to the CEO, together with the terms of reference for the Board Committees, were reviewed to ensure they continue to reflect the spirit and emphasis of the Code and remain fit for purpose and relevant to how RB operates.

#### Effectiveness

The 2014 evaluation of the Board's performance was undertaken internally and built on the outcomes of the externally facilitated evaluation in 2013. The Board took proactive steps during 2014 to address recommended improvements on governance and Board succession matters. The performance evaluation for 2014 followed the same criteria and questions from 2013 to provide a fair comparison between years and to measure the input of new Board members.

In addition to new Board members, the Company welcomed two new members of the Executive Committee, building on its existing strength and experience. Darrell Stein joined from Marks & Spencer plc as SVP Information Systems following the departure of Gareth Hill, and Deborah Yates joined as SVP Human Resources in view of Simon Nash's retirement. In addition, Roberto Funari assumed a new role, EVP, Category Development Organisation in view of Heather Allen's expected departure. Additional information on RB's succession planning activities at senior management levels can be found on page 18 of the Strategic Report. This disclosure includes the requirement under the Companies Act 2006 to report specifically on the gender split for the Board, senior managers and total employee numbers.

The Company operates within a corporate diversity and inclusion policy framework adopted and reviewed by the Executive Committee. The Board continues to promote diversity in its broadest sense and to ensure that the Company's Top40 executive roles, in particular, are open to fresh thinking and include personnel from different global backgrounds who bring new ideas to the table. The Company values its freedom to retain a group of people who, collectively, have the skills, experience and insight to implement the Company's global vision and objectives and achieve long-term value growth.

#### FCA investigation

The Financial Conduct Authority (FCA) has fined RB £539,800 in relation to historic procedural lapses in the disclosure of executive share dealings. RB acknowledges the error and has already implemented measures to improve its internal processes that address the FCA's concerns.

RB identified missing disclosures from historic share dealings and immediately notified the UKLA in late September 2012. RB distributed a corrective notice to the markets on 8 October 2012. RB works hard to maintain close and positive relationships with its regulators and we continue to have a strong relationship with the FCA.



The disclosures relate to only a small number of share dealings in 2008 and 2010, as well as automatic dividend reinvestments received in 2011 and 2012. There is no suggestion that any individual intended to violate the Listing Rules or the Model Code.

**Summary**

The Board recognises that the objective of the Code is to facilitate management’s delivery of business success in a transparent and responsible manner. The Code does not impose a rigid set of rules and recognises that certain actions and behaviours do not automatically imply poor organisational governance. The Board has authorised the following areas of non-compliance, or where interpretation may lead to a perception of non-compliance, with certain areas of the Code and to further confirm that each Director’s independence of thought and actions was assured and all decisions were taken to promote the success of RB as a whole:

- I, as the Chairman, and Peter Harf, the Deputy Chairman and a Shareholder-nominated Director, have both served on the Board since 1999 and will be offering ourselves for re-election at the 2015 AGM, together with the other Directors;
- Ken Hydon and Judy Spriester have both served on the Board since 2003. Judy has served as Chair of the Remuneration Committee since 2004 and Ken has served as Chair of the Audit Committee since 2006. Previously, Ken and Judy had announced their intent to step down from the Board at the Annual General Meeting in May 2015. As we added six new members to the Board in 2014 and 2015, we have asked Ken and Judy to remain on the Board and to chair their respective committees for an additional year, to help ensure a smooth transition of leadership responsibilities; and
- Under the Code, companies should put their external audit out to tender at least every ten years. The Audit Committee is conscious of the revised Competition & Markets Authority (‘CMA’) and EU requirements on audit tender and rotation. See page 46 for further details.

The Corporate Governance Report on pages 32 to 63 contains a summary of the Company’s governance arrangements and the regulatory assurances required under the Code. Except as explained above, the Company has complied with the Code throughout the year ended 31 December 2014.

**ADRIAN BELLAMY** / Chairman  
19 March 2015

**Board focus areas in 2014**

At each meeting, the Board considers reports from the Chief Executive Officer and the Chief Financial Officer on strategic and business developments and on the financial performance of the business and forecasts respectively. Other focus areas during the year are set out in the table below.

<p><b>Strategy and planning</b></p> <ul style="list-style-type: none"> <li>• The strategic review of RB Pharmaceuticals and successful demerger of the business as Indivior PLC – see page 16</li> <li>• Various M&amp;A activities including the acquisition of the K-Y brand from Johnson &amp; Johnson – see page 114</li> <li>• A £100m investment to develop a new world class R&amp;D centre in Hull announced by the Chancellor of the Exchequer, George Osborne</li> <li>• Performance relative to key competitors</li> <li>• Group debt and funding arrangements</li> <li>• Group budgets, forecasts and key performance targets including assumptions, scenarios and projections</li> <li>• R&amp;D developments, new initiatives and potential collaborations</li> </ul> <p><b>Risk management and internal control</b></p> <ul style="list-style-type: none"> <li>• RB’s principal risks, emerging risks and the Group’s risk register</li> <li>• The effectiveness of the Group’s compliance programme</li> <li>• RB’s vulnerability to, and protections against, the specifics of cyber crime</li> <li>• Internal controls</li> </ul>	<p><b>Leadership</b></p> <ul style="list-style-type: none"> <li>• Board composition and appointment of three new Non-Executive Directors during 2014 and three in February 2015</li> <li>• Approved changes to the composition of the Executive Committee</li> <li>• Company Secretary change</li> <li>• Non-Executive Directors’ fees</li> <li>• Employee engagement, development and succession planning</li> </ul> <p><b>Financial results and statements</b></p> <ul style="list-style-type: none"> <li>• Compliance with the enhanced reporting requirements for the Annual Report</li> <li>• Results and presentations to analysts</li> </ul> <p><b>Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Board evaluation and effectiveness</li> <li>• Corporate responsibility, environment, health and safety</li> <li>• Interactions with institutional investors</li> <li>• Developments in corporate governance</li> <li>• Legal and regulatory update</li> </ul>
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## RB Board of Directors

	<b>Rakesh Kapoor</b> CEO	<b>Adrian Bellamy</b> Chairman	<b>Jaspal Bindra</b> NED	<b>Nicandro Durante</b> NED	<b>Peter Harf</b> NED
<b>Nationality of origin</b>	Indian	British	Indian	Brazilian/Italian	German
<b>Committee membership</b>	Nomination Committee	Chair of Nomination Committee – Remuneration Committee	Audit Committee – Nomination Committee	Nomination Committee – Remuneration Committee	Nomination Committee
<b>Experience and length of tenure</b>	Joined the Board in September 2011 following his appointment as CEO of the Company. Rakesh joined RB in 1987 and served in various regional and central marketing roles. He was appointed EVP Category Development in 2006 with responsibility for global category management, R&D, media, market research and strategic alliances.	Appointed a Non-Executive Director in 1999 and Non-Executive Chairman in May 2003. Adrian was formerly Chairman of The Body Shop International plc. Other previous directorships include The Gap Inc, Gucci Group NV and The Robert Mondavi Corporation.	Appointed to the Board as a Non-Executive Director on 1 July 2014. Jaspal joined Standard Chartered in 1998 and held senior positions in the company such as Global Head of Client Relationship for Wholesale Bank before appointment to his current position of Group Executive Director to the Board in January 2010. His earlier career was with UBS Investment Banking and Bank of America where he worked across Treasury Markets and Consumer Banking in India and Singapore. Jaspal is a qualified Chartered Accountant and Master of Business Administration (MBA).	Joined the Board of RB in December 2013. Following a career working in finance in Brazil, Nicandro joined British American Tobacco plc ("BAT") in 1981. He has had an extensive career with BAT working in the UK, Hong Kong and Brazil, including holding the positions of Regional Director for Africa and Middle East and COO before being appointed to his current role of CEO. Nicandro holds degrees in finance, economics and business administration.	Joined the Board as a Non-Executive Director in December 1999 and is the Deputy Chairman. He served as Chairman of the Remuneration Committee until June 2004. Peter is a Senior Partner of JAB Holding Company s.a.r.l. ("JAB"), a privately held group focused on long-term investments in companies with premium brands, attractive growth and strong margin dynamics. He joined JAB in 1981, serving the group in a variety of capacities, including Chairman and Chief Executive Officer since 1988. He was formerly Chairman of Coty inc. and has previously been the Chairman of Anheuser-Busch InBev and a Director of Burger King Holdings, Inc.
<b>Current external appointments</b>	None.	Chairman of Williams-Sonoma Inc.	Group Executive Director to the Board of Standard Chartered PLC. Jaspal also sits on the Board of Governors of XLRI Business School, is a member of the City of London Advisory Council for India and a Board Director of US-India Business Council.	Chief Executive Officer of BAT since March 2011.	Senior Partner of JAB, Chairman of Jimmy Choo PLC, Belstaff Group SA & Bally International SA, Co-Founder and Executive Chairman of Delete Blood Cancer DKMS Tubingen, Germany, a Board member of Peet's Coffee & Tea Inc., a Board member of D.E. Master Blenders 1753 B.V. and a Director of Coty Inc.

Mary Harris NED	Adrian Hennah CFO	Ken Hydon NED	Dr Pam Kirby NED	André Lacroix NED	Sue Shim NED
British	British	British	British	French	South Korean
Nomination Committee	None	Chair of Audit Committee – Nomination Committee	Nomination Committee	Audit Committee – Nomination Committee	Audit Committee – Nomination Committee
Appointed as Non-Executive Director in February 2015. Mary was formerly a Partner at McKinsey & Company, with a particular focus on consumer and retail businesses in China, South East Asia, and Europe. She is a graduate of the University of Oxford (MA Politics, Philosophy and Economics) and Harvard Business School.	Joined RB in January 2013 and was appointed CFO in February 2013. Prior to joining RB, Adrian spent six years at Smith & Nephew plc as CFO and four years as CFO at Invensys plc. Adrian also spent 18 years at GlaxoSmithKline plc, holding a number of senior management and financial roles. His earlier career was with PwC (then Price Waterhouse) in both audit and consultancy, and Stadtsparkasse Koeln, the German regional bank.	Appointed a Non-Executive Director in December 2003 and Chair of the Audit Committee in November 2006. Senior Independent Director between February 2005 and November 2006. Ken's experience in finance and business includes working in the electronics, retail, consumer products and healthcare sectors. Ken was formerly CFO of Vodafone Group plc and a former Director of Tesco plc. He is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.	Appointed as Non-Executive Director in February 2015. Pam was formerly CEO of Quintiles Transnational Corporation and held senior positions at AstraZeneca PLC and Hoffman-La Roche.	Appointed a Non-Executive Director of RB in October 2008. André became the Senior Independent Director in June 2013. He was previously Chairman and Chief Executive Officer of Euro Disney S.C.A. Prior to this he was the President of Burger King International, previously part of Diageo, and also held positions at Colgate, PepsiCo and Ernst & Young LLP.	Appointed to the Board of RB as a Non-Executive Director on 1 July 2014. Sue has extensive consumer goods' experience in a range of product categories and cultures, and held senior positions in Procter & Gamble, including Marketing Director, Cosmetics & Skincare in North East Asia, Global Marketing Director of Feminine Care and Skin Care in the USA prior to joining Samsung Electronics. Sue has been Global Chief Marketing Officer of Samsung Electronics for four years, since 2010.
Non-Executive Director of ITV plc and J Sainsbury plc. Member of Supervisory Boards of Unibail-Radmc SE, TNT Express NV and Scotch and Soda NV.	Non-Executive Director of Reed Elsevier PLC, Reed Elsevier NV and Indivior PLC.	Non-Executive Director of Pearson plc and Merlin Entertainments plc.	Chairman of Scynexis, Inc and a Non-Executive Director of DCC plc, Victrex plc and Hikma Pharmaceuticals PLC.	Group Chief Executive of Inchcape plc (until March 2015) and Chairman of Good Restaurants AG. Chief Executive Officer of Intertek Group plc (being appointed May 2015).	EVP of Samsung Electronics, Korea.

## RB Board of Directors

	<b>Chris Sinclair</b> NED	<b>Judy Sprieser</b> NED	<b>Doug Tough</b> NED	<b>Warren Tucker</b> NED
<b>Nationality of origin</b>	American	American	Canadian	British
<b>Committee membership</b>	Nomination Committee	Nomination Committee – Chair of Remuneration Committee	Nomination Committee – Remuneration Committee	Audit Committee – Nomination Committee
<b>Experience and length of tenure</b>	Appointed as Non-Executive Director in February 2015. Chris was previously Executive Chairman of Scandent Holdings, Executive Chairman of Cambridge Solutions Ltd, Chairman and CEO of Caribiner International, and President and CEO at Quality Foods Centers, Inc. Earlier in his career, he held various senior management positions with PepsiCo, including Chairman and CEO of Pepsi Cola Co., and Chairman of PepsiCo International Foods and Beverages, which gave him the platform to showcase his strong global branding skills. Chris is a graduate of the University of Kansas (Business Administration) and the Tuck School at Dartmouth College.	Appointed as a Non-Executive Director in August 2003 and has been Chair of the Remuneration Committee since June 2004. Judy was previously CEO of Transora Inc. and Executive Vice President of Sara Lee Corporation and CFO of Sara Lee's Food Group. Judy has a Bachelor's and Master's degree from Northwestern University.	Appointed to the Board of RB as a Non-Executive Director on 1 November 2014. Doug was formerly Chairman and CEO of International Flavors & Fragrances Inc, which he joined in 2010. Prior to that, he served as CEO and MD of Ansell Limited. His earlier career was in a variety of executive positions with Cadbury Schweppes plc.	Appointed as Non-Executive Director in February 2010. Warren was formerly Chief Financial Officer of Cobham plc. He previously held senior finance positions at Cable & Wireless plc and British Airways plc. He is a Chartered Accountant.
<b>Current external appointments</b>	Chairman and Interim CEO of Mattel, Inc.	Director and Vice Chairman at Royal Ahold NV, Director of Allstate Corporation, Director of InterContinental Exchange. and Experian plc.	Director of Molson Coors Brewing Company.	Director of Thomas Cook Group PLC and Non-Executive Director and Chairman of PayPoint plc.

## RB Executive Committee

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### Amedeo Fasano

**Executive Vice President, Supply**

**Nationality:** Italian

Joined in 1997 as Supply Director Italy. After the Reckitt & Colman and Benckiser merger, Amedeo was appointed Manufacturing Director for Central, South Western and Southern Europe Regions. In 2002 he became Regional Supply Director North America and in 2003 SVP Supply North America, Australia and New Zealand. In 2007 he took over the role of SVP Supply Developing Markets and in March 2009 Amedeo was appointed as EVP Supply. He previously worked for Pirelli Tyres in various supply roles.

### Roberto Funari

**Executive Vice President, Category Development Organisation**

**Nationality:** Brazilian

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

### Rob de Groot

**Area Executive Vice President, ENA**

**Nationality:** Dutch

Joined RB in 1988. After international roles in marketing and sales Rob became General Manager The Netherlands, then SVP, Regional Director Eastern Europe and was appointed Global Category Officer, Surface, Dish and Homecare before being appointed EVP North America & Australia. Rob is now responsible for North America, Central Europe, Northern Europe, Southern Europe and Western Europe and headquartered in Amsterdam. As part of RB's new strategy for continued outperformance, in January 2012 Rob became EVP of the newly amended ENA Area, which in January 2015 was enlarged to also include Australia, New Zealand, Russia and Israel.

### Adrian Hennah

**Chief Financial Officer**

**Nationality:** British

### Rakesh Kapoor

**Chief Executive Officer**

**Nationality:** Indian

### Frederic Larmuseau

**Area Executive Vice President, Developing Markets**

**Nationality:** Belgian

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

In 2012, Frederic was appointed to the position of SVP, Regional Director, North America. He was appointed as EVP, RUMEA in June 2013 before taking up his current role in January 2015. Before joining RB, Frederic worked for Procter & Gamble.

### Darrell Stein

**Senior Vice President, Information Services**

**Nationality:** British

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

### Deborah Yates

**Senior Vice President, Human Resources**

**Nationality:** Australian

Joined RB in 2004 in the Australian business. Deb has worked in Australia, US, UK and Netherlands since joining RB. She was appointed Global Human Resources Director ('HRD') Finance and IS in 2009, Regional HRD ANZ in 2011, Regional HRD North America in 2012 and Area HRD Europe and North America in 2013. In December 2014 Deb was appointed SVP HR. Before joining RB, Deb worked in a variety of industries in HR in Australia including News Limited, George Weston Foods Limited and Qantas Airways Limited.

## Corporate Governance Statement

**The Company is premium listed on the London Stock Exchange and this Report is prepared with reference to the Financial Reporting Council's UK Corporate Governance Code (the Code) in effect for the financial periods beginning on or after 1 October 2012. This Report sets out how the Company has applied the Main Principles of the Code throughout the year ended 31 December 2014 and as at the date of this Report.**

### Leadership

#### Board Responsibilities

The Board supports high standards of corporate governance, which are critical to business integrity and maintaining investors' trust in RB. It is responsible for the overall conduct of the Group and has the powers, authorities and duties invested in it under relevant laws and regulation and the Company's Articles of Association. The Board has final responsibility for the management, direction and performance of the Group and its business operations. The Board exercises objective judgement on all corporate matters, independent from executive management, and is accountable to Shareholders for the proper conduct of the business. It is responsible for ensuring the effectiveness of, and reporting on, the Group's system of corporate governance.

The Executive and Non-Executive Directors are equal members of the Board and have overall collective responsibility for the direction of RB. The principal focus of the Board's work is the overall strategic direction of the Group and the monitoring of performance. It approves strategy, carries out an advisory and supervisory role and accepts ultimate responsibility for the conduct of RB's business. The schedule of matters reserved for the Board's decision includes:

- Significant acquisitions, disposals and capital expenditure projects;
- Final approval of annual budgets and corporate plans;
- Approval of financial statements and Shareholder communications;
- Takeover offers and the response to any takeover approach;
- Treasury policies and risk management policies;
- Significant changes to borrowing facilities or foreign currency transactions; and
- Review and approval of recommendations from the Committees of the Board.

The annual review of this schedule was undertaken in November 2014 as part of the performance evaluations conducted for the 2014 financial year.

The principal activities undertaken by the Board are set out in the Strategic Report on pages 1 to 27. A summary overview is set out in the table on Board focus areas in 2014 on page 31.

#### Board Meetings

Board meetings are structured to allow open discussion. The Board meets a minimum of five times a year and constitutes additional meetings (including by telephone or written resolution) to consider specific matters which it has reserved to itself for decision.

In 2014, there were five regular Board meetings (plus five additional meetings). There were four Audit Committee meetings, three regular Remuneration Committee meetings (plus two additional meetings) and four Nomination Committee meetings. The table below sets out the attendance by individual Directors at Board and Committee meetings which each Director was eligible to attend.

#### → Board Attendance at Scheduled Meetings

	Board (5 meetings)	Audit Committee (4 meetings)	Remuneration Committee (3 meetings)	Nomination Committee (4 meetings)
Adrian Bellamy	5 of 5		3 of 3	4 of 4
Jaspal Bindra <sup>1</sup>	2 of 3	1 of 1		2 of 2
Richard Cousins <sup>2</sup>	2 of 2			2 of 2
Nicandro Durante <sup>3</sup>	4 of 5		2 of 2	4 of 4
Peter Harf	5 of 5			4 of 4
Adrian Hennah	5 of 5			
Ken Hydon	5 of 5	4 of 4		4 of 4
Rakesh Kapoor	5 of 5			4 of 4
André Lacroix	5 of 5	4 of 4		4 of 4
Sue Shim <sup>1</sup>	3 of 3	1 of 1		2 of 2
Judy Sprieser	4 of 5		3 of 3	4 of 4
Doug Tough <sup>4</sup>	1 of 1		1 of 1	1 of 1
Warren Tucker	5 of 5	4 of 4		4 of 4

#### Notes

- 1 Jaspal Bindra and Sue Shim joined the Board on 1 July 2014 and the Audit Committee on 1 August 2014.
- 2 Richard Cousins retired from the Board on 7 May 2014.
- 3 Nicandro Durante joined the Board on 1 December 2013 and the Remuneration Committee on 1 August 2014.
- 4 Doug Tough joined the Board and the Remuneration Committee on 1 November 2014.

Directors who were not members of individual Board committees were also invited to attend one or more meetings of those committees during the year. There was one Board meeting where three Directors were unavoidably absent.

#### The Chairman

There is a clear division of responsibilities between the Chairman and the CEO. The Chairman is responsible for the overall operation, leadership and governance of the Board. The Chairman, who was independent on appointment, is responsible for leading the Board and enabling the Directors to operate effectively as one unit to determine the strategy, risk appetite and governance structure necessary to deliver Shareholder value in a transparent and responsible manner. His responsibilities include:

- Chairing Board meetings and ensuring that they provide a forum that encourages open debate and effective contributions from individual Directors with sufficient time allocated to key issues;
- Developing an effective working relationship with the CEO whilst recognising the need to maintain the balance between critical friendship and executive responsibility;
- Finalising the Board meeting agenda developed by the CEO and the Company Secretary;



- Sponsoring and promoting governance and ethical practices;
- Encouraging dialogue between the Company and its Shareholders and other stakeholders and facilitating the Board’s understanding of Shareholders’ and other stakeholders’ concerns;
- Overseeing the induction, information and support provisions for Directors; and
- Leading the annual performance evaluation of the Board and its Committees.

**The Chief Executive Officer**

The CEO is responsible for the executive management of RB’s business, consistent with the strategy and commercial objectives agreed by the Board. The CEO chairs the Executive Committee and, together with the CFO, certain Group functional heads and Area EVPs he appoints to the Committee, provides the day-to-day management of the Company. Biographical details of the members of the Executive Committee are set out on page 35. The matters delegated to the CEO by the Board include:

- Power to delegate the day-to-day management of the business of the Company to each of the Officers of the Executive Committee, acting individually or as a group or sub-committee;
- Power to acquire and dispose of businesses and to approve unbudgeted capital expenditure projects subject, in each case, to a £50m limit; and
- Power to instruct advisers and to instigate legal proceedings on behalf of the Company in respect of matters for which no further Board authority is required.

**The Senior Independent Director**

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

**The Executive Directors**

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

**The Non-Executive Directors**

The Non-Executive Directors share full responsibility for the execution of the Board’s duties, are independent of management and therefore able to provide critical input into Board decisions through their contributions to Board discussions and their roles on, and Chairmanship of, Board Committees. They:

- contribute international and operational experience and a knowledge and understanding of global financial issues, the sectors in which RB operates and the health and safety, environmental and community challenges it faces;
- constructively challenge and contribute to the development of strategy;
- scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
- satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible; and
- take responsibility for determining appropriate levels of remuneration of Executive Directors and have a prime role in the appointment and, where necessary, the removal of senior management and in succession planning.

The Chairman holds a session with the other Non-Executive Directors at the conclusion of each formal Board meeting without the Executive Directors present.

**Company Secretary**

The Company Secretary ensures that the Company complies with all relevant governance of the Company’s operations and is responsible for ensuring that the correct Board procedures are followed. He advises the Board on corporate governance matters. All Directors have access to the Company Secretary. His appointment and removal are matters reserved to the Board.

→ **Board Committees and Responsibilities**

	<b>Audit Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>	<b>Executive Committee</b>
<b>Chair</b>	<b>Ken Hydon</b>	<b>Judy Sprieser</b>	<b>Adrian Bellamy</b>	<b>Rakesh Kapoor</b>
<b>Composition</b>	Jaspal Bindra André Lacroix Sue Shim Warren Tucker	Adrian Bellamy Nicandro Durante Doug Tough	All Non-Executive Directors Rakesh Kapoor	See page 35 for details of members
<b>Meetings</b>	4 times per year	3 times per year	4 times per year	11 times per year
<b>Responsibilities/ Recommendations</b>	Integrity of financial reports and statements prior to Board approval Effectiveness of risk management and internal controls framework Approval of internal audit plan, effectiveness of internal audit and management’s response to findings Review and monitoring of external auditors’ independence, objectivity and effectiveness of the external audit process. Presents recommendations regarding appointment of external auditors to the Board.	Targets and participation in Annual Bonus and LTIPs Principles and structure of executive remuneration policy Remuneration for individual Executive Directors and Executive Committee members Terms and conditions of Executive Directors’ contracts including termination payments	Review of the skills and experience requirements of the Board Search and selection process for new Directors Development and succession plans for Board and Executive Committee levels	Executive management of the business Group management structure and organisational boundaries Allocation of resources within the Group Recommendations to the Board on strategy, plans, M&A, budgets and operating plans, financial structures and dividend policy

## Corporate Governance Statement

### Effectiveness

#### Board composition

The composition of the Board is such as to enable it to discharge its responsibilities and provide effective leadership to the business. The Board comprises the Chairman, Adrian Bellamy, 12 Non-Executive Directors and two Executive Directors. Information regarding the Directors serving at the date of this Report is set out on pages 32 to 34.

The Board has identified André Lacroix as its Senior Independent Director. The Board has determined that the majority of Non-Executive Directors (excluding the Chairman) are independent as recommended by the Code. The Board deemed Ken Hydon and Judy Spriesser independent, notwithstanding that they have served over 11 years. The Chairman, Adrian Bellamy, was independent on appointment. Peter Harf, the Deputy Chairman, is not independent by virtue of being a Shareholder-nominated Director. The Shareholder Agreement between the Company and JAB Holdings B.V. (JAB) at the time of the merger in 1999 entitled JAB to nominate Board Directors. A holding in excess of 20% or 10% of the Company's ordinary shares entitles JAB to nominate two Directors or one Director respectively. JAB's current holding is slightly in excess of 10%.

#### Board diversity

The Board continues to focus on diversity in its consideration of new members, seeking out experienced professionals from varied national and ethnic groups, with due consideration given to gender, age and educational background. The Board believe that its current composition means the Company has a complementary mix of skills and experience to facilitate knowledgeable dialogues about RB, its products and markets.

#### Board balance and independence

All new Non-Executive Directors confirm in writing that they are able to allocate sufficient time to meet the expectations of the role. The Board has adopted a letter of appointment that contains the terms on which Non-Executive Directors will be appointed including:

- confirmation that the appointment is a contract for services and details of any Committee appointments;
- confirmation of the initial appointment term of three years terminable on one month's written notice and the expectation that the appointment will usually last for more than one term, although all Directors stand for re-election annually; and
- the requirement to seek the agreement of the Chairman before accepting additional commitments including other directorships and the requirement to disclose any actual or potential conflicts of interest.

The terms of reference of the Nomination Committee give the Committee responsibility for ensuring that Executive Directors do not take on more than one Non-Executive directorship in a FTSE 100 company nor the chairmanship of such company. On 4 November 2014, Adrian Hennah became a Non-Executive Director of Indivior PLC, as part of the demerger of that entity from RB, as disclosed in the Indivior PLC prospectus, distributed to Shareholders on 17 November 2014. Indivior PLC is not a FTSE 100 company.

The performance evaluation of the Board's performance during 2014 concluded that the Chairman and other Non-Executive Directors devote sufficient time to the Company's business.

#### Director inductions

On appointment, individual Directors undergo an induction programme covering, amongst other things, the business of the Group, their legal and regulatory responsibilities as Directors of RB, briefings and presentations from relevant executives and opportunities to visit business operations. If appropriate, the induction will also include briefings from our external auditors, the scope of our Internal Audit function and the role of our Audit Committee, and other areas the Company Secretary deems fit considering the Director's area of responsibility.

The induction process is designed to: build an understanding of RB, its businesses and the markets and regulatory environments in which it operates; provide an overview of the responsibilities of a Non-Executive Director of RB; build links to RB's people; and build an understanding of RB's main relationships.

The Chairman has overall responsibility for ensuring that the Directors receive the information and training required for their roles. Directors are encouraged to take individual responsibility for identifying their needs and are expected to take the necessary steps to ensure that they are adequately informed about RB and their responsibilities. The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a Director of a listed company.

#### Board development

Each member of the Board has access to information which includes actual financial results and reports from the Executive Directors in respect of their areas of responsibility – these matters are further discussed at each Board meeting. From time to time, the Board also receives detailed presentations from non-Board members on matters of significance or on new opportunities for the Group. Financial plans, including results, budgets and forecasts are regularly discussed at Board meetings.

The Board holds at least one meeting each year at one of the Company's operating units. The 2013 meeting was held in China and the Board visited its operating unit in Salt Lake City, USA during 2014.

Ongoing training covers a number of sector specific and business issues, as well as legal, accounting and regulatory changes and developments relevant to individual Directors' areas of responsibility. Throughout their period in office, the Directors are continually updated on RB's businesses and the regulatory and industry-specific environments in which it operates. These updates are by way of written briefings and meetings with senior executives and, where appropriate, external sources.

#### Board support

The Company Secretary is responsible for the organisation of meetings and the collation, review and distribution of all papers submitted to the Board for consideration. A confidential electronic team room, which is accessible to all the Directors, is maintained by the Secretariat. The information available in the team room includes: agendas for meetings, minutes of meetings, press releases, presentations and any other document which the Company Secretary determines would be useful to the Directors. The overriding benefit of the team room is that all the Directors have immediate access to information to enable them to carry out their responsibilities. Directors unable to attend a particular meeting during the year had the opportunity to review and raise any issues on the relevant briefing papers.

Each Director has access to the advice and services of the Company Secretary and a procedure exists for Directors to take independent professional advice at the Company's expense in furtherance of their duties.

### Conflicts of interest and deed poll of indemnity

The Board is responsible for ensuring that there are rules to avoid conflicts of interest by Board members. Where conflicts arise the Board is also responsible for ensuring that in dealing with them it complies with all applicable laws, regulations and corporate governance codes. The Board has delegated authority to the Nomination Committee to manage the Board's conflicts of interest process and details of its activities and conclusions in this regard are set out in the Nomination Committee Report on page 42.

The Directors benefit from the indemnity provision in the Company's Articles of Association. Each individual, who is an Officer of the Company and/or of any company within RB at any time on or after 28 July 2009, benefits from a deed poll of indemnity in respect of the costs of defending claims against him or her and third party liabilities. Additionally, Directors' and Officers' liability insurance cover was maintained throughout the year at the Company's expense.

### Evaluation of the Board

The Board maintains an ongoing review of its procedures and effectiveness and those of its Committees throughout the year. The evaluation of the Board's performance during 2014 was undertaken internally using the materials from the 2013 externally facilitated evaluation together with additional questions and an invitation for open comments, the results of which were subsequently discussed during the performance evaluation meeting.

#### → Board Visit to San Francisco

### In September 2014, the RB Board travelled to San Francisco and Salt Lake City for its annual off-site strategy session

#### → Schiff Factory

- Salt Lake City was chosen so the Board could visit the recent acquisition in a new category (VMS)
- Full day at the Schiff factory

#### → Europe, North America (ENA) Review

- Review of the ENA operating Area and meeting with internal management team
- Presentations on ENA, North America digital, VMS innovation and digital management

#### → Digital Marketing

- Proximity to Silicon Valley gave the Board the opportunity to focus on digital marketing
- Visits to both the Google and Facebook campuses and exploring areas of opportunity with both organisations

### 2014 evaluations

The review of the Board's performance focused on the key outcomes from the 2013 evaluation with the objective of ensuring that the 2013 improvement actions were embedded in, and integral to, the operation of the Board. The Board noted that it receives regular and project specific updates which afforded members a good overview of key projects such as the strategic review of RB Pharmaceuticals which led to the eventual demerger of that business as a separate listed entity and the approval of a £100m new R&D facility in Hull. The improved regularity of Board updates also meant that decisions on M&A activities were taken promptly with full input from Board members who had timely access to key considerations. Regular project updates include post-acquisition or disposal reviews conducted.

The Board now benefits from the perspective and experience of six new members, appointed since the start of 2014. A tailored induction programme is in place to advance the new Non-Executive Directors' knowledge of RB, its people and its business operations. Another objective identified is a desire to safeguard the culture of the Group, which the Board believes is critical to RB's competitive advantage. It noted that culture is determined by the tone from the top and it was desirable for the current culture to be maintained by the Board for the benefit of the Company's Shareholders and all other stakeholders.

### Progress update on items from the 2013 evaluation

Good progress has been made on the development opportunities identified from the externally facilitated evaluation in 2013. The areas of significant improvements include:

- Board composition: as at the date of this Annual Report seven additional Non-Executive Directors have been added to the Board since the evaluation was completed;
- Chairman succession: this process, led by the Senior Independent Director, continues to receive due attention from the Non-Executive Directors and the CEO; and
- Interaction with Executive Directors: Executive Directors now bring forward discussions on potential events with the Board which enables the Non-Executive Directors to offer input and direction before formal plans and strategies are drafted resulting in more focused debates during meetings.

These outcomes and actions fed into the performance evaluation undertaken internally during 2014 and will continue to aid benchmarking and the measurement of progress in the coming years.

The evaluation of the Chairman's performance was undertaken by the Senior Independent Director with input from his fellow Non-Executive Directors, the CEO and the CFO. The Chairman evaluates each Director's performance through one-to-one discussions with other Directors. The Remuneration Committee also reviews the performance of the Executive Directors and other members of the Executive Committee.

### Succession planning

In accordance with the Code recommendations, all the Directors will submit themselves for re-election/election at the 2015 AGM. Each Director has provided assurance that he or she remains committed to his or her role and can dedicate the necessary amount of time to attend to the Company's business. In addition, the performance evaluation undertaken was rigorous and transparent to establish that each Director remains able to undertake his or her duties. Consequently, the Board recommends that all Shareholders vote 'for' on each of the resolutions to re-elect/elect the Directors at the 2015 AGM. The date each Director was originally appointed to the Board is included in the biographical details on pages 32 to 34.

## Corporate Governance Statement

### Accountability

#### Risk management

The Board is responsible for the integrity of RB's Group and the Company's Financial Statements and recognises its responsibility to present a fair, balanced and understandable assessment of RB's position and prospects. The Board is satisfied that the Financial Statements, report to regulators and price-sensitive reports present a fair, balanced and understandable assessment of RB's position and prospects.

To assist with financial reporting and the preparation of Group Financial Statements, the finance function has in place a series of accounting and treasury policies, practices and controls which are designed to ensure the identification and communication of changes in accounting standards, and reconciliation of core financial systems. The function consists of consolidation and financial accounting teams and technical support which comprises senior finance managers who review external technical developments and accounting policy issues. In addition, the finance function maintains an up-to-date Group Finance Policy Manual and sets formal requirements with operating unit finance functions, which specify the standard reports and approvals required by RB.

Throughout the year, RB has had in place an ongoing process for evaluating the financial reporting process and the preparation of Group Financial Statements. The basis for the preparation of Group Financial Statements is set out on page 76 under Accounting Policies.

The Board agrees an engagement letter with the external Auditors in respect of the full and half-year results. The external Auditors' Report on their work and reporting responsibilities is set out on page 65.

Information on RB's business model, its significant risks to and strategy for generating and preserving longer-term growth and delivering on the Company's stated objectives is set out in the Chief Executive's Statement and the Strategic Report on pages 10 to 27.

The Directors' Statement of Responsibilities on page 63 details the Directors' responsibility for the Financial Statements, for disclosing relevant audit information to the Auditors and for ensuring that the Annual Report is fair, balanced and understandable. An extra step involving an additional review of the draft Annual Report and a teleconference of the Board was added to the approval process so that the full Board, acting together, could confirm that the Annual Report was fair, balanced and understandable.

The going concern statement required by the Listing Rules and the Code is set out in the Directors' Statement of Responsibilities on page 63.

#### Risk appetite

The Board has established a risk and control structure designed to manage the achievement of business objectives. It has overall responsibility for RB's system of internal control and its effectiveness. The system complies with the Turnbull guidance on Internal Control and Risk Management and provides reasonable, but not absolute, assurance against material misstatement or loss.

The Board maintains a process for evaluating the system of internal control and identifying and managing risk. Management is required to apply judgement in evaluating the material risks RB faces in achieving its objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of the risks concerned materialising, in identifying RB's ability to reduce the incidence and impact on the business of risks that do materialise and in ensuring that the costs of operating particular controls are proportionate to the benefit.

#### Internal control

The Board's policy on internal control is implemented by management through a clearly defined operating structure with lines of responsibility and delegated authority. RB follows a 'three lines of defence' approach to continuous monitoring of the system of internal control and risk management:

- **The first line of defence** is provided by management through the controls, policies and routines RB has in place to deal with risks in the day-to-day running of the business. Controls are designed into systems and processes to appropriately mitigate risks at source. Adequate managerial and supervisory controls are then overlaid locally to verify compliance and to highlight and promptly address any breakdown in basic controls;
- **The second line of defence** is provided by geographical and functional management oversight structures, such as Areas, Finance, HR, Supply and Category functions. Management here sets policies, provides direction and maintains oversight of the first line; and
- **The third line of defence** is provided independently by internal and external audit teams, who challenge and report on the accuracy and adequacy of assurance provided by the first and second lines.

RB's control environment is supported by a Code of Conduct, on which employees receive training annually, and a range of policies on corporate responsibility. Other key elements within the internal control structure are summarised as follows:

- **The Board and management** – the Board approves strategy and performs an advisory and supervisory role, with the day-to-day management of the Company being undertaken by the CEO supported by the Executive Committee. The CEO and other Executive Committee members have clearly communicated RB's vision, strategy, operating model, values and business objectives across the Group;
- **Organisational structure** – during the year ended 31 December 2014, RB operated three Area organisations covering ENA, LAPAC and RUMEA together with RB Pharmaceuticals (demerged on 23 December 2014) and Food, and centralised functions covering category development, supply, sales, finance, legal, information services and human resources, as well as an independent internal audit function. Throughout the organisation, the achievement of business objectives and the establishment of appropriate risk management and internal control systems and processes are embedded in the responsibilities of line managers;
- **Budgeting** – there is an annual planning process whereby operating budgets for the following financial year are prepared and reviewed by the Board. Long-term business plans are also prepared and reviewed by the Board on an annual basis;

- **Management reporting** – there is a comprehensive system of management reporting. The financial performance of operating units and RB as a whole are monitored against budget on a monthly basis and are updated by periodic forecasts. Area and functional executives also perform regular strategic reviews with their management teams, which incorporate an assessment of key risks and opportunities;
- **Risk management** – as part of the ongoing risk and control process, operating units review and evaluate risks to the achievement of business objectives and the Board reviews those significant risks which might impact on the achievement of corporate objectives. Mitigating controls, together with any necessary actions, are identified and implemented. A summary of the most significant risks faced by RB is included in the Strategic Report on pages 24 to 27 and full details of RB's relationships and Principal Operating Risks are set out on pages 126 to 132;
- **Operating unit controls** – each operating unit maintains a system of internal control and risk management which is appropriate to its own business environment. Such controls must be in accordance with Group policies and include management authorisation processes, to ensure that all commitments on behalf of RB are entered into only after appropriate approval. In particular, there is a structured process for the appraisal and authorisation of all material capital projects;
- **Compliance controls** – the Group maintains a compliance control programme that includes an independent and anonymous whistleblower reporting system, systematic reviews by the internal audit function, annual management reviews and personal compliance certification as well as specialised training in specific areas and functions of the business. Management provides the Board with regular updates on the compliance controls of the Group and considers recommendations for continuous improvement; and
- **Monitoring** – the effectiveness of the system of internal control and risk management is monitored regularly through a combination of management review, self-assessment, independent review through quality assurance, environment, health & safety and regulatory audits, as well as independent internal and external audit. The results of internal and external audit reviews are reported to and considered by the Audit Committee, and actions are taken to address any significant control matters identified. The Audit Committee also approves annual internal audit plans and is responsible for performing the ongoing review of the system of internal control and risk management on behalf of the Board.

#### Statement of compliance with the Code

The Board confirms that reviews of the appropriateness and effectiveness of the system of internal control and risk management throughout the financial year and up to the date of approval of the Annual Report and Financial Statements have been satisfactorily completed in compliance with provision C.2.1 of the Code.

The Company is compliant with DTR 7.2.6 and the information is included in the section on Takeover Directive on page 60.

## Investor Relations

### Communications with Shareholders

The Board is committed to effective communications between the Company and its Shareholders. Our investor relations programme includes formal presentations of full year and interim results and quarterly statements on our key performance indicators. We undertake road shows following our results announcements. We have regular contact with analysts and fund managers to ensure that they are updated on any company and industry developments, including more information on our strategy and relevant activities within our business. The Board receives regular monthly reports from the CEO which include updates on share price developments, major buyers and sellers of shares, investors' views and analysts' reports on the industry and on the Company specifically. Feedback on presentations and roadshow meetings with institutional investors is presented to the Directors.

### Major Shareholders

The Executive Directors and the Director of Investor Relations meet regularly with institutional Shareholders and financial analysts to discuss matters relating to the Company's business strategy and current performance. The investor relations programme includes:

- Formal presentations of full and half year results and quarterly interim management statements;
- Regular meetings between institutional investors and senior management to ensure that the investor community receives a balanced and complete view of RB's performance, the issues faced by RB and any issues of concern to the investors;
- Response to enquiries from institutional Shareholders through the Company's investor relations team and from retail Shareholders through the Company Secretary; and
- A section dedicated to Shareholders on the Company's website.

The Board also recognises the need to ensure that Directors are fully aware of the views of major Shareholders about RB. The Board receives regular reports on institutional Shareholder meetings and any significant messages or concerns expressed at those meetings. Copies of analysts' research relating to RB are circulated to all Directors upon publication. Analysis of our Shareholder register is made available to the Board and feedback from Shareholders and analysts, prepared by our brokers and public relations advisers, is provided to all Directors after every significant corporate event and other relevant occasions.

The Chairman is available to discuss governance and strategy with major Shareholders should such a dialogue be requested. During the year the Chairman liaised with Shareholders and reported on these meetings to the Directors. The Company believes that it is important to make key executives available, along with the Senior Independent Director, if required, to discuss matters of concern with its Shareholders.

### Annual General Meeting

The AGM provides all Shareholders with an opportunity to vote on the resolutions put to them. The AGM is used as the main opportunity for the Directors to meet directly with private investors and Shareholders are given the opportunity to ask questions of the Chairman, the Chairs of Board Committees and the Board as a unit.

All resolutions are voted on by way of poll so that each share has one vote. The results of the poll are released to the London Stock Exchange and published on the website shortly after the AGM.



## Nomination Committee Report

**“In the past year the Board added to its membership a broad array of experienced, international executives, with new appointments that reflect the nature of RB’s business.”**

ADRIAN BELLAMY / Chair of Nomination Committee

### Introduction by Chair of the Nomination Committee

2014 was a significant and busy year for the Committee as it continued and increased its focus on the refresh of the composition of the Board with particular emphasis on Non-Executive Director succession. The profile drawn up for additions to the membership of the Board focused on key elements such as: the ability to chair a committee; experience in digital, pharmaceuticals and healthcare; people who have been, or are, CEOs and those with significant global experience with due recognition given to creating a Board that is truly diverse, considering nationality, ethnicity and gender.

With the appointment of seven new Directors in the past 18 months, the Board has focused on ensuring that each new member has the time, resources and support to learn about RB, its management and the function of the Board itself. The newest members of the Board represent a new range of professional and personal experience that is certain to add further diversity and new perspectives to its operation and all of them bring valuable insights that will undoubtedly contribute to the leadership of RB.

André Lacroix, in his capacity as Senior Independent Director, has been leading the Chairman succession planning process. A framework of attributes and demanding specifications has been drawn up and the review of potential candidates is underway. With the continued service of Ken Hydon as Chair of the Audit Committee and Judy Sprieser as Chair of the Remuneration Committee, the Nomination Committee has the flexibility and time to address the succession planning for those committees as well as Chairman succession in an orderly and thoughtful manner.

Additional information on the activities of the Committee including details of the process leading to the appointment of the new Directors, including the services received from Egon Zehnder Limited, are set out in this report.

ADRIAN BELLAMY / Chair of Nomination Committee

### Committee membership and meetings

Until November 2013, the Nomination Committee comprised the Chairman, who also chairs the Committee, the CEO, the Deputy Chairman, the Senior Independent Director and the Chair of both the Audit and Remuneration Committees. Following its meeting in November 2013, the Board agreed that the composition of the Nomination Committee would be increased to include all Non-Executive Directors. Four meetings, also attended by Rakesh Kapoor as CEO, were held during 2014 and details of Directors’ attendance at Committee meetings are set out on page 36. Specific areas of review and action taken by the Committee during 2014 are discussed in this report. No individual participated in discussions or decisions relating to him or her personally. The Board has delegated authority to the Committee through its terms of reference, a copy of which is available on the Company’s website.

### Committee responsibilities

The Committee plays a key role in facilitating the success of the Company by reviewing the Board’s balance of skills, knowledge and experience and recommending strong candidates for the Board’s consideration. It provides a formal and transparent procedure for making recommendations for the appointment of new directors with support from external consultants who advise on prospective appointees. The Committee is responsible for succession planning within the Board and for the oversight of all matters relating to corporate governance, bringing any issues to the attention of the Board.

### → Committee Activities During 2014

#### Key Matters 2014

**Consideration of the current and future composition of the Board**

**Chairman succession planning**

**Constitution of Board committees**

**Directors’ conflicts of interest**

**Performance evaluation**

**Terms of reference and corporate governance changes**

**Additional Board appointments**

#### Committee Actions

Recommendations for the appointments of Jaspal Bindra, Sue Shim and Doug Tough as additional Non-Executive Directors during 2014.

Led by André Lacroix as Senior Independent Director, agreeing the specifications for candidates.

Review of the constitution and recommendations for Nicandro Durante’s appointment to the Remuneration Committee and Sue Shim and Jaspal Bindra’s appointments to the Audit Committee.

Review of the other directorships of Board members, approving Adrian Hennah’s appointment to Indivior PLC.

Evaluation of the Committee’s performance during 2014 and a review of the composition of the Committee.

Review of the terms of reference in light of recent changes to the Code.

Mary Harris, Pam Kirby and Chris Sinclair appointed as additional Non-Executive Directors with effect from 10 February 2015.



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### Board appointments

There were three Non-Executive Director appointments during 2014. Sue Shim and Jaspal Bindra were appointed with effect from 1 July 2014 and Doug Tough was appointed with effect from 1 November 2014. Mary Harris, Pam Kirby and Chris Sinclair were appointed as additional Non-Executive Directors on 10 February 2015.

### Director search and appointment process

The process leading up to the appointments of Sue Shim and Jaspal Bindra in July 2014 and Doug Tough in November 2014 commenced with the appointment of Egon Zehnder Limited (Egon Zehnder) who worked with the Chairman and the Board to put together a profile based on the Board's consensus of the key attributes required. A significant number of CVs were shared with Board members and the Chairman personally interviewed around 20 candidates. Other Board members were also involved in the interview process. Following these appointments, it was determined that additional skills and diversity was still required on the Board with an emphasis on finding non-conflicted candidates with a healthcare background. Additional work was undertaken for the process leading up to the appointments of Mary Harris, Pam Kirby and Chris Sinclair which were announced on 23 January 2015. A shortlist of additional candidates was reviewed by the Committee together with the specific skills and experience offered by each candidate. The key elements the Committee considered in making the final appointment decisions included Committee Chair experience, pharmaceutical, strategic and international experience, private investment, technology and entrepreneurial skills, together with cultural fit.

### Board diversity

The Board has worked hard to ensure that it is composed of Directors from different backgrounds with diverse skills, experience, perspectives, knowledge and personalities as it remains confident that diversity of industry skills, knowledge and experience, in addition to gender and ethnicity, engenders an effective, high performing organisation and contributes to the success of RB's business. It enables the business to better understand its opportunities and risks and to develop robust solutions to them. Recent appointments demonstrate that the Board has made good progress in terms of diversity in its broadest sense whilst ensuring that all appointments are made on merit and fill perceived skills gaps on the Board.

### Other Committee activities

The Committee considered the composition of the Board committees at its July meeting and, in light of recent Board appointments, recommended the appointment of Nicandro Durante to the Remuneration Committee noting that his membership would be particularly helpful as he was a sitting CEO dealing with the realities of remuneration and facing similar issues to those at the Company. Jaspal Bindra and Sue Shim were recommended for appointment to the Audit Committee. Jaspal's financial background was noted as relevant to the Committee and it was agreed that Sue could provide an interesting perspective to Committee deliberations. Membership of the Audit Committee would also be of value to Sue as part of her induction into RB.

The Committee undertook an evaluation of its performance and discussed its conduct and remit and came to the conclusion that it continued to undertake its activities appropriately and in accordance with its terms of reference. The Committee also considered whether the composition of the Committee should be altered and concluded that all Non-Executive Directors should continue to be members of the Committee.

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### Directors' conflicts of interest

The Committee is responsible for the Company's procedures for dealing with Directors' conflicts of interest and these procedures have operated effectively during the year. A register of Directors' conflicts is maintained by the Company Secretary and reviewed by the Board at least annually. The Board is aware of the other commitments of its Directors and any changes to these commitments are reported to the Board.

### Focus for 2015

The Board will continue to assist its new members with their introduction to RB, with particular focus on the culture and unique operating model that has made RB a successful multinational company. In addition to general induction, the Nomination Committee will focus specifically on future composition of the Audit and Remuneration Committees, suitable candidates to serve as Chairs of those committees and Chairman succession.

## Audit Committee Report

### “Our key focus is to ensure the integrity of RB’s financial reporting, internal controls framework and risk management processes.”

**KEN HYDON** / Chair of the Audit Committee

### Introduction by Chair of the Audit Committee

In 2014, the Committee monitored how the 2013 changes to the UK Governance Code with respect to Shareholder information being fair, balanced and understandable were embedded in the Company’s reporting processes.

Throughout the year, the Committee focused on providing reassurance to the Board on the integrity of the Company’s financial reporting, internal controls framework and risk management processes. The Committee met with operational management including legal, regulatory, IT and risk, and local management when the Board visited North America. As the year progressed the Committee discussed updates on the significant issues set out on page 45.

The Committee recognises that independent and effective auditors are essential. The Internal Audit plan is risk-based and the Head of Internal Audit has dual reporting lines to myself and the CFO. The Committee conducted a thorough review of PwC’s effectiveness and value for money. The Committee is also conscious of the CMA and EU recommendations on audit tendering and rotation.

I was pleased to welcome Jaspal and Sue to the Committee and am confident they will bring fresh perspectives and add to the substantial contributions of André and Warren.

**KEN HYDON** / Chair of the Audit Committee

#### Committee membership and meetings

The Audit Committee comprises five Independent Non-Executive Directors: Ken Hydon, Chairman since 16 November 2006; André Lacroix, Diploma, ESCP; Warren Tucker, BSc Economics & Accounting, Master of Business Administration (MBA), ACA; Jaspal Bindra, qualified Chartered Accountant and MBA; and Sue Shim, Harvard Business School Advanced Management Program. The composition of the Committee was refreshed in early August 2014 with the appointments of Jaspal Bindra, who brings significant financial experience and Sue Shim, who the Board believes will bring a useful perspective to the Committee deliberations. Ken Hydon, FCMA, FCCA, FCT, was CFO of Vodafone Group plc until July 2005, Warren Tucker was CFO of Cobham plc until May 2013 and Jaspal Bindra is a qualified Chartered Accountant and MBA. Therefore, they are all considered as having relevant and recent financial experience. RB’s Auditors, Group Head of Internal Audit and CFO attend meetings and have regular private meetings with and direct access to the Committee. The Chairman and CEO are invited to attend all of the meetings and other senior management attend Audit Committee meetings by invitation. The Committee held four meetings during 2014 and the attendance of members at the meetings is set out on page 36.

#### Committee responsibilities

The Committee forms an integral part of the Group’s governance framework and plays a fundamental role in monitoring and reviewing aspects of management and auditors’ conduct that can impact Shareholders financially. It assists the Board in fulfilling its oversight responsibilities for the Group’s financial reporting, internal and external audit, risk management and regulatory compliance.

The Audit Committee reviews the process by which we evaluate our control environment and risk assessment process, and the way in which significant business risks are managed. It also considers our Internal Audit function’s reports on the effectiveness of internal controls, significant frauds and any fraud that involved management or employees with a significant role in internal controls. The Audit Committee also reviews and approves arrangements by which staff can, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. This is achieved through using a third party reporting facility which accommodates telephone, web and email contacts and allows anonymity on request.

### Oversight role of the Audit Committee

#### Financial reporting

- Reviews the interim and full year Financial Statements before submission to the full Board.
- Considers significant legal claims and regulatory issues.

#### Risk management and internal controls

- Reviews compliance procedures and RB’s overall risk framework (including the Group’s whistleblowing arrangements).
- Considers operational risk and control processes covering assurance providers, geographical and functional areas.
- Monitors the adequacy and effectiveness of the system of internal control.

#### Internal audit

- Approval of Internal Audit’s annual plan.
- Review of Internal Audit activities, significant recommendations and findings and related management actions.
- Effectiveness of the Internal Audit function.

#### External audit

- Makes recommendations to the Board regarding the Auditors and the terms of appointment.
- Reviews and monitors the Auditors’ independence and services supplied and the objectivity and effectiveness of the audit process.

#### 2014 progress and activities

The Committee met four times during 2014 with meetings timed to coincide with the Company’s financial and reporting cycles. Details of Committee members’ attendance at meetings is set out on page 36. The principal activities of the Committee related to financial reporting, internal control, risk management and external audit. The Committee considered detailed risk and control reviews for selected Group major risks covering business transformation, regulatory compliance, data privacy, business continuity planning, legal and tax disputes, quality assurance and bribery. It monitored whistleblowing activities and the application of the policy for non-audit fees paid to the external auditors.

The Committee approved the terms of engagement and reviewed the strategy, scope and effectiveness of the Auditors including the findings of their work during the year. It also discussed the topic of an audit re-tender and rotation of auditor together with the prohibition under EU legislation of the non-audit services which the auditor could provide (the precise list of which is still to be finalised by each member state). Additionally, the Committee reviewed its terms of reference, the annual 'Standing Agenda', the work and effectiveness of the Internal Audit function and completed its annual performance evaluation. Regular technical updates to keep abreast of changes in financial reporting and governance matters were provided to the Committee throughout the year.

The Audit Committee has considered the following areas of significant judgement, complexity or estimation in relation to the 2014 Group Financial Statements:

- Acquisition accounting - valuation of acquired intangible assets  
In May 2014 the Group completed its acquisition of the K-Y brand from Johnson and Johnson. The Committee has reviewed papers prepared by management addressing the accounting treatment applied. Based on this review the Committee is comfortable that accounting for the transaction is appropriate.
- Accounting for the demerger of RBP  
Following the strategic review of the RB Pharmaceuticals business, the business was subsequently demerged in December 2014 and listed separately as Indivior PLC. The Committee has reviewed papers prepared by management addressing the significant accounting and reporting aspects of the demerger on the results of the Group. Key accounting and reporting implications of the demerger include the calculation of the associated gain, as well as the presentation of the business as a discontinued operation. Based on this review, the Committee is comfortable that the accounting for the demerger, and its presentation in the Financial Statements, are appropriate.

- Tax provisioning  
From time to time the Group is involved in disputes in relation to ongoing tax matters in a number of jurisdictions around the world where the approach of the authorities is particularly difficult to predict. Where appropriate, provisions are made based on an assessment of each case. The level of provisioning for these tax investigations is an issue where management and tax judgement is important. The Committee has debated with management the key judgements made, including relevant professional advice that may have been received in each case, and considers the tax provisioning levels to be appropriate.
- Impairment testing of goodwill and indefinite life intangible assets  
Management performs an annual impairment review for goodwill and other intangible assets with indefinite lives. This is important given the significance of these items to the Group's Balance Sheet. Key judgements include estimates of future business performance and cash generation, discount rates and long-term growth rates (refer to note 9 in the Group Financial Statements for further detail). The Committee has reviewed management's analysis, including an assessment of the discount rates used, the appropriateness of specific risk factors applied to individual and groups of cash generating units, as well as the adequacy of sensitivities applied. As a result of this review the Committee is comfortable with management's conclusion that no impairment is required and that the indefinite life of the Group's Powerbrands and certain other brand intangible assets continues to be appropriate.
- Legal liability provisioning  
In 2013, the Group recognised certain legal provisions relating to historical regulatory investigations by various government authorities totalling £222m. At 31 December 2014, a provision of £159m remained on the balance sheet in relation to these matters. The level of provisioning for these regulatory investigations is an issue where management and legal judgement is important. The Committee has discussed with management the key judgements made, including relevant legal advice received, and agreed that provisioning levels are appropriate.
- Exceptional items  
The Committee has considered the presentation of the Group Financial Statements, and, in particular, the presentation of exceptional items and the items included within such measures. The Committee has discussed this with management and agreed that the presentation provides more meaningful information to Shareholders about the underlying performance of the Group.
- Trade spend accruals  
Trade spend is a significant expense for the Group, and the main judgements relate to trade accruals, specifically the timing and extent to which temporary promotional activity has occurred. The Committee has reviewed with management its assessment of the control environment and the findings of Internal Audit relating to trade spend. It is the Committee's view that management operates an appropriate control environment which minimises the risks in this area.

→ **Committee Activities During 2014**

Key Matters 2014	Committee Actions
<b>Policy definition of exceptional items</b>	Review of the policy definition for exceptional items to ensure parameters were clear and consistently applied and would, consequently, deliver improved information to investors
<b>Classification and materiality of provisions</b>	Corporate reports to clearly distinguish exceptional items from charges more appropriately recorded to underlying profits
<b>Upgrade of the Group's ERP programme</b>	Review of ERP strategy for factory and commercial units and monitoring of risk and control aspects through deployment to deliver anticipated benefit for the business
<b>Cyber security</b>	Monitoring the cyber security risks relevant to the Group and reviewing regular updates on steps taken to strengthen the Group's protection against cyber attacks
<b>Whistleblowing hotline provider</b>	Reviewed the recommendation for, and supervised, a change in provider
<b>Accounting treatment of acquisitions and disposals</b>	Approved the accounting treatment of M&A items such as the acquisition of K-Y and disposal of RBP
<b>Board's visit to San Francisco and Salt Lake City</b>	Reviewed the North America business unit, in particular, local handling of various issues such as risks and controls, logistics, business controls, audit reports and financial controls, product risk, anti-bribery and corruption, whistleblowing and its Finance team

## Audit Committee Report

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### External audit and external Auditors' appointment

PwC have been the sole Auditors of RB since 2000, the year after the merger of Reckitt & Colman plc and Benckiser N.V. in 1999, and the Company's Auditors since its formation in 2007. At the time of the merger, PwC were the auditors of Reckitt & Colman plc and Deloitte LLP were the auditor of Benckiser N.V. Post-merger, the Audit Committee undertook a review and subsequently selected PwC as Auditors for the Group for the December 2000 year end. In the opinion of the Audit Committee, the relationship with the Auditors works well and the Committee remains satisfied with their independence and effectiveness. It has, accordingly, not considered it necessary to require the firm to tender for the audit work, although this is kept under review annually. It is a requirement that the audit partner responsible for audit is rotated every five years and the lead audit partner was rotated off during 2013. We are aware of the regulatory requirements on audit tendering and rotation. Our current expectation is that our audit tender process will commence no later than 2019. There are no contractual obligations restricting the Company's choice of Auditors.

RB has a formal policy in place to safeguard Auditors' independence. The Audit Committee and the CFO keep the independence and objectivity of the Auditors under review. The Committee reviews the nature and level of non-audit services undertaken by the Auditors during the year to satisfy itself that there is no impact on their independence. The Board recognises that in certain circumstances the nature of the advice required may make it more timely and cost effective to appoint the Auditors who already has a good understanding of RB.

The Company's published policy on non-audit fees states that, on an annual basis, non-audit fees should not normally be in excess of 50% of the Group's external audit and audit-related fees on an aggregate basis. The Board confirms that, for the year ended 31 December 2014, non-audit fees were less than 50% of the audit and audit-related fees. A copy of the Company's Non-Audit Fees Policy is available on its website at [www.rb.com](http://www.rb.com).

The performance of PwC and the effectiveness of the external audit process were reviewed by way of a questionnaire with members of the Committee, Executive Directors and senior management. All respondents were invited to rate PwC's effectiveness in a number of areas including audit plan and strategy, audit findings and feedback, independence and objectivity and resourcing and expertise. The review led to the conclusion that PwC and the external audit process were effective and that PwC provide a robust challenge of management actions.

Following a recommendation by the Audit Committee, and in accordance with section 489 of the 2006 Act, a resolution proposing the re-appointment of PwC as the Company's Auditors will be put to the Shareholders at the AGM.

The Auditors Report to the Audit Committee on the actions they take to comply with professional and regulatory requirements and with best practice designed to ensure their independence from RB, including periodic rotation of the audit engagement partners. Details of non-audit services are set out in note 4 on page 85.

## Directors' Remuneration Report

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**On behalf of the Board of Directors, it gives me great pleasure to present to you the Directors' Remuneration Report for the year ended 31 December 2014 for which we will be seeking approval at the Annual General Meeting (AGM) on 7 May 2015.**

JUDY SPRIESER / Chair of the Remuneration Committee

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### Introduction by Chair of the Remuneration Committee

The Remuneration Committee was pleased that Shareholders approved our Directors' Remuneration Policy at the AGM which took place on 7 May 2014. There are no proposals to amend the policy at this time and it is intended to continue in force until 2017. The full Directors' Remuneration Policy is available on the Corporate Governance section of the RB website, at [www.rb.com](http://www.rb.com), and for ease of reference is summarised on page 49.

Following last year's AGM we have had discussions with a number of our major Shareholders and the Committee is grateful for the feedback provided. In drafting this Report we have taken feedback from Shareholders into account and enhanced the level of disclosure, particularly in respect of the annual bonus.

To assist Shareholders with the understanding of our remuneration structure, and its link to performance, we have set out overleaf an "at a glance" summary. This is followed by the Annual Report on Remuneration on pages 51 to 59 setting out details of how the approved Policy was implemented in 2014 and is proposed to be applied in 2015.

I trust that you find this a clear and comprehensive report that illustrates the strong alignment between RB's performance and our Executive Directors' remuneration.

### Context for Executive Remuneration at RB

The Committee continues to believe that RB's approach to remuneration is an important factor in our success, supporting a strong performance culture and delivering significant benefits to all Shareholders.

£100 invested in RB on 1 January 2000, following the merger of Reckitt & Colman and Benckiser was worth £1,397 on 31 December 2014, compared to growth in the FTSE 100 to £158 over the same period.

RB's approach to remuneration reflects the global nature of our business. Our management team is multinational, is globally mobile and we compete for talent against a peer group of global companies.

Central to our pay philosophy are the principles of:

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- ◀ **Simplicity**
  - ◀ **Shareholder alignment**
  - ◀ **Pay for performance**
- 

We reinforce our philosophy by positioning Executive Director fixed pay (base salary, pension and benefits) around median market levels, whilst providing Executive Directors with incentive opportunities strongly linked to performance to enable pay opportunities that correspond to Company performance in terms of growth, profitability and Shareholder returns.

This same, highly performance driven approach is cascaded throughout RB, such that our Top400 executives participate in the same annual bonus and long term incentive plan structures as the Executive Directors, to ensure we all strive towards the same performance outcomes.

RB's remuneration philosophy is underpinned by a share ownership culture embedded throughout the Company, through our significant shareholding requirements. The CEO is required to hold 600,000 shares and the CFO 200,000 shares within eight years of appointment, which represent more than 35 x salary and 18 x salary respectively. The Committee believes that this significant shareholding requirement strengthens the alignment between executives and Shareholders.

These shareholding requirements are also cascaded throughout RB, such that the aggregate current shareholding for our Top40 executives is in excess of £135m.

## Directors' Remuneration Report

### Major decisions on, and changes to, Executive Directors' remuneration during the year

There were no significant changes made to the remuneration structure during the year and all awards were made in line with the Remuneration Policy approved by Shareholders at the AGM in May 2014.

The key decisions taken during the year are summarised below and set out in more detail in the Annual Report on Remuneration.

Base salaries for the Executive Directors were reviewed and increased in line with general employee salary increases effective from 1 January 2014. The Committee has also maintained this approach when reviewing 2015 Executive Director salaries, with increases of 3% granted with effect from 1 January 2015.

2014 was another year of growth and outperformance for RB, which created significant value for Shareholders. In the face of challenging market conditions, the management team delivered top-line growth combined with strong margin expansion, which has resulted in outstanding adjusted net income growth of 14%, at constant rates.

In line with our approved Remuneration Policy, RB operates an annual bonus plan that is strongly aligned to performance, measured against stretching growth targets set by the Committee at the start of the year and the bonuses awarded to Executive Directors reflect these excellent achievements during 2014. In light of feedback from Shareholders, this year we have enhanced our disclosure of the annual bonus achievement and full details are set out on page 51.

The performance period for awards made under the LTIP in December 2011 ended on 31 December 2014. The sustained underlying growth in our key financial metrics has generated substantial value for our Shareholders, such that £100 invested in RB on 1 January 2012, was worth £184 by 31 December 2014, compared with a return for the FTSE 100 of £131 over the same period.

Our key long-term measure of performance is earnings per share growth, with LTIP vesting requiring significant growth over the performance period in order to vest. The three-year performance period has seen significant exchange rate volatility impacting our reported earnings. Despite outstanding adjusted net income growth of 14% at constant exchange rates, adverse FX on translation reduced this performance by 10% in 2014 and earnings per share growth over the period 2011 – 2014 measured on an actual currency basis was 6.1% per annum.

Despite the excellent underlying growth in EPS, the Committee determined that the Company only met the threshold performance targets and therefore 40% of the award is due to vest in May 2015. Further details on the LTIP vesting are set out on page 52.

The rules of our current LTIP are due to expire next year and therefore Shareholders will be asked to approve new LTIP rules at the AGM. Although the LTIP will continue to be operated in line with the Remuneration Policy approved by Shareholders at the 2014 AGM, the Remuneration Committee has taken the opportunity to review the rules and to strengthen a number of provisions.

In particular we have added malus and clawback provisions, which in certain circumstances give the Committee the ability to reduce awards prior to vesting or require repayment of awards that have vested.

Shareholders will also be asked to approve updated rules for our employee share purchase schemes. A full summary of the rules is provided in the Shareholder circular.

In conclusion, I hope that you find this a clear and comprehensive report that demonstrates the strong alignment between pay and performance at RB. I trust that we can count on your support at the forthcoming AGM for the decisions we have taken as a Committee during the year, as set out in the Annual Report on Remuneration.

**JUDY SPRIESER** / Chair of the Remuneration Committee

*This Directors' Remuneration Report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Report meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules. In this Report we describe how the principles of good governance relating to Directors' remuneration, as set out in the UK Corporate Governance Code (September 2012) (the Code), are applied in practice. The Remuneration Committee confirms that throughout the financial year the Company has complied with these governance rules and best practice provisions.*



## Our Remuneration at a Glance

### Our Remuneration Strategy

**We have consciously differentiated our remuneration philosophy to be highly performance driven with a strong alignment between executives and Shareholders. This translates into a remuneration strategy that ensures that management wins only when Shareholders win, embracing the following important objectives:**

### Our Remuneration policy

Shareholders approved RB's Directors' Remuneration Policy at the 2014 AGM, which we continue to operate unchanged. This was set out in full in last year's Annual Report and can also be found in the Corporate Governance section of our website at [www.rb.com](http://www.rb.com).

The table below summarises the policy and how the Committee has implemented it:

Remuneration	Key features of our policy	How we implemented the policy	Changes made
<b>Salary and benefits</b> To enable the total package to support recruitment and retention.	Base salaries are reviewed annually, typically with effect from 1 January, with increases broadly aligned with the wider workforce. Increases may be made above this level to take account of individual circumstances.	With effect from 1 January 2015 the Committee increased Executive Directors' salaries by 3%.  In 2014 salary increases for the CEO and CFO were 4% and 2% respectively.	n/a
<b>Annual bonus</b> To drive strong financial performance with significant reward for over-achievement of annual targets.	Target opportunity of 120% of salary for the CEO and 90% of salary for the CFO.  Performance is assessed against the growth in one or more key financial metrics of the business determined on an annual basis.  Clawback provisions apply which give the Company the right to seek redress and damages from any individual who has been found to have breached the Company's Code of Conduct.	2014 bonuses were based on RB's Net Revenue growth and Net Income growth (both measured in GBP at a constant exchange rate).  The outcome under each of the measures is combined multiplicatively to give a maximum bonus of 3.57 x target. This multiplicative nature means that performance at threshold or below would result in a zero bonus.	In light of feedback from Shareholders, the Committee has enhanced the disclosure of the annual bonus targets and the Company's achievement against these targets.
<b>LTIP</b> (Share options and performance shares.) To incentivise and reward long-term performance, and align the interests of Executive Directors with those of Shareholders.	The LTIP comprises grants of share options and awards of performance shares (based on a fixed number), which vest subject to the achievement of stretching performance targets.  The LTIP has a performance period of at least three years and a minimum vesting period of three years.	Vesting of the LTIP is subject to continued employment and the achievement of stretching adjusted diluted EPS growth targets.  This ensures that reward is appropriately linked to RB's key measure of long term financial performance, whilst incentivising sustainable growth in Shareholder value through the use of performance shares and share options.	Following consultation with Shareholders, the alignment between pay and performance was strengthened for the 2014 LTIP, through an increase in the performance required for maximum vesting and a reduction in the proportion vesting for threshold performance.  The new LTIP rules that Shareholders are being asked to approve at the AGM introduce malus and clawback provisions.
<b>Shareholding requirement</b> To further align Executive Directors and Shareholder interests.	Our performance linked remuneration package is underpinned by a meaningful share ownership policy, which drives a culture of ownership throughout the Company.  Executive Directors are expected to acquire shares over eight years and retain these until retirement from the Board.	The current shareholding requirement for the CEO is 600,000 shares and for the CFO is 200,000 shares.  Given the significant share price growth over recent years, at year end this equated to being required to hold shares with a value in excess of £31m for the CEO and £10m for the CFO.	During the year the CEO and CFO made continued progress towards their requirements.

## Our Remuneration at a Glance

### 2014 performance

2014 has seen RB deliver another year of growth and outperformance, in the face of slower market conditions. This strong, sustained growth across all of our key financial metrics has delivered significant value for Shareholders:

#### Net revenue from continuing operations

**£8,836m** **+4%<sup>1</sup>**

#### Adjusted net income

**£1,684m** **+14%<sup>1</sup>**

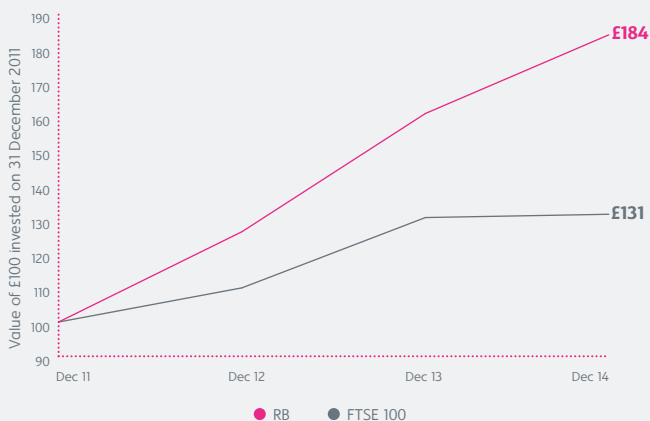
#### Earnings per share (adjusted diluted)

**230.5p** **+4%**

#### Earnings per share growth over 3 year period

**+6.1% per annum**

### Total Shareholder Return



<sup>1</sup> At constant exchange rates.

### Rewarding 2014 performance

At RB, the remuneration packages are designed to support the philosophy of pay for performance and alignment between management and Shareholders.

As can be seen, excellent performance has been delivered in challenging markets across our key performance metrics. This sustained growth has generated substantial value for our Shareholders, such that £100 invested in RB on 1 January 2012, was worth £184 by 31 December 2014, against the FTSE 100 returning £131 during the same period.

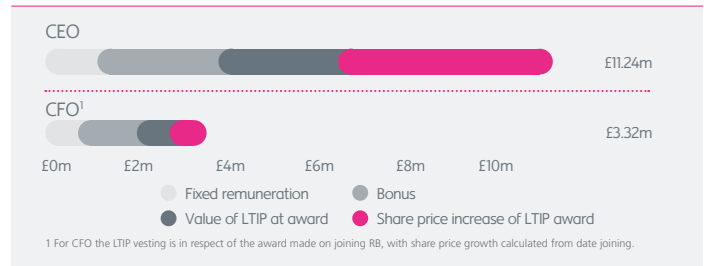
Based on the Remuneration Committee's assessment of this performance delivered by RB, compared to the stretching performance targets set, the 2014 bonus for Executive Directors paid out at 72% of maximum (2.58 x target) and the LTIP in respect of three-year performance to 31 December 2014, vested at 40%.

Full details of RB's performance against the metrics set for our annual bonus are set out on page 51, and the assessment of the LTIP vesting is detailed on page 52.

### 2014 single figure

The resultant 'single figure' of total remuneration is detailed on page 53 and summarised in the chart below. As can be seen, the majority of RB's total remuneration package is variable pay, linked to delivery of exceptional financial performance and creation of value for Shareholders. The chart below also represents the first year that LTIP awards reflect the grant made to the CEO after his appointment to CEO in 2011.

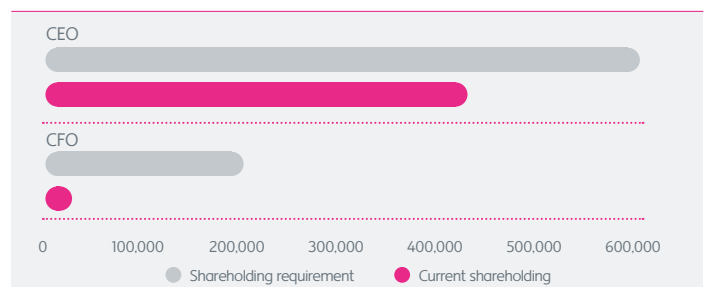
Just 10% of the CEO's total remuneration is made up of fixed remuneration (salary, pension and benefits), with over 40% of the value of his package due to the significant share price growth over the last three years.



### Alignment between Executive Directors and Shareholders

Our performance linked remuneration package is underpinned by a meaningful share ownership policy, which drives a culture of ownership throughout the Company in order to further the alignment between our Executive Directors and our Shareholders. Executive Directors are required to build their share ownership over eight years and both have made good progress over the last twelve months.

The table on page 54 details the shareholding of the Executive Directors against their requirement as at 31 December 2014, which is summarised below:



## Annual Report on Remuneration

### Remuneration Committee Membership in 2014

As of 31 December 2014, the Remuneration Committee comprised four Non-Executive Directors.

- Judy Sprieser (Chair)
- Nicandro Durante
- Doug Tough
- Adrian Bellamy

Richard Cousins was also a member of the Remuneration Committee until 7 May 2014 when he retired from the Board.

During the year the Committee met five times. Further details on the members of the Committee and on their attendance at meetings are provided in the Corporate Governance section.

The Committee's purpose is to assist the Board of Directors in fulfilling its oversight responsibility by ensuring that remuneration policy and practices reward fairly and responsibly; are linked to corporate and individual performance; and take account of the generally accepted principles of good governance.

On behalf of, and subject to approval by, the Board of Directors, the Committee primarily:

- Sets and regularly reviews the Company's overall remuneration strategy;
- Determines the general remuneration policy for senior executives; and
- In respect of the Chairman, the Executive Directors and members of the Executive Committee sets, reviews and approves:
  - Remuneration policies, including annual bonuses and long-term incentives;
  - Individual remuneration and compensation arrangements;
  - Individual benefits including pension and superannuation arrangements;
  - Terms and conditions of employment including the Executive Directors' service agreement;
  - Participation in any of the Company's bonus and long-term incentive plans; and
  - The targets for any of the Company's performance-related bonus and long-term incentive plans.

The Executive Directors are responsible for evaluating and making recommendations to the Board of Directors on the remuneration of the Non-Executive Directors. Members of the Remuneration Committee and any person attending its meetings do not participate in any discussion or decision on their own remuneration.

### Remuneration in respect of performance in 2014

#### Base Salary

Base salaries are reviewed taking into account the salary increases for the wider workforce, as well as competitive practice for similar roles in the Company's remuneration peer group, comprising 19 international companies, and individual performance. Following its review of salary levels in late 2013, the Committee approved the following base salary increases with effect from 1 January 2014:

Executive Director	Base salary at 1 January 2013	Base salary from 1 January 2014	Percentage increase
Rakesh Kapoor	£832,000	£865,000	4%
Adrian Hennah	£550,000	£561,000	2%

The base salary increases for Executive Directors take into account performance and follow the same base salary merit increase guidelines as other UK employees. The average salary increase for our UK employees was c.3%, effective 1 January 2014.

#### Annual bonus in respect of 2014 performance

Prior to the start of the year, the Remuneration Committee set stretching performance targets for the Executive Directors in 2014. As set out in last year's report, these were based on absolute net revenue growth and net income growth, both measured in Sterling at a constant exchange rate.

In line with the Remuneration Policy, threshold, target and maximum performance levels were set and calibrated such that at threshold, zero bonus is paid, with a target bonus opportunity of 120% of salary for the CEO and 90% of salary for the CFO. Performance under each of the measures is combined multiplicatively such that threshold performance, or below, results in a zero bonus and for truly exceptional performance the maximum bonus is 3.57 x target bonus (428% of salary for the CEO and 321% for the CFO).

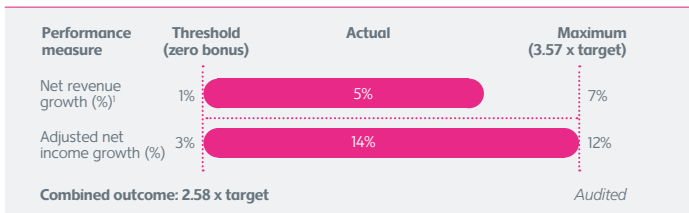
2014 was another year of growth and outperformance for RB, which created significant value for Shareholders. In the face of challenging market conditions, the management team delivered top line growth combined with strong margin expansion.

- Net revenue growth of 4% at constant exchange rates on both a like for like and total basis, with 5% growth in our continuing operations<sup>1</sup>.
- Significant gross margin expansion of 100bps to 57.7%, driven by mix, pricing and cost optimisation initiatives.
- Strong growth in adjusted operating profit of +11% on a constant basis, with margins up 160bps to 24.7%.
- This results in excellent growth of 14% in adjusted net income, on a constant currency basis.
- We also successfully completed the demerger of RBP / Indivior PLC, which delivered a significant gain to Shareholders of £1.3bn.
- This strong performance has resulted in a dividend payment which is 1% above that delivered last year, with an £800m share buyback programme planned for 2015.

<sup>1</sup> Net revenue growth measured including acquisitions and excluding divestitures during the year.

## Annual Report on Remuneration

In line with our commitment to Shareholders we have enhanced our disclosure in respect of annual bonus achievements. The chart below illustrates the actual 2014 performance for our continuing operations compared to the threshold and maximum performance levels set by the Remuneration Committee.



The 2014 performance compared to the performance ranges, as set out above, generates a multiplier for each performance measure such that when combined the outcome for the 2014 bonus is 2.58 x target. This resulted in a 2014 bonus for the CEO and CFO, as follows:

	Salary	x	Target bonus	x	Performance multiplier	=	2014 bonus
<b>CEO</b>	£865,000	x	120%	x	2.58	=	<b>£2,678,040</b>
<b>CFO</b>	£561,000	x	90%	x	2.58	=	<b>£1,302,642</b>

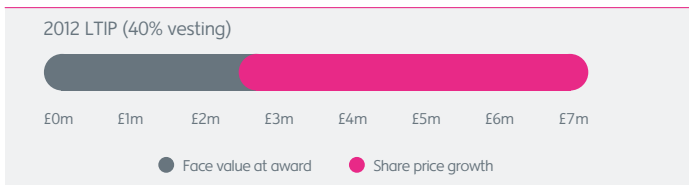
*Audited*

### LTIP vesting for performance to 2014

#### CEO

In December 2011, Rakesh Kapoor received the first LTIP award since his appointment as CEO. Vesting of this award is dependent on compound average annual growth (CAAG) in adjusted EPS over the three-year period ending on 31 December 2014.

The RB LTIP policy, approved by Shareholders, is designed to align participants with Shareholders through making awards with stretching performance conditions denominated in shares and options. The significant value generated for Shareholders over the last three years is therefore reflected in the value of the LTIP vesting with more than 60% of the value being due to share price growth, as illustrated in the chart below:



### Further details on LTIP vesting

In 2013, the Company announced the strategic review of its pharmaceuticals business (RBP) with the objective of maximising value for Shareholders. At this time the Committee considered any potential impact a demerger may have on incentive arrangements within RB and agreed the outcomes should meet the following objectives:

- To ensure the outcome of the review was not influenced by the potential impact on EPS for the purpose of incentive plans.
- To maintain the alignment between management and Shareholder interests.
- To reinforce management’s focus on the core business.
- To maximise value from RBP.

<sup>1</sup> Net revenue growth measured including acquisitions and excluding divestitures during the year.

As a result, a number of decisions were made by the Remuneration Committee to ensure these objectives were met. These included:

- For outstanding awards, any earnings relating to RBP would be removed from the EPS calculation to ensure that performance is measured on a fair and consistent basis.
- However, no adjustments would be made until the demerger had been completed.
- As a result the 2011 LTIP awards which vested in May 2014 were not adjusted, which resulted in a lower vesting level than if the EPS for these awards had been adjusted for RBP.

In July 2014 it was announced that RBP had the potential to deliver significant long-term value creation as a stand-alone business and it was demerged from the business as Indivior PLC in December 2014, supported by more than 99% of voting Shareholders.

This has resulted in a significant gain to RB Shareholders of £1.3bn from the demerger of Indivior PLC representing value created by management over a number of years. However, the Remuneration Committee has determined that it should not be included in the calculation of EPS growth for the purposes of determining LTIP vesting.

In order for EPS to be measured on a fair and consistent basis across the performance period, following the completion of the demerger and after consultation with major Shareholders, the EPS figures for the 2012 awards due to vest in May 2015 have been calculated so that earnings relating to RBP have been removed from both the base year and final year. No changes were made to the vesting schedule or the growth targets. The Committee considers that this approach ensures that performance has been measured on a consistent basis across the performance period and was no less stretching than the targets that were set at the time of the award.

Had the gain from the demerger and RBP historic earnings been included for the purposes of determining LTIP vesting, then full vesting would have been achieved for the three-year period to 31 December 2014. The Committee believes that the vesting level is a fair reflection of the Company’s underlying performance over the performance period.

This approach will also be applied to all outstanding awards.

The threshold target for awards was growth of 6% p.a., with awards vesting in full for growth of 9% p.a. Despite exceptional 2014 net income growth of 14% p.a. at constant exchange rates, adverse FX on translation reduced this performance by 10% in 2014. Earnings per share growth over the period 2011–2014 measured on actual currency basis was 6.1% p.a.

This resulted in threshold performance being achieved and the LTIP award made in December 2011, following Rakesh Kapoor’s appointment as CEO may vest to the following extent on 7 May 2015 for performance over the completed three-year period:

Awards	Interests held	Exercise price	Vesting %	Interests vesting	Share price <sup>1</sup>	Estimated value
<b>Shares</b>	205,643	n/a	40%	82,257	£50.79	£4,177,833
<b>Options</b>	411,286	£31.20	40%	164,514	£50.79	£3,222,829

*Audited*

<sup>1</sup> As the share price on the date of vesting is unknown at the time of reporting, the value is estimated using the average market value over the last quarter of 2014 of £50.79. The actual value at vesting will be disclosed in the 2015 Annual Report.

**CFO (Audited)**

As disclosed in last year's remuneration report, Adrian Hennah's joining arrangements included awards made to reflect forfeited long-term incentives in relation to his previous employment.

The final award under these arrangements was released in December 2014 and, as previously disclosed, was equal in value to 25,000 RB shares at the exercise price for the December 2014 option grant. This exercise price was £52.00 and so Adrian received an award of £1,300,000. Following deductions for tax, the net proceeds were used to purchase 13,222 RB shares which will be retained under his share ownership obligation.

**Single total figure of remuneration for Executive Directors (Audited)**

The table below sets out a single figure for the total remuneration received by each Executive Director for the year ended 31 December 2014, based on the information set out in the previous sections. This is compared to the prior year figure. The value of Rakesh's LTIP vesting in 2013 represents the last award he received prior to promotion to the Board, with the 2014 vesting reflecting his first full award as CEO:

	Rakesh Kapoor		Adrian Hennah	
	2014 £	2013 £	2014 £	2013 £
Base salary	865,000	832,000	561,000	550,000
Taxable benefits <sup>1</sup>	36,304	38,585	22,041	20,992
Annual bonus <sup>2</sup>	2,678,040	3,564,288	1,302,642	1,767,150
LTIP	7,400,662 <sup>3</sup>	2,158,080 <sup>4</sup>	1,300,000	-
Pension benefit <sup>5</sup>	257,100	247,200	138,250	135,500
<b>TOTAL</b>	<b>11,237,106</b>	6,840,153	<b>3,323,933</b>	2,473,642
Other <sup>6</sup>	-	-	-	1,395,750
Total including other	<b>11,237,106</b>	6,840,153	<b>3,323,933</b>	3,869,392

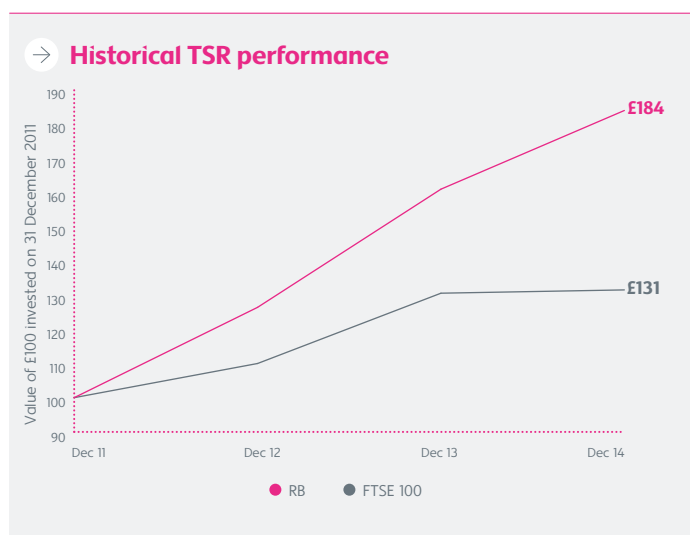
- 1 Taxable benefits consist primarily of company car or car allowance and healthcare.
- 2 Cash payment for performance during year based on multiplier of 2.58x target. See 'Annual Bonus in respect of 2014 performance' on page 51 for details.
- 3 Reflects the estimated value of LTIP shares and options granted in December 2011, the first award received as CEO, which are due to vest on 7 May 2015 at 40%. Valued using an average share price over Q4 of £50.79. £4.7m of the total LTIP value is attributable to the share price growth over the period since award. See the relevant sections on page 52 for more details.
- 4 Represents the vesting of an LTIP award made prior to promotion to the Board. This value has been restated from last year which used an average share price of £46.88 over Q4 to estimate the value the award (£2,010,240). The actual value based on the £48.46 share price on the date of vesting on 7 May 2014 was £2,158,080.
- 5 During the year Rakesh Kapoor participated in the RB Executive Pension Plan, a defined contribution scheme, in relation to which the Company contributed £12,500 in the year (2013: £50,000). The Company also paid Executive Directors a cash allowance which amounted to £244,600 and £138,250 for Rakesh Kapoor and Adrian Hennah, respectively. In combination these payments reflect the full pension provision outlined in the policy table.
- 6 As reported in last year's report, Adrian Hennah received a sign-on award of £200,000, paid on appointment, to partially replace the value of deferred bonus awards at his previous employer. He was also paid a cash award to the value of 25,000 RB shares (£1,195,750), the net amount of which was used to purchase shares which are retained as part of the Executive share ownership obligation.

**Review of past performance**

The chart below shows the Total Shareholder Return (TSR) of the Company compared to the UK FTSE 100 Index over the three-year period from 1 January 2012 to 31 December 2014.

This period represents the full financial years of the tenure of Rakesh Kapoor as CEO, as well as being the performance period for the first award made to him following his appointment as CEO, which vests in May 2015.

**Total Shareholder Return over the 3 years to 31 December 2014**



The table below sets out the single figure of total remuneration for Rakesh Kapoor in his tenure as CEO. LTIP awards vesting in 2011 to 2013 are those made to him prior to his appointment to the Board.

CEO single figure of remuneration (£000)	2011	2012	2013	2014
Rakesh Kapoor	£4,497	£8,411	£6,840	<b>£11,237</b>
Annual Bonus as a percentage of maximum	31%	53%	100%	<b>72%</b>
LTIP vesting	100%	100%	40%	<b>40%</b>

## Annual Report on Remuneration

**Executive Directors' shareholding requirements (Audited)**

Our performance linked remuneration package is underpinned by a meaningful share ownership policy, which drives a culture of ownership throughout the Company. Executive Directors are expected to acquire significant numbers of shares over eight years and retain these until retirement from the Board. The table below shows the shareholding of each Executive Director against their respective shareholding requirement as of 31 December 2014:

	Shares held		Options held		Shareholding guideline (number of shares)
	Owned outright (A)	Performance tested but unvested (B)	Vested but not exercised (C)	Performance tested but unvested (D)	
Rakesh Kapoor	426,034	898,058	–	1,633,841	600,000
Adrian Hennah	26,851	137,540	–	275,060	200,000

Rakesh Kapoor has exceeded his pro-rated target based on tenure to date and Adrian Hennah has made good progress towards his target during his first two years as an Executive Director to the satisfaction of the Committee. Due to the levels of shareholdings of the current Executive Directors, LTIP awards that vest over the next three to five years will be required to be held until the Director reaches his share ownership guideline. Further details of the scheme interests contained in columns B–D are provided in the table on page 59.

**Percentage change in CEO remuneration**

The table below shows the percentage change in CEO remuneration from the prior year compared to the average percentage change in remuneration for all UK employees who form part of the management team (Top400). This group has been chosen as it represents the most appropriate comparator group for reward purposes for our UK-based Group Chief Executive.

The analysis excludes part-time employees and is based on a consistent set of employees, i.e. the same individuals appear in the 2013 and 2014 populations.

	CEO	Other employees
	% change 2013-2014	% change 2013-2014
Base salary	4%	3%
Taxable benefits	–6%	2%
Annual bonus	–25%	–26%

The difference in the percentage change of the annual bonus for the CEO and other employees is primarily a result of the fact that different targets are set for different areas of the business which are subject to different challenges.

The percentage change in taxable benefits for other employees excludes international transfer benefits as this is volatile from year to year based on each individual's circumstance.

**Relative importance of spend on pay**

The table below shows Shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for FY 2013 and FY 2014, along with the percentage change in both.

	2014 £	2013 £	% change 2013–2014
Shareholder distributions (dividends and share buybacks)	1,302m	1,271m	2%
Total employee expenditure <sup>1</sup>	1,245m	1,329m	–6%

<sup>1</sup> As set out in Note 5 to the Financial Statements, costs incurred in respect of RB Pharmaceuticals business are included for both 2013 and 2014.

**Exit payments made in the year (Audited)**

No exit payments were made to Executive Directors during the year.

**Payments to past Directors (Audited)**

No payments were made to past Directors in the year.



**Scheme interests awarded in 2014 (Audited)**

**LTIP**

In December 2014, Executive Directors were granted the following awards under the LTIP, based on a fixed number of shares and share options. Vesting of these awards in full requires achievement of stretching performance conditions over the three-year period.

	Date of grant	Shares over which awards granted	Market price at date of award <sup>1</sup>	Exercise price <sup>2</sup>	Face value <sup>3</sup>	Performance period	Exercise/vesting period
<b>Performance shares</b>							
Rakesh Kapoor	1 December 2014	240,000	£52.40	n/a	£12,576,000	1 Jan 15–31 Dec 17	May 18
Adrian Hennah		45,000			£2,358,000		
<b>Share options</b>							
Rakesh Kapoor	1 December 2014	400,000	£52.00 <sup>4</sup>	£160,000	£36,000	1 Jan 15–31 Dec 17	May 18–Dec 24
Adrian Hennah		90,000					

1 The market price on the date of award is the closing share price on the date of grant.

2 The exercise price is based on the average closing share price over the five business days prior to the date of grant.

3 For performance shares based on the market price at the date of award and assuming full vesting. For share options based on the face value of the potential gain at award assuming full vesting, calculated as the difference between market price and exercise price. The face value of shares under option is £20,960,000 for Rakesh Kapoor and £4,716,000 for Adrian Hennah if calculated as the number of shares multiplied by the market price at date of award.

4 Exercise price subsequently adjusted following the Indivior PLC demerger. See tables on page 59 for details.

Consistent with awards made since December 2008, vesting of the LTIP awards is dependent on the achievement of targets relating to compound average annual growth (CAAG) in EPS over a three-year period. EPS is measured on an adjusted diluted basis, as shown in the Group's financial statements, as this provides an independently verifiable measure of performance. However, the Remuneration Committee maintains the discretion to make adjustments to the measure if this is considered to be appropriate. Any adjustments will be disclosed in the Annual Report on Remuneration.

There is no retesting. Awards granted in December 2014 will vest on the following schedule, which requires significant compound annual growth in EPS in order for the awards to vest, as follows:

EPS CAAG	<6%	6%	Between 6% and 10%	≥10%
<b>Proportion of awards vesting (%)</b>	Nil	20%	Straight-line vesting between 20% and 100%	100%

**Single total figure of remuneration for Non-Executive Directors (Audited)**

The following Non-Executive Director fee policy was in place for the year ended 31 December 2014:

Role	Cash fee	Fee delivered in RB shares
<b>Base fees</b>		
Chairman	£308,000	£67,000
Deputy Chairman	£82,000	£18,000
Non-Executive Director	£70,000	£15,000
<b>Additional fees</b>		
Chair of Audit Committee	£30,000	–
Chair of Remuneration Committee	£30,000	–
Member of Audit Committee	£15,000	–
Member of Remuneration Committee	£15,000	–
Senior Independent Director	£12,000	–

## Annual Report on Remuneration

The table below sets out a single figure for the total remuneration received by each Non-Executive Director for the year ended 31 December 2014 and the prior year:

	2014 fees (£)			2013 fees (£)		2013 Total
	Cash	Shares	2014 Total	Cash	Shares	
Adrian Bellamy	308,000	67,000	375,000	308,000	67,000	375,000
Richard Cousins <sup>1</sup>	29,943	5,192	35,135	85,000	15,000	100,000
Nicandro Durante	85,000	6,250	91,250	7,083	–	7,083
Peter Harf	97,000	18,000	115,000	97,000	18,000	115,000
Ken Hydon	100,000	15,000	115,000	100,000	15,000	115,000
André Lacroix	97,000	15,000	112,000	91,000	15,000	106,000
Judy Sprieser	100,000	15,000	115,000	100,000	15,000	115,000
Warren Tucker	85,000	15,000	100,000	85,000	15,000	100,000
Jaspal Bindra <sup>2</sup>	42,500	6,250	48,750	–	–	–
Sue Shim <sup>2</sup>	42,500	6,250	48,750	–	–	–
Doug Tough <sup>3</sup>	14,167	2,500	16,667	–	–	–
Graham Mackay	–	–	–	48,500	15,000	63,500

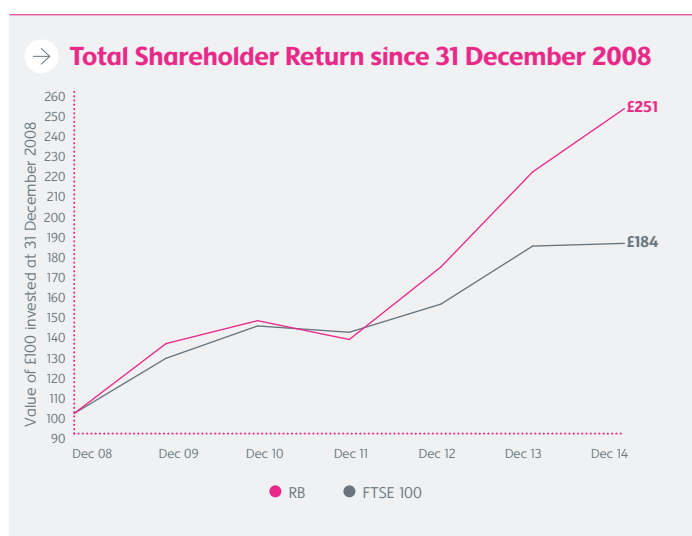
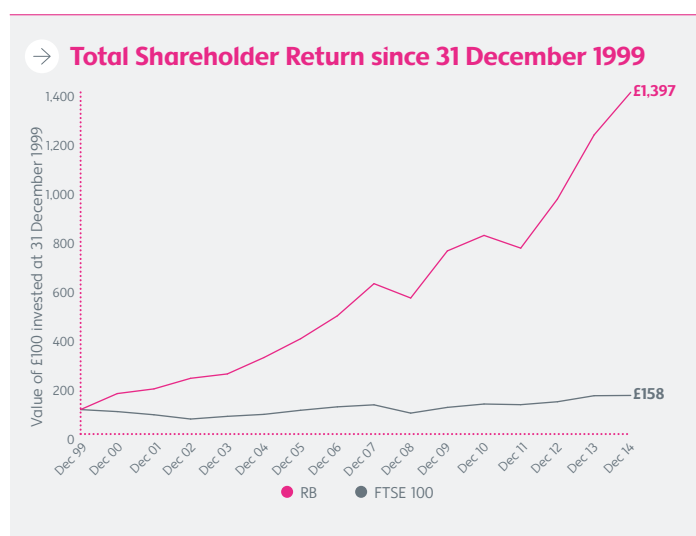
1 The fees paid to Richard Cousins relate to the period to 7 May 2014 when he stepped down from the Board of Directors

2 Jaspal Bindra and Sue Shim were appointed Non-Executive Directors with effect from 1 July 2014

3 Doug Tough was appointed a Non-Executive Director with effect from 1 November 2014

### Performance graph

The graph below shows the TSR of the Company and the UK FTSE 100 Index over the period since 1 January 2000, representing the period of full financial years since the merger of Reckitt & Colman plc and Benckiser N.V. and the listing on the London Stock Exchange of Reckitt Benckiser Group plc. This shows the growth in the value of a hypothetical holding of £100 invested on 31 December 1999. We have also shown the growth in value of a holding of £100 invested on 31 December 2008, as required by disclosure regulations. The FTSE 100 index was selected on the basis of companies of a comparable size in the absence of an appropriate industry peer group in the UK.



The table below sets out the single figure of total remuneration received by the previous CEO (Bart Becht) between 2009 and 2011:

Year	Single figure (£'000)	Annual bonus	LTIP vesting
2009	£28,881	100%	100%
2010	£17,150	76%	100%
2011	£18,076	31%	100%

### Directors' service contracts

Non-Executive Directors have letters of engagement which set out their duties and time commitment expected. They are appointed for an initial three-year term, subject to election and annual re-election by Shareholders. Appointments are renewable for subsequent three-year terms by mutual consent. Details are set out below:

Name	Date of Appointment	Length of Service at 31 Dec 2014	
		Years	Months
Adrian Bellamy	3 December 1999 (Chairman from 7 May 2003)	15 years	1 month
Jaspal Bindra	1 July 2014	0 years	6 months
Nicandro Durante	1 December 2013	1 year	1 month
Peter Harf	3 December 1999	15 years	1 month
Ken Hydon	1 December 2003	11 years	1 month
André Lacroix	1 October 2008	6 years	3 months
Sue Shim	1 July 2014	0 years	6 months
Judy Sprieser	21 August 2003	11 years	4 months
Doug Tough	1 November 2014	0 years	2 months
Warren Tucker	24 February 2010	4 years	10 months

Directors' letters of engagement are available for inspection at the registered office.

### External appointments

With the approval of the Board of Directors in each case, and subject to the overriding requirements of the Company, Executive Directors may accept an external appointment as a Non-Executive Director of another company and retain any fees received. Adrian Hennah received fees and benefits of £78,220 during the year in respect of his directorship of Reed Elsevier PLC and £10,563 in respect of his directorship of Indivior PLC.

### Summary of Shareholder voting at the 2014 AGM

The following table shows the results of the resolutions regarding remuneration at the 2014 AGM:

	Votes for	For %	Votes against	Against %	Total	Votes withheld
Approve the Directors' Remuneration Policy	406,176,557	80.15%	100,609,327	19.85%	506,785,884	13,393,177
Approve the 2013 Directors' Remuneration Report	296,189,941	68.54%	135,982,036	31.46%	432,171,977	86,005,715

The level of support for the Remuneration Policy was broadly similar to that received at the 2013 AGM in respect of the advisory vote on the Remuneration Report (81.77%). However, the Committee was disappointed with the level of votes in favour of the 2013 Directors' Remuneration Report. Having had discussions with Shareholders, the Committee understands that the main reason for the relatively low level of support was due to the lack of disclosure of the annual bonus targets in the context of the maximum payout in respect of 2013. Following consultation with Shareholders, we have enhanced the level of our disclosure in this year's Report, including the bonus outcomes for 2014, as can be seen on page 55. We are grateful for the feedback from our Shareholders and trust that you find this a clear and comprehensive Report that clearly articulates RB's link between pay and performance.

In addition, the Committee has had ongoing dialogue with Shareholders over a number of years regarding our remuneration structure. The Committee believes our existing incentive arrangements are simple, reinforce our remuneration principles and align executives closely with the interests of our Shareholders. The requirement for Senior Executives to build up significant shareholdings in the Company further supports our policy of executive alignment with Shareholders' interests. The Committee will continue to review the incentive arrangements in the lead up to the next vote of the Policy Report at the 2017 AGM.

### Advisers

Deloitte LLP (Deloitte) was appointed by the Committee as independent adviser effective from 1 January 2014 following a review of the advisers in late 2013. The Committee undertakes due diligence periodically to ensure that Deloitte remains independent of the Company and that the advice provided is impartial and objective. Deloitte is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). During 2014, Deloitte provided support to the Committee in relation to benchmarking executive remuneration structure and levels, remuneration related matters in respect of the demerger of Indivior PLC and the consultation of Shareholders on remuneration matters. Deloitte also provided the Group with international transfer tax compliance and global mobility services and ad-hoc advice on employment/share schemes matters during 2014. These services are provided under separate engagement terms and the Committee is satisfied that the provision of these services did not impair Deloitte's ability to advise the Committee independently. Their total fees for the provision of remuneration services to the Committee in 2014 were £184,500 on the basis of time and materials.

## Annual Report on Remuneration

### Implementation of Executive Director remuneration policy for 2015

#### Base salary

Base salaries are reviewed taking into account the salary increases for the wider workforce, as well as competitive practice for similar roles in the Company's remuneration peer group, comprising 19 international companies, and individual performance. Following its review of salary levels in late 2014, the Committee approved the following base salary increases with effect from 1 January 2015:

Executive Director	Base salary at 1 January 2014	Base salary from 1 January 2015	Percentage increase
Rakesh Kapoor	£865,000	<b>£890,950</b>	3%
Adrian Hennah	£561,000	<b>£577,830</b>	3%

The base salary increases for Executive Directors take into account performance and follows the same base salary merit increase guidelines as other UK employees. The average salary increase was c.3%, effective 1 January 2015.

#### Pension

The CEO and CFO continue to receive pension contributions (or equivalent cash allowances) of 30% and 25% of salary, respectively.

#### Annual bonus in respect of 2015 performance

For 2015, there will be no changes to the annual bonus opportunities for Executive Directors. Bonuses will continue to be based on RB's Net Revenue growth and Net Income growth, measured in GBP at a constant exchange rate, with the outcome under each of the measures combined multiplicatively to give a bonus outcome of 3.57 x the target bonus opportunity if both stretch targets are met.

We have not disclosed the performance targets for 2015 as we consider them to be commercially sensitive. However, we commit to retrospectively disclosing the performance ranges in the Directors' Remuneration Report for the year ending December 2015.

#### LTIP

LTIP awards for FY 2015 were granted in December 2014. Details of these awards are summarised on page 55. Awards to be made in December 2015 will be disclosed in the Annual Report on Remuneration in next year's Remuneration Report.

### Implementation of Non-Executive Director remuneration policy for 2015

With effect from 1 January 2015, the fees payable to the Chairman of the Board of Directors and Non-Executive Directors will be as set out in the table below:

Role	2014 Fees		2015 Fees	
	Cash fee	Fee delivered in RB shares	Cash fee	Fee delivered in RB shares
<b>Base fees</b>				
Chairman	£308,000	£67,000	<b>£316,000</b>	<b>£69,000</b>
Deputy Chairman	£82,000	£18,000	<b>£88,150</b>	<b>£19,350</b>
Non-Executive Director	£70,000	£15,000	<b>£71,750</b>	<b>£15,750</b>
<b>Additional fees</b>				
Chairman of Audit Committee	£30,000	–	<b>£30,000</b>	–
Chairman of Remuneration Committee	£30,000	–	<b>£30,000</b>	–
Member of Audit Committee	£15,000	–	<b>£15,000</b>	–
Member of Remuneration Committee	£15,000	–	<b>£15,000</b>	–
Senior Independent Director	£12,000	–	<b>£20,000</b>	–

In accordance with best practice, RB's Articles of Association contain a monetary cap on the amount of aggregate fees payable to Non-Executive Directors. A resolution to increase the cap under this provision will be submitted for Shareholder approval at the AGM. All Non-Executive Directors will continue to be paid in line with the fee policy in force at the time. The Non-Executive Directors' shareholdings in the Company are set out in detail in the Report of the Directors on page 62.

**Directors' interests in shares and options under the LTIP (Audited)**

LTIP <sup>1</sup>	Notes	Grant date	At 1.1.14 <sup>1</sup>	Granted during the year	Exercised/ vested during the year	Lapsed during the year	At 31.12.14	Option price (£) <sup>1</sup>	Market price at date of award (£)	Market price at date of exercise/ vesting (£)	Exercise/vesting period
<b>Adrian Hennah</b>											
Options	2	13.2.13	704				704	42.61			May 16–Feb 23
	2	13.2.13	91,816				91,816	41.44			May 16–Feb 23
	3	11.12.13	92,540				92,540	46.51			May 17–Dec 23
	3	1.12.14	–	90,000			90,000	50.57			May 18–Dec 24
Performance-based restricted shares	2	13.2.13	46,270				46,270		44.19		May 16
	3	11.12.13	46,270				46,270		46.69		May 17
	3	1.12.14	–	45,000			45,000		52.40		May 18
<b>Rakesh Kapoor</b>											
Options	4	8.12.08	180,000		180,000		–	27.29		52.05	May 12–Dec 18
	4	7.12.09	180,000		180,000		–	31.65		52.05	May 13–Dec 19
	4,5	1.12.10	180,000		72,000	108,000	–	34.64		52.05	May 14–Dec 20
	2	5.12.11	411,286				411,286	31.20			May 15–Dec 21
	2	3.12.12	411,286				411,286	38.06			May 16–Dec 22
	3	11.12.13	627				627	47.83			May 17–Dec 23
	3	11.12.13	410,642				410,642	46.51			May 17–Dec 23
	3	1.12.14	–	400,000			400,000	50.57			May 18–Dec 24
Performance-based restricted shares	5	1.12.10	60,000		24,000	36,000	–		34.08	48.46	May 14
	2	5.12.11	205,643				205,643		32.19		May 15
	2	3.12.12	205,643				205,643		39.66		May 16
	3	11.12.13	246,772				246,772		46.69		May 17
	3	1.12.14	–	240,000			240,000		52.40		May 18

Sharesave Scheme	Grant date	At 1.1.14	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.14	Option price (£)	Market price at exercise (£)	Exercise period
Rakesh Kapoor	8.9.08	796				796	21.92		Feb 16–July 16
Adrian Hennah	4.9.13	403				403	37.20		Feb 19–July 19

**Notes**

1 Outstanding LTIP awards on 23 December 2014 were adjusted following the Indivior PLC demerger. The number of outstanding shares and options were adjusted for all grants made prior to 2014 with the option price adjusted for the share option grants. These have been restated in the above table.

2 Vesting of LTIP is subject to the achievement of the following compound average annual growth (CAAG) in adjusted EPS over a three-year period:

<b>EPS CAAG for awards granted in December 07–12</b>	<6%	6%	7%	8%	≥9%
<b>Proportion of awards vesting (%)</b>	Nil	40%	60%	80%	100%

3 Vesting of LTIP is subject to the achievement of the following compound average annual growth (CAAG) in adjusted EPS over a three-year period:

<b>EPS CAAG for awards granted in December 13–14</b>	<6%	6%	Between 6% and 10%	≥10%
<b>Proportion of awards vesting (%)</b>	Nil	20%	Straight-line vesting between 20% and 100%	100%

4 Options were exercised in two tranches. The market price at date of exercise set out in above table is the average price on the dates of exercise.

5 As disclosed in last year's report, 40% of the LTIP awarded in December 2010 vested following the AGM in May 2014. The remainder of the award lapsed.

## Report of the Directors

The Directors submit their Annual Report and audited Financial Statements of the Group for the year ended 31 December 2014 to the members of the Company.

### Directors

The Directors who held office during year and those serving at the date of this report are:

Adrian Bellamy	
Richard Cousins	(resigned 7 May 2014)
Jaspal Bindra	(appointed 1 July 2014)
Nicandro Durante	
Peter Harf	
Mary Harris	(appointed 10 February 2015)
Adrian Hennah	
Ken Hydon	
Rakesh Kapoor	
Pam Kirby	(appointed 10 February 2015)
André Lacroix	
Sue Shim	(appointed 1 July 2014)
Chris Sinclair	(appointed 10 February 2015)
Judy Spieser	
Doug Tough	(appointed 1 November 2014)
Warren Tucker	

Biographical details of the current Directors are set out on pages 32 to 34.

### Directors' interests

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

Details of Executive Directors' options to subscribe for shares in the Company are included on page 52 in the audited part of the Directors' Remuneration Report.

No Director had a material interest at any time during the year in any derivative or financial instrument relating to the Company's shares. The details of the Directors' remuneration and service agreements are set out in the Directors' Remuneration Report on pages 47 to 59.

### Takeover directive

The Company is required to disclose certain additional information required by s.992 of the 2006 Act, which implemented the EU Takeovers Directive. The following sets out disclosures not covered elsewhere in this Annual Report.

The Articles give the Board power to appoint Directors, but also require Directors to submit themselves for election at the first AGM following their appointment. Under the Articles, all Directors are required to offer themselves for re-election every three years.

The Board is responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of the Company's Articles.

The Articles contain specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the alteration of share capital are also included in the Articles and Shareholders are asked to renew such authorities each year at the AGM. A copy of the Articles is available from the Company's website [www.rb.com](http://www.rb.com) or can be obtained on written request from the Company Secretary or from the UK Registrar of Companies.

Unless expressly specified to the contrary in the Articles, the Company's Articles may be amended by a special resolution of the Company's Shareholders.

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

There are no significant agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

There is no information that the Company would be required to disclose about persons with whom it has contractual or other arrangements which are essential to the business of the Company.

### Dividend

In July 2014, the Directors resolved to pay an interim dividend of 60p per ordinary share (2013: 60p). The dividend was paid on 25 September 2014. The Directors are recommending a final dividend for the year of 79p per share (2013: 77p) which, together with the interim dividend, makes a total for the year of 139p per share (2013: 137p). The final dividend, if approved by the Shareholders, will be paid on 29 May 2015 to Shareholders on the register at the close of business on 17 April 2015.

### Share capital

As at 31 December 2014, the Company's issued share capital consisted of 736,535,179 ordinary shares of 10p each, of which 718,577,688 were with voting rights and 17,957,491 ordinary shares were held in Treasury. Details of changes to the ordinary shares issued and of options and awards granted during the year are set out in notes 22 and 23 to the Financial Statements.

The rights and obligations attached to the Company's ordinary shares are set out in the Articles.

There are no restrictions on the voting rights attached to the Company's ordinary shares or the transfer of securities in the Company except, in the case of transfers of securities:

- That certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- Pursuant to the Listing Rules of the United Kingdom Listing Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

No person holds securities in the Company which carry special voting rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

### Allotment of shares

The Directors were granted authority at the last AGM held in 2014 to allot shares up to a nominal amount of £20.8m. That authority will apply until the conclusion of this year's AGM. At this year's AGM on 7 May 2015, Shareholders will be asked to grant an authority to make such allotments up to a nominal amount representing approximately one-third of the Company's issued share capital as at the latest practicable date prior to the publication of the Notice of AGM. In line with guidance issued by the Association of British Insurers, Shareholders will also be asked to grant an authority to allot shares in connection with a rights issue in favour of Shareholders up to an aggregate nominal amount representing approximately two-thirds of the issued ordinary share capital of the Company as at the latest practicable date prior to publication of the Notice of AGM. The authorities sought would, if granted, expire at the earlier of 30 June 2016 or at the conclusion of the AGM of the Company held in 2016. The Board has confirmed that, in accordance with the UK Corporate Governance Code (Code), all Directors will submit themselves for re-election/election at this year's AGM and at future AGMs.



A special resolution will also be proposed to renew the Directors' power to make non-pre-emptive issues for cash up to a nominal amount representing less than 5% of the Company's issued share capital as at the latest practicable date prior to the publication of the Notice of AGM.

#### Authority to purchase own shares

At the AGM in 2014, Shareholders approved a resolution for the Company to make purchases of its own shares. On 30 May 2014, the Directors announced their intention to commence a share repurchase programme for the repurchase of up to 6m shares for the purpose of offsetting the dilutive impact of employee share schemes.

In accordance with that announcement and the authority granted at the AGM in 2014, market purchases of 6m of the Company's ordinary shares were made during 2014 at a total cost of £314m including stamp duty. The Directors have announced an intention to supplement the current share buyback policy which broadly neutralises incentive plan share issuance (c. £300m p.a.) with an additional up to £500m share buyback programme in 2015. The authority granted at the AGM in 2014 remains valid until the conclusion of this year's AGM on 7 May 2015 and the Directors will seek to renew the authority to make market purchases through a resolution to be put to Shareholders at this year's AGM. This authority will be limited to a maximum of 71 million ordinary shares and sets the minimum and maximum prices which may be paid. The Company's present intention is to hold shares acquired under such authority in Treasury to satisfy outstanding awards under employee share incentive plans.

#### Employees

During 2014, the Group employed an average of 37,200 (2013: 37,100) people worldwide, of whom 3,400 (2013: 3,700) were employed in the UK. The Group is committed to the principle of equal opportunity in employment: no applicant or employee receives less favourable treatment on the grounds of nationality, age, gender, religion, race, ethnicity or disability. The Group recognises its responsibilities to disabled persons and endeavours to assist them to make their full contribution at work. Where employees become disabled, every practical effort is made to allow them to continue in their jobs or to provide retraining in suitable alternative work. It is essential to the continued improvement in efficiency and productivity throughout the Group that each employee understands the Group's strategies, policies and procedures. Open and regular communication with employees at all levels is an essential part of the management process. A continuing programme of training and development reinforces the Group's commitment to employee development.

Regular departmental meetings are held where opinions of employees are sought on a variety of issues. The Group operates multi-dimensional internal communications programmes which include the provision of a Group intranet and the publication of regular Group newsletters.

Group incentive schemes reinforce financial and economic factors affecting the performance of the business. Employees typically have three to five performance objectives which are directly linked to their job and their specific contribution to the overall performance of the Group. In addition, presentations and videos are given to employees around the Group on publication of the Group's financial results.

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

#### Political donations

No political donations or expenditure of the type requiring disclosure under s.366 and s.367 of the Companies Act 2006 (2006 Act) were made in the year ended 31 December 2014 nor are any contemplated.

#### Independent Auditors

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

#### Further disclosures

Information fulfilling the further disclosure requirements contained in the Companies Act 2006, Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the FCA's Listing Rules and Disclosure and Transparency Rules can be found in the following sections of the Annual Report for the period ended 31 December 2014 which are incorporated into the Report of the Directors' by reference:

	Page
Future developments in the business	22
Research and development activities	84
Acquisitions and disposals	114
Environmental, social and governance (ESG) matters	19
Disclosure of greenhouse gas (GHG) emissions	19
Sustainability and corporate responsibility	133
Employment policy and employee involvement	61
Financial risk management and financial instruments	96
Corporate Governance Report including internal control and risk management statements	36
Post balance sheet events	115
Directors' Statement of Responsibility, including disclosure of information to the Auditors	63

There is no additional information requiring disclosure under Listing Rule 9.8.4R.

#### Substantial shareholdings

As at 19 March 2015, the Company had received the following notices of substantial interests (3% or more) in the total voting rights of the Company:

	Date of last TR-1 notification	Nature of interest	% of voting rights
JAB Holdings B.V.	15 May 2012	Direct	10.6
Massachusetts Financial Services Company and/or its subsidiaries	16 January 2013	Indirect	5.0

Note: Notification was received from Invesco Limited on 18 February 2013 that their holding had dropped below 5% and therefore in accordance with DTR 5.1.5R they no longer had a notification obligation. Their holding has subsequently reduced below 3%.

## Report of the Directors

**Table 1 – interests in the share capital of the Company (Audited)**

The Directors in office at the end of the year and those in office at 19 March 2015 had the following beneficial interests (unless stated otherwise) in the ordinary shares of the Company:

	19 March 2015	31 December 2014	31 December 2013
Adrian Bellamy	23,599	23,599	22,813
Jaspal Bindra (appointed 1 July 2014)	65	65	n/a
Nicandro Durante	59	59	0
Peter Harf	4,311	4,311	4,109
Mary Harris (appointed 10 February 2015)	nil	n/a	n/a
Adrian Hennah	26,851	26,851	13,629
Ken Hydon	5,671	5,671	5,510
Rakesh Kapoor	426,034	426,034	317,537
Pam Kirby (appointed 10 February 2015)	22	n/a	n/a
André Lacroix	2,408	2,408	2,253
Sue Shim (appointed 1 July 2014)	64	64	n/a
Chris Sinclair (appointed 10 February 2015)	nil	n/a	n/a
Judy Sprieser	3,979	3,979	3,809
Doug Tough (appointed 1 November 2014)	39	39	n/a
Warren Tucker	1,863	1,863	1,694

**Notes**

- 1 No person who was a Director (or a Director's connected person) on 31 December 2014 and at 19 March 2015 had any notifiable share interests in any subsidiary.
- 2 The Company's Register of Directors' Interests (which is open to inspection) contains full details of Directors' shareholdings and options to subscribe.

**Corporate governance statement**

In compliance with the Disclosure and Transparency Rules (DTR) 7.2.1, the disclosures required by DTR 7.2.2 to 7.2.7 are set out in this Report of the Directors and in the Corporate Governance Report on pages 30 to 63 which together with the Directors' Statement of Responsibilities are incorporated by reference into this Report of the Directors.

**Annual General Meeting**

The Notice convening the eighth AGM of the Company, to be held on Thursday, 7 May 2015 at 11.15 am at the London Heathrow Marriott Hotel, Bath Road, Hayes, Middlesex UB3 5AN, is contained in a separate document for Shareholders.

In accordance with the Shareholder Rights' Directive (Directive) which came into force in August 2009, the Company obtained Shareholder approval at the AGM in 2014 to call meetings, other than Annual General Meetings, on 14 clear days' notice. Prior to the implementation of the Directive, the Company was able to call meetings other than an AGM on 14 clear days' notice without obtaining Shareholder approval and, to preserve this ability, Shareholders will be asked to renew this authority at the AGM.

Although Article 78 governs the retirement of Directors by rotation, the Board has agreed that all the Directors will submit themselves for re-election/election at this year's AGM and at future AGMs in compliance with the Code.

By Order of the Board

**WILLIAM MORDAN** / Company Secretary  
Reckitt Benckiser Group plc  
103-105 Bath Road  
Slough, Berkshire SL1 3UH

Company registration number: 6270876

19 March 2015

## Directors' Statement of Responsibilities

### The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). In preparing the Group Financial Statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and IFRSs issued by IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Company Financial Statements respectively;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 32 to 34 confirms that, to the best of his/her knowledge:

- The Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU and IFRSs as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Report of the Directors includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.
- In addition, the Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the performance, business model and strategy.

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 27. The financial position of the Group and Company, its cash flows, liquidity position and borrowing facilities, as well as the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk are described in the Strategic Report on page 24 and in note 14 to the Group Financial Statements.

The Group has considerable financial resources together with a diverse customer and supplier base across different geographical Areas and categories. As a consequence, the Directors believe that the Group and Company are well placed to manage their business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements in accordance with the FRC's 'Going Concern and Liquidity Risk: Guidance For Directors of UK Companies 2009'. This statement is also made to fulfil the requirements of Listing Rules 9.8.6R(3) and 9.8.10R(1) and C.1.3 of the Code.

### Disclosure of information to Auditors

The Directors, having made appropriate enquiries, state that:

- 1) So far as each Director is aware, there is no relevant audit information of which the Auditors are unaware; and
- 2) Each Director has taken all the steps that he/she ought to have taken as a Director to make him/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

By Order of the Board

**WILLIAM MORDAN** / Company Secretary

Reckitt Benckiser Group plc  
103-105 Bath Road  
Slough, Berkshire SL1 3UH

Company registration number: 6270876  
19 March 2015

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**Financial Statements**

- 65 Independent Auditors' Report to the members of Reckitt Benckiser Group plc
- 71 Group Income Statement
- 72 Group Statement of Comprehensive Income
- 73 Group Balance Sheet
- 74 Group Statement of Changes in Equity
- 75 Group Cash Flow Statement
- 76 Notes to the Financial Statements
- 116 Five Year Summary
- 117 Parent Company – Independent Auditors' Report to the members of Reckitt Benckiser Group plc
- 119 Parent Company Balance Sheet
- 120 Notes to the Parent Company Financial Statements

**Other Information**

- 126 Our Relationships and Principal Operating Risks
- 133 Management of Sustainability
- 134 Shareholder Information

## Independent Auditors' Report to the members of Reckitt Benckiser Group plc

### Our opinion

In our opinion, Reckitt Benckiser Group plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the financial statements comply with IFRSs as issued by the IASB.

### What we have audited

Reckitt Benckiser Group plc's financial statements comprise:

- the Group Balance Sheet as at 31 December 2014;
- the Group Income Statement and Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Financial Statements (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

### Our audit approach – Overview

#### Materiality

- Overall Group materiality was £107 million which represents 5% of continuing Group profit before tax and non-recurring exceptional items.

### Scope

- We conducted audit work in 19 countries in which the Group has significant operations.
- Our audit scope accounted for 75% of continuing Group revenue and 74% of continuing Group profit before tax adjusted for non-recurring exceptional items.
- The Group engagement team visited 15 of the 21 component audit teams to attend audit clearance meetings and discuss the audit approach and findings with those local audit teams.
- For those countries not visited in the current year we maintained regular contact with the local team and evaluated the outcome of their audit work.
- The scope of our audit included the financial information of US RB Pharmaceuticals for the period to 23 December 2014, the point of demerger of that business.

### Areas of focus

- Valuation and completeness of customer trade spend accruals.
- Provision for uncertain tax exposures.
- Accounting for the RB Pharmaceuticals restructure and subsequent demerger.
- Valuation of provisions for liabilities arising from regulatory investigations.
- Valuation of assets and liabilities in respect of the acquisition of the K-Y brand.
- Goodwill and intangible assets impairment assessment.
- The classification of non-recurring exceptional items.

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

## Independent Auditors' Report to the members of Reckitt Benckiser Group plc

### Area of focus

#### Valuation and completeness of customer trade spend accruals

Refer to page 45 (Audit Committee review of areas of significant judgement) and pages 77 and 80 (accounting policies).

As is industry practice, in each country in which the Group operates there are numerous types of complex commercial arrangements with retailers and other customers that have a range of terms (such as promotions, rebates and discounts).

Estimates of the obligations at a reporting date in connection with these arrangements ("trade spend accruals") are material and can be judgemental. These judgements impact the reported results of the country, segment and the Group and in particular influence the calculation of Net revenue and Country operating profit, both of which are key performance indicators for management incentive schemes.

Trade spend promotions have varying terms, some of which are supported by annual contracts or joint business plans, the others of which are based on shorter term arrangements entered into during the year. In addition the level and timing of promotions for individual stock keeping units varies from period to period, and activity can span over a year end.

We focused on this area due to the complexity and level of judgement required in order to derive the estimates; for example the date of shipment to the retailer and period over which the promotion will run may differ, and details of the retailers' EPOS data may be required in order to determine the proportion of trade spend actually committed at the reporting date. Accordingly our focus included whether the accruals were complete, whether relevant spend was recorded in the correct period and how the accruals were valued.

#### Provision for uncertain tax exposures

Refer to page 24 (Strategic risks) and page 45 (Audit Committee review of areas of significant judgement).

Due to the Group operating across a number of different tax jurisdictions it is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business including transaction related tax matters and transfer pricing arrangements arising from centralised functions that support a number of different countries.

Where the amount of tax payable or recoverable is uncertain, the Group establishes provisions based on management's judgement of the probable amount of the liability, or recovery.

We focused on the judgements made by management in assessing the quantification and likelihood of these potential exposures and therefore the level of provisions required against them. In particular we focused on the impact of changes in transfer pricing assumptions, which could materially impact the amounts recorded in the financial statements.

### How our audit addressed the area of focus

Our audit procedures included understanding and evaluating the controls and systems related to the trade spend process and selectively testing those controls on which we planned to rely. Testing of controls included reviewing appropriate authorisation for annual contracts, segregation of duties over the creation and approval of the accruals and the resolution of variations between actual and expected trade spend. Our approach combines testing management's controls and tests of detail and, where applicable, additional substantive audit procedures to address specific areas of judgement.

As part of our review of component teams' work the Group engagement team was specifically involved in determining the audit approach in this area to be satisfied that sufficient focus was placed on the more judgemental areas. As a result of this involvement we were satisfied that, whilst complex, the area was well understood and sufficient focus was placed on this risk area.

Audit procedures across individual countries included the following testing on a sample basis:

- Evaluating the accuracy of the prior year trade spend balance by comparing the historic accruals to actual spend incurred;
- Agreeing key elements of the estimates to supporting documentation such as joint business plans, signed contracts or EPOS data;
- Testing trade spend transactions around the year end to determine whether they had been recognised in the appropriate period; and
- Recalculating management's estimates and obtaining and reading correspondence from customers confirming the existence of the promotions.

We obtained a detailed understanding of the Group's tax strategy and Group transfer pricing policy and assessed key technical tax issues and risks related to business and legislative developments using, where applicable, our local and international tax specialist knowledge.

We obtained explanations from management and obtained corroborative evidence, including communication with local tax authorities, details of progress with Advanced Pricing Agreements and copies of tax advice obtained by management from its external tax advisors, regarding the tax treatment applied to material transactions and the corresponding provisions recorded.

We also challenged management's key assumptions; in particular in respect of transactions undertaken in the year or where there have been significant developments with local tax authorities.

We also evaluated whether the liabilities and potential exposures were appropriately disclosed in the financial statements.



Area of focus

**Accounting for the RB Pharmaceuticals restructure and subsequent demerger**

Refer to pages 114 to 115 (Demerger of RB Pharmaceuticals and Dividends notes).

On 23 December 2014, the RB Pharmaceuticals business was demerged from the Group and separately listed on the London Stock Exchange. A gain on demerger of this business of £1,282 million has been recognised in the Group's financial statements.

We focused on the key judgements made by management in accounting for the transaction and the associated impact on the Group's financial statements including the calculation of the gain on demerger and whether the fair value of the business was appropriate, whether the financial statements include the trading of the business up to the point of demerger and the disclosure within the financial statements was appropriate.

**Valuation of provisions for liabilities arising from regulatory investigations**

Refer to page 24 (Strategic risks) and page 103 (Provisions for liabilities and charges note).

The Group has been subject to a number of regulatory investigations, for example in respect of violations of antitrust and competition laws, and has recorded a provision for legal claims on the balance sheet of £201 million. There is a high level of management judgement associated with determining the need for, and magnitude of, provisions for any liabilities arising from these investigations.

We focused our audit procedures on the assumptions and judgements made by management in determining the recognition and valuation of associated provisions. We also focused on whether there was sufficient disclosure within the Annual Report in respect of the investigations and their potential impact on the financial statements.

**Valuation of assets and liabilities in respect of the acquisition of the K-Y brand**

Refer to page 114 (Business acquisitions and disposal note).

During the year the Group acquired the rights to the global K-Y brand trademarks from McNeil-PPC Inc with associated goodwill and intangibles. The accounting associated with the acquisition, specifically regarding the complexity and subjectivity of the valuation of assets and liabilities at fair value, has been a focus of our audit.

How our audit addressed the area of focus

The scope of our audit included the financial information of US RB Pharmaceuticals for the period to 23 December 2014, which constituted approximately 71% of the RB Pharmaceuticals' adjusted profit before tax.

We obtained management's analysis in support of whether the disposal of the RB Pharmaceuticals business meets the required criteria to be classified as a discontinued operation and formed our own independent assessment, which was consistent with management's. We examined the items included within discontinued operations and determined that they appropriately represent the results of the RB Pharmaceuticals business up to the date of demerger.

We recalculated the gain on demerger by comparing the carrying value of the RB Pharmaceuticals business of £(292) million to its fair value based upon the actual share price of the demerged business. We obtained an analysis of direct transaction costs, primarily consultancy fees, that management had offset against the gain on demerger and evaluated whether their classification was appropriate, and agreed the costs to third party evidence such as invoices.

We also evaluated the disclosure within the Annual Report and financial statements to check that the prior year income statement had been correctly restated and the disclosure within the notes was sufficient and appropriate.

We confirmed that, where applicable, our component teams held discussions with in-country legal teams and sought audit evidence locally which was then corroborated by the Group audit team with the Head of Group Legal to understand the status of ongoing investigations, the associated risks and the basis for any provisions recorded.

We obtained and read correspondence with the relevant regulatory bodies and examined legal documents that confirmed the existence of each investigation.

We obtained confirmations from management's external legal counsel and evaluated their description and assessment of the facts and circumstances of the investigations and, where applicable, the potential outcome and compared this to the explanations and details obtained from management and the internal legal team and found them to be consistent.

We performed procedures over management's acquisition discounted cash flow model, used to determine the recoverable amount of the intangible assets, to assess whether the model and the key assumptions used were appropriate.

We challenged the assumptions used by management through examination of the transaction agreements to check that they were consistent with the assumptions used within the model, comparing the model to Board approved cash flow forecasts and agreeing synergies recognised to Board approved business case models.

The ability to sell product in certain countries is still subject to competition clearance and we have assessed management's assumptions over whether control has been obtained and how this has impacted the fair value calculation of the goodwill and intangibles.

## Independent Auditors' Report to the members of Reckitt Benckiser Group plc

### Area of focus

#### **Goodwill and intangibles asset impairment assessment**

Refer to page 45 (Audit Committee review of areas of significant judgement) and pages 90 to 92 (goodwill and other intangible assets note).

The Group has goodwill of £3,258 million and other indefinite lived intangible assets of £7,866 million as at 31 December 2014 which are required to be tested for impairment on an annual basis. Management has allocated these assets to individual cash generating units ('CGUs') and groups of CGU's ('GCGUs') and there is judgement around how these are determined.

There is further judgement around the determination of recoverable amount, being the higher of value-in-use and fair value less costs to sell. Recoverable amounts are based on management's view of the future results and prospects of the business, the appropriate discount rates to be applied and specific risk factors applied to the GCGUs and CGUs.

During the year management has integrated the key management and operational functions of the VMS and Sexual Wellbeing businesses within the broader Health business. This has resulted in the VMS and Sexual Wellbeing goodwill being assessed within the aggregated Health GCGU in line with the way that management is now monitoring these businesses.

The VMS and Sexual Wellbeing indefinite lived brands continue to have cash inflows that can be assessed independently at a lower level than that at which goodwill is monitored.

Due to VMS and Oriental Pharma being recently acquired the brands remain sensitive to impairment. The VMS and Oriental Pharma indefinite life CGU's are primarily concentrated in single markets, the US and China respectively, and therefore the key judgements in determining the recoverable amount are in respect of the forecast cash flows within these markets, the forecast market penetration outside of the US for the VMS brands and the use of appropriate discount rates.

#### **The classification of non-recurring exceptional items**

Refer to page 77 (Accounting policies) and page 84 (Analysis of net operating expenses note) for further details.

In the past few years the Group has had significant levels of 'exceptional items' which are disclosed separately within the Income Statement and are excluded from management's reporting of the underlying results of the business.

The nature and use of these 'exceptional items' is explained within the Group accounting policy and includes restructuring costs, gains or losses arising on acquisitions or disposals and costs resulting from non-recurring legal or regulatory matters.

This year the Group has identified £21 million of net exceptional items which primarily relate to 'Group-led' restructuring costs, a loss on disposal of a business and a gain on the sale of a factory.

We focused on this area, specifically to assess whether the items identified by management meet the definition within the Group's accounting policy and have been treated consistently, because the identification of such items requires judgement by the directors. Consistency in the identification and presentation of these items is important to ensure comparability of year on year reporting within the Annual Report and Financial Statements.

### How our audit addressed the area of focus

We evaluated the process by which management prepared its cash flow forecasts and compared them against the latest Board approved plans and management approved forecasts. We evaluated the historical accuracy of the plans and forecasts, for example, comparing the forecasts used in the prior year model to the actual performance of the business in the current year. These procedures enabled us to determine the accuracy of the forecasting process.

We have also considered management's integration of the VMS and Sexual Wellbeing CGUs into the Health GCGU and consider this to be appropriate on the basis that the businesses have now been integrated operationally and that goodwill is now monitored at a Health GCGU level.

We have assessed the appropriateness of management's discount rates, including the specific risk factor adjustments applied to VMS and Oriental Pharma, and whether these are in line with industry and peer group comparators.

We challenged management on the appropriateness of its sensitivity calculations and also applied our own sensitivity analysis to the forecast cash flows and long term growth rates to ascertain the extent to which reasonable adverse changes would, either individually or in aggregate, require the impairment of goodwill.

As a result of performing our work we determined that no impairment charges were required and that the indefinite lived brands acquired with VMS and Oriental Pharma are most sensitive to changes in key assumptions. Management has described these sensitivities in the Goodwill and other intangible assets note to the Group financial statements.

We challenged management's rationale for the designation of certain items as 'exceptional' and assessed such items against the Group's accounting policy and consistency of treatment with prior periods.

We considered whether there were items that were recorded within underlying profit that we determined to be 'exceptional' in nature and should have been included within 'exceptional items' and found no such item.

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is primarily structured into three geographical regions being LAPAC (North Asia, South East Asia, Australia & New Zealand and Latin America), RUMEA (Russia & CIS, Middle East, North Africa & Turkey and sub-Saharan Africa) and ENA (North America, Central Europe, Northern Europe, Southern Europe and Western Europe). There is also a separate segment for the Food business and up until the date of demerger, being 23 December 2014, there was a separate segment for the RB Pharmaceuticals business which has been reported as a discontinued operation in the Financial Statements.

Each Country within the aforementioned geographical regions and businesses consists of a number of management reporting entities which are consolidated by Group management. The Group financial statements are a consolidation of 769 reporting units representing the Group's operating businesses within these geographic-based divisions and the centralised functions.

The reporting units vary in size and we identified 76 reporting units from across the three geographic operating divisions and two units from the RB Pharmaceuticals business which required an audit of their complete financial information due to their individual size or risk characteristics. These reporting units subject to audit accounted for 74% of the continuing Group's profit before tax adjusted for non-recurring exceptional items and 75% of the continuing Group's revenue.

These 78 reporting units are audited by 21 component auditor teams. The Group engagement team visited 15 of the 21 local component teams to meet with local management, attend audit clearance meetings and discuss the audit approach and findings with the local audit teams. For those countries not visited we either attended the clearance meetings via a conference call or had regular communication with the local teams both before and after their audit. Our attendance at the clearance meetings and review and discussion of reporting received from local component teams, together with the additional procedures performed at Group level described below, gave us the evidence we needed for our opinion on the Group financial statements as a whole.

Our audit procedures at the Group level comprised auditing the consolidation, the key head office entities such as the Treasury entity and the Corporate and UK pension schemes (due to their size).

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

#### Overall Group materiality

£107 million (2013: £128 million).

#### How we determined it

5% of continuing Group profit before tax and non-recurring exceptional items.

#### Rationale for benchmark applied

Continuing profit before tax, adjusted for the impact of all non-recurring exceptional items, provides us with a consistent year-on-year basis for determining materiality and, we believe, is the metric most commonly used by the Shareholders as a basis in assessing the Group's performance.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6 million (2013: £6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 63, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

## Independent Auditors' Report to the members of Reckitt Benckiser Group plc

### Other required reporting

#### Consistency of other information

##### *Companies Act 2006 opinion*

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

##### *ISAs (UK & Ireland) reporting*

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- information in the Annual Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
  - otherwise misleading.

We have no exceptions to report arising from this responsibility.

- the statement given by the directors on page 63, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.

We have no exceptions to report arising from this responsibility.

- the section of the Annual Report on page 44, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

#### Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

#### Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Directors' Statement of Responsibilities set out on page 63, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

#### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Other matter

We have reported separately on the parent company financial statements of Reckitt Benckiser Group plc for the year ended 31 December 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

#### Mark Gill (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
19 March 2015

## Group Income Statement

For the year ended 31 December	Note	2014 £m	2013 (restated) <sup>1</sup> £m
<b>CONTINUING OPERATIONS</b>			
<b>Net revenue</b>	2	<b>8,836</b>	9,266
Cost of sales		<b>(3,740)</b>	(4,008)
Gross profit		<b>5,096</b>	5,258
Net operating expenses	3	<b>(2,932)</b>	(3,371)
<b>Operating profit</b>	2	<b>2,164</b>	1,887
Adjusted operating profit		<b>2,185</b>	2,143
Exceptional items	3	<b>(21)</b>	(256)
<b>Operating profit</b>		<b>2,164</b>	1,887
Finance income	6	<b>27</b>	25
Finance expense	6	<b>(65)</b>	(56)
<b>Net finance expense</b>		<b>(38)</b>	(31)
<b>Profit before income tax</b>		<b>2,126</b>	1,856
Income tax expense	7	<b>(462)</b>	(453)
<b>Net income from continuing operations</b>		<b>1,664</b>	1,403
<b>DISCONTINUED OPERATIONS</b>			
Net income from discontinued operations	27	<b>278</b>	337
Exceptional gain on non-cash dividend distributed	27	<b>1,282</b>	–
<b>Net income from discontinued operations</b>		<b>1,560</b>	337
<b>Net income</b>		<b>3,224</b>	1,740
Attributable to non-controlling interests		<b>1</b>	1
Attributable to owners of the parent		<b>3,223</b>	1,739
<b>Net income</b>		<b>3,224</b>	1,740
<b>Basic earnings per ordinary share</b>			
From continuing operations (pence)	8	<b>230.7</b>	195.2
From discontinued operations (pence)	8	<b>216.4</b>	46.9
<b>Diluted earnings per ordinary share</b>			
From continuing operations (pence)	8	<b>227.6</b>	192.3
From discontinued operations (pence)	8	<b>213.5</b>	46.2

1. Restated for the impact of discontinued operations. Refer to note 27 for further details.

Group Statement of Comprehensive Income

<b>For the year ended 31 December</b>	Notes	<b>2014 £m</b>	2013 (restated) <sup>1</sup> £m
Net income		<b>3,224</b>	1,740
<b>Other comprehensive (expense)/income</b>			
<i>Items that may be reclassified to profit or loss in subsequent years</i>			
Net exchange losses on foreign currency translation, net of tax	7	<b>(191)</b>	(369)
(Losses)/gains on net investment hedges, net of tax	7	<b>(137)</b>	6
(Losses)/gains on cash flow hedges, net of tax	7	<b>(11)</b>	13
Reclassification of foreign currency translation reserves on demerger of foreign operations, net of tax	7	<b>(3)</b>	–
		<b>(342)</b>	(350)
<i>Items that will not be reclassified to profit or loss in subsequent years</i>			
Remeasurements of defined benefit pension plans, net of tax	7	<b>(75)</b>	41
		<b>(75)</b>	41
<b>Other comprehensive expense, net of tax</b>		<b>(417)</b>	(309)
<b>Total comprehensive income</b>		<b>2,807</b>	1,431
Attributable to non-controlling interests		–	1
Attributable to owners of the parent		<b>2,807</b>	1,430
<b>Total comprehensive income</b>		<b>2,807</b>	1,431
<b>Total comprehensive income attributable to owners of the parent arising from:</b>			
Continuing operations		<b>1,247</b>	1,093
Discontinued operations		<b>1,560</b>	337

1. Restated for the impact of discontinued operations. Refer to note 27 for further details.



## Financial Statements

### Group Balance Sheet

As at 31 December	Notes	2014 £m	2013 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill and other intangible assets	9	11,252	11,141
Property, plant and equipment	10	757	761
Deferred tax assets	11	61	47
Retirement benefit surplus	21	26	50
Other non-current receivables	13	240	249
		<b>12,336</b>	12,248
<b>Current assets</b>			
Inventories	12	745	746
Trade and other receivables	13	1,307	1,306
Derivative financial instruments	14	130	22
Current tax recoverable		60	17
Available for sale financial assets	14	1	2
Cash and cash equivalents	15	917	808
		<b>3,160</b>	2,901
<b>Total assets</b>		<b>15,496</b>	15,149
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short-term borrowings	16	(1,936)	(2,169)
Short-term provisions for liabilities and charges	17	(317)	(215)
Trade and other payables	20	(2,883)	(2,915)
Derivative financial instruments	14	(29)	(159)
Current tax payable		(124)	(203)
		<b>(5,289)</b>	(5,661)
<b>Non-current liabilities</b>			
Long-term borrowings	16	(636)	(598)
Deferred tax liabilities	11	(1,749)	(1,702)
Retirement benefit obligations	21	(338)	(301)
Other provisions	17	(73)	(156)
Non-current tax liabilities		(500)	(329)
Other non-current liabilities	20	(77)	(66)
		<b>(3,373)</b>	(3,152)
<b>Total liabilities</b>		<b>(8,662)</b>	(8,813)
<b>Net assets</b>		<b>6,834</b>	6,336
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	22	74	74
Share premium		243	243
Merger reserve	24	(14,229)	(14,229)
Hedging reserve	24	4	15
Foreign currency translation reserve	24	(824)	(494)
Retained earnings		21,564	20,725
		<b>6,832</b>	6,334
Non-controlling interests		2	2
<b>Total equity</b>		<b>6,834</b>	6,336

The Financial Statements on pages 71 to 115 were approved by the Board of Directors and signed on its behalf on 19 March 2015 by:

**ADRIAN BELLAMY**  
Director

**RAKESH KAPOOR**  
Director

Group Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
<b>Balance at 1 January 2013</b>		73	184	(14,229)	2	(131)	20,022	5,921	1	5,922
<b>Comprehensive income</b>										
Net income		–	–	–	–	–	1,739	1,739	1	1,740
<b>Other comprehensive income/(expense)</b>										
Remeasurements of defined benefit plans, net of tax	7	–	–	–	–	–	41	41	–	41
Gains on cash flow hedges, net of tax	7	–	–	–	13	–	–	13	–	13
Net exchange losses on foreign currency translation, net of tax	7	–	–	–	–	(369)	–	(369)	–	(369)
Gains on net investment hedges	7	–	–	–	–	6	–	6	–	6
Total other comprehensive income/(expense)		–	–	–	13	(363)	41	(309)	–	(309)
<b>Total comprehensive income/(expense)</b>		–	–	–	13	(363)	1,780	1,430	1	1,431
<b>Transactions with owners</b>										
Proceeds from issuance of ordinary shares	22	1	59	–	–	–	–	60	–	60
Share-based payments	23	–	–	–	–	–	55	55	–	55
Current tax on share awards	7	–	–	–	–	–	16	16	–	16
Deferred tax on share awards	7	–	–	–	–	–	44	44	–	44
Shares repurchased and held in Treasury	22	–	–	–	–	–	(279)	(279)	–	(279)
Treasury shares re-issued		–	–	–	–	–	79	79	–	79
Dividends	28	–	–	–	–	–	(992)	(992)	–	(992)
<b>Total transactions with owners</b>		1	59	–	–	–	(1,077)	(1,017)	–	(1,017)
<b>Balance at 31 December 2013</b>		74	243	(14,229)	15	(494)	20,725	6,334	2	6,336
<b>Comprehensive income</b>										
Net income		–	–	–	–	–	3,223	3,223	1	3,224
<b>Other comprehensive income/(expense)</b>										
Remeasurements of defined benefit plans, net of tax	7	–	–	–	–	–	(75)	(75)	–	(75)
Losses on cash flow hedges, net of tax	7	–	–	–	(11)	–	–	(11)	–	(11)
Net exchange losses on foreign currency translation, net of tax	7	–	–	–	–	(190)	–	(190)	(1)	(191)
Losses on net investment hedges	7	–	–	–	–	(137)	–	(137)	–	(137)
Reclassification of foreign currency translation reserves on demerger of foreign operations	28	–	–	–	–	(3)	–	(3)	–	(3)
Total other comprehensive income/(expense)		–	–	–	(11)	(330)	(75)	(416)	(1)	(417)
<b>Total comprehensive income/(expense)</b>		–	–	–	(11)	(330)	3,148	2,807	–	2,807
<b>Transactions with owners</b>										
Treasury shares re-issued	22	–	–	–	–	–	112	112	–	112
Share-based payments	23	–	–	–	–	–	55	55	–	55
Current tax on share awards	7	–	–	–	–	–	14	14	–	14
Deferred tax on share awards	7	–	–	–	–	–	(43)	(43)	–	(43)
Shares repurchased and held in Treasury	17, 22	–	–	–	–	–	(413)	(413)	–	(413)
Cash dividends	28	–	–	–	–	–	(988)	(988)	–	(988)
Non-cash dividends	28	–	–	–	–	–	(1,046)	(1,046)	–	(1,046)
<b>Total transactions with owners</b>		–	–	–	–	–	(2,309)	(2,309)	–	(2,309)
<b>Balance at 31 December 2014</b>		74	243	(14,229)	4	(824)	21,564	6,832	2	6,834

Refer to note 24 for an explanation of other reserves.

## Group Cash Flow Statement

For the year ended 31 December	Notes	2014 £m	2013 (restated) <sup>1</sup> £m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating profit from continuing operations		2,164	1,887
Depreciation, amortisation and impairment		161	155
Fair value (gains)/losses		(1)	1
Gain on sale of property, plant and equipment assets		(41)	–
Increase in inventories		(44)	(60)
Increase in trade and other receivables		(168)	(43)
Increase/(decrease) in payables and provisions		179	(42)
Non-cash exceptional items		21	216
Share-based payments		53	53
<b>Cash generated from operations</b>		<b>2,324</b>	<b>2,167</b>
Interest paid		(58)	(49)
Interest received		26	25
Tax paid		(416)	(468)
Net cash flows attributable to discontinued operations		223	446
<b>Net cash generated from operating activities</b>		<b>2,099</b>	<b>2,121</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(157)	(199)
Purchase of intangible assets		(27)	(25)
Proceeds from the sale of property, plant and equipment		19	9
Acquisition of businesses, net of cash acquired	26	(340)	(418)
Maturity of short-term investments		1	2
Maturity of long-term investments		–	2
Net cash transferred on demerger of RBP		(195)	–
Net cash flows attributable to discontinued operations		(16)	(1)
<b>Net cash used in investing activities</b>		<b>(715)</b>	<b>(630)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of ordinary shares	22	–	60
Shares repurchased and held in Treasury	22	(313)	(279)
Treasury shares re-issued	22	112	79
Proceeds from borrowings		–	637
Repayments of borrowings		(485)	(1,002)
Dividends paid to owners of the parent	28	(988)	(992)
Dividends paid to non-controlling interests		(1)	–
Acquisition of non-controlling interest	25	–	(28)
Net cash flows attributable to discontinued operations		481	–
<b>Net cash used in financing activities</b>		<b>(1,194)</b>	<b>(1,525)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>190</b>	<b>(34)</b>
Cash and cash equivalents at beginning of the year		805	882
Exchange losses		(82)	(43)
<b>Cash and cash equivalents at end of the year</b>		<b>913</b>	<b>805</b>
<b>Cash and cash equivalents comprise:</b>			
Cash and cash equivalents	15	917	808
Overdrafts	16	(4)	(3)
		<b>913</b>	<b>805</b>
<b>RECONCILIATION OF NET CASH FLOWS FROM OPERATIONS</b>			
Net cash generated from operating activities		2,099	2,121
Net purchases of property, plant and equipment		(138)	(190)
<b>Net cash flow from operations</b>		<b>1,961</b>	<b>1,931</b>

1. Restated for the impact of discontinued operations. Refer to note 27 for further details.

## Notes to the Financial Statements

### 1 Accounting Policies

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

#### Basis of Preparation and Changes in Accounting Policy

These Financial Statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRSs) and related interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements are also in compliance with IFRSs as issued by the International Accounting Standards Board. These Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss. A summary of the Group's more important accounting policies is set out below.

The Directors continue to adopt the going concern basis for accounting in preparing these Financial Statements. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

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

The Group applies, for the first time, *amendments to IAS 32 Financial Instruments: Presentation – Offsetting financial assets and financial liabilities*, *amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting* and *IFRIC 21 – Levies*.

These do not impact the accounting policies applied in preparing the annual consolidated Financial Statements of the Group.

Management is in the process of assessing the impact of *IFRS 15 Revenue from contracts with customers* which will be effective for annual periods beginning on or after 1 January 2017, and the revised issuance of *IFRS 9 Financial Instruments* which will be effective for annual periods beginning on or after 1 January 2018.

A number of other new standards, amendments and interpretations are effective for annual periods beginning on or after 1 January 2015 and have not yet been applied in preparing these Financial Statements. None of these are expected to have a significant effect on the Financial Statements of the Group.

#### Basis of Consolidation

The consolidated Financial Statements include the results of Reckitt Benckiser Group plc, a company registered in the UK, and all its subsidiary undertakings made up to the same accounting date. Subsidiary undertakings are those entities controlled by Reckitt Benckiser Group plc. Control exists where the Group is exposed to, or has the rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns.

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

#### Foreign Currency Translation

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated Financial Statements are presented in Sterling, which is the Group's presentation currency.

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

The financial statements of overseas subsidiary undertakings are translated into Sterling on the following basis:

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

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

#### Business Combinations

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

Where the measurement of the fair value of identifiable net assets acquired is incomplete at the end of the reporting period in which the combination occurs, the Group will report provisional fair values. Final fair values are determined within a year of the acquisition date and retrospectively applied.

The excess of the consideration transferred and the amount of any non-controlling interest over the fair value of the identifiable assets (including intangibles), liabilities and contingent liabilities acquired is recorded as goodwill.

The consideration transferred is measured as the fair value of the assets given, equity instruments issued (if any), and liabilities assumed or incurred at the date of acquisition.

Acquisition related costs are expensed as incurred.

The results of the subsidiaries acquired are included in the Group Financial Statements from the acquisition date.

For acquisitions before 1 January 2010, goodwill represents the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities with acquisition related costs capitalised as part of the cost of acquisition.

#### Disposal of Subsidiaries

The financial performance of subsidiaries is included in the Group results up to the point the Group ceases to have control over that subsidiary. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of related assets and liabilities. This may mean amounts previously recognised in other comprehensive income are reclassified to profit or loss.

## 1 Accounting Policies continued

### Non-Controlling Interests

On an acquisition-by-acquisition basis the non-controlling interest is measured at either fair value or a proportionate share of the acquiree's net assets.

Purchases from non-controlling interests are accounted for as transactions with the owners and therefore no goodwill is recognised as a result of such transactions.

### Revenue

Revenue from the sale of products is recognised in the income statement when the risks and rewards of ownership of the products are passed to the customer.

Net revenue is defined as the amount invoiced to external customers during the year and comprises gross sales net of trade spend, customer allowances for credit notes, returns and consumer coupons. The methodology and assumptions used to estimate credit notes, returns and consumer coupons are monitored and adjusted regularly in the light of contractual and legal obligations, historical trends, past experience and projected market conditions.

Trade spend, which consist primarily of customer pricing allowances, placement/listing fees and promotional allowances, are governed by sales agreements with our trade customers (retailers and distributors). Accruals are recognised under the terms of these agreements, to reflect the expected promotional activity and our historical experience. These accruals are reported within Trade and Other Payables.

Net revenue also includes royalty income arising from the licensed use of our brands recognised on an accruals basis.

Value added tax and other sales taxes are excluded from net revenue.

### Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee.

### Exceptional Items

Where material, non-recurring expenses or income are incurred during a period, these items are disclosed as exceptional items in the income statement. Examples of such items are:

- Restructuring and other expenses relating to the integration of an acquired business and related expenses for reconfiguration of the Group's activities.
- Impairments of current and non-current assets.
- Gains/losses on disposal of businesses.
- Acquisition-related costs.
- Costs arising as a result of material and non-recurring regulatory and litigation matters.

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

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

### Research and Development

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

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

### Income Tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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

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

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the investor is able to control the timing of temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities within the same tax jurisdiction are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where there is an intention to settle these balances on a net basis.

### Goodwill and Other Intangible Assets

#### (i) Goodwill

Goodwill on acquisitions of subsidiaries since 4 January 1998 is included in intangible assets. Goodwill written off to reserves prior to this date has not been reinstated. Goodwill is allocated to the cash generating unit (CGU), or group of CGUs, to which it relates and is tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

#### (ii) Brands

Separately acquired brands are shown at cost less accumulated amortisation and impairment. Brands acquired as part of a business combination are recognised at fair value at the acquisition date, where they are separately identifiable. Brands are amortised over their useful economic life, except when their life is determined as being indefinite.

Applying indefinite lives to certain acquired brands is appropriate due to the stable long-term nature of the business and the enduring nature of the brands. A core element of the Group's strategy is to invest in building its brands through an ongoing programme of product innovation and increasing marketing investment. Within the Group, a brand typically comprises an assortment of base products and more innovative products. Both contribute to the enduring nature of the brand. The base products establish the long-term positioning of the brand while a succession of innovations attracts ongoing consumer interest and attention. Indefinite life brands are allocated to the cash generating units to which they relate and are tested annually for impairment.

## Notes to the Financial Statements

**1 Accounting Policies continued**

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

**(iii) Distribution Rights**

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

**(iv) Software**

Acquired computer software licences are capitalised at cost. These costs are amortised on a straight line basis over a period of seven years for Enterprise Resource Planning systems and five years or less for all other software licences.

**Property, Plant and Equipment**

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

- Freehold buildings: not more than 50 years;
- Leasehold land and buildings: the lesser of 50 years or the life of the lease; and
- Owned plant and equipment: not more than 15 years (except for environmental assets which are not more than 20 years).

In general, production plant and equipment and office equipment are written off over 10 years or less; motor vehicles and computer equipment over five years or less.

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

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

**Leases**

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

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

**Impairment of Assets**

Assets that have indefinite lives, including goodwill, are tested annually for impairment at the level where cashflows are considered to be largely independent. This is at either a CGU level, or as a group of CGUs. All assets are tested for impairment if there is an event or circumstance that indicates that their carrying value may not be recoverable. If an asset's carrying value exceeds its recoverable amount an impairment loss is recognised in the income statement. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use.

Value in use is calculated with reference to the future cash flows expected to be generated by an asset (or group of assets where cash flows are not identifiable to specific assets). The pre-tax discount rate used in asset impairment reviews is based on a weighted average cost of capital for comparable companies operating in similar markets and geographies as the Group including, where appropriate, an adjustment for the specific risks associated with the relevant CGU.

**Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost comprises materials, direct labour and an appropriate portion of overhead expenses (based on normal operating capacity) required to get the inventory to its present location and condition. Inventory valuation is determined on a first in, first out (FIFO) basis. Net realisable value is the estimated selling price less applicable selling expenses.

**Trade Receivables**

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

**Cash and Cash Equivalents**

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

For the purpose of the cash flow statement, bank overdrafts that form an integral part of the Group's cash management, and are repayable on demand, are included as a component of cash and cash equivalents.

Bank overdrafts are included within short-term borrowings in the balance sheet.

**Borrowings**

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

## 1 Accounting Policies continued

### Derivative Financial Instruments and Hedging Activity

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

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

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

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

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

### Net Investment Hedges

Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognised in other comprehensive income to the extent that the hedging relationship is effective. Gains and losses accumulated in the foreign currency translation reserve are included in the income statement when the foreign operation is disposed of.

### Employee Share Schemes

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

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

### Pension Commitments

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

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

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

Past-service costs are recognised immediately in profit or loss.

The net interest amount is calculated by applying the discounted rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset.

The net pension plan interest is presented as finance income/expense.



## Notes to the Financial Statements

### 1 Accounting Policies *continued*

#### Post-Retirement Benefits Other than Pensions

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

#### Provisions

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

#### Share Capital Transactions

When the Group purchases equity share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Purchased shares are either held in Treasury, in order to satisfy employee options, or cancelled and, in order to maintain capital, an equivalent amount to the nominal value of the shares cancelled would be transferred from retained earnings to the capital redemption reserve.

#### Dividend Distribution

Dividends to owners of the parent are recognised as a liability in the period in which the dividends are approved by the Company's Shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Dividend payments are recorded at fair value. Where non-cash dividend payments are made, gains arising as a result of fair value remeasurements, are recognised in profit or loss in the same period.

### Accounting Estimates and Judgements

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

- Estimates of future business performance and cash generation, discount rates and long-term growth rates supporting the net book amount of indefinite life intangible assets at the balance sheet date (refer to note 9). If the actual results should differ, or changes in expectations arise, impairment charges may be required which would adversely impact operating results.
- The continuing enduring nature of the Group's brands supporting the indefinite lives of these assets (refer to note 9).
- Measurement of intangible assets both in business combinations and other asset acquisitions requires the Group to identify such assets. Assumptions and estimates are made about future cash flows and appropriate discount rates to value identified intangible assets (refer to note 26).
- The Group provides for amounts payable to our trade customers for promotional activity. Where a promotional activity spans across the year end, an accrual is reflected in the Group accounts based on our expectation of customer and consumer uptake during the promotional period and the extent to which temporary promotional activity has occurred. Details of trade spend accrued as at year end are provided in note 20.
- The actual tax paid on profits is determined based on tax laws and regulations that differ across the numerous jurisdictions in which the Group operates. Assumptions are made in applying these laws to the taxable profits in any given period in order to calculate the tax charge for that period. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the income statement in the period in which it is determined (refer to note 7).
- Assumptions are made as to the recoverability of tax assets especially as to whether there will be sufficient future taxable profits in the same jurisdictions to fully utilise losses in future years (refer to note 11).
- The Group recognises legal and regulatory provisions in line with the Group's provisions policy. The level of provisioning for regulatory investigation is an issue where management and legal judgement is important (note 17).

## 2 Operating Segments

The Executive Committee is the Group's Chief Operating Decision-Maker (CODM). Management has determined the operating segments based on the reports reviewed by the Executive Committee for the purposes of making strategic decisions and assessing performance. The Executive Committee considers the business principally from a geographical perspective, but with Food being managed separately given the significantly different nature of these businesses and the associated risks and rewards.

The Group's geographical segments comprise Europe and North America (ENA); Latin America, North Asia and South East Asia and Australia and New Zealand (LAPAC); and Russia and CIS, Middle East, North Africa, Turkey and sub-Saharan Africa (RUMEA). The geographical segments derive their revenue primarily from the manufacture and sale of branded products in the health, hygiene and home categories. Food derives its revenue from food products primarily sold in ENA.

The Executive Committee assesses the performance of the operating segments based on net revenue from external customers and adjusted operating profit. Intercompany transactions between operating segments are eliminated. Finance income and expense are not allocated to segments, as they are managed on a central Group basis.

As discussed in note 27, on 23 December 2014, the Group demerged the pharmaceutical business from the remainder of the Group. RB Pharmaceuticals has therefore been classified as a discontinued operation. As a result of this reclassification, the Group has restated the information below to better reflect the results from its operating segments, excluding RB Pharmaceuticals. This restatement involved reallocating central costs previously allocated to RB Pharmaceuticals, which are expected to remain with the Group after the demerger of RB Pharmaceuticals. Comparative information has also been restated to reflect this reallocation of central costs.

The segment information provided to the Executive Committee for the operating segments for the year ended 31 December is as follows:

	ENA £m	LAPAC £m	RUMEA £m	Food £m	Total operations £m
<b>Year ended 31 December 2014</b>					
Net revenue	4,940	2,341	1,239	316	8,836
Depreciation, amortisation and impairment	93	55	9	4	161
Adjusted operating profit	1,391	462	247	85	2,185
Exceptional items					(21)
Operating profit					2,164
Net finance expense					(38)
Profit before income tax					2,126
<b>Year ended 31 December 2013</b>					
Net revenue	5,074	2,511	1,356	325	9,266
Depreciation, amortisation and impairment	93	48	9	5	155
Adjusted operating profit	1,321	495	284	88	2,188
Reallocation of central costs	(25)	(13)	(7)	–	(45)
Adjusted operating profit (restated) <sup>1</sup>	1,296	482	277	88	2,143
Exceptional items					(256)
Operating profit					1,887
Net finance expense					(31)
Profit before income tax					1,856

1 Restated for reallocation of centrally incurred costs following the demerger of RB Pharmaceuticals.

Notes to the Financial Statements

**2 Operating Segments** continued

The Executive Committee reviews net working capital by segment and other assets and liabilities on a Group basis. The split of assets and liabilities by segment provided to the Executive Committee is as follows. Assets and liabilities not presented to the Executive Committee are shown below as a reconciling item.

The assets and liabilities of RB Pharmaceuticals (referred to in table as RBP) were included in the demerged business, and form part of the dividend in specie in note 28.

2014	ENA £m	LAPAC £m	RUMEA £m	Food £m	RBP £m	Total £m
Inventories	417	231	98	20	–	766
Trade and other receivables	632	447	190	25	–	1,294
<b>Total segment assets</b>	<b>1,049</b>	<b>678</b>	<b>288</b>	<b>45</b>	<b>–</b>	<b>2,060</b>
Trade and other payables	(1,604)	(694)	(268)	(64)	–	(2,630)

2013	ENA £m	LAPAC £m	RUMEA £m	Food £m	RBP £m	Total £m
Inventories	416	245	99	5	129	894
Trade and other receivables	585	368	208	1	112	1,274
<b>Total segment assets</b>	<b>1,001</b>	<b>613</b>	<b>307</b>	<b>6</b>	<b>241</b>	<b>2,168</b>
Trade and other payables	(1,488)	(675)	(254)	(14)	(261)	(2,692)

The assets and liabilities are reported based upon the operations of the segment and the physical location of the asset or liability. There are a number of Group assets and liabilities that are not specifically attributable to one segment. Reconciliation of these assets and liabilities to total assets or liabilities in the balance sheet is shown below:

Inventories for operating segments	2014 £m	2013 £m
<b>Unallocated:</b>	<b>766</b>	894
Group adjustments	(21)	(148)
<b>Total inventories per the balance sheet</b>	<b>745</b>	746
Trade and other receivables for operating segments	1,294	1,274
<b>Unallocated:</b>		
Group items	13	32
<b>Total trade and other receivables per the balance sheet</b>	<b>1,307</b>	1,306
<b>Total inventories and trade and other receivables per the balance sheet</b>	<b>2,052</b>	2,052
Other unallocated assets	13,444	13,097
<b>Total assets per the balance sheet</b>	<b>15,496</b>	15,149
Trade and other payables for operating segments	(2,630)	(2,692)
<b>Unallocated:</b>		
Group items	(253)	(223)
<b>Total trade and other payables per the balance sheet</b>	<b>(2,883)</b>	(2,915)
Other unallocated liabilities	(5,779)	(5,898)
<b>Total liabilities per the balance sheet</b>	<b>(8,662)</b>	(8,813)

Group adjustments to inventory relate to the elimination of intercompany profit on inventory and revaluation to historic cost, net of provisions.

Unallocated assets include goodwill and intangible assets, property, plant and equipment, deferred and current tax, available for sale assets, retirement benefit surplus, other receivables, derivative financial assets, and cash and cash equivalents. Unallocated liabilities include borrowings, provisions for liabilities and charges, current and deferred tax liabilities, other liabilities and retirement benefit obligations.

**2 Operating Segments** continued

**Analysis of Categories**

The Group analyses its net revenue by the following categories:

	Net revenues	
	2014 £m	2013 £m
<b>Continuing Operations</b>		
Health	2,701	2,633
Hygiene	3,627	3,835
Home	1,810	1,974
Portfolio brands	382	499
Food	316	325
	<b>8,836</b>	9,266
<b>Discontinued Operations</b>		
RB Pharmaceuticals	677	777
<b>Total</b>	<b>9,513</b>	10,043

Health, hygiene, home and Portfolio Brands categories are all split across the three geographical segments of ENA, LAPAC and RUMEA. Food is sold primarily in ENA but is recognised within a separate operating segment.

The Company is domiciled in the UK. The split of net revenue from external customers and non-current assets (other than financial instruments, deferred tax assets and retirement benefit surplus assets) between the UK, the US (being the single biggest country outside the country of domicile) and that from all other countries is:

	UK £m	US £m	All other countries £m	Total £m
<b>2014</b>				
<b>Net revenue from continuing operations</b>	<b>691</b>	<b>2,089</b>	<b>6,056</b>	<b>8,836</b>
<b>Goodwill and other intangible assets</b>	<b>1,823</b>	<b>4,455</b>	<b>4,974</b>	<b>11,252</b>
<b>Property, plant and equipment</b>	<b>140</b>	<b>147</b>	<b>470</b>	<b>757</b>
<b>Other non-current receivables</b>	<b>2</b>	<b>32</b>	<b>206</b>	<b>240</b>
<b>2013</b>				
Net revenue from continuing operations (restated) <sup>1</sup>	657	2,170	6,439	9,266
Goodwill and other intangible assets	1,536	4,212	5,393	11,141
Property, plant and equipment	148	125	488	761
Other non-current receivables	2	30	217	249

<sup>1</sup> Restated for the impact of discontinued operations. Refer to note 27 for further details.

The net revenue from external customers reported on a geographical basis above is measured consistently with that in the operating segments. Major customers are typically large grocery chains, mass markets and multiple retailers. The Group's customer base is diverse with no single external customer accounting for more than 10% of net revenue, and the top ten customers accounting for less than a quarter of net revenue.

## Notes to the Financial Statements

### 3 Analysis of Net Operating Expenses

	2014 £m	2013 (restated) <sup>1</sup> £m
Distribution costs	(2,251)	(2,365)
Administrative expenses:		
Research and development	(146)	(152)
Other	(528)	(603)
Total administrative expenses	(674)	(755)
Other net operating income	14	5
Exceptional items	(21)	(256)
<b>Net operating expenses</b>	<b>(2,932)</b>	<b>(3,371)</b>

1. Restated to exclude the impact of discontinued operations. Refer to note 27 for expenses incurred in respect of the pharmaceuticals business.

Net foreign exchange losses of £8m (2013: £14m, excluding RB Pharmaceuticals) have been recognised through the income statement. These amounts exclude foreign exchange gains and losses recognised directly in the foreign currency translation reserve.

### Exceptional Items

	2014 £m	2013 (restated) <sup>1</sup> £m
Regulatory and litigation matters	–	210
Acquisition, integration and restructuring costs	62	46
Gains on the sale of property, plant and equipment	(41)	–
<b>Total exceptional items</b>	<b>21</b>	<b>256</b>

1. Restated to exclude the impact of discontinued operations. The pharmaceuticals business incurred an exceptional charge of £nil (2013: £15m) relating to regulatory and litigation matters.

The Group incurred an exceptional charge of £21m (2013: £256m excluding RB Pharmaceuticals) during the year in respect of the following:

- £nil legal provision for historic regulatory issues (2013: £210m). Refer to note 17.
- £62m restructuring costs in relation to the new organisation, acquisition and integration costs (2013: £46m relating to the new organisation, acquisition and integration costs). This consists primarily of redundancy and business integration costs which have been included within operating expenses.
- A £41m one-off gain arising on a material disposal of fixed assets in relation to Group restructuring.

#### 4 Auditors' Remuneration

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's Auditor and its associates.

	2014 £m	2013 £m
Audit services pursuant to legislation		
Audit of the Group's annual report and financial statements	1.7	1.8
Audit of the accounts of the Group's subsidiaries	4.1	3.8
Audit related assurance services	2.7	0.3
<b>Total audit and audit related services</b>	<b>8.5</b>	5.9
Fees payable to the Company's Auditor and its associates for other services:		
Taxation compliance services	0.2	0.5
Taxation advisory services	2.1	1.7
Other assurance services	–	0.2
All other non-audit services	–	0.4
<b>Total non-audit services</b>	<b>2.3</b>	2.8
	<b>10.8</b>	8.7

Included within Audit of the accounts of the Group's subsidiaries is £0.2m (2013: £0.1m) in relation to the audit of the financial statements of associated pension plans of the Group. £0.1m relates to the audit of RB Pharmaceuticals (2013: £0.1m) and a further £2.3m relates to audit-related assurance services in relation to the demerger of RB Pharmaceuticals.

#### 5 Employees Staff Costs

	Notes	2014 £m	2013 £m
The total employment costs, including Directors, were:			
Wages and salaries		966	1,026
Social security costs		178	197
Other pension costs	21	46	51
Share-based payments	23	55	55
		<b>1,245</b>	1,329

Included within staff costs is £86m (2013: £85m) incurred in respect of the pharmaceutical business. These amounts are included within Net Income from discontinued operations in the Group Income Statement.

Details of Directors' emoluments are included in the Directors' Remuneration Report on pages 47 to 59, which forms part of the Annual Report and Financial Statements.

Compensation awarded to key management (the Executive Committee):

	2014 £m	2013 £m
Short-term employee benefits	12	17
Post-employment benefits	1	1
Share-based payments	20	14
Termination benefits	1	1
	<b>34</b>	33

Termination benefits and share-based payments include contractual commitments made to key management in 2014, comprising cash payments and shares to vest in 2015.

## Notes to the Financial Statements

**5 Employees continued****Staff Numbers**

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

	2014 '000	2013 '000
<b>Continuing operations</b>		
ENA	12.5	12.5
RUMEA	7.2	7.6
LAPAC	15.6	15.1
Other	1.2	1.2
<b>Discontinued operations</b>		
RB Pharmaceuticals	0.7	0.7
	<b>37.2</b>	<b>37.1</b>

**6 Net Finance Expense**

	2014 £m	2013 £m
<b>Finance income</b>		
Interest income on cash and cash equivalents	27	25
Total finance income	27	25
<b>Finance expense</b>		
Interest payable on borrowings	(38)	(31)
Net pension plan interest	(8)	(8)
Amortisation of issue costs of bank loans	(8)	(11)
Other finance expense	(11)	(6)
Total finance expense	(65)	(56)
<b>Net finance expense</b>	<b>(38)</b>	<b>(31)</b>

All net finance expense relates to continuing operations only. Discontinued operations were historically funded by the Group.

**7 Income Tax Expense**

	2014 £m	2013 (restated) <sup>1</sup> £m
Current tax	549	587
Prior year adjustments	(22)	(52)
Total current tax	527	535
Origination and reversal of temporary differences	(65)	13
Impact of changes in tax rates	–	(95)
Total deferred tax (note 11)	(65)	(82)
<b>Income tax expense</b>	<b>462</b>	<b>453</b>

<sup>1</sup> Restated for the impact of discontinued operations. Refer to note 27 for tax charge relating to discontinued operations.

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the Company's profits for the year ended 31 December 2014 are taxed at an effective rate of 21.5% (2013: 23.25%).

UK income tax for 2014 of £73m (2013 (restated<sup>1</sup>): £68m) is included within current tax and is calculated at 21.5% (2013: 23.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.



**7 Income Tax Expense continued**

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

	2014 £m	2013 (restated) <sup>1</sup> £m
Profit before income tax	2,126	1,856
Tax at the notional UK corporation tax rate of 21.5% (2013: 23.25%)	457	432
Effects of:		
Tax at rates other than the UK corporation tax rate	(177)	(62)
Adjustments to amounts carried in respect of unresolved tax matters	126	140
Incurrence of tax losses	1	1
Withholding and local taxes	22	21
Adjustment in respect of prior periods	7	(9)
Impact of changes in tax rates	–	(95)
Exceptional items	(3)	20
Other permanent differences	29	5
<b>Income tax expense</b>	<b>462</b>	<b>453</b>

1 Restated for the impact of discontinued operations. Refer to note 27 for tax charge relating to discontinued operations.

The tax charge is expected to be impacted by items in the nature of those listed above for the foreseeable future.

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2014			2013		
	Before tax £m	Tax credit/ (charge) £m	After tax £m	Before tax £m	Tax credit/ (charge) £m	After tax £m
Net exchange adjustments on foreign currency translation	(191)	–	(191)	(369)	–	(369)
(Losses)/gains on cash flow and net investment hedges	(148)	–	(148)	19	–	19
Reclassification of foreign currency translation reserve on demerger of foreign operations	(3)	–	(3)	–	–	–
Remeasurement of defined benefit pension plans (note 21)	(105)	30	(75)	68	(27)	41
Other comprehensive income	(447)	30	(417)	(282)	(27)	(309)
Current tax		–			–	
Deferred tax (note 11)		30			(27)	
		30			(27)	

The tax credited directly to the statement of changes in equity during the year is as follows:

	2014 £m	2013 £m
Current tax	14	16
Deferred tax (note 11)	(43)	44
	(29)	60

Notes to the Financial Statements

8 Earnings per Share

	2014 pence	2013 (restated) <sup>1</sup> pence
Basic earnings per share		
From continuing operations	230.7	195.2
From discontinued operations	216.4	46.9
<b>Total basic earnings per share</b>	<b>447.1</b>	<b>242.1</b>
Diluted earnings per share		
From continuing operations	227.6	192.3
From discontinued operations	213.5	46.2
<b>Total diluted earnings per share</b>	<b>441.1</b>	<b>238.5</b>
Adjusted basic earnings per share		
From continuing operations	233.6	225.4
From discontinued operations	38.6	48.4
<b>Total adjusted basic earnings per share</b>	<b>272.2</b>	<b>273.8</b>
Adjusted diluted earnings per share		
From continuing operations	230.5	222.1
From discontinued operations	38.0	47.7
<b>Total adjusted diluted earnings per share</b>	<b>268.5</b>	<b>269.8</b>

1. Restated for the impact of discontinued operations.

**Basic**  
Basic earnings per share is calculated by dividing the net income attributable to owners of the parent from continuing operations (2014: £1,663m; 2013: £1,402m) and discontinued operations (2014: £1,560m; 2013: £337m) by the weighted average number of ordinary shares in issue during the year (2014: 720,823,744; 2013: 718,384,234).

**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 2014, there were 4 million (2013: 4 million) Executive Share Awards excluded from the dilution because the exercise price for the options was greater than the average share price for the year.

	2014 Average number of shares	2013 Average number of shares
On a basic basis	720,823,744	718,384,234
Dilution for Executive Share Awards	9,035,862	9,829,873
Dilution for Employee Sharesave Scheme Options outstanding	880,704	838,787
<b>On a diluted basis</b>	<b>730,740,310</b>	<b>729,052,894</b>

**8 Earnings per Share** continued

**Adjusted Earnings**

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

Details of the adjusted net income attributable to owners of the parent from continuing and discontinued operations are as follows:

	<b>2014</b> <b>£m</b>	2013 (restated) <sup>1</sup> £m
<b>Continuing operations</b>		
Net income attributable to owners of the parent from continuing operations	<b>1,663</b>	1,402
Exceptional items	<b>21</b>	256
Tax effect of exceptional items	–	(39)
<b>Adjusted net income attributable to owners of the parent from continuing operations</b>	<b>1,684</b>	1,619

1 Restated for the impact of discontinued operations.

	<b>2014</b> <b>£m</b>	2013 £m
<b>Discontinued operations</b>		
Net income attributable to owners of the parent from discontinued operations	<b>1,560</b>	337
Exceptional gain on non-cash dividend	<b>(1,282)</b>	–
Exceptional items	–	15
Tax effect of exceptional items	–	(4)
<b>Adjusted net income attributable to owners of the parent from discontinued operations</b>	<b>278</b>	348

## Notes to the Financial Statements

## 9 Goodwill and Other Intangible Assets

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
<b>Cost</b>					
At 1 January 2014	7,717	3,312	76	283	11,388
Additions	1	–	26	15	42
Arising on business combinations	304	23	–	–	327
Disposals	(33)	–	(4)	–	(37)
Divested upon demerger	–	–	–	(179)	(179)
Exchange adjustments	(51)	(53)	(1)	(4)	(109)
<b>At 31 December 2014</b>	<b>7,938</b>	<b>3,282</b>	<b>97</b>	<b>115</b>	<b>11,432</b>
<b>Accumulated amortisation and impairment</b>					
At 1 January 2014	86	27	20	114	247
Amortisation and impairment charge	3	–	8	33	44
Disposals	–	–	(4)	–	(4)
Divested upon demerger	–	–	–	(102)	(102)
Exchange adjustments	–	(3)	(1)	(1)	(5)
<b>At 31 December 2014</b>	<b>89</b>	<b>24</b>	<b>23</b>	<b>44</b>	<b>180</b>
<b>Net book amount at 31 December 2014</b>	<b>7,849</b>	<b>3,258</b>	<b>74</b>	<b>71</b>	<b>11,252</b>
	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
<b>Cost</b>					
At 1 January 2013	7,757	3,335	57	235	11,384
Additions	1	–	21	3	25
Arising on business combinations	113	71	–	57	241
Disposals	–	–	(2)	–	(2)
Exchange adjustments	(154)	(94)	–	(12)	(260)
<b>At 31 December 2013</b>	<b>7,717</b>	<b>3,312</b>	<b>76</b>	<b>283</b>	<b>11,388</b>
<b>Accumulated amortisation and impairment</b>					
At 1 January 2013	82	28	22	90	222
Amortisation and impairment charge	3	–	1	27	31
Disposals	–	–	(2)	–	(2)
Exchange adjustments	1	(1)	(1)	(3)	(4)
<b>At 31 December 2013</b>	<b>86</b>	<b>27</b>	<b>20</b>	<b>114</b>	<b>247</b>
<b>Net book amount at 31 December 2013</b>	<b>7,631</b>	<b>3,285</b>	<b>56</b>	<b>169</b>	<b>11,141</b>

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

Software includes intangible assets under construction of £7m (2013: £52m).

Included within the amortisation and impairment charge for the year is £15m (2013: £15m) relating to the pharmaceutical business. These amounts are included within Net income from discontinued operations in the Group Income Statement.

### 9 Goodwill and Other Intangible Assets continued

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

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

	2014 £m	2013 £m
<b>Net book amount</b>		
Indefinite life assets:		
Brands	7,826	7,606
Goodwill	3,258	3,285
Other	40	39
<b>Total indefinite life assets</b>	<b>11,124</b>	<b>10,930</b>
Finite life assets:		
Brands	23	25
Software	74	56
Other	31	130
<b>Total finite life assets</b>	<b>128</b>	<b>211</b>
<b>Total net book amount of intangible assets</b>	<b>11,252</b>	<b>11,141</b>

Goodwill and other intangible assets with indefinite lives are allocated to either individual cash generating units (CGUs), or groups of cash generating units (together 'GCGU's). The goodwill and intangible assets with indefinite lives are tested for impairment at the level at which identifiable cash inflows are largely independent. Generally this is at a GCGU level, but for certain intangible assets this is at a CGU level.

#### Cash Generating Units

After considering all the evidence available, including how brand and production assets generate cash inflows and how management monitors the business, the Directors have concluded that for the purpose of impairment testing of goodwill and intangible assets, the Group's GCGUs are as follows: health, hygiene, home, and food.

During the year, the integration of recent acquisitions within the health category has largely been completed. As a result, for the purpose of goodwill impairment testing in 2014, the health (Sexual Wellbeing) and health (VMS) CGUs have been combined with the health GCGU, to form a wider health GCGU. An impairment test was performed on each of these CGUs prior to integration and both were assessed to have a recoverable value in excess of their carrying value.

An analysis of the net book value of indefinite life assets and goodwill by GCGU is shown below:

GCGU	Key brands	2014			2013		
		Indefinite life assets £m	Goodwill £m	Total £m	Indefinite life assets £m	Goodwill £m	Total £m
Health <sup>1</sup>	Airborne, Durex, Gaviscon, MegaRed, Move Free, Mucinex, Nurofen, Scholl, Strepsils	5,928	3,066	8,994	5,752	3,094	8,846
Hygiene	Bang, Clearasil, Dettol, Finish, Harpic, Lysol, Mortein, Veet	1,156	147	1,303	1,082	149	1,231
Home	Air Wick, Calgon, Vanish, Woolite	750	45	795	781	42	823
Food	French's	32	-	32	30	-	30
		<b>7,866</b>	<b>3,258</b>	<b>11,124</b>	<b>7,645</b>	<b>3,285</b>	<b>10,930</b>

<sup>1</sup> Within the health GCGU, the cashflows in relation to certain groups of brands are separately identifiable. As a result, the carrying value of these brand-related intangible assets have been tested for impairment as CGUs, in addition to the impairment testing over goodwill and indefinite life assets for the wider GCGU. The CGUs tested separately are shown below, all of which fall under the health GCGU in the above table.

	2014 £m	2013 £m
<b>Carrying Value of CGU</b>		
Sexual Wellbeing	1,793	1,915
K-Y	304	-
Oriental Pharma	117	111
VMS	844	801

## Notes to the Financial Statements

### 9 Goodwill and Other Intangible Assets continued

Indefinite life assets allocated to the Food GCGUs are not considered significant relative to the Group's total indefinite life assets. As such the disclosures below do not include discussion on the assumptions specific to Food.

Newly acquired goodwill and intangible assets are tested for impairment in the first year following acquisition in isolation. For 2014, K-Y was assessed to have a recoverable value in excess of its carrying value.

#### Annual Impairment Review

The annual impairment review of goodwill and indefinite life assets is based on an assessment of each GCGU or CGU's value in use. Value in use is calculated from cash flow projections, based on historical operating results, and the short-term budgets and medium-term business plans which have been approved by management covering a four-year period, with an extrapolated fifth year. These projections exclude any estimated future cash inflows or outflows expected to arise from restructuring not yet implemented.

The value in use calculation is based on the following key assumptions used in the cash flow projections:

- Net revenue growth based upon future sales volumes and prices, which take account of the expected impact from committed new product initiatives, expansion into new markets and the maturity of the markets in which each CGU operates;
- Gross margin based on historical experience adjusted for the impact of production costs, cost optimisation initiatives and changes in product mix; and
- Marketing and other expenditure, reflecting historical experience, expected levels of cost inflation, committed cost saving initiatives and future levels of marketing support required to sustain, grow and further innovate brands.

Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rates stated below. Individual long-term growth rates are applied to each product segment within a GCGU or CGU, and such ranges are provided. The long-term growth rates applied do not exceed the long-term average growth rate for the products and market in which the GCGU or CGU operates.

Management has assessed the appropriate discount rate for each individual GCGU and CGU. This has been done using a Weighted Average Cost of Capital (WACC) for comparable companies operating in similar markets and geographies as the Group, adjusted for risks specific to each GCGU and CGU.

Due to the wide geographic and product diversification of their respective markets, and the diverse risks associated with a number of GCGUs and CGUs, a pre-tax discount rate of 11% was determined for each of the health, hygiene and home GCGUs and the Sexual Wellbeing CGU (2013: 11%).

The VMS and Oriental Pharma CGUs are predominantly concentrated in single markets, being the US and China respectively. A pre-tax discount rate of 14% (2013: 14%) was therefore applied to VMS and 14% (2013: 14%) was applied to Oriental Pharma, to reflect the risks specific to these businesses.

GCGU/CGU	Terminal growth rate %	Pre-tax discount rate %
Health	0-4	11
Hygiene	0-4	11
Home	0-2	11
Sexual Wellbeing	4	11
K-Y	4	14
Oriental Pharma	4	14
VMS	3	14

#### Impairment Review

Following the Group's annual impairment review, no impairments have been identified.

Any reasonably possible change in the key assumptions on which the recoverable amounts of the health, hygiene and home GCGUs, or the Sexual Wellbeing and K-Y CGUs, are based would not imply possible impairments.

With a recoverable amount exceeding its carrying value by £116m (14%) (2013: £19m, 2%), the VMS CGU is sensitive to reasonably possible changes in key assumptions. This is expected of an acquisition where the acquired intangible assets were recently valued at fair value. The sensitivity of the recoverable amount has been assessed to identify the impact of reasonably possible changes in assumptions. If all other assumptions were held constant, a reduction in assumed growth rates in the first five years by 25% of those planned would lead to a reduction in the value in use of this CGU of £77m. In addition, a further reduction of 100 bps in the terminal growth rate would result in an additional reduction in the value in use of £61m. Applying these sensitivities together would result in the carrying value of this CGU exceeding its value in use by £21m.

The recoverable amount of the Oriental Pharma CGU exceeds its carrying value by £23m (20%), and as such is also sensitive to changes in key assumptions. If all other assumptions were held constant, a reduction in assumed growth rates in the first five years by 25% of that planned would lead to a reduction in the value in use of this CGU of £33m. In addition, a further reduction of 100 bps in the terminal growth rate would result in an additional reduction in the value in use of £9m. Applying these sensitivities together would result in the carrying value of this CGU exceeding its value in use by £19m.

**10 Property, Plant and Equipment**

	Land and buildings £m	Plant and equipment £m	Total £m
<b>Cost</b>			
At 1 January 2014	576	1,322	1,898
Additions	7	151	158
Disposals	(30)	(50)	(80)
Divested upon demerger	–	(18)	(18)
Reclassifications	22	(22)	–
Exchange adjustments	(44)	(193)	(237)
<b>At 31 December 2014</b>	<b>531</b>	<b>1,190</b>	<b>1,721</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2014	224	913	1,137
Charge for the year	26	107	133
Disposals	(20)	(41)	(61)
Divested upon demerger	–	(14)	(14)
Exchange adjustments	(39)	(192)	(231)
<b>At 31 December 2014</b>	<b>191</b>	<b>773</b>	<b>964</b>
<b>Net book amount at 31 December 2014</b>	<b>340</b>	<b>417</b>	<b>757</b>
<b>Cost</b>			
At 1 January 2013	525	1,285	1,810
Additions	28	172	200
Arising on business combination	1	4	5
Disposals	(4)	(44)	(48)
Reclassifications	46	(46)	–
Exchange adjustments	(20)	(49)	(69)
At 31 December 2013	576	1,322	1,898
<b>Accumulated depreciation and impairment</b>			
At 1 January 2013	205	869	1,074
Charge for the year	29	111	140
Disposals	(4)	(35)	(39)
Exchange adjustments	(6)	(32)	(38)
At 31 December 2013	224	913	1,137
<b>Net book amount at 31 December 2013</b>	<b>352</b>	<b>409</b>	<b>761</b>

The net book amount of assets under construction is £78m (2013: £60m). Assets under construction are included within plant and equipment.

The reclassification from plant and equipment to land and buildings of £22m (2013: £46m) shows the transfer of completed assets.

Capital expenditure which was contracted but not capitalised at 31 December 2014 was £27m (2013: £30m).

Included within the depreciation and impairment charge for the year is £1m (2013: £1m) relating to the pharmaceutical business. These amounts are included within Net Income from discontinued operations in the Group Income Statement.



## Notes to the Financial Statements

## 11 Deferred Tax

	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
<b>Deferred tax assets</b>						
At 1 January 2013	9	(7)	38	–	9	49
Credited/(charged) to the income statement	–	(6)	8	–	(1)	1
Exchange differences	–	–	(3)	–	–	(3)
At 31 December 2013	9	(13)	43	–	8	47
(Charged)/credited to the income statement	(1)	4	11	–	–	14
Credited to other comprehensive income	–	–	–	–	4	4
Exchange differences	(1)	(1)	(2)	–	–	(4)
<b>At 31 December 2014</b>	<b>7</b>	<b>(10)</b>	<b>52</b>	<b>–</b>	<b>12</b>	<b>61</b>

	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
<b>Deferred tax liabilities</b>						
At 1 January 2013	31	2,125	(222)	(15)	(95)	1,824
(Credited)/charged to the income statement	(11)	(96)	–	5	17	(85)
Credited to other comprehensive income	–	–	–	–	27	27
Credited directly to equity	–	–	(44)	–	–	(44)
Arising on business combination	–	37	(12)	–	–	25
Exchange differences	–	(42)	2	–	(5)	(45)
At 31 December 2013	20	2,024	(276)	(10)	(56)	1,702
(Credited)/charged to the income statement	(6)	(1)	(55)	–	14	(48)
Credited to other comprehensive income	–	–	–	–	(26)	(26)
Charged directly to equity	–	–	43	–	–	43
Arising on demerger	–	(4)	54	–	–	50
Exchange differences	1	21	8	–	(2)	28
<b>At 31 December 2014</b>	<b>15</b>	<b>2,040</b>	<b>(226)</b>	<b>(10)</b>	<b>(70)</b>	<b>1,749</b>

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

Certain deferred tax assets in respect of overseas corporation tax losses and other temporary differences totalling £137m (2013: £163m) have not been recognised at 31 December 2014 as the likelihood of future economic benefit is not sufficiently assured. These assets will be recognised if utilisation of the losses and other temporary differences becomes reasonably certain.

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

## 12 Inventories

	2014 £m	2013 £m
Raw materials and consumables	157	155
Work in progress	28	35
Finished goods and goods held for resale	560	556
<b>Total inventories</b>	<b>745</b>	<b>746</b>

The cost of inventories recognised as an expense and included as cost of sales amounted to £3,526m (2013: £3,784m). This includes inventory write offs and losses of £58m (2013: £41m, excluding RB Pharmaceuticals).

The Group inventory provision at 31 December 2014 was £81m (2013: £69m).

### 13 Trade and Other Receivables

	2014 £m	2013 £m
<b>Amounts falling due within one year</b>		
Trade receivables	1,069	1,173
Less: Provision for impairment of receivables	(33)	(44)
Trade receivables – net	1,036	1,129
Other receivables	233	126
Prepayments and accrued income	38	51
	<b>1,307</b>	<b>1,306</b>

#### Trade Receivables

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

As at 31 December 2014, trade receivables of £72m (2013: £77m) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

	2014 £m	2013 £m
<b>Amounts past due but not impaired</b>		
Up to 3 months	72	77

As at 31 December 2014, trade receivables of £70m (2013: £71m) were considered to be impaired. The amount of provision at 31 December 2014 was £33m (2013: £44m). It was assessed that a portion of the receivables is expected to be recovered due to the nature and historical collection of trade receivables. The ageing analysis of these receivables is as follows:

	2014 £m	2013 £m
<b>Ageing analysis of amounts impaired</b>		
Up to 3 months	50	33
Over 3 months	20	38
	<b>70</b>	<b>71</b>

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

#### Other Receivables

Other Receivables include recoverable sales tax of £121m (2013: £62m). This contains £6m (2013: £nil) of impaired assets all aged over 3 months from a broad range of countries within the Group.

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

	2014 £m	2013 £m
Sterling	167	101
Euro	261	282
US dollar	236	283
Brazil Real	95	107
Other currencies	548	533
	<b>1,307</b>	<b>1,306</b>

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

#### Other non-current receivables

Non-current other receivables at 31 December 2014 were £240m (2013: £249m). This includes a prepayment of £194m for an option to acquire legal title to intellectual property relating to our 3 year collaboration with Bristol-Myers Squibb entered into in May 2013 and exercisable at the end of the collaboration period in 2016 subject to certain payments. This is in addition to the £311m upfront payment. The remaining balance relates to other non-current prepayments and receivables due after one year.

Notes to the Financial Statements

**14 Financial Instruments and Financial Risk Management**  
**Financial Instruments by Category**

At 31 December 2014	Loans and receivables £m	Derivatives used for hedging £m	Fair value through the P&L £m	Available for sale £m	Carrying value total £m	Fair value total £m
<b>Assets as per the balance sheet</b>						
Short-term deposits <sup>1</sup>	–	–	–	1	1	1
Trade and other receivables <sup>2</sup>	1,288	–	–	–	1,288	1,288
Derivative financial instruments – FX forward exchange contracts	–	15	115	–	130	130
Cash and cash equivalents	917	–	–	–	917	917

	Derivatives used for hedging £m	Fair value through the P&L £m	Other financial liabilities at amortised cost £m	Carrying value total £m	Fair value total £m
<b>Liabilities as per the balance sheet</b>					
Borrowings (excluding finance lease obligations and bond) <sup>3</sup>	–	–	1,934	1,934	1,934
US\$1bn bond (two tranches of US\$500m at 2.125% and 3.625% respectively) <sup>4</sup>	–	–	634	634	660
Finance lease obligations <sup>5</sup>	–	–	4	4	4
Derivative financial instruments – FX forward exchange contracts	11	18	–	29	29
Trade and other payables <sup>5</sup>	–	–	2,675	2,675	2,675
Other non-current liabilities <sup>5,6</sup>	–	–	44	44	44

At 31 December 2013	Loans and receivables £m	Derivatives used for hedging £m	Fair value through the P&L £m	Available for sale £m	Carrying value total £m	Fair value total £m
<b>Assets as per the balance sheet</b>						
Short-term deposits <sup>1</sup>	–	–	–	2	2	2
Trade and other receivables <sup>2</sup>	1,275	–	–	–	1,275	1,275
Derivative financial instruments – FX forward exchange contracts	–	16	6	–	22	22
Cash and cash equivalents	808	–	–	–	808	808

	Derivatives used for hedging £m	Fair value through the P&L £m	Other financial liabilities at amortised cost £m	Carrying value total £m	Fair value total £m
<b>Liabilities as per the balance sheet</b>					
Borrowings (excluding finance lease obligations and bond) <sup>3</sup>	–	–	2,167	2,167	2,167
US\$ 1bn bond (two tranches of US\$ 500m at 2.125% and 3.625% respectively) <sup>4</sup>	–	–	595	595	597
Finance lease obligations <sup>5</sup>	–	–	5	5	5
Derivative financial instruments – FX forward exchange contracts	–	159	–	159	159
Trade and other payables <sup>5</sup>	–	–	2,768	2,768	2,768
Other non-current liabilities <sup>5,6</sup>	–	–	45	45	45

- 1 These short-term deposits do not meet the requirements to be classified as cash equivalents as they have maturities greater than three months. They are however highly liquid assets.
- 2 Prepayments and accrued income and employee benefit assets are excluded from the trade and other receivables balance as the analysis above is required only for financial instruments.
- 3 The categories in this disclosure are determined by IAS 39. Borrowings largely relate to Commercial Paper. As at 31 December 2014 the Group had Commercial Paper in issue amounting to US\$3,000m (nominal values) at rates of between 0.19% and 0.38% with maturities ranging from 6 January 2015 to 8 September 2015. Finance leases are outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.
- 4 The fair value of bonds at 31 December 2014 is a liability of £660m (2013: £597m). This value is derived using a quoted market rate in an active market (level 1 classification).
- 5 Social security liabilities and other employee benefit liabilities are excluded as the analysis above is required only for financial instruments.
- 6 Included in other non-current liabilities is £28m (2013: £21m) to purchase the remaining shares of Shanghai Manon Trading Company Limited.

All financial instruments, with the exception of the bond, are in level 2 of the IFRS 13 fair value hierarchy. Fair value for financial instruments held at amortised cost has been estimated by discounting cash flows at prevailing interest rates and by applying year end exchange rates.

**14 Financial Instruments and Financial Risk Management** continued

The fair value measurement hierarchy levels have been defined as follows:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
3. Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

The fair value of forward foreign exchange contracts at 31 December 2014 is a liability of £29m (2013: £159m) and an asset of £130m (2013: £22m). This value is determined using forward exchange rates derived from market sourced data at the balance sheet date, with the resulting value discounted back to present value (level 2 classification).

As the value of level 3 instruments at 31 December 2014 is not material (2013: not material), no further level 3 disclosures have been made. There have been no movements of financial instruments between levels (2013: nil).

**Offsetting financial assets and financial liabilities**

The Group has forward foreign exchange contracts and cash that are subject to enforceable master netting arrangements.

*(a) Financial assets*

	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the balance sheet £m	Net amounts of financial assets presented in the balance sheet £m	Financial instruments not set off in the balance sheet £m	Net amount £m
<b>As at 31 December 2014</b>					
Forward foreign exchange contracts	130	–	130	(24)	106
Cash and cash equivalents	917	–	917	–	917
	1,047	–	1,047	(24)	1,023

	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the balance sheet £m	Net amounts of financial assets presented in the balance sheet £m	Financial instruments not set off in the balance sheet £m	Net amount £m
<b>As at 31 December 2013</b>					
Forward foreign exchange contracts	22	–	22	(22)	–
Cash and cash equivalents	815	(7)	808	–	808
	837	(7)	830	(22)	808

*(b) Financial liabilities*

	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the balance sheet £m	Net amounts of financial liabilities presented in the balance sheet £m	Financial instruments not set off in the balance sheet £m	Net amount £m
<b>As at 31 December 2014</b>					
Forward foreign exchange contracts	(29)	–	(29)	24	(5)
Bank overdrafts	(4)	–	(4)	–	(4)
	(33)	–	(33)	24	(9)

	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the balance sheet £m	Net amounts of financial liabilities presented in the balance sheet £m	Financial instruments not set off in the balance sheet £m	Net amount £m
<b>As at 31 December 2013</b>					
Forward foreign exchange contracts	(159)	–	(159)	22	(137)
Bank overdrafts	(10)	7	(3)	–	(3)
	(169)	7	(162)	22	(140)

## Notes to the Financial Statements

**14 Financial Instruments and Financial Risk Management** continued**Financial Risk Management**

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

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

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

**1. Market Risk****(a) Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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

It is the Group's policy to monitor and only where appropriate hedge its foreign currency transaction exposure. These transaction exposures arise mainly from foreign currency receipts and payments for goods and services and from the remittances of foreign currency dividends and loans.

The local business units enter into forward foreign exchange contracts with GT to manage these exposures where practical and allowed by local regulations. GT matches the Group exposures, and hedges the net position where possible, using spot and forward foreign currency exchange contracts.

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2014 was £4,337m payable (2013: £5,287m payable).

During the year ended 31 December 2014, the Group designated bonds totalling \$1,000m (£642m) and commercial paper of up to \$2,537m (£1,629m) as the hedging instrument in a net investment hedge relationship. The hedged risk is the foreign exchange currency risk on the value of the Group's net investment in assets and liabilities denominated in US dollars. The net gain or loss under this arrangement is recognised in other comprehensive income. The net effect on other comprehensive income for the year ended 31 December 2014 was a £137m loss (2013: £6m gain).

The Group held forward foreign exchange contracts denominated as cash flow hedges primarily in Euro, Australian dollars, Singapore dollars, Sterling and US dollars. Notional value of the payable leg resulting from these financial instruments was as follows:

<b>Cash Flow Hedge Profile</b>	<b>2014 £m</b>	2013 £m
Euro	432	319
Polish Zloty	233	9
US dollars	154	32
Sterling	153	98
Singapore dollars	77	120
Australian dollars	73	177
Other	233	51
	<b>1,355</b>	806

These forward foreign exchange contracts are expected to mature over the period January 2015 to February 2016 (2013: January 2014 to January 2015).

There is no ineffective portion recognised in the income statement arising from cash flow hedges (2013: £nil).

Gains and losses recognised in the hedging reserve in other comprehensive income on forward exchange contracts in 2014 of £11m loss (2013: £13m gain) are recognised in the income statement in the year or years during which the hedged forecast transaction affects the income statement, which is generally within 12 months from the balance sheet date.

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

#### 14 Financial Instruments and Financial Risk Management continued

In the case of cash flow hedges, these are denominated in a diverse range of currencies, where a fluctuation in one individual currency relationship, with all others held constant, does not have a significant effect on the income statement or Shareholders' equity. A fluctuation analysis has been performed for all currencies. The largest potential fluctuation would be in respect of forward contracts between the Euro and the Polish Zloty. If the Euro had strengthened/weakened by 5% against the Polish Zloty, with all other variables held constant, the impact on Shareholders' equity would have been £2m. If the US dollar had strengthened/weakened by 5% against the Euro, with all other variables held constant, the impact on Shareholders' equity would have been £2m (2013: £12m Australian dollar against Singapore dollar). As at 31 December 2014 if all other currencies had strengthened/weakened by 5% against Sterling with all other variables held constant, this would have had an immaterial effect on the income statement or Shareholders' equity (2013: immaterial).

The remaining major monetary financial instruments (liquid assets, receivables, interest and non-interest bearing liabilities) are directly denominated in the functional currency of the Group or are transferred to the functional currency of the local entity through the use of derivatives.

The gains and losses from fair value movements on derivatives held at fair value through the profit or loss, recognised in the income statement was a £116m gain (2013: £89m loss).

##### (b) Price risk

Due to the nature of its business the Group is exposed to commodity price risk related to the production or packaging of finished goods, such as oil related, and a diverse range of other, raw materials. This risk is, however, managed primarily through medium-term contracts with certain key suppliers and is not therefore viewed as being a material risk.

##### (c) Cash flow and fair value interest rate risk

The Group has both interest-bearing and non interest-bearing assets and liabilities. The Group monitors its interest income and expense rate exposure on a regular basis. The Group manages its interest income rate exposure on its gross financial assets by using a combination of fixed rate term deposits.

Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on the income statement of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies, calculated on a full year and pre-tax basis.

The scenarios are only run for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on the income statement of a 50 basis-point shift in interest rates would be a maximum increase of £7m (2013: £11m) or decrease of £7m (2013: £11m), respectively for the liabilities covered. The simulation is done on a periodic basis to verify that the maximum loss simulated is within the limit given by management.

#### 2. Credit Risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers. The credit quality of trade and other receivables is detailed in note 13. Financial institution counterparties are subject to approval under the Group's counterparty risk policy and such approval is limited to financial institutions with a BBB rating or above. The Group uses BBB and higher rated counterparties to manage risk and only uses BBB rated counterparties by exception. The amount of exposure to any individual counterparty is subject to a limit defined within the counterparty risk policy, which is reassessed annually by the Board of Directors. Derivative financial instruments are only traded with counterparties approved in accordance with the approved policy. Derivative risk is measured using a risk weighting method.

The table below summarises the Group's major financial institution counterparties by credit rating (lower of S&P and Moody's) and balances (cash and cash equivalents, derivative financial instruments, deposits) at the balance sheet date.

Counterparty	2014			2013		
	Credit rating	Limit £m	Exposure £m	Credit rating	Limit £m	Exposure £m
Bank A	AAA	300	199	N/A	N/A	–
Bank B	AA–	200	139	AA–	200	142
Bank C	A+	150	117	A	125	97
Bank D	A	125	111	A	125	78
Bank E	A+	150	102	A+	150	83
Bank F	A+	150	77	A+	150	113
Bank G	A	125	55	A	125	69
Bank H	AAA	300	48	AAA	300	–
Bank I	A–	75	43	A–	75	57
Bank J	AA–	200	38	AA–	200	16

## Notes to the Financial Statements

**14 Financial Instruments and Financial Risk Management** continued**3. Liquidity Risk**

Cash flow forecasting is performed by the local business units and on an aggregated basis by GT. GT monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Funds over and above those required for short-term working capital purposes by the local businesses are generally remitted to GT. The Group uses the remittances to settle obligations, repay borrowings, or, in the event of a surplus, invest in short-term instruments issued by institutions with a BBB rating or better.

The Group has various borrowing facilities available to it. The Group has bilateral credit facilities with high-quality international banks. All of these facilities have similar or equivalent terms and conditions, and have a financial covenant, which is not expected to restrict the Group's future operations.

At the end of 2014, the Group had, in addition to its long-term debt of £636m (2013: £598m), committed borrowing facilities totalling £3,500m (2013: £4,350m), of which £3,500m exceeded 12 months' maturity (2013: £3,500m). Of the total facilities at the year end, £nil (2013: £nil) was utilised. The committed borrowing facilities, together with available uncommitted facilities and central cash and investments, are considered sufficient to meet the Group's projected cash requirements.

The undrawn committed facilities available, in respect of which all conditions precedent have been met at the balance sheet date, were as follows:

	2014 £m	2013 £m
Undrawn committed borrowing facilities:		
Expiring within one year	–	850
Expiring between one and two years	–	500
Expiring after more than two years	<b>3,500</b>	3,000
	<b>3,500</b>	4,350

All borrowing facilities are at floating rates of interest.

The facilities have been arranged to cover general corporate purposes including support for commercial paper issuance. All facilities incur commitment fees at market rates.

Headroom between net debt and available facilities at 31 December 2014 was £1,957m (2013: £2,254m).

The Group's borrowing limit at 31 December 2014 calculated in accordance with the Articles of Association was £63,186m (2013: £61,689m).

The table below analyses the Group's financial liabilities and the derivatives which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which have been calculated using spot rates at the relevant balance sheet date, including interest to be paid.

	Total £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 December 2014</b>					
Commercial paper	<b>(1,926)</b>	<b>(1,926)</b>	–	–	–
Bonds	<b>(774)</b>	<b>(18)</b>	<b>(18)</b>	<b>(370)</b>	<b>(368)</b>
Other borrowings	<b>(17)</b>	<b>(15)</b>	–	<b>(2)</b>	–
Trade payables	<b>(990)</b>	<b>(990)</b>	–	–	–
Other payables	<b>(1,735)</b>	<b>(1,685)</b>	<b>(50)</b>	–	–
<b>At 31 December 2013</b>					
Commercial paper	(2,159)	(2,159)	–	–	–
Bonds	(744)	(17)	(17)	(354)	(356)
Other borrowings	(22)	(19)	–	(3)	–
Trade payables	(991)	(991)	–	–	–
Other payables	(1,826)	(1,777)	(15)	(34)	–



#### 14 Financial Instruments and Financial Risk Management continued

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period between the balance sheet and the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which have been calculated using spot rates at the relevant balance sheet date.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
<b>At 31 December 2014</b>				
Forward exchange contracts				
Outflow	(4,328)	(9)	–	–
Inflow	4,424	9	–	–
<b>At 31 December 2013</b>				
Forward exchange contracts				
Outflow	(5,240)	(47)	–	–
Inflow	5,099	47	–	–

#### 4. Capital Management

The Group considers capital to be net debt plus total equity. Net debt is calculated as total borrowings less cash and cash equivalents, short-term available for sale financial assets and financing derivative financial instruments (refer to note 16). Total equity includes share capital, reserves and retained earnings as shown in the Group Balance Sheet.

	2014 £m	2013 £m
Net debt (note 16)	1,543	2,096
Total equity	6,834	6,336
	<b>8,377</b>	8,432

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

In maintaining an appropriate capital structure and providing returns for Shareholders, the Company provided returns to Shareholders in 2014 in the form of dividends and the buy back of shares. Refer to notes 28 and 22 respectively.

The Group monitors net debt and at year end the Group had net debt of £1,543m (2013: £2,096m). The Group seeks to pay down net debt using cash generated by the business to maintain an appropriate level of financial flexibility.

#### 15 Cash and Cash Equivalents

	2014 £m	2013 £m
Cash at bank and in hand	329	304
Short-term bank deposits	588	504
Cash and cash equivalents	<b>917</b>	808

The Group operates in a number of territories, where there are either foreign currency exchange restrictions or where it is difficult for the Group to extract cash readily and easily in the short-term. As a result £89m (2013: £109m) of cash included in cash and cash equivalents is restricted for use by the Group.

Notes to the Financial Statements

**16 Financial Liabilities – Borrowings**

	2014 £m	2013 £m
<b>Current</b>		
Bank loans and overdrafts <sup>1</sup>	13	18
Commercial paper <sup>2</sup>	1,921	2,149
Finance lease obligations	2	2
	<b>1,936</b>	<b>2,169</b>
<b>Non-current</b>		
Bonds	634	595
Finance lease obligations	2	3
	<b>636</b>	<b>598</b>

1. Bank loans are denominated in a number of currencies, all are unsecured and bear interest based on relevant LIBOR equivalent.
2. Commercial paper was issued in US dollars, is unsecured and bears interest based on relevant LIBOR equivalent.

	2014 £m	2013 £m
<b>Maturity of debt</b>		
<b>Bank loans and overdrafts repayable:</b>		
Within one year or on demand	13	18
<b>Other borrowings repayable:</b>		
Within one year:		
Commercial paper	1,921	2,149
Finance leases	2	2
Between two and five years:		
Bonds	318	299
Finance leases (payable by instalments)	2	3
Over five years		
Bonds	316	296
	<b>2,559</b>	<b>2,749</b>
<b>Gross borrowings (unsecured)</b>	<b>2,572</b>	<b>2,767</b>

	2014 £m	2013 £m
<b>Analysis of net debt</b>		
Cash and cash equivalents	917	808
Overdrafts	(4)	(3)
Borrowings (excluding overdrafts)	(2,568)	(2,764)
Current available for sale financial assets	1	2
Derivative financial instruments	111	(139)
<b>Net debt at end of year</b>	<b>(1,543)</b>	<b>(2,096)</b>

	2014 £m	2013 £m
<b>Reconciliation of net debt</b>		
Net debt at beginning of year	(2,096)	(2,426)
Net increase/(decrease) in cash and cash equivalents	190	(34)
Repayment of borrowings	485	1,002
Proceeds from borrowings	–	(637)
Proceeds from borrowings attributable to discontinued operations	(481)	
Borrowings divested upon demerger	467	–
Exchange and other movements	(108)	(1)
<b>Net debt at end of year</b>	<b>(1,543)</b>	<b>(2,096)</b>

## 17 Provisions for Liabilities and Charges

	Legal provisions £m	Restructuring provisions £m	Other provisions £m	Total provisions £m
At 1 January 2013	59	66	79	204
Charged to the income statement	241	9	30	280
Arising on business combination	–	–	21	21
Utilised during the year	(9)	(39)	(40)	(88)
Released to the income statement	(6)	(12)	(29)	(47)
Exchange adjustments	1	–	–	1
At 31 December 2013	286	24	61	371
Charged to the income statement	10	4	24	38
Charged to equity	–	–	413	413
Arising on business combination	–	–	5	5
Utilised during the year	(53)	(14)	(325)	(392)
Released to the income statement	(15)	–	(4)	(19)
Divested upon demerger	(25)	–	–	(25)
Exchange adjustments	(2)	(1)	2	(1)
<b>At 31 December 2014</b>	<b>201</b>	<b>13</b>	<b>176</b>	<b>390</b>

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

	2014 £m	2013 £m
Current	317	215
Non-current	73	156
	<b>390</b>	<b>371</b>

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 include £158m (2013: £222m) of exceptional legal provisions in relation to a number of historic regulatory investigations, predominantly competition law inquiries, by various government authorities in a number of markets. Some of these have been concluded in the period. During 2014 there were £nil charges and £nil releases to the income statement (2013: £210m charged and £nil released) in respect of exceptional legal provisions.

The restructuring provision relates principally to redundancies, the majority of which is expected to be utilised within one year.

Other provisions include obligations of the Group to acquire its own equity ordinary shares of £100m (2013: £nil) within one year, onerous lease provisions expiring between 2015 and 2017 of £2m (2013: £6m) and environmental and other obligations throughout the Group, the majority of which are expected to be used within five years. Provisions to acquire equity ordinary shares are charged to equity.

## 18 Operating Lease Commitments

Future minimum lease payments under non-cancellable operating leases due	2014 £m	2013 £m
Within one year	59	57
Later than one and less than five years	79	90
After five years	13	23
	<b>151</b>	<b>170</b>

Operating lease rentals charged to the income statement in 2014 were £69m (2013: £69m excluding RB Pharmaceuticals).

As at 31 December 2014, total amounts expected to be received under non-cancellable sub-lease arrangements were £2m (2013: £4m).

Amounts credited to the income statement in respect of sub-lease arrangements were £1m (2013: £1m).

## Notes to the Financial Statements

**19 Contingent Liabilities**

The Group is involved in a number of investigations by government authorities and has made provisions for such investigations, where appropriate. Where it is too early to determine the likely outcome of these matters, the Directors have made no provision for such potential liabilities.

The Group from time to time is involved in disputes 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.

**20 Trade and Other Payables**

	2014 £m	2013 £m
Trade payables	990	991
Other payables	121	127
Other tax and social security payable	164	112
Accruals	1,608	1,685
	2,883	2,915

Included within accruals is £467m (2013: £606m, of which £161m relates to RB Pharmaceuticals) in respect of amounts payable to our trade customers for trade spend.

Other non-current liabilities primarily relate to deferred consideration for the acquisition of businesses of £39m (2013: £41m) and US employee related payables of £32m (2013: £21m).

**21 Pension and Other Post-Retirement Commitments****Plan Details**

The Group operates a number of defined benefit and defined contribution pension plans around the world covering many of its employees, which are principally funded. The Group's most significant defined benefit pension plan (UK) is a final salary plan, which closed to new entrants in 2005. Trustees of the plan are appointed by the Group, active members and pensioner membership, and are responsible for the governance of the plan, including paying all administrative costs and compliance with regulations. The plan is funded by the payment of contributions to the plan's Trust, which is a separate entity from the rest of the Group.

The Group also operates a number of other post-retirement plans in certain countries. The major plan is in the US (US Retiree Health Care Plan), where salaried participants become eligible for retiree health care benefits after they reach a combined 'age and years of service rendered' figure of 70, although the age must be a minimum of 55. This plan closed to new members in 2009. A Benefits Committee of the plan is appointed by the Group, and is responsible for the governance of the plan, including paying all administrative costs and compliance with regulations. This plan is unfunded.

The following table provides details of membership for all plans in the two principal territories:

Plan details at last valuation date	UK	US
<b>Active Participants:</b>		
Number of members	365	2,232
Proportion of funding liability	13%	32%
Total pensionable salary roll	£15.3m	£57.2m
<b>Participants with deferred benefits:</b>		
Number of members	5,949	2,814
Proportion of funding liability	29%	23%
Total deferred pensions (at date of leaving plan)	£18.7m	£2.7m
<b>Participants receiving benefits:</b>		
Number of members	6,902	4,044
Proportion of funding liability	58%	45%
Total pensions in payment	£41.7m	£6.8m

Full independent actuarial valuations are carried out on a triennial basis. For the principal UK plan, the most recent valuation was carried out at 5 April 2013. For the US plan, a full independent actuarial valuation was carried out at 1 January 2012. The Group has agreed that it will aim to eliminate the pension plan Technical Provisions deficit in the UK and Ireland over the next four years. Funding levels are monitored on an annual basis and the current agreed contribution rate is 19.5% of pensionable salaries in the UK and nil in the US. It is expected that contributions in 2015 will be £58m to the UK defined benefit plan and £nil to the US Retiree Health Care Plan. This will be reviewed after each triennial valuation is signed off by the Group and Trustee. The Group considers that the contribution rates set at the last valuation date, and any future further contributions in excess of the contribution rate, will be sufficient to eliminate the deficit over the agreed period and that regular contributions, which are based on service costs, will not increase significantly.

For the purpose of IAS19 the projected unit valuation method was used for the UK and US plans, rolling forward the preliminary UK plan triennial valuation results (at 5 April 2013) and the 1 January 2012 US plan valuation to 31 December 2014. The UK plans have a weighted average duration of the deferred benefit obligation of 17.9 years (2013: 17.3 years).

**21 Pension and Other Post-Retirement Commitments** continued

**Significant Actuarial Assumptions**

The significant actuarial assumptions used in determining the Group's net liability for the two major plans as at 31 December were:

	2014		2013	
	UK %	US (Medical) %	UK %	US (Medical) %
Rate of increase in pensionable salaries	3.3	–	3.6	–
Rate of increase in deferred pensions during deferment	3.1	–	3.4	–
Rate of increase in pension payments	2.9	–	3.1	–
Discount rate	3.5	3.9	4.4	4.8
Inflation assumption – RPI	3.3	–	3.6	–
Annual medical cost inflation	–	5.0–9.0	–	5.0–9.0

Assumptions regarding future mortality experience are set in accordance with published statistics and experience in each territory. The expected lifetime of a participant aged 60 and the expected lifetime of a participant who will be age 60 in 15 years (20 years in the US) are detailed below:

	2014		2013	
	UK years	US years	UK years	US years
<b>Number of years a current pensioner is expected to live beyond 60:</b>				
Male	28.5	26.1	28.4	25.1
Female	30.5	28.6	30.3	27.5
<b>Number of years a future pensioner is expected to live beyond 60:</b>				
Male	30.3	27.9	30.2	27.3
Female	32.3	30.3	32.2	29.4

For the UK plan, the mortality assumptions were based on the standard SAPS mortality table with medium cohort improvements to 2009 (scaled by 90% for males and 100% for females). Allowance for future improvements is made by adopting the 2012 edition of the CMI series with a long-term trend of 1.5% per annum. For the US plan the mortality assumptions were determined using the RP-2014 Total Dataset Employee version pre-commencement, and Health Annuitant post-commencement, projected on a generational basis with Scale MP-2014.

**Impact of RB Pharmaceuticals Demerger**

Employees who will be employed within the Indivior Group after the demerger have membership of the new Indivior Pension Schemes for service on and after the demerger. Plan assets and liabilities for former RB Pharmaceuticals employees in relation to services rendered prior to the demerger will remain with the Group.

Notes to the Financial Statements

**21 Pension and Other Post-Retirement Commitments** continued

**Amounts Recognised on the Balance Sheet**

The amounts recognised in the balance sheet are as follows:

	2014 £m	2013 £m
<b>Balance sheet obligations for:</b>		
UK	(61)	(68)
US (Medical)	(145)	(117)
Other	(132)	(116)
<b>Liability in balance sheet</b>	<b>(338)</b>	<b>(301)</b>
<b>Balance sheet assets for:</b>		
Other	26	50
<b>Asset in balance sheet</b>	<b>26</b>	<b>50</b>
<b>Net pension liability</b>	<b>(312)</b>	<b>(251)</b>

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

	2014				2013			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
Present value of funded obligations	(1,400)	–	(293)	(1,693)	(1,223)	–	(258)	(1,481)
Fair value of plan assets	1,339	–	311	1,650	1,155	–	303	1,458
(Deficit) / surplus of funded plans	(61)	–	18	(43)	(68)	–	45	(23)
Present value of unfunded obligations	–	(145)	(124)	(269)	–	(117)	(111)	(228)
Net pension liability	(61)	(145)	(106)	(312)	(68)	(117)	(66)	(251)

Group plan assets are comprised as follows:

	2014				2013			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
Equities – quoted	393	–	177	570	293	–	163	456
Government bonds	531	–	7	538	432	–	13	445
Corporate bonds	261	–	63	324	223	–	107	330
Real Estate / property – unquoted	138	–	10	148	196	–	11	207
Other assets – unquoted	16	–	54	70	11	–	9	20
Fair value of plan assets	1,339	–	311	1,650	1,155	–	303	1,458

## Financial Statements

### 21 Pension and Other Post-Retirement Commitments continued

The movement in the Group's net liability is as follows:

	Present value of obligation				Fair value of plan assets			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
<b>At 1 January 2013</b>	1,181	128	371	1,680	(1,004)	–	(277)	(1,281)
Current service cost	9	3	12	24	–	–	–	–
Interest expense/(income)	50	5	12	67	(44)	–	(15)	(59)
	59	8	24	91	(44)	–	(15)	(59)
Remeasurements:								
Return on plan assets, excluding amounts included in interest income	–	–	–	–	(51)	–	(26)	(77)
(Gain)/loss from changes in demographic assumptions	(10)	9	6	5	–	–	–	–
Loss/(gain) from change in financial assumptions	25	(13)	(21)	(9)	–	–	–	–
Experience losses	11	(8)	10	13	–	–	–	–
	26	(12)	(5)	9	(51)	–	(26)	(77)
Exchange differences	–	(2)	(1)	(3)	–	–	(1)	(1)
Contributions – employees	1	–	–	1	(1)	–	–	(1)
Contributions – employers	–	–	–	–	(99)	(5)	(4)	(108)
Payments from plans:								
Benefit payments	(44)	(5)	(20)	(69)	44	5	20	69
<b>At 1 January 2014</b>	<b>1,223</b>	<b>117</b>	<b>369</b>	<b>1,709</b>	<b>(1,155)</b>	<b>–</b>	<b>(303)</b>	<b>(1,458)</b>
Current service cost	9	2	7	18	–	–	–	–
Interest expense/(income)	53	6	12	71	(51)	–	(12)	(63)
	62	8	19	89	(51)	–	(12)	(63)
Remeasurements:								
Return on plan assets, excluding amounts included in interest income	–	–	–	–	(124)	–	4	(120)
Loss from changes in demographic assumptions	11	–	5	16	–	–	–	–
Loss from change in financial assumptions	155	20	29	204	–	–	–	–
Experience losses	–	2	3	5	–	–	–	–
	166	22	37	225	(124)	–	4	(120)
Exchange differences	–	5	–	5	–	–	(4)	(4)
Contributions – employees	1	–	–	1	(1)	–	–	(1)
Contributions – employers	–	–	–	–	(60)	(7)	(4)	(71)
Payments from plans:								
Benefit payments	(52)	(7)	(8)	(67)	52	7	8	67
<b>As at 31 December 2014</b>	<b>1,400</b>	<b>145</b>	<b>417</b>	<b>1,962</b>	<b>(1,339)</b>	<b>–</b>	<b>(311)</b>	<b>(1,650)</b>



## Notes to the Financial Statements

**21 Pension and Other Post-Retirement Commitments** continued**Amounts Recognised in the Income Statement**

The charge for the year ended 31 December is shown below:

	2014 £m	2013 £m
<b>Income statement charge included in operating profit for<sup>1</sup>:</b>		
Defined contribution plans	28	27
Defined benefit plans (net charge excluding interest)		
UK	9	9
US (Medical)	2	3
Other	7	12
Total pension costs recognised in operating profit (note 5) <sup>2</sup>	46	51
Income statement charge included in finance expense (note 6)	8	8
Income statement charge included in profit before income tax	54	59
<b>Remeasurement losses/(gains) for:</b>		
UK	42	(25)
US (Medical)	22	(12)
Other	41	(31)
	105	(68)

1 The income statement charge included within operating profit includes current service cost, past service costs and gains and losses on settlement and curtailment.

2 Included within total pension costs recognised in operating profit is £1m (2013: £1m) incurred in respect of the pharmaceutical business. These amounts are included within Net Income from Discounted Operations in the Group Income Statement.

**Sensitivity of Significant Actuarial Assumptions**

The sensitivity of the UK defined benefit obligation to changes in the principal assumptions

2014	Change in assumption	Change in defined benefit obligation
Discount rate	Increase 0.1%	Decrease by 1.8%
RPI increase	Increase 0.1%	Increase by 1.4%
Life expectancy	Members younger by 1 year	Increase by 2.3%
<b>2013</b>	Change in assumption	Change in defined benefit obligation
Discount rate	Increase 0.1%	Decrease by 1.8%
RPI increase	Increase 0.1%	Increase by 1.4%
Life expectancy	Members younger by 1 year	Increase by 2.3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

**Impact of Medical Cost Trend Rates**

A one percentage change in the assumed health care cost trend rates would have the following effects:

	Impact on defined benefit obligation			
	2014		2013	
	+1% £m	-1% £m	+1% £m	-1% £m
Effect on service cost and interest cost	2	(1)	1	(1)
Effect on post-retirement benefit obligation	25	(20)	18	(15)

## 21 Pension and Other Post-Retirement Commitments continued

### Risk and Risk Management

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

**Asset Volatility:** The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform this yield, this will create a deficit. Both the UK and US plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. As the plans mature, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. All the UK plans have agreed with the company a plan to de-risk the investment strategy of the plans at a pace that is commensurate with a planned return to full funding over a reasonable time scale. The de-risking plan provides for a proportion of the investment portfolio to move from equity holdings to government and corporate bonds over time. The corporate bonds are global securities with an emphasis on the UK and US. However, the Group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

**Changes in Bond Yields:** A decrease in government and corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

**Inflation Risk:** Some of the Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit. In the US plans, the pensions in payment are not linked to inflation, so this is a less material risk.

**Life Expectancy:** The majority of the plans' obligations are to provide benefits for the life of the member. Whilst the plans allow for an increase in life expectancy, increases above this assumption will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

**Change in Regulations:** The Group is aware that future changes to the regulatory framework may impact the funding basis of the various plans in the future. The Group's pensions department monitors the changes in legislation and analyses the risks as and when they occur.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets consists of quoted equities and quoted bonds, although the Group also invests in property, and cash. The Group believes that quoted equities offer the best returns over the long-term with an acceptable level of risk. The Trustees of all the UK funds have moved the overwhelming majority of their assets to low cost investment funds in consultation with the Company whilst maintaining a prudent diversification.

## 22 Share Capital

	Equity ordinary shares number	Nominal value £m	Subscriber ordinary shares number	Nominal value £m
<b>Issued and fully paid</b>				
At 1 January 2014	736,535,179	74	2	–
Cancelled	–	–	(2)	–
<b>At 31 December 2014</b>	<b>736,535,179</b>	<b>74</b>	<b>–</b>	<b>–</b>

	Equity ordinary shares number	Nominal value £m	Subscriber ordinary shares number	Nominal value £m
<b>Issued and fully paid</b>				
At 1 January 2013	734,210,757	73	2	–
Allotments	2,324,422	1	–	–
At 31 December 2013	736,535,179	74	2	–

The holders of ordinary shares (par value 10p) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Parent Company.

The holders of subscriber ordinary shares (par value £1) have no entitlement to dividends. Holders have no right to attend or vote at any general meeting of the Company unless a resolution is proposed to wind up the Company or vary the rights attached to the subscriber shares. During 2014, all subscriber ordinary shares were cancelled.

## Notes to the Financial Statements

**22 Share Capital** continued**Allotment of Ordinary Shares and Release of Treasury Shares**

During the year nil ordinary shares (2013: 2,324,422 ordinary shares) were allotted and 4,775,359 ordinary shares were released from Treasury (2013: 4,258,793) to satisfy vestings/exercises under the Group's various share schemes as follows:

	2014		2013	
	Number of shares	Consideration £m	Number of shares	Consideration £m
<b>Ordinary shares of 10p</b>				
Executive Share Options – exercises	3,502,236	106	4,638,734	131
Restricted Shares Awards – vesting	1,000,381	–	1,571,035	–
<b>Total under Executive Share Option and Restricted Share Schemes</b>	<b>4,502,617</b>	<b>106</b>	<b>6,209,769</b>	<b>131</b>
Senior Executives Share Ownership Policy Plan – vesting	50,000	–	40,000	–
Savings-Related Share Option Schemes – exercises	222,742	6	333,446	7
<b>Total</b>	<b>4,775,359</b>	<b>112</b>	<b>6,583,215</b>	<b>138</b>

**Market Purchases of Shares**

During 2014 the Company purchased 6,000,000 equity ordinary shares in accordance with its share buyback programme (2013: 6,000,000) all of which are held as Treasury shares. The total amount paid to acquire the shares was £313m (£314m including stamp duty) which has been deducted from Shareholders' equity (2013: £279m). In addition, a provision for £100m was created for buyback amounts committed but not transacted as at year end.

4,775,359 Treasury shares were released in 2014 (2013: 4,258,793), leaving a balance held at 31 December 2014 of 17,957,491 (2013: 16,732,850). Proceeds received from the reissuance of Treasury shares to exercise share options were £112m (2013: £79m). In 2013, proceeds of £60m share awards were also received from the issuance of ordinary shares to satisfy share options.

**23 Share-Based Payments**

The Group operates a number of incentive schemes, including a share option scheme, a restricted share scheme, and other share award schemes. All schemes are equity settled. The charge for share-based payments for the year was £55m (2013: £55m).

**Executive Share Awards**

Executive share awards, comprising both Executive Share Options and Restricted Share Awards, are awarded to the Top400 Management Group. Executive Share Options are awarded at an exercise price determined on grant date and become payable on exercise – following satisfaction of performance criteria. Restricted Share Awards entitle the recipient to receive shares at no cost following satisfaction of the following performance criteria.

*For awards granted between December 2007 and December 2012:*

	<6%	6%	7%	8%	≥9%
Adjusted earnings per share growth over three years (%)	<6%	6%	7%	8%	≥9%
Proportion of awards vesting (%)	Nil	40%	60%	80%	100%

*For awards granted in December 2013 and December 2014:*

	<6%	6%	Between 6% and 10%	≥10%
Adjusted earnings per share growth over three years (%)	<6%	6%	Between 6% and 10%	≥10%
Proportion of awards vesting (%)	Nil	20%	Straight-line vesting between 20% and 100%	100%

The cost is spread over the three years of the performance period. For Executive Committee and Top40 members vesting conditions must be met over the three-year period and are not retested. For remaining Top400 members the targets can be retested over four or five years. If any target has not been met any remaining shares or options which have not vested will lapse.

**Other Share Awards**

Other share awards represent SAYE Schemes (offered to all staff within the relevant geographic area) and a number of Senior Executive Share Ownership Policy Plan (SOPP) awards. Other share awards have contractual lives of three to seven years and are generally not subject to any vesting criteria other than the employee's continued employment.

Individual tranches of these other share awards are not material for detailed disclosure and therefore have been aggregated in the tables below.

**Modifications to Share Awards**

Following the demerger of RB Pharmaceuticals, the Remuneration Committee approved modifications to all unexercised share schemes to compensate for the loss of scheme value. For SAYE schemes this was in the form of a one-off cash payment. For executive share awards this included additional grants and the lowering of exercise price, where applicable. There is no change to the IFRS fair value charge as a result of these modifications.

**23 Share-Based Payments** continued

All outstanding Executive and Other share awards as at 31 December 2014 and 31 December 2013 are included in the tables below which analyse the charge for 2014 and 2013. The Group has used the Black-Scholes model to calculate the fair value of one award on the date of the grant of the award.

**Table 1: Fair value**

Award	Grant date	Exercise price at grant £	Modified exercise price £	Performance period	Share price on grant date £	Black-Scholes model assumptions				Fair value of one award £
						Volatility %	Dividend yield %	Life years	Risk-free interest rate %	
<b>Share options</b>										
2005	06 December 2004	15.47	N/A	2005–07	15.44	23	2.3	4	4.88	2.99
2006	05 December 2005	18.10	17.60	2006–08	18.16	22	2.4	4	4.69	3.33
2007	08 December 2006	22.57	21.95	2007–09	23.00	20	2.2	4	4.65	4.23
2008	11 December 2007	29.44	28.63	2008–10	29.72	20	1.8	4	5.53	5.99
2009	08 December 2008	27.29	26.54	2009–11	27.80	25	3.1	4	2.78	4.69
2010	07 December 2009	31.65	30.78	2010–12	31.80	26	3.5	4	1.69	4.70
2011	01 December 2010	34.64	33.68	2011–13	34.08	26	4.3	4	2.16	4.49
2012	05 December 2011	32.09	31.20	2012–14	32.19	25	5.4	4	1.00	3.18
2013	03 December 2012	39.14	38.06	2013–15	39.66	20	4.3	4	0.61	3.29
2014	11 December 2013	47.83	46.51	2014–16	46.69	19	3.7	4	0.76	3.85
2015	01 December 2014	50.57	50.57	2015–17	52.40	17	4.0	4	1.03	4.34
<b>Restricted shares</b>										
2009	08 December 2008	–	–	2009–11	27.80	25	3.1	4	2.78	24.31
2010	07 December 2009	–	–	2010–12	31.80	26	3.5	4	1.69	27.23
2011	01 December 2010	–	–	2011–13	34.08	26	4.3	4	2.16	28.22
2012	05 December 2011	–	–	2012–14	32.19	25	5.4	4	1.00	25.30
2013	03 December 2012	–	–	2013–15	39.66	20	4.3	4	0.61	32.76
2014	11 December 2013	–	–	2014–16	46.69	19	3.7	4	0.76	39.80
2015	01 December 2014	–	–	2015–17	52.40	17	4.0	4	1.03	43.93

**Table 2: Share awards movements 2014**

Award	Grant date	Fair value of one award £	Movement in number of options				Options outstanding at 31 Dec 2014 number
			Options outstanding at 1 Jan 2014 number	Granted/ adjustments number	Lapsed number	Exercised number	
<b>Share options</b>							
2005	06 December 2004	2.99	113,450	–	–	(113,450)	–
2006	05 December 2005	3.33	228,300	2,919	–	(124,300)	106,919
2007	08 December 2006	4.23	318,502	5,281	–	(125,891)	197,892
2008	11 December 2007	5.99	806,193	12,103	–	(372,004)	446,292
2009	08 December 2008	4.69	1,095,701	13,385	(100)	(613,201)	495,785
2010	07 December 2009	4.70	1,798,385	22,778	–	(977,679)	843,484
2011	01 December 2010	4.49	2,558,032	33,399	(356,038)	(986,541)	1,248,852
2012	05 December 2011	3.18	2,920,395	71,121	(234,021)	(131,780)	2,625,715
2013	03 December 2012	3.29	3,320,588	82,862	(295,833)	(57,390)	3,050,227
2014	11 December 2013	3.85	4,020,400	134,203	(884,716)	–	3,269,887
2015	01 December 2014	4.34	–	4,020,400	–	–	4,020,400
<b>Restricted shares</b>							
2011	01 December 2010	28.22	1,113,496	2,858	(153,909)	(862,657)	99,788
2012	05 December 2011	25.30	1,349,448	33,645	(103,322)	(62,402)	1,217,369
2013	03 December 2012	32.76	1,617,645	39,617	(148,171)	(75,322)	1,433,769
2014	11 December 2013	39.80	1,985,200	104,048	(511,860)	–	1,577,388
2015	01 December 2014	43.93	–	1,985,200	–	–	1,985,200
<b>Other share awards</b>							
UK SAYE	Various	Various	605,988	286,128	(50,552)	(118,868)	722,696
US SAYE	Various	Various	564,477	153,351	(66,851)	(85,691)	565,286
Overseas SAYE	Various	Various	972,385	1,089,425	(146,220)	(18,183)	1,897,407
SOPP	Various	Various	180,000	50,000	(20,000)	(50,000)	160,000
<b>Weighted average exercise price (share options)</b>			<b>£36.57</b>	<b>£49.48</b>	<b>£41.64</b>	<b>£30.30</b>	<b>£40.08</b>

## Notes to the Financial Statements

## 23 Share-Based Payments continued

Table 3: Share awards movements 2013

Award	Grant date	Fair value of one award £	Options outstanding at 1 Jan 2013 number	Granted/ adjustments number	Movement in number of options		Options outstanding at 31 Dec 2013 number
					Lapsed number	Exercised number	
<b>Share options</b>							
2004	08 December 2003	2.46	67,000	–	–	(67,000)	–
2005	06 December 2004	2.99	165,511	–	–	(52,061)	113,450
2006	05 December 2005	3.33	263,300	–	–	(35,000)	228,300
2007	08 December 2006	4.23	1,160,358	–	–	(841,856)	318,502
2008	11 December 2007	5.99	1,844,079	–	–	(1,037,886)	806,193
2009	08 December 2008	4.69	2,172,285	–	(1,513)	(1,075,071)	1,095,701
2010	07 December 2009	4.70	2,955,162	–	(1,469)	(1,155,308)	1,798,385
2011	01 December 2010	4.49	3,055,949	4,667	(143,162)	(359,422)	2,558,032
2012	05 December 2011	3.18	3,186,439	14,000	(264,914)	(15,130)	2,920,395
2013	03 December 2012	3.29	4,022,000	90,000	(791,412)	–	3,320,588
2014	11 December 2013	3.85	–	4,020,400	–	–	4,020,400
<b>Restricted shares</b>							
2010	07 December 2009	27.23	1,344,186	–	(62)	(1,344,124)	–
2011	01 December 2010	28.22	1,396,412	2,333	(71,097)	(214,152)	1,113,496
2012	05 December 2011	25.30	1,477,571	7,000	(122,364)	(12,759)	1,349,448
2013	03 December 2012	32.76	1,986,000	104,000	(472,355)	–	1,617,645
2014	11 December 2013	39.80	–	1,985,200	–	–	1,985,200
<b>Other share awards</b>							
UK SAYE	Various	Various	662,986	134,254	(52,920)	(138,332)	605,988
US SAYE	Various	Various	643,736	147,514	(68,637)	(158,136)	564,477
Overseas SAYE	Various	Various	1,084,343	2,011	(76,991)	(36,978)	972,385
SOPP	Various	Various	180,000	50,000	(10,000)	(40,000)	180,000
Weighted average exercise price (share options)			£32.13	£47.57	£37.03	£28.17	£36.57

For options outstanding at the year end the weighted average remaining contractual life is 5.80 years (2013: 5.63 years). Options outstanding at 31 December 2014 that could have been exercised at that date were 3,449,012 (2013: 4,360,531) with a weighted average exercise price of £29.06 (2013: £28.35).

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

Under the terms of the schemes, early exercise may only be granted in exceptional circumstances and therefore the effect of early exercise is not incorporated into the calculation.

The calculation also assumes that there will be no leavers in the following year. No material modifications have been made to these calculations in 2014 or 2013 for the purposes of the valuation.

An estimate of future volatility is made with reference to historical volatility over a similar time period to the performance period or the contractual life as appropriate. Historical volatility is calculated based on the annualised standard deviation of the Group's daily share price movement, being an approximation to the continuously compounded rate of return on the share.

National Insurance contributions are payable in respect of certain share-based payment transactions and are treated as cash-settled transactions. The contribution in 2014 was £38m (2013: £35m).

The weighted average share price for the year was £50.51 (2013: £45.80).

### 23 Share-Based Payments *continued*

#### Options and Restricted Shares Granted During the Year

Options and restricted shares granted during the year which may vest or become exercisable at various dates between 2017 and 2020 are as follows:

	Price to be paid £	Number of shares under option
<b>Executive share option and restricted share schemes</b>		
Reckitt Benckiser Long-term Incentive Plan 2007 – share options	50.57	4,066,654
Reckitt Benckiser Long-term Incentive Plan 2007 – restricted shares	–	2,047,408
Reckitt Benckiser Senior Executives Share Ownership Policy Plan	–	50,000
<b>Total</b>		<b>6,164,062</b>
<b>Savings-related share option schemes</b>		
UK Scheme	41.20	279,991
US Scheme	41.88	153,389
Overseas Scheme	41.88	1,086,412
<b>Total</b>		<b>1,519,792</b>

#### Options and Restricted Shares Outstanding at 31 December 2014

Options and restricted shares which have vested or may vest at various dates between 2015 and 2020 are as follows:

Executive share option and restricted share schemes	Price to be paid £		Number of shares under option	
	From	To	2014	2013
Reckitt Benckiser 1999 Share Option Plan – Annual Grant	17.60	18.10	106,919	341,750
Reckitt Benckiser Long-term Incentive Plan 2006 – Annual Grant – options	21.95	22.57	197,892	318,502
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – options	26.54	52.25	16,000,642	16,519,694
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – restricted shares	–	–	6,313,514	6,065,789
Reckitt Benckiser Senior Executives Share Ownership Policy Plan	–	–	160,000	180,000
			<b>22,778,967</b>	23,425,735
<b>Savings-related share option schemes</b>				
UK Scheme	21.24	41.20	722,696	605,988
US Scheme	27.99	41.88	565,286	564,477
Overseas Scheme	27.99	41.88	1,897,407	972,385
<b>Total</b>			<b>3,185,389</b>	2,142,850

### 24 Other Reserves

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.

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

The foreign currency translation reserve contains the accumulated foreign exchange differences from the translation of the financial statements of the Group's foreign operations arising when the Group's entities are consolidated. The reserve also contains the translation of liabilities that hedge the Group's net exposure in a foreign currency.

### 25 Related Party Transactions

Subsequent to the demerger of RB Pharmaceuticals on 23 December 2014, the Group continues to lease a building to, and provide operational services to the newly formed Indivior PLC. These transitional services between the Group and Indivior PLC are on an arm's length basis. Adrian Hennah, the Reckitt Benckiser Group plc CFO, also sits on the Board of Directors of Indivior PLC.

On 19 March 2013 the Group purchased an additional 25% of Shanghai Manon Trading Company Limited, thereby increasing its share to 75.01%. The consideration for the transaction amounted to £28m, including transaction costs.

Key management compensation is disclosed in note 5.

The subsidiary undertakings whose results or financial position principally affected the consolidated financial statements at 31 December 2014 are disclosed in note 2 to the Parent Company financial statements.

## Notes to the Financial Statements

**26 Business Acquisitions and Disposals****Acquisition of K-Y**

On 10 March 2014 the Group announced its acquisition of the global rights to the K-Y brand and related business, a leader in intimate lubricants, from Johnson & Johnson. The transaction was predominantly completed in May 2014 with regulatory clearance pending in the UK and New Zealand.

The K-Y brand will sit alongside the RB Powerbrand Durex to create a unique portfolio of brands in the sexual wellbeing category. Its addition will immediately transform RB's sexual wellbeing category in the US and Brazil. K-Y will benefit from RB's strong innovation, brand equity investment and go-to-market capabilities. This transaction has been accounted for by the acquisition method.

All assets and liabilities were recognised at the following provisional fair values. The full consideration transferred was paid in cash in the period. The amount of consideration transferred over the net assets acquired is recognised as goodwill in the Group financial statements:

	Provisional fair value £m
Intangible assets	304
Provisions	(5)
Net assets acquired	299
Goodwill	23
<b>Total consideration transferred</b>	<b>322</b>

Goodwill represents expected synergies in manufacturing, procurement and commercial fixed costs. Acquisition related costs have been expensed within exceptional items in the income statement.

The amount of revenue and profit of the K-Y business since acquisition was not material in the context of the Group Income Statement. Had the business been acquired on 1 January 2014, the revenue and profit of the Group for the period would not have been materially different to that appearing on the Group Income Statement. Consideration paid in relation to this acquisition is included within Acquisition of businesses, net of cash acquired in the Group Cash Flow Statement.

**Disposal of Footwear Business**

In August 2014, in line with RB's continued focus on its core business of health, hygiene and home, the Group entered an agreement with Aurelius to license out the Scholl brand for use within the Footwear market and dispose of certain associated operating assets.

**Collaboration with Bristol-Myers Squibb (BMS)**

There are no changes to the provisional fair values of assets and liabilities acquired as part of this business combination.

**27 Demerger of RB Pharmaceuticals**

On 23 December 2014, the Group demerged the pharmaceutical business in the form of a dividend in specie (refer to note 28).

**Gain on Demerger**

The transaction was recognised and measured in accordance with *IFRIC 17 – Distribution of Non-cash Assets to Owners*. This treatment leads to a gain on the distribution of non-cash assets to its Shareholders.

	2014 £m
Fair value of the dividend paid	1,046
Carrying amount of the net liabilities distributed <sup>1</sup>	292
Net realised losses in other comprehensive income reclassified to the income statement	3
Exceptional transaction costs deducted from gain on non-cash dividend paid, net of tax	(59)
Gain on non-cash dividend paid, net of tax	1,282

<sup>1</sup> Included within the carrying amount of the net liabilities distributed is £195m of cash and £467m of debt held by RB Pharmaceuticals on demerger.

The fair value of the dividend was determined by reference to the average closing price of Indivior PLC over the five trading days between 23 December 2014 and 31 December 2014.



**27 Demerger of RB Pharmaceuticals continued**

**Net Income and Cashflows from Discontinued Operations**

RB Pharmaceuticals has been presented as a discontinued operation because it is no longer controlled by the Group and represents a major line of business.

Financial information relating to the operations of RB Pharmaceuticals for the period is set out below. The Group Income Statement and Group Cash Flow Statement distinguish discontinued operations from continued operations. Comparative figures have been restated.

The financial performance and cash flow information presented are for the period to 23 December 2014 and the year ended 31 December 2013.

<b>For the year ended 31 December</b>	<b>2014 £m</b>	2013 £m
Revenue	677	777
Expenses	(308)	(319)
Profit before income tax	369	458
Income tax expense	(91)	(121)
<b>Net income from discontinued operations</b>	<b>278</b>	<b>337</b>

The major classes of cash flows related to RB Pharmaceuticals are as follows:

<b>For the year ended 31 December</b>	<b>2014 £m</b>	2013 £m
Cash flows from operating activities	223	446
Cash flows from investing activities	(16)	(1)
Cash flows from financing activities	481	–
<b>Net increase in cash and cash equivalents from discontinued operations</b>	<b>688</b>	<b>445</b>

**28 Dividends**

	<b>2014 £m</b>	2013 £m
<b>Cash dividends on equity ordinary shares:</b>		
2013 Final paid: 77p (2012: Final 78p) per share	554	561
2014 Interim paid: 60p (2013: Interim 60p) per share	434	431
	<b>988</b>	<b>992</b>
<b>Non-cash dividends on equity ordinary shares:</b>		
Fair value of non-cash dividend	1,046	–
Total dividends for the year	<b>2,034</b>	<b>992</b>

On 23 December 2014 the pharmaceutical business was demerged by means of a non-cash dividend, granting all Reckitt Benckiser Group plc ordinary Shareholders new shares in the newly formed Indivior PLC. The transaction was recognised and measured in accordance with *IFRIC 17 – Distribution of Non-cash Assets to Owners*.

In addition, the Directors are proposing a final cash dividend in respect of the financial year ended 31 December 2014 of 79p per share which will absorb an estimated £568m of Shareholders' funds. If approved by Shareholders it will be paid on 29 May 2015 to Shareholders who are on the register on 17 April 2015, with an ex-dividend date of 16 April 2015.

**29 Post Balance Sheet Events**

On 11 February 2015, we announced our intention to supplement the current share buyback policy with an additional share buyback programme in 2015 of up to £500m. This, combined with the previous share buyback programme announced in 2014, will absorb approximately £800m of Shareholders' funds.

In addition, after 31 December 2014, the Group reorganised the geographical organisational structure to comprise two operating segments – ENA and Developing Markets (DVM). ENA will comprise the geographies of Europe, Russia / CIS, Israel, North America, Australia, and New Zealand. DVM will combine the historic RUMEA and LAPAC, with the exception of those countries above now being reported in ENA. This will impact the operating segments for 2015.

## Five Year Summary

The five year summary below, is presented on a statutory basis, with the income statement of the years ending 31 December 2014 and 31 December 2013 relating to continuing operations only. The three preceding years, being the years ending 31 December 2012, 31 December 2011 and 31 December 2010, reflect the income statement of the whole Group.

The balance sheet has not been restated for the impact of discontinued operations.

For the impact of discontinued operations refer to note 27.

	<b>2014</b>	2013 (restated) <sup>1</sup>	2012	2011	2010
	£m	£m	£m	£m	£m
<b>Income statement</b>					
<b>Net revenue</b>	<b>8,836</b>	9,266	9,567	9,485	8,453
Operating profit	<b>2,164</b>	1,887	2,442	2,395	2,130
Adjusted operating profit	<b>2,185</b>	2,143	2,577	2,487	2,231
Exceptional Items	<b>(21)</b>	(256)	(135)	(92)	(101)
Operating profit	<b>2,164</b>	1,887	2,442	2,395	2,130
Net finance (expense)/income	<b>(38)</b>	(31)	(34)	(19)	6
<b>Profit before income tax</b>	<b>2,126</b>	1,856	2,408	2,376	2,136
Income tax expense	<b>(462)</b>	(453)	(583)	(622)	(566)
Attributable to non-controlling interests	<b>(1)</b>	(1)	(4)	(9)	(2)
<b>Net income attributable to owners of the parent</b>	<b>1,663</b>	1,402	1,821	1,745	1,568
<b>Balance sheet</b>					
Net assets	<b>6,834</b>	6,336	5,922	5,781	5,130
Net working capital	<b>(831)</b>	(863)	(700)	(701)	(639)
<b>Statistics</b>					
<b>Reported basis</b>					
Operating margin	<b>24.5%</b>	20.4%	25.5%	25.3%	25.2%
Total interest to operating profit (times covered)	<b>56.9x</b>	60.9x	71.8x	126.1x	n/a
Tax rate	<b>21.7%</b>	24.4%	24.2%	26.2%	26.5%
Diluted earnings per share	<b>227.6p</b>	192.3p	248.4p	237.1p	213.8p
Dividend cover <sup>2</sup>	<b>1.6x</b>	1.4x	1.9x	1.9x	1.9x
Declared dividends per ordinary share	<b>139p</b>	137p	134p	125p	115p
<b>Adjusted basis<sup>3</sup></b>					
Operating margin	<b>24.7%</b>	23.1%	26.9%	26.2%	26.4%
Total interest to operating profit (times covered)	<b>57.5x</b>	69.1x	75.8x	130.9x	n/a
Diluted earnings per share	<b>230.5p</b>	222.1p	263.3p	247.1p	226.5p
Dividend cover <sup>2</sup>	<b>1.7x</b>	1.6x	2.0x	2.0x	2.0x

1 Restated for the impact of discontinued operations

2 Dividend cover is calculated by dividing earnings/adjusted earnings per share by ordinary dividends per share relating to the year.

3 Adjusted basis is calculated by adding/deducting the exceptional items from net income for the year.

## Parent Company – Independent Auditors’ Report to the members of Reckitt Benckiser Group plc

### Our opinion

In our opinion, Reckitt Benckiser Group plc’s Parent Company financial statements (the “financial statements”):

- give a true and fair view of the state of the Parent Company’s affairs as at 31 December 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

Reckitt Benckiser Group plc’s financial statements comprise:

- the Parent Company Balance Sheet as at 31 December 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Financial Statements (the “Annual Report”), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Other required reporting

#### Consistency of other information

#### Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

### ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) (“ISAs (UK & Ireland)”) we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors’ remuneration

#### Directors’ remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors’ remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the Directors

As explained more fully in the Directors’ Statement of Responsibilities set out on page 63, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Parent Company – Independent Auditors’ Report to the members of Reckitt Benckiser Group plc

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### What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Parent Company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors’ judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Other matter

We have reported separately on the Group financial statements of Reckitt Benckiser Group plc for the year ended 31 December 2014.

### Mark Gill (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
19 March 2015

Parent Company Balance Sheet

As at 31 December	Notes	2014 £m	2013 £m
<b>Fixed assets</b>			
Investments	2	14,774	14,729
<b>Current assets</b>			
Debtors due within one year	3	131	70
Debtors due after more than one year	4	5	2
<b>Total current assets</b>		<b>136</b>	72
<b>Current liabilities</b>			
Creditors falling due within one year	5	(6,994)	(5,676)
<b>Net current liabilities</b>		<b>(6,858)</b>	(5,604)
<b>Total assets less current liabilities</b>		<b>7,916</b>	9,125
Provisions for liabilities and charges	6	(165)	(222)
<b>Net assets</b>		<b>7,751</b>	8,903
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Called up share capital	7	74	74
Share premium account	8	243	243
Profit and loss reserve	8	7,434	8,586
<b>Total Shareholders' funds</b>		<b>7,751</b>	8,903

The Financial Statements on pages 119 to 125 were approved by the Board of Directors on 19 March 2015 and signed on its behalf by:

**ADRIAN BELLAMY**  
Director

**RAKESH KAPOOR**  
Director

## Notes to the Parent Company Financial Statements

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### 1 Parent Company Accounting Policies

#### Accounting Convention

The Financial Statements are prepared on a going concern basis under the historical cost convention in accordance with the Companies Act 2006 and applicable UK accounting standards. Accounting policies have been consistently applied to all the years presented unless otherwise stated.

As permitted by s.408 of the Companies Act 2006, no profit and loss account is presented for Reckitt Benckiser Group plc.

#### Foreign Currency Translation

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

#### Taxation

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

A net deferred tax asset is considered recoverable if it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

#### Fixed Assets

Fixed asset investments are stated at the lower of cost and their recoverable amount, which is determined as the higher of net realisable value and value in use. A review for the potential impairment of an investment is carried out by the Directors if events or changes in circumstances indicate that the carrying value of the investment may not be recoverable. Such impairment reviews are performed in accordance with FRS 11, 'Impairment of Fixed Assets and Goodwill'.

#### Employee Share Schemes

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

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the Company accounts.

#### Debtors

Debtors are initially recognised at fair value less provision for impairment.

#### Provisions

Provisions are recognised when the Company has a present or constructive obligation as a result of past events, it is more likely than not that there will be an outflow of resources to settle that obligation, and the amount can be reliably estimated.

#### Share Capital Transactions

When the Company purchases equity share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a charge to equity. Purchased shares are either held in Treasury in order to satisfy employee options, or cancelled and, in order to maintain capital, an equivalent amount to the nominal value of the shares cancelled is transferred from the profit and loss reserve.

#### Dividends

Dividends payable are recognised when they meet the criteria for a present obligation (i.e. when they have been approved).

#### Cash Flow Statement

Reckitt Benckiser Group plc has presented a Group cash flow statement in its 2014 Annual Report and Financial Statements. The Directors have not prepared a cash flow statement for the Company.

## 2 Investments

	Shares in subsidiary undertakings £m
Cost:	
At 1 January 2014	14,729
Additions during the year	554
Demerger of subsidiary during the year	(509)
<b>At 31 December 2014</b>	<b>14,774</b>
Provision for impairment:	
At 1 January 2014	–
Provided for during the year	–
<b>At 31 December 2014</b>	<b>–</b>
Net book amounts:	
At 1 January 2014	14,729
<b>At 31 December 2014</b>	<b>14,774</b>

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

During the year, as part of the internal reorganisation, Reckitt Benckiser Pharmaceuticals Inc. was made a direct investment of Reckitt Benckiser Group plc prior to demerger.

### Principal Subsidiary Undertakings

The principal subsidiary undertakings as at 31 December 2014, all of which are included in the consolidated financial statements, are shown below.

	Product category	Country of incorporation or registration and operation	Effective % of share capital held by the Group
Reckitt Benckiser plc	holding company	UK	Ordinary 100
Reckitt Benckiser (Australia) Pty Limited	health, hygiene, home	Australia	Ordinary 100
Reckitt Benckiser (Brasil) Limitada	health, hygiene, home	Brazil	Ordinary 100
Reckitt Benckiser (Canada) Inc.	health, hygiene, home and Food	Canada	Ordinary 100
Reckitt Benckiser Deutschland GmbH	health, hygiene, home	Germany	Ordinary 100
Reckitt Benckiser España SL	health, hygiene, home	Spain	Ordinary 100
Reckitt Benckiser France SAS	health, hygiene, home	France	Ordinary 100
Reckitt Benckiser Healthcare (UK) Limited	health, hygiene, home	UK	Ordinary 100
Reckitt Benckiser LLC	health, hygiene, home and Food	US	Ordinary 100
Reckitt Benckiser (India) Limited	health, hygiene, home	India	Ordinary 100
Reckitt Benckiser Italia SpA	health, hygiene, home	Italy	Ordinary 100
Reckitt Benckiser Arabia FZE	health, hygiene, home	UAE (Dubai)	Ordinary 100
Schiff Nutrition International, Inc.	health	US	Ordinary 100

With the exception of Reckitt Benckiser plc, none of the above subsidiaries are held directly by Reckitt Benckiser Group plc. All subsidiaries have a financial year ending 31 December with the exception of Reckitt Benckiser (India) Limited which has a year ending 31 March.

The principal subsidiary undertakings as at 31 December 2013 also included Reckitt Benckiser Pharmaceuticals Inc., which was included in the demerger of the pharmaceutical business. Refer to note 27 of the Group financial statements for further details.

As permitted by s.410 of the Companies Act 2006, particulars of other subsidiary undertakings are not shown above. A full list of the Company's subsidiary undertakings will be annexed to the Company's annual return to Companies House.

### 3 Debtors Due Within One Year

	2014 £m	2013 £m
Amounts owed by Group undertakings	131	70

Amounts owed by Group undertakings are unsecured, interest free and are repayable on demand.



Notes to the Parent Company Financial Statements

**4 Debtors Due After More Than One Year**

	<b>2014</b> <b>£m</b>	2013 £m
Deferred tax assets	<b>5</b>	2

Deferred tax assets consist of short-term timing differences.

**5 Creditors: Amounts Falling Due Within One Year**

	<b>2014</b> <b>£m</b>	2013 £m
Amounts owed to Group undertakings	<b>6,989</b>	5,673
Taxation and social security	<b>5</b>	3
	<b>6,994</b>	5,676

Included in the amounts owed to Group undertakings is an amount of £6,989m (2013: £5,671m) which is unsecured, carries interest at LIBOR and is repayable on demand. All other amounts owed to Group undertakings are unsecured, interest free and are repayable on demand.

**6 Provisions for Liabilities and Charges**

	Legal provisions £m	Share buyback provisions £m	Total provisions £m
At 1 January 2013	–	–	–
Charged to the income statement	225	–	225
Utilised during the year	(3)	–	(3)
At 31 December 2013	222	–	222
Charged to equity	–	413	413
Divested upon demerger	(15)	–	(15)
Utilised during the year	–	(313)	(313)
Released to the income statement	(142)	–	(142)
<b>At 31 December 2014</b>	<b>65</b>	<b>100</b>	<b>165</b>

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

	<b>2014</b> <b>£m</b>	2013 £m
Current	<b>165</b>	137
Non-current	<b>–</b>	85
	<b>165</b>	222

Provisions are recognised when the Company has a present or constructive obligation as a result of past events, it is more likely than not that there will be an outflow of resources to settle that obligation, and the amount can be reliably estimated.

Legal provisions comprise indemnities provided by the Company. Legal provisions released during the year relate to those for which an indemnity is no longer required.

## Financial Statements

### 7 Called Up Share Capital

	Equity ordinary shares	Nominal value £m	Subscriber ordinary shares	Nominal value £m
<b>Issued and fully paid</b>				
At 1 January 2014	736,535,179	74	2	–
Cancelled	–	–	(2)	–
<b>At 31 December 2014</b>	<b>736,535,179</b>	<b>74</b>	<b>–</b>	<b>–</b>
	Equity ordinary shares	Nominal value £m	Subscriber ordinary shares	Nominal value £m
<b>Issued and fully paid</b>				
At 1 January 2013	734,210,757	73	2	–
Allotments	2,324,422	1	–	–
At 31 December 2013	736,535,179	74	2	–

For details of the share buyback programme and allotment of ordinary shares during 2014 refer to note 22 of the Group Financial Statements.

The holders of ordinary shares (par value 10p) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Parent Company.

The holders of subscriber ordinary shares (par value £1) have no entitlement to dividends. Holders have no right to attend or vote at any general meeting of the Company unless a resolution is proposed to wind up the Company or vary the rights attached to the subscriber shares. During 2014, all subscriber ordinary shares were cancelled.

### 8 Reconciliation of Movements in Shareholders' Funds

	Share capital £m	Share premium £m	Profit and loss reserve £m	Total £m
<b>Movements during the year:</b>				
<b>At 1 January 2014</b>	<b>74</b>	<b>243</b>	<b>8,586</b>	<b>8,903</b>
Profit for the year	–	–	1,128	1,128
Dividends	–	–	(2,034)	(2,034)
Capital contribution in respect of share-based payments	–	–	45	45
Share-based payments	–	–	10	10
Shares purchased and held in Treasury	–	–	(413)	(413)
Treasury shares reissued	–	–	112	112
<b>At 31 December 2014</b>	<b>74</b>	<b>243</b>	<b>7,434</b>	<b>7,751</b>
	Share capital £m	Share premium £m	Profit and loss reserve £m	Total £m
<b>Movements during the year:</b>				
At 1 January 2013	73	184	9,992	10,249
Loss for the year	–	–	(269)	(269)
Dividends	–	–	(992)	(992)
Shares allotted under share schemes	1	59	–	60
Capital contribution in respect of share-based payments	–	–	49	49
Share-based payments	–	–	6	6
Shares purchased and held in Treasury	–	–	(279)	(279)
Treasury shares reissued	–	–	79	79
At 31 December 2013	74	243	8,586	8,903

Reckitt Benckiser Group plc has £7,025m (2013: £8,288m) of its profit and loss reserve available for distribution.

Refer to note 22 of the Group financial statements for details of Treasury shares and other equity transactions.

Notes to the Parent Company Financial Statements

**9 Share-Based Payments**

Reckitt Benckiser Group plc has two employees, the Group's CEO and CFO. The tables below include details of their share awards granted to individuals whilst holding these roles, and those for any individuals previously holding these roles. Details of their share awards that are not fully vested are set out in the Directors' Remuneration Report. The charge for share-based payments for the year was £10m (2013: £6m) and national insurance contributions were £5m (2013: £3m). The Company has used the Black-Scholes pricing model to calculate the fair value of one award on the date of the grant of the awards.

The fair value of awards with options outstanding at 31 December 2014 is shown in note 23 of the Group financial statements.

**Table 1: Share awards movements 2014**

Award	Grant date	Fair value of one award £	Movement in number of options				
			Options outstanding at 1 Jan 2014 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2014 number
<b>Share options</b>							
2012	05 December 2011	3.18	436,346	11,286	(36,346)	–	411,286
2013	03 December 2012	3.29	490,000	13,806	–	–	503,806
2014	11 December 2013	3.85	490,000	13,809	–	–	503,809
2015	01 December 2014	4.34	–	490,000	–	–	490,000
<b>Restricted shares</b>							
2011	01 December 2010	28.22	18,173	–	(18,173)	–	–
2012	05 December 2011	25.30	207,372	5,643	(4,423)	(2,949)	205,643
2013	03 December 2012	32.76	245,000	6,913	–	–	251,913
2014	11 December 2013	39.80	285,000	8,042	–	–	293,042
2015	01 December 2014	43.93	–	285,000	–	–	285,000
<b>Other share awards</b>							
UK SAYE	04 September 2006	6.61	1,011	–	–	(1,011)	–
UK SAYE	04 September 2013	7.53	403	–	–	–	403
<b>Weighted average exercise price (share options)</b>			<b>£39.97</b>	<b>£49.72</b>	<b>£32.09</b>	<b>£16.90</b>	<b>£42.02</b>

**Table 2: Share awards movements 2013**

Award	Grant date	Fair value of one award £	Movement in number of options				
			Options outstanding at 1 Jan 2013 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2013 number
<b>Share options</b>							
2007	08 December 2006	4.23	800,000	–	–	(800,000)	–
2008	11 December 2007	5.99	600,000	–	–	(600,000)	–
2009	08 December 2008	4.69	600,000	–	–	(600,000)	–
2010	07 December 2009	4.70	534,615	–	–	(534,615)	–
2011	01 December 2010	4.49	334,615	–	(66,923)	(267,692)	–
2012	05 December 2011	3.18	490,000	–	(53,654)	–	436,346
2013	03 December 2012	3.29	400,000	90,000	–	–	490,000
2014	11 December 2013	3.85	–	490,000	–	–	490,000
<b>Restricted shares</b>							
2010	07 December 2009	27.23	267,308	–	–	(267,308)	–
2011	01 December 2010	28.22	177,308	8,173	(33,461)	(133,847)	18,173
2012	05 December 2011	25.30	245,000	–	(37,628)	–	207,372
2013	03 December 2012	32.76	200,000	45,000	–	–	245,000
2014	11 December 2013	39.80	–	285,000	–	–	285,000
<b>Other share awards</b>							
UK SAYE	04 September 2006	6.61	1,011	–	–	–	1,011
UK SAYE	04 September 2013	7.53	–	403	–	–	403
<b>Weighted average exercise price (share options)</b>			<b>£29.79</b>	<b>£46.48</b>	<b>£33.51</b>	<b>£27.94</b>	<b>£39.97</b>

Further details of the share awards relating to the relevant Directors are set out in the Directors' Remuneration Report on pages 47 to 59. For details of the contractual life, performance criteria, valuation assumptions and volatility of the share awards, please refer to note 23 of the Group financial statements.

For options outstanding at year end the weighted average remaining contractual life of the outstanding options is 6.38 years (2013: 5.63 years).

The weighted average share price for the year was £50.51 (2013: £45.80).

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### 10 Auditors' Remuneration

The fee charged for the statutory audit of the Company was £0.05m (2013: £0.05m).

### 11 Related Party Transactions

The Company has taken advantage of the exemption within Financial Reporting Standard No. 8 'Related Party Disclosures' not to disclose related party transactions with wholly owned subsidiaries of the Reckitt Benckiser Group. There were no other related party transactions (2013: nil).

### 12 Contingent Liabilities

The Company has issued a guarantee to the Trustees of the Reckitt Benckiser Pension Fund covering the obligations of certain UK subsidiaries of the Group who are the sponsoring employers of the UK defined benefit pension fund. The guarantee covers any amounts due to the pension fund from these subsidiaries if they fail to meet their pension obligations.

The Company has also issued a guarantee on behalf of Reckitt Benckiser Treasury Services plc in relation to the issuance of a US\$1bn bond (two tranches of US\$500m). Details are included in note 14 of the Group financial statements.

The Company has also issued other guarantees relating to subsidiary undertakings amounting to £1m (2013: £1m).

Other contingent liabilities are disclosed in note 19 of the Group financial statements.

### 13 Dividends

During 2014 the Directors declared an interim cash dividend of 60p (2013: 60p) and proposed a final cash dividend of 79p (2013: 77p). In addition on 23 December 2014 the pharmaceutical business was demerged by means of a non-cash dividend, granting all Reckitt Benckiser Group plc ordinary Shareholders new shares in the newly formed Indivior PLC

For further details, refer to note 28 of the Group financial statements.

### 14 Post Balance Sheet Events

On 11 February 2015, we announced our intention to supplement the current share buyback policy with an additional share buyback programme in 2015 of up to £500m. This, combined with the previous share buyback programme announced in 2014, will absorb approximately £800m of Shareholders' funds.

## Our Relationships and Principal Operating Risks

A summary of Strategic Risks and Uncertainties appears on pages 24 of this report. Following is a more expansive explanation of principal risks, relationships and uncertainties facing the Group, including risks that are not specified in that summary. This report, however, is not an all-inclusive list of risks that may affect the Group and other factors may pose a material risk to the business.

### Overall Business Environment

We are one of the world's leading manufacturers and marketers of branded health, hygiene and home products, selling a comprehensive range of products through over 60 operating companies in nearly 200 countries. Consequently, our business and results of operations are affected by changes in both global economic conditions and the individual markets in which we operate. Global economic trends continue to pose challenges, and in many of our markets, austerity measures, constraints on consumer lending and slow or no economic growth continue to impede consumer purchasing power and adversely impact consumer confidence. In addition, terrorist acts, civil unrest and other similar disturbances, as well as natural catastrophes, can impact economic conditions and consumer confidence, degrade infrastructure, disrupt supply chains and otherwise result in business interruption.

A variety of factors may adversely affect our results of operations and financial condition during periods of economic uncertainty or instability, social or labour unrest or political upheaval in the markets in which we operate. For example, our operations and supply chains may be disrupted. Consumers may purchase less or switch to purchasing generic products, private label products and economy brands, as opposed to branded products, which could impact our sales, or result in a shift in our product mix from higher margin to lower margin product offerings. In addition, we may face increased pricing pressure or competing promotional activity for lower-priced products as competitors seek to maintain sales volumes. Periods of economic upheaval may also expose us to greater counterparty risks, including with customers, suppliers and financial institutions, who may become insolvent or otherwise unable to perform their obligations. We may also experience greater fluctuations in foreign currency movements, increased commodity prices and increased transportation and energy costs. Periods of economic and political upheaval may also lead to government actions, such as imposition of martial law, trade restrictions, foreign ownership restrictions, capital, price or currency controls, nationalisation or expropriation of property or other resources, or changes in legal and regulatory requirements, including those resulting in potentially adverse tax consequences. We may also be unable to access credit markets, including the commercial paper market, on favourable terms, or at all, which could materially adversely affect our liquidity and capital resources or significantly increase our cost of capital.

### Sources of Group Revenue and Growth

Our Powerbrands collectively contribute a significant portion of our revenue, and any material adverse change to demand for existing Powerbrands or any future products we may develop, could have a material adverse effect on our business. Our results of operations depend to a significant extent on our ability to launch and sell products that appeal to, and are accepted by consumers and, in particular, our Powerbrands. Consumer preferences, tastes and habits are constantly evolving. Various factors, some of which are beyond our control, may have an adverse impact on demand for our Powerbrands. For example, certain products within our health and hygiene categories have in the past exhibited, and may in the future exhibit, seasonal fluctuations. Launch of new products or variants of our existing Powerbrands may not neutralise the impact of weak performance of one of our Powerbrands. Similarly, our failure to differentiate our existing Powerbrands or future products from competitors, whether through quality, innovation, marketing or otherwise, may adversely impact consumer demand for our products. Certain markets, including a number of emerging markets in which we plan to focus our investment and growth efforts, exhibit more volatile demand in reaction to macro-economic factors than other markets. Similarly, if

consumer patterns change within the major consumer clusters that we have identified, or fail to react as anticipated, we may have to reassess our growth plans, and alter our sales strategy. If we are unable to respond to changes in consumer demand in a timely or adequate manner, or at all, and/or accurately predict or anticipate factors that may impact demand, and if we are unable to differentiate our brands from competitors, our business, financial condition and results of operations may be materially and adversely affected.

Our business, financial condition, and results of operations substantially depend on our ability to improve our existing products, and successfully develop and launch new products and technologies. Our ability to maintain and grow our market share depends to a large extent on our ability to successfully and cost-effectively introduce and market new products (whether variants of existing, or newly developed, products), and to develop equipment, technology and manufacturing processes for our products. If we are unable to successfully develop, launch and market new products that obtain consumer acceptance, in a timely manner, or at all, we may be unable to compete and maintain or grow our market share. Any new product or line extension may not generate sufficient consumer interest and sales levels to become a profitable product or to cover the costs of its development or promotion. In addition, if we decide to pursue growth opportunities in new categories and new category segments or in regions in which we have no prior experience or limited experience, we may become exposed to unexpected or greater risks and potential losses.

Product innovation and development generally involve considerable costs, and may demand a lengthy process. For example, research and development required to develop health products could take a significant period of time, from discovery to commercial product launch, and given the limited duration of patents, the longer we take to develop and launch a product, the less is the time for which we have exclusivity, in which we can recoup our development costs and seek to profit. We may be unable to successfully complete clinical trials and obtain applicable regulatory approvals in a timely manner, or at all, and may fail to gain market approval for our products. Additionally, we may encounter infringement claims by competitors, which may preclude or delay commercialisation of our products. Any delays could result in us not being the first to market, and could undermine our competitive advantage. If any of the products we are currently developing, or may develop in future, fail to become market-ready or to achieve commercial success at expected levels, or at all, we may incur substantial losses. If we fail to develop or upgrade our equipment, technology and manufacturing processes at least in line with our competitors, we may be unable to compete effectively and lose market share.

Substantial harm to our reputation, or the reputation of one or more of our brands, may materially adversely affect our business. The majority of our brands have worldwide recognition. Maintaining our established reputation and trust with key stakeholders, including consumers, customers and trading partners is critical to our business. Various factors may adversely impact our reputation, including product quality inconsistencies or contamination. We have in the past faced quality-related issues, which resulted in trade and consumer recalls and such recalls may have a material adverse impact on our reputation. Raw materials that we source for production may become contaminated through the supply chain, and other product defects may occur due to human error or equipment failure, among other things. Reputational risks may also arise with respect to the methods and practices of third parties that are part of our supply chain, including labour standards, health, safety and environmental standards, raw material sourcing, and ethical standards in the countries in which we operate. We may also be the victim of product tampering.

Any perceived or actual concerns related to our products, our supply chain, or the industry more generally, such as the long-term effects of household chemicals and OTC (over-the-counter) drug ingredients on human health and the environment, may be widely disseminated online, on consumer

blogs or other social media sites, or via print and broadcast media. Similarly, any litigation that we face may subject us to increasing negative attention in the press. In addition, companies with global operations recently have come under criticism for corporate tax planning, and criticism of our structures or those of our peers could also generate negative publicity. Any negative publicity could significantly undermine our reputation, and current methods of dissemination of information (including the ability of reports to 'go viral' online) mean that potential threats to reputation can occur in a very short period of time and reach a far broader audience than historically was the case, making it far more difficult to address. Moreover, third parties may sell products that are counterfeit or unauthorised versions of our brands, or inferior 'lookalike' brands that resemble ours. Consumers may confuse our products with such brands.

### Competition and Customers

We operate in intensely competitive industries. We face vigorous competition worldwide. We compete with well-established local, regional, national and international companies that target the same consumer base as we do, some of whom may have more significant resources with which to establish and promote their products. We also face competition from 'private label' products, and generic non-branded products, which typically are sold at lower prices, by major retail companies, some of whom may be our customers. Competition from these sources has grown in recent years.

Consolidation of key trade customers in the sectors in which we operate may limit opportunities for growth, and increase competitive pressures further. Our products generally compete on the basis of product quality and performance, promotional activities, brand recognition, price, timely development and launch, or other benefits to consumers. If we are unable to offer products that consumers choose over our competitors' products, our business and results of operations may be materially adversely affected. In addition, our products compete with other products for shelf space in retail stores and for marketing focus, such as via in-store promotional activities of our brands. Our competitive position, and consequently sales of our products, may be harmed to the extent that we are unable to successfully maintain sound working relationships with our trade customers, who determine access to shelf space and product placement on shelf, set retail prices and control in-store promotional activities of our brands, and can establish pricing differentials between similar products on shelf.

As the retail sector becomes more concentrated, retailers could impose downward pressure on prices and require commercial incentives before agreeing to offer our products for sale to consumers. Further, to the extent trade customers increase usage of their own distribution networks and private label brands, the competitive advantage we derive from our brand equity could be impaired. In addition, new sales channels have emerged, and continue to emerge, such as sales made through the Internet via online shopping, which may affect customer and consumer preferences, and competitive dynamics. If we are unable to effectively compete in these new channels, this could adversely impact our results and our prospects. Moreover, increased competition means that we need to spend more on promotion of our products.

Any of the foregoing could have a material adverse impact on our future sales and prospects, consequently adversely impacting our results of operations. Competition also extends to administrative and legal challenges of product claims and advertising. Responding to legal challenges and defending our products and intellectual property rights could result in significant expenses and may divert resources away from product and technological innovation, which may have a material adverse impact on our financial condition and results of operations.

### General Financial Risks of a Global Company

We are subject to risks relating to estimates and assumptions that we are required to make, and that affect the reported amounts in our financial

statements. The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and revenue and expenses during the reporting period. Although estimates are based on management's best knowledge at the time, actual amounts may ultimately differ from those estimates. For example, measurement of intangible assets, both in acquisitions and business combinations, requires us to identify such assets and any assumptions and estimates of future cash flows and appropriate discount rates to value identified assets may be impacted by various factors, including adverse economic conditions, or integration issues.

The Group's multinational operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates (foreign exchange risk), market prices, interest rates, credit risks and liquidity. The Group has in place a risk management programme that uses foreign currency financial instruments, including debt, and other instruments, to limit the impact of these risks on the financial performance of the Group. The Group's financing and financial risk management activities are centralised into Group Treasury to achieve benefits of scale and control. Group Treasury manages financial exposures of the Group centrally in a manner consistent with underlying business risks. Group Treasury manages only those risks and flows generated by the underlying commercial operations and speculative transactions are not undertaken. The Board reviews and agrees policies, guidelines and authority levels for all areas of Treasury activity and individually approves significant activities. Group Treasury operates under the close control of the CFO and is subject to periodic independent reviews and audits, both internal and external.

### Tax Laws and Regulations

Changes in tax legislation and other circumstances that affect tax calculations could adversely affect our financial condition and results of operations. We conduct business operations in a number of countries, and are therefore subject to tax and intercompany pricing laws in multiple jurisdictions, including those relating to the flow of funds between RB and its subsidiaries. Our effective tax rate in any given financial year reflects a variety of factors that may not be present in succeeding financial years, and may be affected by changes in the tax laws of the jurisdictions in which we operate, or the interpretation of such tax laws. Certain tax positions taken by us are based on industry practice, tax advice and drawing similarities from our facts and circumstances to those in case law. In particular, international transfer pricing is an area of taxation that depends heavily on the underlying facts and circumstances and generally involves a significant degree of judgement.

Changes in tax laws, regulations and related interpretations and increased enforcement actions and penalties may alter the environment in which we do business, and tax planning arrangements are frequently scrutinised by tax authorities worldwide. We have in the past faced, and may in the future face, audits and challenges brought by tax authorities, and we are involved in ongoing tax investigations in a number of jurisdictions around the world. If material challenges were to be successful, our effective tax rate may increase, we may be required to modify structures at significant costs to us, we may also be subject to interest and penalty charges and we may incur costs in defending litigation or reaching a settlement. Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

### Currency Exchange

The Group prepares its financial statements in Sterling but conducts business in many foreign currencies. As a result, it is subject to foreign exchange risk due to the effects that exchange rate movements have on the translation of the results and the underlying net assets of its foreign subsidiaries. The Group's policy is to align interest costs and operating profit of its major currencies in order to provide some protection against the translation exposure on foreign currency profits after tax. The Group may undertake borrowings and other hedging methods in the currencies

## Our Relationships and Principal Operating Risks

of the countries where most of its assets are located. For transactions, it is the Group's policy to monitor and, only where appropriate, hedge its foreign currency transaction exposures. These transaction exposures arise mainly from foreign currency receipts and payments for goods and services, and from the remittance of foreign currency dividends and loans. The local business units enter into forward foreign exchange contracts with Group Treasury to manage these exposures, where practical and allowed by local regulations. Group Treasury manages the Group exposures, and hedges the net position where possible, using spot and forward foreign currency exchange contracts.

In FY 2014, 92% of our net revenue was derived from markets outside the United Kingdom. The Sterling value of our revenues, profits and cash flows from non-UK markets may be reduced or our supply costs, as measured in Sterling in those markets, may increase. Additionally, a number of our competitors are based in countries whose currencies fluctuate against Sterling, and they may benefit from having their costs incurred in weaker currencies relative to Sterling. We prepare our financial statements in pounds sterling, and our financial results are affected by fluctuations between the relative value of Sterling and other functional currencies, particularly the US dollar and Euro. For example, in FY 2014, we incurred a net exchange loss on foreign currency translation, net of tax, of £328m in our statement of comprehensive income. Further, currency translations may make it more difficult for investors to understand the relative strengths or weaknesses of the underlying business on a period-to-period comparative basis. We currently hedge some of our currency exposures using financial instruments, and we seek to align our interest costs and operating profits of our major currencies where possible, which may not be effective. Hedging transactions do not eliminate the exchange rate risk entirely, and may not be fully, or at all, effective.

We are subject to the risk that countries in which we operate may impose or increase exchange controls or devalue their currency. We operate in a number of countries, particularly emerging markets, which impose exchange controls, including, but not limited to, Argentina, Brazil, China, India, Russia, South Africa and Venezuela. Such controls may restrict or make it impossible to convert local currency into other currencies, restrict our ability to repatriate earnings from a country (for example, £89m of our cash and cash equivalents as at 31 December 2014 were restricted for use by us), borrow on the international markets to fund operations in that country or limit our ability to import raw materials or finished products, any or all of which could materially adversely affect our business, liquidity and results of operations. In addition, emerging markets are prone to currency devaluations, such as, for example, the devaluation by the Russian Rouble in 2014, which tend to make our products more expensive in local currency terms.

Due to the nature of its business the Group is exposed to commodity price risk related to the production or packaging of finished goods such as those that are oil-related, and a diverse range of other, raw materials. This risk is, however, managed primarily through medium-term contracts with certain key suppliers and is not viewed as being a material risk. The Group is not exposed to equity securities price risk.

### Credit and Interest Rates

The Group has both interest-bearing and non interest-bearing assets and liabilities. The Group monitors its interest expense rate exposure on a regular basis. The Group manages its interest rate exposure on its gross financial assets by using fixed rate term deposits.

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

The Group has bilateral credit facilities with high-quality international banks. All of these facilities have similar or equivalent terms and conditions, and have a financial covenant, facilities and central cash and investments, are considered sufficient to meet the Group's projected cash requirements. Funds over and above those required for short-term working capital purposes by the overseas businesses are generally remitted to Group Treasury. The Group uses the remittances to settle obligations, repay borrowings or, in the event of a surplus, invest in short-term instruments issued by institutions with a BBB rating or above.

Our business may be adversely affected by our funding requirements. Our liquidity needs are driven by our ability to generate cash from operations and the level of borrowings (and related levels of headroom), the level of acquisition, the level of share repurchases and dividends, dispositions, target ratings for our debt and options available to us in the equity and debt markets. We obtain our funding primarily from the commercial paper market and have benefited from the low interest rate environment. We maintain committed back-up credit facilities, which have remained undrawn since FY 2009. At 31 December 2014, we had £3,500m in undrawn commitments. If we are not able to access the commercial paper market to the extent that we require, or at all, we may need to drawdown amounts under our committed bilateral credit facilities, which accrue interest at floating rates based on changes in certain published rates such as LIBOR. Increases in such rates could result in significantly higher interest expense for us, which would negatively affect our results of operations. As part of our strategy to maintain financial flexibility, as well as to procure additional funding for future acquisitions, including both bolt-on acquisitions as well as acquisitions that may be more material in size, we increased the level of medium-term funding in 2013 with the placement of a US\$1bn bond in the US debt market.

The Group's objectives for managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for Shareholders and benefits for other stakeholders, and to maintain an efficient capital structure to optimise the cost of capital. In maintaining an appropriate capital structure and providing returns for Shareholders, in 2014 the Company has provided returns to Shareholders in the form of dividends, the current details of which are included in the Financial Review for the year on page 20, and share buy backs. The Group monitors net debt (total borrowings less cash and cash equivalents, short-term available for sale financial assets and financing derivative financial instruments) and at the year end the Group had net debt of £1,543m (2013: £2,096m). The Group seeks to pay down net debt using cash generated by the business to maintain an appropriate level of financial flexibility. Details of numerical disclosures relating to the Group's financial risk management are included in note 14 to the financial statements on pages 96 to 101.

### Acquisitions and Divestitures

We have grown, and may continue to grow, in part, through acquisitions, joint ventures and business alliances, which involve various risks. While we are principally focused on organic growth, we have in the past grown, and expect in the future to continue to grow, through acquisitions. Acquisitions present a range of risks and uncertainties. Historically we have funded acquisitions through short-term borrowings, which we repaid through cash flow from our operations. In the past four years, we have moved away from this model due in part to the size of the acquisitions. We expect that future acquisitions will be funded through either additional borrowings or through equity, or a combination of the two. We are shifting our capital structure in favour of more medium-term borrowings, in part to be able to fund larger acquisitions. This in turn could result in an increase in our net debt, and will likely increase our level of interest expense as we move away from the commercial paper market, which has benefited from the low interest rate environment.

Material or transformative acquisitions could require Shareholder approval, either due to the level of equity funding or due to corporate governance requirements. While we target a strong investment grade 'A' banded credit



rating for our debt, acquisitions of a certain size, to the extent we rely more heavily on debt funding, could place pressure on our credit rating. Our competitors may choose to target the same acquisition candidates, and consolidation in the industry may limit available opportunities for acquisitions. We may also be restricted by applicable antitrust laws, foreign investment laws, or other laws and regulations, from pursuing acquisitions, in which case we may bear substantial out-of-pocket expenses associated with a failed acquisition.

We may fail to achieve projected financial results of acquisitions, including expected cost and revenue synergies. In making acquisitions, we make various assessments, including expected growth rates which we may fail to achieve. To the extent that economic benefits associated with our acquisitions diminish in the future, we may be required to record impairment charges to goodwill or other assets, which could affect our financial condition. Through our acquisitions, we may also assume unknown or undisclosed business, operational, tax, regulatory and other liabilities, fail to properly assess known contingent liabilities or assume businesses with internal control deficiencies. While we seek to mitigate these risks in most of our transactions through, among other things, due diligence processes and indemnification provisions, we cannot be certain that the due diligence processes we conduct are adequate (particularly with respect to acquisitions of privately held companies and in countries where legislation and transparency make the process more difficult) or that the indemnification provisions and other risk mitigation measures we put in place will be sufficient.

We could also face significant risks related to integration of the acquired businesses into the RB Group, particularly if we attempt to simultaneously integrate multiple businesses. Acquisitions in emerging markets, such as China, may impose particular risks related to integration across different corporate cultures, systems, languages and other market and regulatory risks. In addition, acquisitions in markets in which we have limited or no prior experience may pose a greater risk. Moreover, integration of acquired businesses, as well as any attendant internal reorganisation, can also require significant management attention, which may place strain on management resources and processes, and otherwise disrupt operations. Acquisitions can also place a strain on Group-wide internal control systems.

If we are unable to effectively manage risks associated with acquisitions, our business, financial condition and results of operations may be materially adversely affected. In addition, we may choose to enter into joint ventures, business alliances or collaboration agreements, which could involve the same or similar risks and uncertainties as are involved in acquisitions. Joint ventures for example, generally involve a lesser degree of control over business operations, which have in the past presented, and may in the future present, greater financial, legal, operational and/or compliance risks.

### Supply Chain

We face risks of interruptions of our supply chain and disruptions in our production facilities, which could materially adversely affect our results of operations. We source our raw and packaging materials (including bulk chemicals, plastics, pulp and metal cans) and finished goods from a wide variety of predominantly international chemical and packaging companies and co-packers. We also outsource the manufacture of some of our products to third parties. Our suppliers generally are diversified in terms of geography and supplied items, but we may face risks to continuity of supply arising from certain specialised suppliers, both of raw materials and of third party manufactured items, including specialty chemicals and components. We may also incur higher prices for raw materials than we may otherwise have to pay if we adopted a more concentrated approach to obtaining supplies.

More generally, significant disruptions to our suppliers' operations, such as disruptions resulting from natural catastrophes (including as a result of the effects of climate change), pandemics or other outbreaks of diseases, acts of war or terrorism, or otherwise, may affect our ability to source raw

materials on a more global basis, and negatively impact our costs. The failure of a number of third party suppliers to fulfil their contractual obligations, in a timely manner, or at all, may result in delays or disruptions to our business. Replacing suppliers may require a new supplier to be qualified under industry, governmental or our own internal standards, which could require investment and may take time. In addition, a number of our facilities are critical to our business and major or prolonged disruption at those facilities, whether due to accidents, sabotage or otherwise could materially adversely affect our operations. Moreover, sites in which our products are manufactured are subject to supervision by regulatory agencies, on both an ongoing and ad hoc basis. If we are unable to obtain or produce sufficient quantities of a particular product, at specifically approved facilities, whether due to disruption to, or failure of, our manufacturing processes, or otherwise, we may fail to meet customer demand on a timely basis, which could undermine our sales and result in customer dissatisfaction and damage to our reputation.

In addition, any failure to comply with applicable legal and regulatory requirements could lead to interruption of production, product recalls, seizures and revocation of licenses to operate at any of our facilities. Any interruption or disruption in our supply chain, particularly if significant or prolonged, could materially adversely affect our business, prospects, results of operations and financial condition.

Volatility in the price of commodities, energy and transportation may impact our profitability. Certain materials for the production or packaging of finished goods, such as oil-related commodities, are subject to fluctuating prices. Increases in the costs or decreases in the availability of these commodities, and increases in other costs such as energy and transportation, could adversely affect our profitability if we are unable to pass on the higher costs in the form of price increases or otherwise achieve cost efficiencies. Even if we were to increase the prices of our products, competitors may opt not to adjust their prices in response to increasing costs and customers may refuse to pay higher prices. Our inability to manage this risk effectively, or at all, could have a material adverse effect on our results of operations.

### Information Technology

A disruption to, or failure of, our information technology systems and infrastructure, may adversely affect our business. We are increasingly dependent on information technology systems and infrastructure to support a wide variety of key business processes, including processing and storage of confidential data, as well as for international and external communications as part of our accounting, logistics and distribution functions with suppliers, customers and consumers. Failures or disruptions to our systems or the systems of third parties on whom we rely, due to any number of causes, particularly if prolonged, or if any failure or disruption were to impact our backup or disaster recovery plans, could result in a loss of key data and/or affect our operations.

The combination of our recently initiated business reorganisation and continued implementation of our enterprise resource planning (ERP) programmes could result in sub-optimal implementations and reduced focus due to conflicting demands for management attention. Our computer systems, software and networks may be vulnerable to unauthorised access (from within our organisation or by third parties), computer viruses or other malicious code and other cyber threats that could have a security impact. The occurrence of one or more of these events potentially could jeopardise confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

## Our Relationships and Principal Operating Risks

We routinely transmit and receive personal, confidential and proprietary information by email and other electronic means. We have discussed and worked with customers, suppliers, counterparties and other third parties to develop secure transmission capabilities, but we do not have, and may be unable to put in place, secure capabilities with all such third parties and we may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a consumer, customer, supplier, counterparty or other third party could result in legal liability, regulatory action and reputational harm.

### Personnel and Management

We may be unable to attract and retain qualified personnel, including key senior management. We invest in recruiting and training personnel and senior management. Our business depends, in part, on executive officers and senior management to provide uninterrupted leadership and direction for our business, and qualified personnel for product R&D. This need is all the more acute in the context of a growing business, and the strategic internal reorganisations and resource planning programmes to promote and manage such growth. The market for talent is intensely competitive and may become increasingly more competitive. We could face challenges in sourcing qualified personnel, with the requisite training and suitable international experience, particularly in countries such as China, where the availability of skilled employees may be limited. Further, variable pay is, and will continue to be, the major element of our current Executive Directors' and Senior Executives' total compensation package.

If we achieve our target levels of performance, the variable elements will amount to 59%–76% of Executive Directors' total remuneration. If we are unable to achieve our performance targets, our senior management would not be entitled to such variable pay, which may operate as a disincentive for them to continue their employment with us. The loss of key personnel, or our inability to recruit qualified personnel to meet our operational needs, may delay, or curtail the achievement of major strategic objectives.

Labour disruptions may affect our results of operations. A substantial portion of our workforce is unionised, and our relationship with unions, including labour disputes or work stoppages, could have an adverse impact on our financial results. We are a party to collective bargaining agreements covering approximately one-third of our direct employees. If, upon the expiration of such collective bargaining agreements, we are unable to negotiate acceptable contracts with labour unions, it could result in strikes by the affected workers and thereby significantly disrupt our operations. Further, if we are unable to control health care and pension costs provided for in the collective bargaining agreements, we may experience increased operating costs and an adverse impact on future results of operations.

### Laws and Regulations

Our business is subject to significant governmental regulation. Our business and products are heavily regulated by governments and other regulatory bodies in the countries in which we operate. Regulation is imposed in respect of, but not limited to, ingredients, manufacturing standards, labour standards, product safety and quality, marketing, packaging, labelling, storage, distribution, advertising, imports and exports, social and environmental responsibility and health and safety. In addition, we are required to obtain and maintain licenses in respect of certain of our products, which must be regularly updated in order to improve our products and take into account any variations. If we are found by regulators or courts to have been non-compliant with applicable laws and regulations, we could be subject to civil remedies such as fines, injunctions or product recalls, and/or criminal sanctions, any of which could have a material adverse effect on our business, reputation, financial condition and results of operations.

We are subject to the introduction of new regulations, modification of existing regulations or changes in interpretations of existing or new

regulations. Changes to the laws and regulations to which we and our operations are subject, whether as a result of new or more stringent requirements, or more stringent interpretations of existing requirements, could impact the way we conduct our business or market our products (for example, up-scheduling of an OTC product would result in it being moved from on-the-shelf to behind the counter) and could impose significant compliance costs and have a material adverse effect on our results of operations.

The laws and regulations to which we are subject may not be transparent, may be difficult to interpret, and/or may be enforced inconsistently. In our experience, emerging markets can pose heightened risks with respect to laws and regulations, when compared with countries with more developed institutional structures. Given our focus on growth in developing markets, we are exposed to heightened regulatory risks. For example, in some emerging market countries, the laws and regulations to which we are subject may not always be fully transparent, can be difficult to interpret and may be enforced inconsistently. The legal systems in such countries may not be well-established or reliable. There may be a lack of respect for the rule of law, a lack of enforcement of property rights, inconsistent or insufficient access to remedy through legal systems, lack of judicial independence and corruption, which could result in greater uncertainty in enforcing contracts, difficulties in obtaining legal redress, particularly against the state or state-owned entities, and higher operational costs and risks to our business.

We could be subject to investigations and potential enforcement action, which could have a material adverse effect on our business. We could be subject to regulatory investigations or potential enforcement action that targets an industry, a set of business practices or our specific operations. These investigations or enforcement actions could be in respect of specific industry issues or broader business conduct issues. Moreover, these investigations or enforcement actions could be triggered by allegations of general corporate misconduct or by allegations of individual employee misconduct in violation of internal policies and procedures. Regulatory authorities and consumer groups may, from time to time, request or conduct reviews of the use of certain ingredients that are used in manufacturing our products, the results of which may have a material adverse effect on our business. Ingredient legislation could have a detrimental impact on our business, undermine our reputation and goodwill and affect consumer demand for products containing such ingredients. We may voluntarily remove, or be required to remove, certain ingredients from our products or any products that we may acquire. We may not be able to develop an alternative formulation, successfully modify our existing products or obtain necessary regulatory approvals on a timely basis or at all, which could adversely impact our business and results of operations.

Historical or future violations of antitrust and competition laws may have a material adverse impact on our business, financial condition and results of operations. We are subject to antitrust and competition laws in the vast majority of countries in which we do business. Failure to comply with applicable antitrust and competition laws, rules and regulations in any jurisdiction in which we operate may result in civil and/or criminal legal proceedings being brought against us. We have in the past been, currently are, and may in the future be, subject to investigations and legal proceedings with respect to antitrust and competition issues. In 2014 we were fined €121m by the French competition authorities (subject to appeal) following an investigation by the authority into co-operative actions by certain consumer product suppliers in that country, including RB. We are also involved in certain competition law-related proceedings in other countries. Competition and antitrust violations enquiries often continue for several years, can be subject to strict non-disclosure provisions, and, if laws are deemed to have been violated, can result in substantial fines and other sanctions, which may have a material adverse effect on our business, reputation, financial condition and results of operations. Our strategy for growth has historically included, and continues to include, acquisition

activities, which are subject to antitrust and competition laws. Such laws and regulations may impact our ability to pursue, or delay the implementation of, strategic transactions.

We operate in a number of countries in which bribery and corruption pose significant risks, and we may be exposed to liabilities under anti-bribery laws for any violations. Any violation of applicable money laundering laws could also have a negative impact on us. We are subject to anti-bribery laws and regulations that prohibit us and our intermediaries from making improper payments or offers of payments to foreign governments, their officials and political parties or private parties, for the purpose of gaining or retaining business, including the UK Bribery Act 2010, the US Foreign Corrupt Practices Act of 1977, as amended, and similar laws worldwide. Given our extensive international operations, particularly in emerging markets, where bribery and corruption may be more commonplace, we are exposed to significant risks, particularly with respect to parties that are not always subject to our control such as agents and joint venture partners. These risks may be heightened for us due to our operations in the health care sector, which in recent years has experienced greater compliance risks than other sectors. We may also be held liable for successor liability violations of such laws, committed by companies which we acquire, or in which we invest.

Acquisitions also expose us to risk of ongoing compliance issues until such time as we can fully integrate acquired operations into our compliance and control frameworks. Moreover, due to the significant amounts of money involved in global supply contracts, there is also potential for suppliers to attempt to bribe our employees. Actual or alleged violations of anti-bribery laws could result in severe consequences, including, but not limited to, civil and criminal sanctions, termination of contracts by our counterparties, disruptions to our business and reputational harm, all of which could materially and adversely affect our financial condition and results of operations. We also deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations. Any violation of anti-money laundering laws or regulations by us could have a negative effect on our results of operations.

Our business is subject to product liability claims. As a product manufacturer, we are subject, from time to time, to certain legal proceedings and claims arising out of our products, including as a result of unanticipated side effects or issues that become evident only after products are widely introduced into the marketplace. Some of our products present inherent dangers, including due to the presence of chemicals, which if mishandled or misused, could result in significant damage. We have paid in the past, and may be required in the future to pay, compensation for losses or injuries that are allegedly caused by our products. Product liability claims may arise, among other things, from claims that our products are defective, contain contaminants, provide inadequate warnings or instructions, or cause personal injury to persons or damage to property. Product liability claims, if resolved unfavourably, or if settled, could result in injunctions and/or may require us to pay substantial damages, and related costs, including punitive damages, as well as result in the imposition of civil and criminal sanctions. If one of our products is found to be defective, we could be required to recall it, and/or we may be required to alter our trademarks, labels, or packaging, which could result in adverse publicity, significant expenses, potential disruptions in our supply chain and loss of revenue.

We have in the past voluntarily implemented, and may in the future face product quality concerns and voluntarily implement, product recalls, which could expose us to product liability claims. Additionally, complaints, investigations and litigation by consumers or government authorities relating to our products, our competitors' products or individual ingredients may result in judgements that affect us and/or the industry in which we operate. A recall of a product that is similar to ours could result in confusion concerning the scope of the recall and/or a decline in consumer confidence about our products, which may consequently impact our business and results of operations. We may not be insured fully, or at

all, in respect of such risks, and we have in the past, and may in the future, face disputes with our insurers in the event that they refuse to cover a particular claim. In such instances, we may be required to bear substantial losses, which could adversely impact our capital expenditures, expenses and liabilities. Any of the foregoing could materially adversely impact our business, financial condition and results of operations.

Legal proceedings in respect of claims outside the product liability area could also adversely impact our business, results of operations and financial condition. Outside the product liability area, we are subject to legal proceedings and other claims arising out of the ordinary course of business, and we may become involved in legal proceedings, which include, but are not limited to, claims alleging intellectual property rights infringement, breach of contract, environmental laws and health and safety laws. From time to time, we face consumer complaints and/or civil or criminal investigations in respect of our products and their alleged purposes, including in respect of advertising claims that we make about our products. Significant claims, or a substantial number of small claims, may be expensive to defend and may divert management time and our resources away from our operations.

Where appropriate, we establish provisions to cover potential litigation-related costs. Such provisions may turn out to be insufficient, and any insurance coverage we maintain may not cover our losses fully, or at all. We cannot predict the outcome of individual legal actions. We may settle litigation or regulatory proceedings prior to a final judgment or determination of liability. We may do so to avoid the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when we believe we have valid defences to liability. We may also do so when the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Substantial legal liability could materially adversely affect our business, financial condition or results of operations or could cause significant reputational harm, which could seriously harm our business.

### Intellectual Property

We may be unable to secure and protect our intellectual property rights. Our business relies on protecting our brands and intellectual property rights. We may not be able to obtain and perfect our intellectual property rights and, even if obtained, these rights may be invalidated, circumvented or challenged in future. Third parties may infringe on, or misappropriate, our rights, by for example, asserting rights in, or ownership of, our trademarks, trade dress rights, designs, patents, copyrights or other intellectual property rights. If we fail to discover any infringements of our intellectual property rights, or are otherwise unable to successfully defend and enforce our rights, our business, prospects, and results of operations could be materially adversely affected. Sales of counterfeit or unauthorised versions of our brands or inferior 'lookalike' brands which resemble ours, could result in confusion among consumers between our products and such other brands. Consequently, our brand equity and reputation may be undermined. Any failure to perfect or successfully assert our intellectual property rights could make us less competitive and may have a material adverse effect on our business, operating results and financial condition. In addition, our intellectual property rights may be undermined if one of our trademarks or brand names were to become a generic name for, or synonymous with, a general class of product or service. Should any of our trademarks become genericised, competitors may be allowed to use the genericised trademark to describe their similar products in certain countries.

The loss of patent protection, ineffective protection, or expiration of our patents may impact our financial condition and results of operations. Intellectual property laws and patent offices are still developing, particularly in emerging markets. Patent protection varies in different countries, and can be substantially weaker in emerging markets in which we operate, when compared to the United States and the European Union. We have in the past faced, and may in the future face, significant

## Our Relationships and Principal Operating Risks

challenges in enforcing or extending our current intellectual property protections, or any protections we may obtain in future, in the same manner as in more developed regions such as the United States and European Union. We have obtained patent protection for a variety of our intellectual property, including the composition of some of our products (such as detergent) and certain devices (such as air freshener products). Certain countries may adopt measures to facilitate competition within their markets from generic manufacturers, and refuse to recognise patent protection. Additionally, expiry of our patents may increase competition and pricing pressures, and adversely impact our sales revenue, if generic products in the same or similar product class were to emerge. We could be similarly impacted if competitors lose patent protection in a product class in which we compete.

We may face challenges to our intellectual property rights from third parties, who allege that we are infringing on their rights. If we are unable to successfully defend against allegations of infringement, we may face various sanctions, including injunctions, monetary sanctions for past infringement, product recalls, alterations to our intellectual property, products, and/or packaging, which could result in significant expense and negative publicity, and may have a material adverse effect on our financial condition and results of operations.

### Sustainability and Risk Management

The Board has identified and assessed the range of sustainability and associated reputational risks and concluded that there are limited material risks to the Group's long and short-term value arising from sustainability matters, other than potential risks common to similarly sized businesses operating in its industry sectors and with similarly well-known brands.

The Group focuses on a number of sustainability topics, including but not limited to:

#### Climate change

The effects of climate change could disrupt the Group's supply chain by affecting the Group's ability to source raw materials, manufacture products and distribute products. The Group has taken a leadership position with regard to its products' total carbon footprint, by seeking to understand, measure and reduce the GHG emissions generated by all stages in the product lifecycle for its global product portfolio and including amongst other things: the raw and packaging materials provided by its suppliers; the Group's own direct manufacturing and other operations; transportation of both raw materials and finished products; the retail sale of its products; consumers' use of its products; and the disposal/recycling of those products and their packaging.

Due to the Group's industry sectors and product categories the GHG emissions originating from energy use at its direct operations are of medium-to-low impact in comparison to those of other similarly sized companies, as assessed for example in recent reports of the independent Carbon Disclosure Project (CDP), [www.cdproject.net](http://www.cdproject.net).

#### Water scarcity

Water is vital for the making of raw and packaging materials, manufacturing and use of many of our products. While water is plentiful in some regions, it is increasingly scarce in others. Similar to the effects of climate change, which are interconnected with water availability, water scarcity could affect the Group's ability to source materials, make and deliver relevant products for our consumers. As with carbon, the Group has developed an industry leading approach to understanding the water impacts of our products' lifecycle. Our approach not only looks at total water used across each lifecycle stage but also takes into account water availability. This helps us prioritise efforts to drive water use efficiency.

#### Restricted Substances List

RB has been monitoring and reviewing ingredients for the past 13 years and has been carrying out a range of ingredients removal and restriction programmes outlined in our Restricted Substances List (formerly our Global Ingredients Guidelines). Our objective is to continually improve the environmental, safety and sustainable profile of our products, by systematically removing specific ingredients from product formulae and packaging/device component specifications. Our Restricted Substances List combines regulatory, sustainability and safety requirements for generic ingredient groupings, plus specific directions on the use (or the prohibition of use) of specific raw materials / ingredients to assist formulators and other Company employees in the development and marketing of products that meet these commitments.

#### Supply Chain Responsibility and Human Rights

Most product, component and raw material supply chains present a number of potential reputational risks relating to: labour standards; health, safety and environmental standards; raw material sourcing; and the social, ethical and environmental performance of third party manufacturers and other suppliers. The Group's Global Manufacturing Standard for responsible production (GMS) mandates minimum requirements regarding these issues, in line with international guidelines, for the Group's own manufacturing sites, third party manufacturers and suppliers. In addition, the Group's Responsible Sourcing of Natural Raw Materials Policy outlines minimum requirements for natural raw materials used in RB's products and packaging, in line with the Group's policy that these materials are sourced responsibly and with zero deforestation. Management processes and controls in place include Group, area and regional monitoring and assessment of compliance with the GMS, natural raw material and other requirements.

#### Health & Safety

Accidents caused through a failure of the Group's safety management systems could potentially lead to loss of life for one or more of the Group's employees. The Group maintains an external certification to OHSAS 18001 for the Group's management of health and safety issues and a programme covering manufacturing sites, warehouses, distribution centres and laboratories.

## Management of Sustainability

### Sustainability Programme

The CEO has specific responsibility for sustainability. As part of established management processes, which include performance management systems and appropriate remuneration incentives, senior management reports directly to the CEO on sustainability matters on a regular basis. On the Executive Committee (EC), the EVP Category Development has operational accountability for the implementation of sustainability (bar charitable giving), in partnership with the EVP Supply, and supported by the rest of the EC within their respective areas and functions. In the category development organisation, the Category Group Director – Innovation & Sustainability manages the sustainability programme on a day-to-day basis. The R&D function includes the Global Regulatory Affairs (GRA) group, which is responsible for ensuring that our products meet regulatory requirements and are safe for their intended use. Our SVP Human Resources (HR) and the global HR function manage the Group's human resources, employee remuneration and benefits, employment practices, organisational development, training and elements of health and safety (e.g. stress management).

The Group has a full set of policies, Key Performance Indicators, targets, programmes and control arrangements, building on its central Code of Conduct, that address the full range of sustainability matters<sup>1</sup> and reputational risks. The sustainability and corporate responsibility section on the Group's website ([www.rb.com/sustainability](http://www.rb.com/sustainability)) and its annual sustainability reports (available at [www.rb.com](http://www.rb.com)) provide further information, including the extent to which it complies with those policies, systems and procedures and progress towards targets / KPIs. The Group reports in line with the Global Reporting Initiative's Sustainability Reporting Guidelines – Version 4.

Key areas of sustainability internal control and performance, including sustainability disclosures, are independently reviewed and verified by both internal and external organisations, including Internal Audit, and their findings regularly reported to senior management, the CEO, the Audit Committee and the Board. In addition, selected data in the annual Sustainability Report are assured by external auditors.

The Group focuses on a number of sustainability topics, including but not limited to:

- Climate change
- Water scarcity
- Product stewardship
- Supply chain responsibility and human rights
- Health & Safety
- For information on the Board's assessment of the range of sustainability and associated reputation risk, see page 132.

### Board Oversight

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

The Board undertakes a formal review of sustainability matters at least annually. This includes providing oversight to ensure that the Group has in place effective policies, systems and procedures for managing sustainability matters and mitigating significant sustainability risks. Additionally, the Audit Committee regularly reviews the arrangements for, and effectiveness of, risk management including the full range of risks facing the Group such as risks relating to sustainability matters, reputational risks and risks relating to employees.

The Board believes that it receives adequate information and training on sustainability matters and their potential risks and opportunities to the business of the Group. The Board has identified and assessed the range of sustainability and associated reputational risks and concluded that there are limited material risks to the Group's long and short-term value arising from sustainability matters, other than potential risks common to similarly sized businesses operating in its industry sectors and with similarly well-known brands. For more information, please see page 132.

<sup>1</sup> 'Sustainability matters' include environmental matters (including the impact of the Group's business on the environment), its employees, and social and community issues.



## Shareholder Information

### Electronic Communications

The Shareholders passed a resolution at the 2008 AGM enabling the Company's website to be used as the primary means of communication with them. Shareholders who have positively elected, or are deemed to have consented, to receiving electronic communications in accordance with the Companies Act 2006 will receive written notification whenever Shareholder documents are available to view on the Company's website. Shareholders who have received a notice of availability of a document on the Company's website are entitled to request a hard copy of any such document at any time free of charge from the Company's Registrar. Shareholders can also revoke their consent to receive electronic communications at any time by contacting the Registrar.

The Company's 2014 Annual Report and Notice of the 2015 AGM are available to view at [www.rb.com/online-annual-report-2014](http://www.rb.com/online-annual-report-2014). The Investor Relations section of the website contains up-to-date information for Shareholders including:

- Detailed share price information;
- Financial results;
- Dividend payment dates and amounts;
- Access to Shareholder documents including the Annual Report; and
- Share capital information.

### Annual General Meeting

To be held on Thursday, 7 May 2015 at 11.15 am at The London Heathrow Marriott Hotel, Bath Road, Hayes, Middlesex, UB3 5AN.

Every Shareholder is entitled to attend and vote at the meeting. The Notice convening the meeting is contained in a separate document for Shareholders. Shareholders who have registered for electronic communication can:

- Receive an email alert when Shareholder documents are available;
- View the Annual Report and Notice of AGM on the day they are published;
- Cast their AGM vote electronically; and
- Manage their shareholding quickly and securely online.

### Final Dividend for the Year ended 31 December 2014

The Directors have recommended a final dividend of 79p per share, for the year ended 31 December 2014. Subject to approval at the 2015 AGM, payment will be on 29 May 2015 to all Shareholders on the register as at 17 April 2015.

### Company Secretary

William Mordan

### Registered office

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

### Registered and Domiciled in England

No. 6270876

### Company Status

Public Limited Company

### Independent Auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

### Solicitors

Slaughter and May

### Registrar and Transfer Office

The Company's Registrar, Computershare, is responsible for maintaining and updating the Shareholder register and making dividend payments. If you have any queries relating to your shareholding please write to, or telephone, the Company's Registrar at the following address:

Computershare Investor Services PLC  
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

Reckitt Benckiser Shareholder helpline: 0870 703 0118

Website: [www.computershare.com/uk](http://www.computershare.com/uk)

### American Depositary Receipts

Reckitt Benckiser Group plc American Depositary Receipts (ADRs) are traded on the over-the-counter market (OTC) under the symbol RBGLY. Five ADRs represent one ordinary share. J.P. Morgan Chase Bank N.A. is the Depositary.

If you should have any queries, please contact:

J.P. Morgan Chase Bank N.A.  
PO Box 64504, St Paul, MN 55164-0504, US  
E-mail: [jpmorgan.adr@wellsfargo.com](mailto:jpmorgan.adr@wellsfargo.com)  
Telephone number for general queries: (800) 990 1135  
Telephone number from outside the US: +1 651 453 2128

### Key Dates

Announcement of quarter 1 interim management statement	24 April 2015
Annual General Meeting	7 May 2015
Payment of final ordinary dividend	29 May 2015
Announcement of interim results	27 July 2015
Payment of interim ordinary dividend	September 2015
Announcement of quarter 3 interim management statement	21 October 2015
Preliminary announcement of 2015 results	11 February 2016
Publication of 2015 Annual Report and Financial Statements	April 2016
Annual General Meeting	May 2016

**Analysis of Shareholders as at 31 December 2014**

Distribution of shares by type of Shareholder	No. of holdings	Shares
Nominees and Institutional Investors	9,755	720,870,538
Individuals	13,661	15,664,641
<b>Total</b>	<b>23,416</b>	<b>736,535,179</b>

Size of shareholding	No. of holdings	Shares
1–500	14,461	2,931,614
501–1,000	3,831	2,807,786
1,001–5,000	3,534	7,247,955
5,001–10,000	378	2,654,160
10,001–50,000	570	13,111,394
50,001–100,000	167	11,981,182
100,001–1,000,000	370	117,815,230
1,000,001 and above	105	577,985,858
<b>Total</b>	<b>23,416</b>	<b>736,535,179</b>

**'Boiler Room' Scams**

Shareholders who are offered unsolicited investment advice, discounted shares, a premium price for shares, or free company or research reports, should take these steps before handing over any money:

1. Get the name of the person and organisation.
2. Check the Financial Services Register at [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register) to ensure they are authorised.
3. Use the details on the Financial Services Register to contact the firm.
4. Call the FCA Consumer Helpline on 0800 111 6768, if there are no contact details on the Register or if they are out of date.
5. Search the FCA's list of unauthorised firms and individuals to avoid doing business with at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).
6. If you are approached by fraudsters please contact the FCA using their helpline, or share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).
7. Consider getting independent financial advice.

Using an unauthorised firm to buy or sell shares or other investments will prohibit access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

**Base Cost Apportionment  
Demerger of Indivior PLC**

For the purpose of taxation of chargeable gains, the base cost of RB shares held immediately before the demerger on 23 December 2014 is apportioned between RB and Indivior shares as follows:

RB	97.514%
Indivior	2.486%

The apportionment, as prescribed by s.130(2) Taxation of Chargeable Gains Act 1992 ("TCGA"), is by reference to both companies' respective market values on 23 December 2014. Using the valuation prescribed by s.272(3) TCGA, the market values of RB and Indivior shares were as follows:

RB	£51.975
Indivior	£1.325

**Cautionary note concerning forward looking statements**

This document contains forward looking statements, including statements with respect to the financial condition, results of operations and business of RB and certain of the plans and objectives of the Company with respect to these items. These forward looking statements are made pursuant to the 'Safe Harbor' provisions of the United States private securities litigation reform act of 1995. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to the Company, anticipated cost savings or synergies and the completion of strategic transactions are forward looking statements. These forward looking statements are not guarantees of future performance: by their nature, forward looking statements involve known and unknown risk and uncertainty and other factors because they relate to events and depend on circumstances that will occur in the future. There are a number of factors, discussed in this Annual Report that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements, including many factors outside RB's control. Past performance cannot be relied upon as a guide to future performance. Each forward looking statement speaks as of the date of the particular statement







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