NOTICE

THIS OFFERING MEMORANDUM IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS WITHIN THE MEANING OF RULE 144A UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR (2) PERSONS WHO ARE NOT U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND WHO ARE OUTSIDE OF THE UNITED STATES (AND, IF INVESTORS ARE RESIDENT IN A MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, A QUALIFIED INVESTOR).

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum (in preliminary or final form) following this notice, whether received by email or otherwise received as a result of electronic communication. You are advised to read this disclaimer carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your representation: In order to be eligible to view the offering memorandum or make an investment decision with respect to the notes, investors must be either (1) qualified institutional buyers within the meaning of Rule 144A under the Securities Act ("**QIBs**") or (2) persons who are not U.S. persons (as defined in Regulation S under the Securities Act) and who are outside of the United States; provided that investors resident in a Member State of the European Economic Area must be a qualified investor (within the meaning of Article 2(1)(e) of Directive 2003/71/EC and any relevant implementing measure in each Member State of the European Economic Area). The offering memorandum is being sent at your request. By accepting this e-mail and by accessing the offering memorandum, you shall be deemed to have represented to us and the initial purchasers set forth in the attached offering memorandum (collectively, the "**Initial Purchasers**") that: (1) you consent to delivery of such offering memorandum by electronic transmission; and (2) either you and any customers you represent are: (a) a QIB; or (b) a person who is not a U.S. person outside the United States and the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any State of the United States or the District of Columbia (and if you are resident in a Member State of the European Economic Area, you are a qualified investor). Prospective purchasers that are QIBs are hereby notified that the seller of the notes offered under the offering memorandum may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

You are reminded that the offering memorandum has been delivered to you on the basis that you are a person into whose possession the offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the offering memorandum to any other person. Under no circumstances shall the offering memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any initial purchaser of the notes offered under the offering memorandum or any affiliate of any such initial purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such an initial purchaser or affiliate on behalf of the issuer in such jurisdiction.

The offering memorandum has not been approved by an authorised person in the United Kingdom. The notes may not be offered or sold other than to persons whose ordinary activities involve these persons in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by us. In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the notes other than in circumstances in which Section 21(1) of the FSMA does not apply to us.

The offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Initial Purchasers, any person who controls any joint lead manager, or any of their respective directors, officers, employees or agents, or any affiliate of such persons, accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you from the Initial Purchasers upon your request.

Reckitt Benckiser Treasury Services plc

(incorporated as a public limited company in England & Wales with registered number 5960843)

$750,000,000 Floating Rate Senior Notes due 2022
$2,500,000,000 2.375 per cent. Senior Notes due 2022
$2,000,000,000 2.750 per cent. Senior Notes due 2024
$2,500,000,000 3.000 per cent. Senior Notes due 2027

fully and unconditionally guaranteed by

Reckitt Benckiser Group plc

(incorporated as a public limited company in England & Wales with registered number 6270876)

The $750,000,000 Floating Rate Senior Notes due 2022 (the "**Floating Rate Notes**") and the $2,500,000,000 2.375 per cent. Senior Notes due 2022 (the "**2022 Fixed Rate Notes**"), $2,000,000,000 2.750 per cent. Senior Notes due 2024 (the "**2024 Fixed Rate Notes**") and $2,500,000,000 3.000 per cent. Senior Notes due 2027 (the "**2027 Fixed Rate Notes**", and, together with the 2022 Fixed Rate Notes and the 2024 Fixed Rate Notes, the "**Fixed Rate Notes**", and, together with the Floating Rate Notes, the "**Notes**") will be issued by Reckitt Benckiser Treasury Services plc (the "**Issuer**"). The payment of all amounts due in respect of the Notes will be fully and unconditionally guaranteed by Reckitt Benckiser Group plc (the "**Guarantees**" and the "**Guarantor**," respectively).

Interest on the Floating Rate Notes will be payable on 24 March, 24 June, 24 September and 24 December of each year, commencing on 24 September 2017. Interest on the 2022 Fixed Rate Notes will be payable on 24 June and 24 December of each year, commencing on 24 December 2017. Interest on the 2024 Fixed Rate Notes and the 2027 Fixed Rate Notes will be payable on 26 June and 26 December of each year, commencing on 26 December 2017. The Floating Rate Notes will mature on 24 June 2022, the 2022 Fixed Rate Notes will mature on 24 June 2022, the 2024 Fixed Rate Notes will mature on 26 June 2024 and the 2027 Fixed Rate Notes will mature on 26 June 2027.

The Issuer may redeem the Fixed Rate Notes, in whole or in part, at its option, at any time and from time to time prior to 24 May 2022 for the 2022 Fixed Rate Notes, 26 April 2024 for the 2024 Fixed Rate Notes and 26 March 2027 for the 2027 Fixed Rate Notes at the "make-whole" redemption price. In addition, the Issuer may redeem the Fixed Rate Notes, in whole or in part, at its option, at any time on and after 24 May 2022 for the 2022 Fixed Rate Notes, 26 April 2024 for the 2024 Fixed Rate Notes and 26 March 2027 for the 2027 Fixed Rate Notes, and from time to time, at a redemption price equal to 100.00 per cent. of the principal amount of the relevant Fixed Rate Notes to be redeemed, together with accrued and unpaid interest (including any additional amounts) on the principal amount of the relevant Fixed Rate Notes, to be redeemed up to, but not including, the redemption date. The Issuer may also redeem each series of the Notes, in whole and not in part, upon the occurrence of certain changes in tax law.

The Notes and the Guarantees will be direct, unsubordinated and unsecured indebtedness of the Issuer and the Guarantor, respectively, and will rank equally in right of payment among themselves and with all other existing and future unsubordinated and unsecured indebtedness of the Issuer and the Guarantor, respectively.

Application has been made to the UK Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**FSMA**") (the "**UK Listing Authority**") for the Notes to be admitted to the official list (the "**Official List**") of the UK Listing Authority and for the Notes to be admitted to trading on the Professional Securities Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The Professional Securities Market is an unregulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). References in this Offering Memorandum to the Notes being listed (and all related references) shall mean that the Notes have been admitted to trading on the Professional Securities Market and have been admitted to the Official List. This Offering Memorandum comprises listing particulars given in compliance with the UK Listing Authority's listing rules under Part VI of the FSMA.

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 29.

Offer Price for the Floating Rate Notes: 100.000 per cent.
Offer Price for the 2022 Fixed Rate Notes: 99.906 per cent.
Offer Price for the 2024 Fixed Rate Notes: 99.892 per cent.
Offer Price for the 2027 Fixed Rate Notes: 99.700 per cent.
plus, in each case, accrued interest, if any, from 26 June 2017

The Notes and the Guarantees have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "**Securities Act**"), and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act ("**Rule 144A**"). Prospective purchasers of the Notes are hereby notified that the seller may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on offers, sales and transfers of the Notes, see "*Transfer Restrictions*" and "*Plan of Distribution*".

It is expected that the Notes will be rated "A–" by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") and "A3" by Moody's Investors Service Ltd. ("**Moody's**"), subject to confirmation at closing. A credit rating is not a recommendation to buy, sell or hold the Notes and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances in the future so warrant. In the event that a rating initially assigned to the Notes is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Notes and the market value of the Notes is likely to be adversely affected. Each of S&P and Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009, as amended.

The Notes will be issued in the form of global notes in registered form in denominations of $200,000 and integral multiples of $1,000 in excess thereof. The Initial Purchasers expect to deliver the Notes to purchasers in book-entry form through the facilities of The Depository Trust Company ("**DTC**"), and its participants, including Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Interests in each global note will be exchangeable for the relevant definitive notes only in certain limited circumstances. See "*Book-Entry, Delivery and Form*".

Global Coordinators & Active Bookrunners

BofA Merrill Lynch **Deutsche Bank Securities** **HSBC** **J.P. Morgan**

Active Bookrunner

Citigroup

Co-managers

BNP PARIBAS	**Mizuho Securities**	**Santander**	**SMBC Nikko**	**Standard Chartered Bank**
MUFG	**Bank of China**	**BBVA**	**COMMERZBANK**	**ING**
RBC Capital Markets	**Scotiabank**	**UniCredit Bank**	**Wells Fargo Securities**	**SEB**

The date of this Offering Memorandum is 22 June 2017.

HEALTH HYGIENE HOME

Mucinex

Strepsils

Clearasil

GAVISCON

TABLE OF CONTENTS

	Page
IMPORTANT INFORMATION	3
NOTICE TO INVESTORS IN THE UNITED STATES	5
INFORMATION REGARDING FORWARD-LOOKING STATEMENTS	6
TRADEMARKS	7
CERTAIN DEFINED TERMS	8
INCORPORATION OF CERTAIN INFORMATION BY REFERENCE	8
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	9
SERVICE OF PROCESS AND ENFORCEABILITY OF JUDGMENTS	13
CURRENCY PRESENTATION	13
OVERVIEW	14
RISK FACTORS	29
USE OF PROCEEDS	54
CAPITALISATION	55
SELECTED HISTORICAL FINANCIAL INFORMATION	56
SELECTED UNAUDITED PRO FORMA FINANCIAL INFORMATION	68
OPERATING AND FINANCIAL REVIEW	80
MATERIAL CONTRACTS	111
OUR BUSINESS	117
MANAGEMENT	140
INFORMATION ON THE ISSUER AND THE GUARANTOR	146
PRINCIPAL SHAREHOLDERS	153
RELATED PARTY TRANSACTIONS	154
DESCRIPTION OF NOTES	155
BOOK-ENTRY, DELIVERY AND FORM	175
TAX CONSIDERATIONS	181
PLAN OF DISTRIBUTION	184
TRANSFER RESTRICTIONS	190
LEGAL MATTERS	192
INDEPENDENT AUDITORS	193
WHERE YOU CAN FIND MORE INFORMATION	194
LISTING AND GENERAL INFORMATION	195
DEFINITIONS AND GLOSSARY	197
INDEX TO FINANCIAL STATEMENTS	F-1

In this Offering Memorandum, unless the context otherwise requires, the "**Issuer**" refers to Reckitt Benckiser Treasury Services plc, a public limited company incorporated in England and Wales with registered number 5960843; "**Reckitt Benckiser**", "**RB**", the "**Company**" and the "**Guarantor**" refer to Reckitt Benckiser Group plc, a public limited company incorporated in England and Wales with registered number 6270876; and "**we**," "**us**," "**our**" and the "**Group**" refer to (1) prior to the Acquisition, Reckitt Benckiser and its consolidated subsidiaries excluding Mead Johnson Nutrition Company ("**Mead Johnson**") and (2) after the Acquisition, Reckitt Benckiser and its consolidated subsidiaries including Mead Johnson. Please refer to "*Definitions and Glossary*" for other defined terms used herein.

IMPORTANT INFORMATION

You should rely only on the information contained or incorporated by reference in this Offering Memorandum. None of the Issuer, the Guarantor or any of the initial purchasers named in "*Plan of Distribution*" (collectively, the "Initial Purchasers") has authorised anyone to provide you with different information. None of the Issuer, the Guarantor or any of the Initial Purchasers is making an offer of the Notes in any jurisdiction where this offer is not permitted. You should not assume that the information contained or incorporated by reference in this Offering Memorandum is accurate at any date other than the date on the front of this Offering Memorandum. Our business, financial condition, results of operations and prospects may have changed since the relevant date.

This Offering Memorandum is confidential and has been prepared by us solely for use in connection with this offering of the Notes (the "**Offering**"). This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. Distribution of this Offering Memorandum to any person other than the prospective investor and any person retained to advise such prospective investor with respect to the purchase of the Notes is unauthorised, and any disclosure of any of the contents of this Offering Memorandum, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and to make no photocopies of this Offering Memorandum or any documents referred to in this Offering Memorandum.

In making an investment decision, prospective investors must rely on their own examination of us and the terms of this Offering, including the merits and risks involved. You should base your decision to invest in the Notes solely on information contained or incorporated by reference in this Offering Memorandum. Neither we nor the Initial Purchasers have authorised anyone to provide you with any different information. In addition, neither we nor any Initial Purchaser nor any of our or their respective representatives is making any representation to you regarding the legality of an investment in the Notes, and you should not construe anything in this Offering Memorandum as legal, business or tax advice. You should consult your own advisors as to legal, tax, business, financial and related aspects of an investment in the Notes. This Offering Memorandum does not constitute an offer to sell or an invitation to subscribe for or purchase any of the Notes in any jurisdiction in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this Offering Memorandum, and you must obtain all applicable consents and approvals. Neither we nor the Initial Purchasers shall have any responsibility for any of the foregoing legal requirements.

The Issuer and the Guarantor accept responsibility for the information contained or incorporated by reference in this Offering Memorandum. To the best of the knowledge and belief of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure such is the case), the information contained or incorporated by reference in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. The information contained or incorporated by reference in this Offering Memorandum speaks only as of the date hereof and any information incorporated by reference herein speaks only as of the date of the document from which such information is incorporated by reference and each is subject to change without notice. Neither the delivery of this Offering Memorandum at any time after the date of publication nor any subsequent commitment to purchase the Notes shall, under any circumstances, create an implication that there has been no change in the information set forth in this Offering Memorandum or our affairs since the date of this Offering Memorandum.

The Initial Purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained or incorporated by reference in this

Offering Memorandum, and nothing contained or incorporated by reference in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Initial Purchasers.

The information set out in relation to sections of this Offering Memorandum describing clearing and settlement arrangements, including "*Book-Entry, Delivery and Form*," is subject to change in, or reinterpretation of, the rules, regulations and procedures of DTC, Euroclear and Clearstream currently in effect. Such information has been sourced from the rules, regulations and procedures applicable to DTC, Euroclear and Clearstream as stated in their publicly available guidance and materials. DTC, Euroclear and Clearstream are not under any obligation to perform or continue to perform under such clearing arrangements and such arrangements may be modified or discontinued by any of them at any time. The Issuer will not, nor will any of its agents, have responsibility for the performance of the respective obligations of DTC, Euroclear and Clearstream or their respective participants. Investors wishing to use these clearing systems are advised to confirm the continued applicability of these arrangements.

By receiving this Offering Memorandum, you acknowledge that you have had an opportunity to request from the Issuer for review, and that you have received, all additional information you deem necessary to verify the accuracy and completeness of the information contained in this Offering Memorandum. You also acknowledge that you have not relied on the Initial Purchasers in connection with your investigation of the accuracy of this information or your decision whether to invest in the Notes.

The Notes are subject to restrictions on transferability and resale and may not be transferred or resold, except as permitted under the Securities Act and the applicable state securities laws, pursuant to registration or exemption therefrom. As a prospective investor, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this Offering Memorandum entitled "*Plan of Distribution*" and "*Transfer Restrictions*".

The Issuer cannot guarantee that its application for the admission of the Notes to trading on the Professional Securities Market of the London Stock Exchange and to listing of the Notes on the Official List of the UK Listing Authority and the London Stock Exchange, will be approved as of the settlement date for the Notes or at any time thereafter, and settlement of the Notes is not conditional upon obtaining this listing.

The Issuer and the Initial Purchasers reserve the right to reject all or a part of any offer to purchase the Notes, for any reason. The Issuer and the Initial Purchasers also reserve the right to sell less than all the Notes offered by this Offering Memorandum or to sell to any purchaser less than the amount of the Notes it has offered to purchase.

IN CONNECTION WITH THIS OFFERING, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED (THE "**STABILISATION MANAGER**") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

NOTICE TO INVESTORS IN THE UNITED STATES

The Notes and the Guarantees have not been and will not be registered under the Securities Act and, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S). The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to "qualified institutional buyers" ("**QIBs**") in reliance on Rule 144A. Prospective purchasers of the Notes are hereby notified that the seller may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on offers, sales and transfers of the Notes, see "*Transfer Restrictions*" and "*Plan of Distribution*".

None of the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission or any other regulatory authority has approved or disapproved of the Notes, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offence under the laws of the United States.

THIS OFFERING MEMORANDUM CONTAINS IMPORTANT INFORMATION THAT YOU SHOULD READ BEFORE YOU MAKE ANY DECISION WITH RESPECT TO AN INVESTMENT IN THE NOTES.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Offering Memorandum, including, without limitation, those regarding our results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing, anticipated cost savings and the completion of strategic transactions.

Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will likely result," "are expected to," "will continue," "believe," "is anticipated," "estimated," "intends," "expects," "plans," "seek," "projection," "outlook," "aims," "may," "will," "forecast," "guidance," "plans," "potential," "predicts," "projected," "assumes," "shall," "could," or "should" or, in each case, their negative or other variations or comparable terminology or by discussions of strategies, plans, objectives, targets, goals, future events or intentions. We caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual results of operations, including our financial condition and liquidity and the development of the industries in which we operate, may differ materially from those made in, or suggested by, the forward-looking statements contained in this Offering Memorandum. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Offering Memorandum. You are urged to read the sections entitled "*Risk Factors*," "*Operating and Financial Review*" and "*Our Business*" for a more complete discussion of the factors that could affect our future performance and the markets in which we operate.

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in the forward-looking statements made in this Offering Memorandum:

- risks related to product safety and product liability;
- financial and reputational risk in relation to humidifier sanitiser products marketed historically by our Korean subsidiary;
- the impact on our reputation and strength of our brands as a result of quality or compliance-related issues across the supply chain and throughout the product lifecycle or other negative publicity;
- the impact of global, regional and local economic conditions, including trends that adversely affect the behaviour and spending patterns of consumers, the willingness and ability of customers to buy our products, and the ability of suppliers to meet their obligations to us;
- the impact of any changes in the value and relevance of our products, in particular our Powerbrands, to consumers around the world;
- the impact of interruptions and breaches of computer and communications systems, including computer viruses and cyber-attacks aimed at causing business disruption, capture of data and/or reputational damage;
- the impact of demographic trends, scientific opinion and certain government programmes on the sales of infant and children's nutrition products;
- our inability to successfully develop new or improved products and launch them in a timely manner;

- competition in the industries in which we operate;
- the impact of the United Kingdom's potential exit from the European Union;
- the impact of changes to applicable laws and regulations and any failure by us to comply with them;
- the impact of any current or future legal or regulatory proceedings in which we are involved;
- the impact of changes in applicable tax legislation;
- our inability to realise the anticipated benefits of the Acquisition and the impact of the challenges related to the integration of the business of Reckitt Benckiser ("**RB**") and Mead Johnson;
- risks relating to our larger scale and broader geographical spread, having an expanded product range and exposure to new market segments as a result of the Acquisition; and
- the impact of other risks related to our business and operations, including but not limited to those related to health, safety and human rights, continuity of supply of raw and packaging materials, volatility in the price of commodities, energy and transportation and disruptions and failures of our information technology systems.

The list above is not exhaustive and there are other factors that may cause our actual results to differ materially from the forward-looking statements contained in this Offering Memorandum. Please see "*Risk Factors*".

Because the risk factors referred to in this Offering Memorandum could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this Offering Memorandum by us or on our behalf, you should not place undue reliance on any forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made and, unless required by applicable laws or regulations, we undertake no obligation to, and do not intend to, update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for us to predict which factors they will be. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements and we can provide no assurance that these assumptions will prove correct or that our expectations and beliefs will be achieved.

TRADEMARKS

We own or have rights to trademarks, service marks, copyrights and trade names that we use in conjunction with the operation of our business including, without limitation, Air Wick, Calgon, Cillit Bang, Dettol, Durex, Finish, French's, Gaviscon, Harpic, Lysol, MegaRed, Mortein, Mucinex, Nurofen, Resolve, Scholl, Strepsils, Veet, Veja, Vanish, Enfa and Nutramigen.

This Offering Memorandum also includes trademarks, service marks and trade names of other companies. Each trademark, service mark or trade name of any other company appearing in this Offering Memorandum belongs to its holder. Use or display by us of other parties' trademarks, service marks or trade names is not intended to and does not imply a relationship with, or endorsement or sponsorship by us of, the trademark, service mark or trade name owner.

CERTAIN DEFINED TERMS

Certain terms used in this Offering Memorandum, including capitalised terms and certain technical and other items, are defined and explained in "*Definitions and Glossary*".

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The following financial information is incorporated by reference in this Offering Memorandum:

- the audited consolidated financial statements of Mead Johnson as of 31 December 2016 and 2015 and for the years ended 31 December 2016, 2015 and 2014 together with the audit report for the years ended 31 December 2016 and 2015, from its Annual Report on Form 10-K for the year ended 31 December 2016 filed with the SEC on 27 February 2017 (pages 44-80 (inclusive)) (the "**MJ Annual Financial Statements**");
- the unaudited condensed consolidated financial statements of Mead Johnson as of and for the quarters ended 31 March 2017 and 2016, from its Quarterly Report on Form 10-Q for the quarterly period ended 31 March 2017 filed with the SEC on 27 April 2017 (pages 1-20 (inclusive)) (the "**MJ Quarterly Financial Statements**", and, together with the MJ Annual Financial Statements, the "**MJ Financial Statements**").

Such documents shall be deemed to be incorporated in, and form part of, this Offering Memorandum, except that any statement contained in a document deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Memorandum to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Memorandum.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Memorandum shall not form part of this Offering Memorandum. The parts of the above-mentioned documents which are not incorporated by reference into this Offering Memorandum are either not relevant for investors or covered elsewhere in the Offering Memorandum.

Copies of documents incorporated by reference in this Offering Memorandum may be obtained (without charge) from the registered office of the Guarantor or from the National Storage Mechanism website at http://www.morningstar.co.uk/uk/nsm. Except for the documents referred to herein as being incorporated by reference, none of the information contained on this website shall form part of this Offering Memorandum.

For further information on how copies of these financial statements can be obtained, see "*Listing and General Information – Documents Available for Inspection*".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial statements and quarterly financial information of RB

The Group's and Mead Johnson's financial years end on 31 December and references in this Offering Memorandum to years 2016, 2015 and 2014 are to the fiscal year ended 31 December of each such year. References in this Offering Memorandum to "**Q1**" are to the three months ended 31 March of the year indicated.

The following financial information is included in this Offering Memorandum:

- audited consolidated financial statements of the Group as of and for the year ended 31 December 2016, together with the audit report for the year ended 31 December 2016 (the "**2016 RB Financial Statements**");
- audited consolidated financial statements of the Group as of and for the year ended 31 December 2015, together with the audit report for the year ended 31 December 2015 (the "**2015 RB Financial Statements**");
- audited consolidated financial statements of the Group as of and for the year ended 31 December 2014, together with the audit report for the year ended 31 December 2014 (the "**2014 RB Financial Statements**", and together with the 2016 RB Financial Statements and 2015 RB Financial Statements, the "**RB Financial Statements**");
- the audited non-consolidated financial statements of the Issuer as of and for the year ended 31 December 2016, together with the audit report for the year ended 31 December 2016 (the "**2016 Issuer Financial Statements**"); and
- the audited non-consolidated financial statements of the Issuer as of and for the year ended 31 December 2015, together with the audit report for the year ended 31 December 2015 (the "**2015 Issuer Financial Statements**", and together with the 2016 Issuer Financial Statements, the "**Issuer Financial Statements**").

The RB Financial Statements and the Issuer Financial Statements included in this Offering Memorandum have been audited by PricewaterhouseCoopers LLP, our independent accountants who are members of the Institute of Chartered Accountants in England and Wales, with an address at 1 Embankment Place, London WC2N 6RH, United Kingdom.

In addition, this Offering Memorandum includes certain financial information related to our net revenue for Q1 2017 and Q1 2016. This financial information has not been audited or reviewed by our independent accountants.

The Issuer Financial Statements were prepared in accordance with FRS 101. The RB Financial Statements were prepared in accordance with International Financial Reporting Standards as endorsed by the European Union and as issued by the International Accounting Standards Board ("**IFRS**"). IFRS differ in various significant respects from accounting principles generally accepted in the United States ("**U.S. GAAP**"). In making an investment decision, you should rely upon your own examination of the terms of the Offering and the financial information included or incorporated by reference in this Offering Memorandum. You should consult your own professional advisors for an understanding of the differences between IFRS and U.S. GAAP, and how those differences could affect the financial information included or incorporated by reference in this Offering Memorandum. Moreover, the financial information included or incorporated by reference in this Offering Memorandum is not intended to comply with the SEC requirements.

The audited non-consolidated financial statements of the Issuer included in this Offering Memorandum were prepared in accordance with Generally Accepted Accounting Practice in the United Kingdom ("**UK GAAP**").

Our financial statements are presented in pound sterling. Unless noted otherwise, the financial information in this Offering Memorandum is presented in pound sterling rounded to the nearest million. Therefore, figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Financial statements and quarterly financial information of Mead Johnson

The MJ Annual Financial Statements incorporated by reference in this Offering Memorandum have been audited by Deloitte & Touche LLP, Mead Johnson's independent accountants, with an address at 111 S Wacker Dr, Chicago, IL 60606, United States. Mead Johnson's consolidated financial statements as of 31 December 2015 and for the years ended 31 December 2015 and 2014 were included as the comparative period in the MJ Annual Financial Statements, the audit report for which had no modifications related to the comparative periods ended 31 December 2015 and 2014. The MJ Financial Statements were prepared in accordance with U.S. GAAP and therefore are not directly comparable to the RB Financial Statements.

In addition, this Offering Memorandum includes certain financial information of Mead Johnson for Q1 2017 and Q1 2016, which was filed with the SEC under Regulation S-K.

Pro forma financial information

This Offering Memorandum includes an unaudited consolidated pro forma income statement for the Group for the year ended 31 December 2016 (the "**Pro Forma Income Statement**") and an unaudited consolidated pro forma statement of net assets for the Group as of 31 December 2016 (the "**Pro Forma Statement of Net Assets**," and together with the Pro Forma Income Statement, the "**Pro Forma Information**"), presented in the section titled "*Selected Unaudited Pro Forma Financial Information*".

The Pro Forma Information is presented in pound sterling and has been prepared, unless otherwise specified, on a basis that is consistent with the accounting policies used in the preparation of the RB Financial Statements, which have been prepared in accordance with IFRS.

The Pro Forma Income Statement has been prepared as if the acquisition of Mead Johnson (the "**Acquisition**") had been completed on 1 January 2016. The Pro Forma Statement of Net Assets has been prepared as if the Acquisition had been completed on 31 December 2016. The Pro Forma Information was prepared on the basis of a number of assumptions. For assumptions underlying the Pro Forma Information, please refer to the "*Selected Unaudited Pro Forma Financial Information*".

The Pro Forma Information may not reflect the operating results the Group would have had if the Company had completed the Acquisition as of the dates assumed above. The pro forma adjustments are limited to events that are (a) directly attributable to each specific transaction and (b) factually supportable, and expected to have a continuing impact. The Pro Forma Information is not necessarily indicative of our results of operations in future periods or of our future financial position and there can be no assurance that the trends indicated by the Pro Forma Information (or by the separate financial statements of the Company and Mead Johnson referred to above) are representative of the future results or performance of the Group. Accordingly, the Group's results of operations and financial condition may differ significantly from those portrayed by the Pro Forma Information.

The historical Mead Johnson financial information reflected in the Pro Forma Information has been derived from the MJ Financial Statements presented in U.S. dollars and prepared under U.S. GAAP and reconciled to IFRS, as applicable, based on a preliminary IFRS analysis (see "*Pro Forma Financial Information – Pro Forma Statement of Net Assets – Footnote 3*" and "*Pro Forma Financial Information – Pro Forma Income Statement – Footnote 2*"). The reconciliation has not been audited. Pro forma adjustments relating to the Pro Forma Income Statement have been translated into pound sterling using an average exchange rate of £1.000 per $1.355 for the year ended 31 December 2016. Pro forma adjustments relating to the Pro Forma Statement of

Net Assets have been translated into pound sterling using the applicable exchange rate of £1.000 per $1.2345 as of 31 December 2016 (unless otherwise stated).

Use of financial statement data in this Offering Memorandum

The financial statement data of the Group and Mead Johnson as of 31 December 2016 and 2015 and for the years ended 31 December 2016, 2015 and 2014 included in this Offering Memorandum have been extracted from, or are based on, the RB Financial Statements and the MJ Financial Statements, respectively. Prospective investors should ensure that they read the whole of this Offering Memorandum and not just rely on key information or information summarised within it.

Non-IFRS financial information

This Offering Memorandum contains certain measures that we believe will assist understanding of the performance of our business. The non-IFRS measures are not intended to be a substitute for, or superior to, any IFRS measures of performance but management has included them as these are considered to be important comparables and key measures used within the business for assessing performance and supporting the performance measures derived in accordance with IFRS.

The following are the key non-IFRS measures used in this Offering Memorandum:

- ***Like-for-like results***, which are intended to describe our performance on a comparable basis across any two periods by excluding the effect of material acquisitions and disposals, discontinued operations and foreign currency movements during either period from both periods.
- ***Constant exchange rates***, which are intended to present comparisons of net revenue and adjusted operating profit on a constant exchange rate basis. Constant exchange rates adjust the actual consolidated results such that the foreign currency conversion applied is made using the same exchange rates as was applied in the prior year.
- ***Adjusted measures***, such as adjusted net income, adjusted operating profit and adjusted operating margin, which exclude the impact of exceptional items.
- ***Free cash flow***, which we define as net cash generated from operating activities less net capital expenditures (i.e. purchases and disposals of property, plant and equipment and intangible assets).
- ***Net debt***, which we define as total borrowings less cash and cash equivalents, short-term available for sale financial assets and financing derivative financial instruments.

We present the foregoing non-IFRS financial measures because we believe these measures provide our investors with additional information about our underlying results and trends, as well as insight into some of the metrics used to evaluate management.

These non-IFRS financial measures have limitations as analytical tools, and investors should not consider them in isolation from, or as a substitute for analysis of, results of operations, as reported under IFRS. Other companies in the health, hygiene and home industry may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

See "*Selected Historical Financial Information – Group Financial Information – Additional Financial Information*" and "*Operating and Financial Review*" for reconciliations of the foregoing measures to the most directly comparable IFRS measure.

Key performance indicators

We present various key performance indicators ("**KPIs**") in this Offering Memorandum. See "*Operating and Financial Review – Key Performance Indicators*".

These measures may not be compatible with similarly titled measures presented by others in our industry. While the method of calculation may differ across the industry, management believes that these indicators are important to understanding our performance from period to period and have a direct impact on our results of operations. These indicators are not intended to be a substitute for, or superior to, any IFRS measures of performance.

Market position data

In this Offering Memorandum, we refer to our market positions, as well the market positions of our products, in various product categories. The market positions are based on data as of 28 February 2017, and we have no reason to believe that such market positions have changed since 28 February 2017.

Third party information

This Offering Memorandum contains information based on rules, regulations and procedures of DTC, Euroclear and Clearstream.

Third party information contained in this Offering Memorandum is accurately reproduced and, as far as the Issuer and the Guarantor are aware and are able to ascertain from information published by that third party, no facts have been omitted that would render any reproduced information inaccurate or misleading. We believe that the information provided by third parties is reliable; however, we have not independently verified the information and cannot guarantee its accuracy or completeness, and only accept responsibility for accurately reproducing such information.

In addition, in many cases, we have made statements in this Offering Memorandum regarding the health, hygiene and home industry in the markets in which we operate, our position in such industries, and our market share based on our internal estimates, provided by our experience, our investigations of market conditions and our review of information made available to the public by our competitors.

SERVICE OF PROCESS AND ENFORCEABILITY OF JUDGMENTS

The Issuer and the Guarantor are each organised under the laws of England and Wales. Most of the Issuer's and the Guarantor's directors and executive officers reside outside the United States. Substantially all of the assets of these persons and substantially all of the Issuer's and the Guarantor's assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or the Guarantor or their respective directors and executive officers, or to enforce in such jurisdictions the judgment of a court outside such jurisdictions. It may be difficult for investors in the Notes to enforce, in original actions or in actions for enforcement brought in jurisdictions located outside the United States, judgments of U.S. courts or civil liabilities predicated upon U.S. federal securities laws. Furthermore, it may be difficult for investors in the Notes to enforce judgments of this nature in many of jurisdictions in which the Group operates and in which its assets are situated and in the countries of which most of the directors and key managers of the Issuer and the Guarantors are citizens.

CURRENCY PRESENTATION

In this Offering Memorandum, references to "pounds," "pound sterling," "sterling," "£," "pence," "penny" and "p" are to the lawful currency of the United Kingdom and references to "U.S. dollars," "$," "cents" and "c" are to the lawful currency of the United States.

The following table sets out, for the periods indicated, certain information concerning the exchange rate of pound sterling expressed in pound sterling per U.S. dollar as provided by Bloomberg. These translations should not be construed as representations that the pound sterling amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. We do not use these rates in the preparation of our financial statements. On 21 June 2017, the Bloomberg rate was £0.7892 per $1.00.

	At Period End	Average Rate[1]	High	Low
		(£ per $1.00)		
For each of the last six months:				
January 2017	0.7957	0.8098	0.8285	0.7931
February 2017	0.8054	0.8009	0.8057	0.7914
March 2017	0.7968	0.8102	0.8229	0.7960
April 2017	0.7722	0.7915	0.8083	0.7722
May 2017	0.7758	0.7737	0.7809	0.7671
June 2017 (up to 21 June 2017)	0.7892	0.7814	0.7919	0.7716
For each of the last five years:				
2012	0.6156	0.6310	0.6528	0.6145
2013	0.6036	0.6396	0.6730	0.6036
2014	0.6417	0.6075	0.6445	0.5825
2015	0.6787	0.6546	0.6834	0.6298
2016	0.8101	0.7410	0.8224	0.6753
2017 (up to 21 June 2017)	0.7892	0.7951	0.8300	0.7671

Note:

(1) The daily average of the exchange rates of pound sterling as provided by Bloomberg during the relevant period.

OVERVIEW

This overview highlights selected information from this Offering Memorandum. It is not complete and does not contain all of the information that you should consider before investing in the Notes. The overview should be read in conjunction with, and is qualified in its entirety by, the more detailed information included in, or incorporated by reference to, this Offering Memorandum, including the consolidated financial statements and the related notes thereto. You should read carefully this entire Offering Memorandum to understand our business, the nature and terms of the Notes and the tax and other considerations that are important to your decision to invest in the Notes, including the risks discussed under "Risk Factors". In addition, certain statements include forward-looking information that involves risks and uncertainties. See "Information Regarding Forward-Looking Statements".

Overview of the Group

We are a world leading consumer health and hygiene company. Driven by a purpose of providing innovative solutions for healthier lives and happier homes, we have operations in over 60 countries. From the foundations of infant and child nutrition, to the fundamentals of a hygienic home, our global brands help people live healthier, happier lives.

Our Products

We operate in the following product categories:

- Our **Health** products category consists of OTC medications for everyday issues such as pain, sore throat, cough and flu, but also wellness products in sexual wellbeing and footcare, and health nutrition products such as vitamins and supplements. In addition, it includes the infant and children's nutrition business of Mead Johnson Nutrition Company ("**Mead Johnson**") added with the completion of the Acquisition. Health products accounted for 34 per cent. of our net revenue for 2016.
- Our **Hygiene** products category consists of personal hygiene products (including depilatory products for removal of body hair and acne treatments) and home hygiene products (including disinfectant cleaners, all-purpose cleaners, lavatory cleaners, detergents for automatic dishwashing and pest control products). Hygiene products accounted for 41 per cent. of our net revenue for 2016.
- Our **Home** products category consists of air care products, garment care products, fabric treatment products and water softeners. Home products accounted for 18 per cent. of our net revenue for 2016.
- Our **Portfolio Brands** include laundry detergents and fabric softeners that do not fit within our Health, Hygiene and Home categories and that are intended to build scale in local markets, as well as a largely North American food business that is currently under strategic review. Portfolio Brands accounted for 7 per cent. of our net revenue for 2016.

RB has over 20 Powerbrands which include household names such as Enfamil, Nutramigen (both added with the completion of the Acquisition), Nurofen, Strepsils, Gaviscon, Mucinex, Durex, Scholl, Clearasil, Lysol, Dettol, Veet, Harpic, Cillit Bang, Mortein, Finish, Vanish, French's, Air Wick and Woolite. These Powerbrands are in turn segmented along product categories:

Seven of our top ten Powerbrands focus on healthier lives. See "– *Products*" for further details relating to our product portfolio.

Our markets

We organise our business into two areas, centred on groups of countries with many similarities in consumer behaviour, brand development and how the retail trade is organised. These are **ENA** (Europe (including Russia/CIS and Israel), North America and Australia/New Zealand) and **DvM** (Africa, Middle East (excluding Israel), Turkey, Asia (excluding Russia/CIS) and Latin America). In 2016, ENA and DvM accounted for 65 per cent. and 31 per cent., respectively, of our total net revenue , with the balance being attributable to Food. Additionally, Mead Johnson will initially operate as a separate division of RB with its own leadership team and accountability.

In addition to our over 20 Powerbrands, we have also identified 16 "Powermarkets" around the world in which we believe we have the greatest potential for growth, including Brazil, Russia, India, China and the United States.

The existing RB Group

Reckitt Benckiser Group plc is listed on the London Stock Exchange under the symbol "RB", and was in the top 10 of the FTSE 100 by market capitalisation as of the date of this Offering Memorandum.

As of and for the year ended 31 December 2016, the existing RB business reported:

- net revenue of £9,891 million (compared to £8,874 million in 2015);
- net income of £1,836 million (compared to £1,745 million in 2015);
- total assets of £18,019 million (compared to £15,268 million as of 31 December 2015); and
- total equity of £8,426 million (compared to £6,906 million as of 31 December 2015).

Recent Developments

Acquisition of Mead Johnson

On 10 February 2017, we announced that we signed an agreement to acquire Mead Johnson for $16.6 billion in cash. The acquisition of Mead Johnson (the "**Acquisition**") was completed on 15 June 2017 ("**Completion**"). The Acquisition is a significant step forward in our journey as a leader in Consumer Health and is expected to increase our revenues in this area by approximately 90 per cent. As a result of the Acquisition, Mead Johnson shareholders received $90 in cash for each share of common stock, valuing the total equity at $16.6 billion. Including

net debt of $1.2 billion as at 31 December 2016, the total enterprise value of the transaction was $17.9 billion.

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

The Acquisition was financed through new debt facilities with Bank of America, N.A., Deutsche Bank AG, London Branch and HSBC Bank plc. These facilities include $9 billion of term loans over three to five years and $8 billion of bridge funding to cover the cash consideration, plus a further $3 billion to refinance existing Mead Johnson bonds, although this is not expected to be needed. They also include an additional £1 billion revolving credit facility, to provide financing headroom from the date of the Completion. Certain of these facilities will be refinanced with the Notes offered hereby. See "*Use of Proceeds*".

Strategic review of Food business

On 3 April 2017, we announced a strategic review of our food business, which is considered non-core to the Group.

The Issuer

The Issuer was incorporated as a private limited company under the laws of England and Wales on 9 October 2006 with registered number 5960843 and was re-registered as a public limited company on 7 September 2007. Its principal executive offices and registered office are located at 103-105 Bath Road, Slough, Berkshire SL1 3UH, United Kingdom. The telephone number of its registered office is +44 (0) 1753 217 800.

The Issuer is a wholly owned finance company that conducts no business operations. It has limited assets and no ability to generate revenues. Upon completion of the Offering, the only significant assets of the Issuer will be various intercompany loans and its shareholding in two finance subsidiaries. The Issuer's material liabilities include amounts owed to other members of the Group, the Existing Notes (as defined herein) and commercial paper, and will include the Notes and any additional Notes or other indebtedness it may incur in the future.

The Guarantor

The Guarantor was incorporated on 6 June 2007 with the name Trushelfco (No. 3293) Limited and registered in England and Wales as a private limited company under the Companies Act 2006 (the "**Companies Act**") with registered number 6270876. On 24 July 2007, the Guarantor's name was changed to Reckitt Benckiser Group Limited and on 30 August 2007, it was re-registered as a public limited company. Its registered office is located at 103-105 Bath Road, Slough, Berkshire SL1 3UH, United Kingdom and the telephone number of its registered office is +44 (0) 1753 217 800.

The Guarantor is the listed holding company of the Group. It has no independent business operations, and is dependent on dividends from its subsidiaries.

The Offering

The following overview of the Offering contains basic information about the Notes and the Guarantees. It is not intended to be complete and it is subject to important limitations and exceptions. For a more complete understanding of the Notes and the Guarantees, including certain definitions of terms used in this overview, please refer to "Description of Notes".

Issuer	Reckitt Benckiser Treasury Services plc.
Guarantor	Reckitt Benckiser Group plc.
	The Guarantor is a holding company that conducts no independent business operations, and is dependent on dividends from its operating subsidiaries.
Notes Offered	$750 million aggregate principal amount of Floating Rate Senior Notes due 2022 (the "**Floating Rate Notes**");
	$2,500 million aggregate principal amount of 2.375 per cent. Senior Notes due 2022 (the "**2022 Fixed Rate Notes**");
	$2,000 million aggregate principal amount of 2.750 per cent. Senior Notes due 2024 (the "**2024 Fixed Rate Notes**"); and
	$2,500 million aggregate principal amount of 3.000 per cent. Senior Notes due 2027 (the "**2027 Fixed Rate Notes**", and, together with the 2022 Fixed Rate Notes and the 2024 Fixed Rate Notes, the "**Fixed Rate Notes**", and, together with the Floating Rate Notes, the "**Notes**").
Guarantees	The Notes will be fully and unconditionally guaranteed by the Guarantor (the "**Guarantees**"). The Notes will not be guaranteed by any of our other entities.
Issue Date	26 June 2017 (the "**Issue Date**").
Maturity Dates	Floating Rate Notes: 24 June 2022.
	2022 Fixed Rate Notes: 24 June 2022.
	2024 Fixed Rate Notes: 26 June 2024.
	2027 Fixed Rate Notes: 26 June 2027.
Interest	Floating Rate Notes: 3-month U.S. dollar LIBOR plus 56 basis points payable quarterly in arrears on 24 March, 24 June, 24 September and 24 December of each year, commencing on 24 September 2017. Interest will accrue from and including the Issue Date. Interest will be computed on the basis of the actual number of days in the interest period divided by 360.
	2022 Fixed Rate Notes: 2.375 per cent. per annum.
	2024 Fixed Rate Notes: 2.750 per cent. per annum.
	2027 Fixed Rate Notes: 3.000 per cent. per annum.
	Interest on the 2022 Fixed Rate Notes will be payable semi-annually in arrears on 24 June and 24 December of each year, commencing 24 December 2017. Interest on the 2024 Fixed Rate Notes and 2027 Fixed Rate Notes will be payable

	semi-annually in arrears on 26 June and 26 December of each year, commencing 26 December 2017. Interest will accrue from and including the Issue Date. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.
Record Dates	So long as the Notes remain in book-entry only form, the applicable record date for each interest payment date will be the close of business on the business day before the applicable interest payment date. If the Notes are not in book-entry only form, the applicable record date for each interest payment date will be the close of business on the fifteenth calendar day (whether or not a business day) before the applicable interest payment date.
Issue Price	Floating Rate Notes: 100.00 per cent., plus accrued interest, if any, from the Issue Date. 2022 Fixed Rate Notes: 99.906 per cent., plus accrued interest, if any, from the Issue Date. 2024 Fixed Rate Notes: 99.892 per cent., plus accrued interest, if any, from the Issue Date. 2027 Fixed Rate Notes: 99.700 per cent., plus accrued interest, if any, from the Issue Date.
Denominations	$200,000, and integral multiples of $1,000 in excess thereof.
Ranking of the Notes and the Guarantees	The Notes and the Guarantees will be direct, unsecured and unsubordinated obligations of the Issuer and the Guarantor, respectively, ranking *pari passu* in right of payment among themselves and with all other direct, unsecured and unsubordinated obligations (except those obligations preferred by statute or operation of law) of the Issuer and the Guarantor, respectively. The Notes and the Guarantees will be effectively subordinated to any debt or other obligations of any other subsidiary of the Guarantor with respect to the earnings and assets of that subsidiary.
Optional Redemption	The Issuer may redeem the Fixed Rate Notes, in whole or in part, at its option, at any time and from time to time prior to, in the case of the 2022 Fixed Rate Notes, 24 May 2022 (the day that is one month prior to the maturity date of the 2022 Fixed Rate Notes), in the case of the 2024 Fixed Rate Notes, 26 April 2024 (the day that is two months prior to the maturity date of the 2024 Fixed Rate Notes) and in the case of the 2027 Fixed Rate Notes, 26 March 2027 (the day that is three months prior to the maturity date of the 2027 Fixed Rate Notes) at a "make-whole" redemption price equal to the greater of (i) 100 per cent. of the principal amount of the Notes to be redeemed and (ii) the sum of the present values of the applicable remaining scheduled payments discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate plus 10 basis points in the case

	of the 2022 Fixed Rate Notes, 15 basis points in the case of the 2024 Fixed Rate Notes and 15 basis points in the case of the 2027 Fixed Rate Notes, together with accrued and unpaid interest (including any applicable Additional Amounts) on the principal amount of the applicable Notes to be redeemed to but excluding the date of redemption. The Issuer may redeem the Fixed Rate Notes in whole or in part, at the Issuer's option, at any time and from time to time on and after, in the case of the 2022 Fixed Rate Notes, 24 May 2022 (the day that is one month prior to the maturity date of the 2022 Fixed Rate Notes), in the case of the 2024 Fixed Rate Notes, 26 April 2024 (the day that is two months prior to the maturity date of the 2024 Fixed Rate Notes) and in the case of the 2027 Fixed Rate Notes, 26 March 2027 (the day that is three months prior to the maturity date of the 2027 Fixed Rate Notes) at a redemption price equal to 100 per cent. of the principal amount of the Fixed Rate Notes to be redeemed, together with accrued and unpaid interest (including any applicable Additional Amounts) on the principal amount of the applicable Notes to be redeemed to but excluding the Redemption Date. See "*Description of Notes – Redemption – Optional Redemption*".
Additional Amounts; Tax Redemption	Subject to certain exceptions and limitations provided for in the Indentures, the Issuer or, if applicable, the Guarantor will pay such additional amounts on the Notes (or under the Guarantees in respect thereof) as may be necessary to ensure that the net amounts received by each holder of a Note after any withholding or deductions required by law for any taxes imposed by any jurisdiction in which the Issuer (or, if applicable, the Guarantor) is incorporated, domiciled or resident for tax purposes or any political subdivision thereof or therein will not be less than the amount such holder or beneficial owner would have received if such taxes had not been withheld or deducted. Each series of the Notes is subject to redemption prior to maturity, at the option of the Issuer, in whole but not in part, at their principal amount, plus accrued and unpaid interest to but excluding the date of redemption and any additional amounts, in the event of certain changes in tax laws. See "*Description of Notes – Payment of Additional Amounts*" and "*Description of Notes – Redemption – Redemption for Tax Reasons*".
Certain Covenants	The Issuer and the Guarantor have agreed to certain covenants with respect to the Notes, comprising a negative pledge, limitation on mergers and consolidations and the provision of financial and other information. See "*Description of Notes – Covenants of the Issuer and the Guarantor*".

Further Issuances	The Issuer may, from time to time, without notice to or the consent of the holders of the Notes, issue as many distinct series of debt securities under the Indentures as it wishes. It may also from time to time, without notice to or the consent of the Holders of the Notes, "re-open" each series of the Notes and create and issue additional notes having identical terms and conditions as the Floating Rate Notes and the Fixed Rate Notes (or in all respects except for the issue date, the issue price, the payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series of notes with the applicable Notes, *provided, however*, that if additional notes are not fungible with the applicable Notes for U.S. federal tax purposes, the additional notes will have a separate CUSIP, ISIN or other identifying number to the applicable Notes. To the extent required for any such additional notes to be admitted to trading on the Professional Securities Market of the London Stock Exchange, a further set of listing particulars will be published in relation therewith, subject to application to, and approval by, the UK Listing Authority.
Use of Proceeds	We expect to use the net proceeds of the Offering for refinancing our debt incurred pursuant to the Acquisition. See "*Use of Proceeds*".
Transfer Restrictions	The Notes and the Guarantees have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States. The Notes are subject to restrictions on transfer and may only be offered or sold in transactions that are exempt from, or not subject to, the registration requirements of the Securities Act. See "*Transfer Restrictions*" and "*Plan of Distribution*". The Issuer has not agreed, or otherwise undertaken, to register the Notes (including by way of an exchange offer) under the Securities Act.
Absence of a Public Market for the Notes	The Notes will be new securities for which there are currently no markets. Although the Initial Purchasers have informed the Issuer that they intend to make a market in each series of Notes, they are not obligated to do so, and they may discontinue market-making at any time without notice. Accordingly, the Issuer cannot assure you that liquid markets for the Notes will develop or be maintained.
Listing	Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List of the UK Listing Authority and to be admitted to trading on the Professional Securities Market of the London Stock Exchange.
Trustee, Principal Paying Agent, Registrar and Transfer Agent	Deutsche Bank Trust Company Americas.

Governing Law of the Indentures, the Notes and the Guarantees	The State of New York, United States.
Expected Ratings	It is expected that the Notes will be rated "A–" by S&P and "A3" by Moody's. A security rating is not a recommendation to buy, sell or hold the Notes. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn by the relevant rating agency if, in its judgment, circumstances in the future so warrant. In the event that a rating initially assigned to the Notes is subsequently lowered for any reason, no person or entity is obliged to provide any additional support or credit enhancement with respect to the Notes and the market value of the Notes is likely to be adversely affected.
CUSIPs and ISINs	Floating Rate Notes: • Rule 144A: CUSIP: 75625Q AF6; ISIN: US75625QAF63. • Regulation S: CUSIP: G7420T AF3; ISIN: USG7420TAF33. 2022 Fixed Rate Notes: • Rule 144A: CUSIP: 75625Q AC3; ISIN: US75625QAC33. • Regulation S: CUSIP: G7420T AC0; ISIN: USG7420TAC02. 2024 Fixed Rate Notes: • Rule 144A: CUSIP: 75625Q AD1 ; ISIN: US75625QAD16. • Regulation S: CUSIP: G7420T AD8; ISIN: USG7420TAD84. 2027 Fixed Rate Notes: • Rule 144A: CUSIP: 75625Q AE9; ISIN: US75625QAE98. • Regulation S: CUSIP: G7420T AE6; ISIN: USG7420TAE67.
Risk Factors	Investing in the Notes involves substantial risks. In evaluating an investment in the Notes, you should carefully consider all of the information provided in this Offering Memorandum and, in particular, the specific factors set out under "*Risk Factors*".

Summary Financial Information

You should read the data below together with the information contained in "Presentation of Financial and Other Information," "Risk Factors," "Selected Historical Financial Information," "Operating and Financial Review" and our Financial Statements and the MJ Financial Statements, which are incorporated by reference in this Offering Memorandum.

Group Financial Information

The summary financial information of the Group provided below has been extracted without material adjustment from our Financial Statements. For a discussion of the basis of the preparation of our consolidated financial information, see Note 1 to the RB Financial Statements incorporated by reference in this Offering Memorandum. These Financial Statements have been prepared in accordance with IFRS. See "*Presentation of Financial and Other Information*". Our historical financial information is not indicative of our future results.

Condensed Consolidated Income Statement

	Year ended 31 December		
	2016	**2015**	**2014**
		(£ millions)	
Net Revenue	9,891	8,874	8,836
Cost of sales	(3,865)	(3,628)	(3,740)
Gross profit	6,026	5,246	5,096
Net operating expenses	(3,616)	(3,005)	(2,932)
Operating profit	2,410	2,241	2,164
Adjusted operating profit	2,777	2,374	2,185
Exceptional items	(367)	(133)	(21)
Operating profit	2,410	2,241	2,164
Finance income	42	21	27
Finance expense	(58)	(54)	(65)
Net finance expense	(16)	(33)	(38)
Profit before income tax	2,394	2,208	2,126
Income tax expense	(558)	(463)	(462)
Net income from continuing operations	1,836	1,745	1,664
Net income from discontinued operations	—	—	1,560
Net income	1,836	1,745	3,224
Attributable to non-controlling interests	4	2	1
Attributable to owners of the parent	1,832	1,743	3,223
Net income	1,836	1,745	3,224

Consolidated Balance Sheet

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Assets			
Non-current assets			
Goodwill and other intangible assets	13,454	11,296	11,252
Property, plant and equipment	878	730	757
Available for sale financial assets	39	—	—
Deferred tax assets	81	57	61
Retirement benefit surplus	36	63	26
Other non-current receivables	81	240	240
	14,569	12,386	12,336
Current assets			
Inventories	770	681	745
Trade and other receivables	1,623	1,331	1,307
Derivative financial instruments	158	121	130
Current tax recoverable	14	9	60
Short-term investments	3	—	—
Available for sale financial assets	—	—	1
Cash and cash equivalents	882	740	917
	3,450	2,882	3,160
Total assets	18,019	15,268	15,496
Liabilities			
Current liabilities			
Short-term borrowings	(1,585)	(1,749)	(1,936)
Provisions for liabilities and charges	(251)	(229)	(317)
Trade and other payables	(3,495)	(2,948)	(2,883)
Derivative financial instruments	(58)	(22)	(29)
Current tax liabilities	(12)	(91)	(124)
	(5,401)	(5,039)	(5,289)
Non-current liabilities			
Long-term borrowings	(804)	(671)	(636)
Deferred tax liabilities	(1,983)	(1,692)	(1,749)
Retirement benefit obligations	(361)	(257)	(338)
Other provisions	(174)	(115)	(73)
Non-current tax liabilities	(740)	(559)	(500)
Other non-current liabilities	(130)	(29)	(77)
	(4,192)	(3,323)	(3,373)
Total liabilities	(9,593)	(8,362)	(8,662)
Net assets	8,426	6,906	6,834

	As of 31 December		
	2016	2015	2014
	(£ millions)		
Equity			
Capital and reserves			
Share capital	74	74	74
Share premium	243	243	243
Merger reserve	(14,229)	(14,229)	(14,229)
Hedging reserve	(4)	18	4
Foreign currency translation reserve	526	(964)	(824)
Retained earnings	21,811	21,762	21,564
Attributable to owners of the parent	8,421	6,904	6,832
Attributable to non-controlling interests	5	2	2
Total equity	8,426	6,906	6,834

Condensed Consolidated Cash Flow Statement

	Year ended 31 December		
	2016	2015	2014
	(£ millions)		
Net cash generated from operating activities	2,422	1,784	2,099
Net cash used in investing activities	(583)	(134)	(715)
Net cash used in financing activities	(1,766)	(1,798)	(1,194)
Net increase/(decrease) in cash and cash equivalents	73	(148)	190
Cash and cash equivalents at end of the year	873	737	913

Additional Financial Information

Adjusted Operating Profit

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Operating profit	2,410	2,241	2,164
Exceptional items	367	133	21
Adjusted operating profits	2,777	2,374	2,185

Adjusted Net Income

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Net income attributable to owners of the parent	1,832	1,743	1,663
Exceptional items	367	133	21
Tax effect of exceptional items	(42)	(5)	—
Adjusted net income attributable to owners of the parent	2,157	1,871	1,684

Free Cash Flow

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Net cash generated from continuing operations	2,422	1,784	1,876
Purchase of property, plant and equipment	(179)	(154)	(157)
Purchase of intangible assets	(214)	(25)	(27)
Proceeds from the sale of property, plant and equipment	7	51	19
Free cash flow	2,036	1,656	1,711

Net Debt

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Total borrowings	2,389	2,420	2,572
Cash and cash equivalents	(882)	(740)	(917)
Other[1]	(116)	(60)	(112)
Net debt	1,391	1,620	1,543

Note:

(1) Consists of short-term investments and derivative financial instruments.

Trading Cash Flow

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Adjusted Operating Profit[(1)]	2,777	2,374	2,185
Share based payment	66	50	53
Depreciation and amortisation	183	171	161
Net Capital expenditure[(2)]	(386)	(168)	(174)
Movement in net working capital[(3)]	120	(79)	81
Movement in provisions and other creditors[(3)]	(53)	(50)	(48)
Other non-cash movements in operating profit	—	(33)	(1)
Trading cashflow	2,707	2,265	2,257

Note:

(1) Adjusted to exclude the impact of exceptional items

(2) In 2015, net capital expenditure comprised purchases of property, plant and equipment and intangible assets and proceeds from the disposal of property, plant and equipment adjusted for the impact of exceptional items of £40 million.

In 2014, net capital expenditure comprised purchases of property, plant and equipment and intangible assets and proceeds from the disposal of property, plant and equipment adjusted for the impact of exceptional items of £9 million.

(3) In 2016, movement in net working capital and provisions and other creditors comprised net cash flows of £1 million, adjusted for the impact of exceptional items of £91 million. In 2015, movement in net working capital and provisions and other creditors comprised net cash flows of £23 million, adjusted for the impact of exceptional items of £90 million.

Reconciliation in net debt

	2016	2015
	(£ millions)	
Opening net debt	(1,620)	(1,543)
Free cashflow	2,036	1,656
Shares purchased	(802)	(804)
Shares reissued	79	74
Acquisition of businesses	(158)	(10)
Purchase of investments[(1)]	(36)	3
Dividends paid	(1,036)	(926)
Exchange and other movements[(2)]	146	(70)
Closing net debt	(1,391)	(1,620)

Notes:

(1) Purchase of investments consists of payments to acquire available for sale financial assets and short term investments, receipts from the maturity of short term investments, net of investments that form part of net debt (2016: £3 million, 2015: £nil).

(2) Exchange and other movements comprise foreign exchange losses of £73 million (2015: £70 million) and cash inflows from other financing activities of £219 million (2015: £nil).

Mead Johnson Financial Information

The following tables present summary financial information that has been extracted without material adjustment from the MJ Financial Statements. For a discussion of the basis of the preparation of Mead Johnson's consolidated financial information, see Note 2 to the MJ Annual Financial Statements incorporated by reference in this Offering Memorandum.

Condensed Consolidated Statements of Earnings

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		($ millions)	(audited)	
Net Sales	883.5	962.1	3,742.7	4,071.3	4,409.3
Cost of Products Sold	330.2	347.6	1,341.0	1,455.3	1,700.6
Gross Profit	553.3	614.5	2,401.7	2,616.0	2,708.7
Operating Expenses:					
Selling, General and Administrative	193.7	198.9	766.5	890.6	978.9
Advertising and Promotion	160.3	151.8	627.0	641.8	638.7
Research and Development	21.4	25.4	97.4	108.4	115.1
Other (Income)/Expenses – net	22.8	88.3	92.1	39.0	(12.3)
Earnings before Interest and Income Taxes	155.1	150.1	818.7	936.2	988.3
Interest Expense – net	27.1	26.2	105.4	65.0	60.3
Earnings before Income Taxes	128.0	123.9	713.3	871.2	928.0
Provision for Income Taxes	10.4	47.2	164.0	215.9	199.2
Net Earnings	117.6	76.7	549.3	655.3	728.8

Condensed Consolidated Balance Sheet

	As of 31 March	As of 31 December	
	2017	2016	2015
	(unaudited)	(audited) ($ millions)	
Assets			
Total Assets	4,227.1	4,087.7	3,998.1
Liabilities and Equity			
Total Liabilities	4,619.9	4,559.8	4,590.6
Commitments and Contingencies			
Equity			
Total Equity/(Deficit)	(392.8)	(472.1)	(592.5)
Total	4,227.1	4,087.7	3,998.1

Condensed Statements of Cash Flows

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		*($ millions)*	*(audited)*	
Cash Flows from Operating Activities:					
Net Cash Provided by Operating Activities	196.4	160.1	691.6	909.9	793.4
Cash Flows from Investing Activities:					
Net Cash Used in Investing Activities	(48.4)	(55.5)	(148.7)	(173.2)	(182.4)
Cash Flows from Financing Activities:					
Net Cash Used in Financing Activities	(74.6)	(77.0)	(399.6)	(286.8)	(325.5)
Effects of Changes in Exchange Rates on Cash and Cash Equivalents	8.1	(26.7)	(49.3)	(46.2)	(38.6)
Net Increase in Cash and Cash Equivalents	81.5	0.9	94.0	403.7	246.9
Cash and Cash Equivalents:					
Beginning of Period	1,795.4	1,701.4	1,701.4	1,297.7	1,050.8
End of Period	1,876.9	1,702.3	1,795.4	1,701.4	1,297.7

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Accordingly, investors and prospective investors should consider carefully the risks and uncertainties described below and all of the other information set out in this Offering Memorandum and incorporated by reference herein before making an investment decision. Our business, results of operations, financial condition and/or prospects could be materially and adversely affected by any of these risks. The market prices of the Notes may decline due to any of these risks or other factors, and investors may lose all or part of their investment.

The risks described below are not the only ones which we face. The risks described below are those that we currently believe may materially affect us and the Notes. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not currently known to us, or those that we currently deem to be immaterial, may become material and adversely affect our business, results of operations, financial condition, prospects and/or the value of the Notes. This Offering Memorandum also contains estimates and projections that involve risks and uncertainties. Our results may differ significantly from those previously projected as a result of certain factors, including the risks which we face, as described below and in other sections of this Offering Memorandum.

Investors should read this document as a whole and not rely solely on the information set out in this section. The information given is as of the date of this Offering Memorandum and, except as required by legal or regulatory obligation, will not be updated. Any forward-looking statements are made subject to the reservations specified in the section headed "Forward-Looking Statements".

1 Risks related to our products, industry and the economic environment in which we operate.

We are exposed to product safety and product liability risks.

Our business is subject to product safety risks and we have established processes for the assessment of product safety. However, there can be no guarantee that our processes will prevent all product safety issues or that there will be no gaps in the completion of the safety assessment. Furthermore, some of our products present inherent dangers, including due to the presence of chemicals, which if mishandled or misused, could result in significant damage.

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. We have paid in the past, are currently paying and may be required in the future to pay, compensation for losses or injuries that are allegedly caused by our products. See "– *We face significant financial and reputational risk in relation to humidifier sanitiser products marketed by our Korean subsidiary*". 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 may be required to alter our trademarks, labels or packaging, which could result in adverse publicity, significant expenses, potential disruptions in the supply chain and loss of revenue.

The product liability and safety risks have heightened following the Acquisition, as we previously had no presence in infant and children's nutrition products and may be subject to liability if these products or the related manufacturing operations violate, or are alleged to

violate, applicable laws or regulations or in the event these products cause, or are alleged to cause, injury, illness or death. Powdered infant formula and powdered milk products are not sterile. A risk of contamination or adulteration exists at each stage of the production cycle, including the purchase and incorporation of raw food materials/ingredients into the final products, the processing and packaging steps in making the products and upon handling and use by healthcare professionals, hospital personnel and consumers. In the event that our infant and children's nutrition products are found, or are alleged, to have suffered contamination or adulteration, whether or not such products were under our control, our brand reputation, business, results of operations, financial condition and prospects could be materially adversely affected.

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 any of our products, our competitors' products or individual ingredients may result in judgments that affect us, our ability to do business in the affected jurisdictions and/or the industries in which we operate, including with respect to other products not directly implicated in such complaints, investigations and litigation. Product quality concerns may also require us to implement a product recall, which could be costly and result in product liability claims. A recall of any of our products, or of a third-party product that is similar to ours, could result in reputational damage and a decline in consumer confidence about our products, including those not directly implicated in the recall. Further, whether real or perceived, reports of inadequate quality control (with respect to either our products or those of competing manufacturers) could adversely impact our business by contributing to a perceived safety risk throughout the industry. The risk of reputational harm is magnified through rapid, digital dissemination of information through news reports, social media or otherwise. Federal, state and local governments and municipalities could also propose or pass legislation banning the use of our products. Any of the foregoing could materially adversely impact our business, financial condition, results of operations and prospects.

Furthermore, we may not be insured fully, or at all, in respect of such risks, and we have in the past faced, currently face, 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, results of operations and financial condition.

We face significant financial and reputational risk in relation to humidifier sanitiser products marketed by our Korean subsidiary.

In 2001, we acquired Oxy, a South Korean company. Oxy RB manufactured and sold household products, including humidifier sanitiser ("**HS**") products which accounted for less than 0.5 per cent. of their sales. By 2011, Oxy RB was one of about 13 suppliers of HS products in the South Korean market. We did not sell HS products in any other market. Oxy RB continued to sell the HS products in South Korea for the next 10 years. In 2011 the Korean Centre for Disease Control ("**KCDC**") determined that HS products might be responsible for serious respiratory diseases, including fatalities. Oxy RB immediately began to withdraw its HS products.

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

In July 2016, a compensation package was established by Oxy RB to provide fair compensation to Oxy HS product users categorised by the South Korean government in Rounds 1 and 2 of the South Korean government's categorisation process as suffering, or having suffered, lung damage which was "almost certainly" ("**Category I**") or had a "high possibility" ("**Category II**") of

being a result of their use of Oxy RB's HS product (the "**Compensation Plan**"). It was designed in consultation with these victims and their families, informed by four overarching values of fairness, transparency, respect and speed and is aimed at addressing each person's health issue according to their own individual circumstances, including those who have previously entered into settlement agreements with Oxy RB. As of 31 January 2017, 97 per cent. of eligible victims were participating in the Compensation Plan.

We expect to incur a number of other non-recurring costs in relation to the HS issue. These include advisers' fees, costs in administering the Compensation Plan and costs associated with operation of the local business. In the accounts for the year ended 31 December 2016, we charged £300 million to exceptional costs in relation to this issue, comprising both cash and non-cash items. For more information, see "*Our Business – Material Governmental and Legal Proceedings – South Korea HS issue*". The risk of additional financial exposure remains, including relating to compensating Oxy HS Category I and II victims identified within Round 4 of the classification process, contribution to a Special Relief Fund contemplated by the HS Damage Relief Act passed on 20 January 2017 and any other costs associated with the wider HS issue. Furthermore, Oxy RB suffered reputational damage in South Korea, which in turn adversely affected, and could continue to adversely affect, demand for our products. The financial expenses and reputational damage associated with the HS products could have a material adverse effect on our business, reputation, financial condition and results of operations.

Our reputation and strength of our brands could be adversely affected by quality-related issues, supply chain failures or negative publicity.

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 concerning any of our products or those of our competitors together with any associated adverse publicity. 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 over-the-counter ("**OTC**") 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 have faced or may 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 have sold or 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, which may adversely affect our reputation.

Our success depends on the value and relevance of our products, in particular our Powerbrands, to consumers around the world.

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. We face substantial competition throughout our business from international and domestic companies. Competition is primarily focused on cost effectiveness, price, service, product effectiveness and quality, consumer convenience and technological innovation. Our results of operations depend to a significant extent on our ability to launch and sell products, in particular our Powerbrands, that appeal to, and are accepted by consumers. 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. Competition may increase further as existing competitors enhance their offerings or additional companies enter our markets or modify their existing products to compete directly with our products. 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. Consumers may purchase less, purchase through different channels (e.g., e-commence) 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. 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.

Sales of infant and children's nutrition products are exposed to demographic trends, scientific opinion and certain government programmes.

Increases in sales of our infant and children's nutrition products rely, in part, on favourable demographic trends in various markets, including birth rates, rising incomes in developing markets, increasing numbers of working mothers and increasing consumer global awareness of the importance of infant and children's nutrition. If any of these demographic trends change in an adverse way (due to macroeconomic factors, epidemics or other factors beyond our control), our business could be adversely impacted. In addition, an adverse change in scientific opinion regarding infant and children's nutrition products, such as the health benefits of DHA, could materially adversely affect our business.

In the United States, sales of infant and children's nutrition products are exposed to changes in the Special Supplemental Nutrition Program for Women, Infants and Children ("**WIC**"). The WIC programme is a U.S. Department of Agriculture ("**USDA**") programme created to provide nutritious foods, nutrition education and referrals to healthcare professionals and other social services to those considered to be at nutritional risk, including low-income pregnant, postpartum and breastfeeding women, and infants and children up to age five. It is estimated that approximately 46 per cent. of all infants born in the United States during the 12-month period ended 31 December 2016 benefited from the WIC programme. The USDA programme is administered individually by each state. WIC contracts are generally three years in duration with some contracts providing for extensions; specific contract provisions can vary significantly from state to state. Participation in WIC involves a competitive bidding process and has historically been an important part of Mead Johnson's U.S. business based on the volume of infant formula sold under the programme. We intend to continue bidding for new WIC contracts and

maintaining Mead Johnson's WIC relationships. A number of state WIC contracts expire and are subject to renewed bids by the end of 2017. A failure to win bids for new contracts pursuant to the WIC programme or our inability to maintain current WIC relationships or an exclusion of us from the WIC programme for any reason would have a material adverse effect on the sales of infant and children's nutrition products in the United States. Moreover, under recently awarded WIC contracts, trends have been towards higher rebate levels. If these trends continue, the cost of retaining WIC contracts could adversely affect our U.S. sales and/or results of operations. The sales of Mead Johnson's products could also be materially adversely affected by any changes to how the WIC programme is administered, any changes to rebate levels and renewal patterns for WIC contracts, any changes to the eligibility requirements and/or overall participation in the WIC programme and any failure to maintain fulfilment or other obligations in connection with current WIC contracts.

A decline in sales of infant and children's nutrition products due to any of the factors described above could have a material adverse effect on our business, results of operations, financial condition and prospects.

We may be unable to successfully develop new or improved products and launch them in a timely manner.

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 our 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. In particular, our ability to develop new infant and children's nutrition products depends on, among other factors, our ability to understand the composition and variation of breast milk and our ability to translate these insights into commercially viable new products. This will require significant investment in research and development and testing of new ingredients, formulae and new production processes, and there can be no assurance that the research and development will result in a successful development of marketable products.

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.

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.

Our business may be adversely affected by any deterioration in global economic and political conditions.

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 across the globe. 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. Certain markets, including a number of developing markets in which we plan to focus our investment and growth efforts, exhibit more volatile demand in reaction to macroeconomic factors than other markets. 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. 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.

We are exposed to a number of macroeconomic and operational risks relating to the United Kingdom's potential exit from the European Union.

In a referendum on the United Kingdom's membership of the European Union held on 23 June 2016, a majority voted in favour of the United Kingdom's withdrawal from the European Union (the "**EU Referendum**"). On 29 March 2017, the UK Government triggered the official process for withdrawing from the European Union under Article 50 of the Treaty of the European Union ("**Brexit**"), leading to a process of negotiation that will determine the future terms of the United Kingdom's relationship with the European Union. The impending Brexit has created significant political, social and macroeconomic uncertainty in the United Kingdom, including leaders in Scotland raising the possibility of a second referendum on Scottish independence, and has given rise to calls for the governments of other European Union member states to consider withdrawal.

The impending Brexit also heightens the potential impact of some of the principal operating risks described below, including the risks relating to the introduction of new regulations, modification of existing regulations or changes in interpretations of existing or new regulations described above. It remains unclear how the regulatory landscape will change for us, both in the United Kingdom and in the remaining EU member states. Additionally, the outcome of the negotiations between the United Kingdom and the EU in connection with the Brexit could have wider impacts on the risks faced by us. Some of the potential effects include an increase in economic and operational uncertainty, a change in, or increase in the volatility of currency exchange, credit and interest rates, or that the outcome of the negotiations may be a catalyst for further changes to the regulations and/or structure of the European Union that will, in turn, have an impact on our business and operating conditions.

2 Risks related to our regulatory and legal environment.

We are subject to a wide range of laws and regulations, which are subject to change, and a failure to comply could expose us to fines, regulatory restrictions, civil litigation, criminal prosecution and/or reputational damage.

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, patient safety, clinical trial standards, labour standards, product safety and quality, marketing, packaging, labelling, storage, distribution, advertising, imports and exports, data storage and processing, social and environmental responsibility and health and safety. In addition, we are required to obtain and maintain licences 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 interpretation 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, a change in the regulatory status of an OTC product could result in it being moved from on the shelf to behind the counter or restricted to availability only with a doctors' prescription) 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 particular, in some developing market countries where we operate. 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 or 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.

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.

We have in the past been, currently are, and may in the future be, subject to investigations and potential enforcement action. Some such action could have in the past, or could in the future have, a material adverse effect on our business.

Furthermore, we have in the past been, currently are and could in the future 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. In particular, the Group is involved in ongoing investigations by the U.S. Department of Justice ("**DOJ**") and the U.S. Federal Trade Commission ("**FTC**") and related litigation proceedings arising from certain matters relating to the pharmaceuticals business prior to its demerger in December 2014 to form Indivior and may incur liabilities in relation to such matters, which may be material. These investigations and related proceedings are continuing and we are in active discussions with the DOJ. We are cooperating with the relevant agencies.

Infant and children's nutrition products will expose us to additional regulatory policies and legislation in various jurisdictions, which increases compliance risk.

The infant and children's nutrition business is subject to extensive government regulation in a number of jurisdictions with respect to product manufacturing and labelling, the environment, employee health and safety, hygiene, quality control, advertising, marketing and privacy laws that we had not been previously subject to. It may be costly for us to comply with these regulations. Global regulatory provisions that govern our ability to bring innovative formulae to market have become increasingly stringent with regard to requirements for scientific substantiation for innovation. Similarly, regulatory criteria with respect to safety and quality

requirements have become increasingly stringent. A failure to comply with such laws and regulations could subject us to sales bans, product recalls, lawsuits, administrative penalties and other remedies. In addition, changes in laws or regulations could further restrict our actions and significantly increase our cost of doing business, adversely affecting our business and results of operations. For example, government regulations impacting how and where we manufacture or source products may cause unfavourable cost outlay, pricing pressure, a significant change in our offerings or geographic earnings mix and/or an adverse effect on the related global tax liability.

In addition, certain advocates and governmental and non-governmental organisations (particularly in Hong Kong, Mexico, the Philippines, Thailand, Malaysia, Vietnam, Indonesia, Colombia and Singapore) have advocated for heightened restrictions on the marketing, labelling and even the sale of some infant and children's nutrition products, as well as trademark restrictions, restrictions on interactions with healthcare providers and bans on claims for products covering children up to three years of age, including the "Guidance on Ending the Inappropriate Promotion of Foods for Infants and Young Children" that was published by the World Health Organization ("**WHO**") in 2016. Mead Johnson and other industry participants were unable to persuade the WHO to modify its guidance to recognise the scientifically proven benefits of infant formula products. The WHO guidance is now under consideration for potential legislation in several countries where we market our infant and children's nutrition products, and, if adopted into legislation, may limit our ability to market to infants and children below two years of age and certain other branding and marketing activities. Our success in the infant and children's nutrition product category will depend, in part, on our ability to define the benefits of our products, to effectively communicate their science-based benefits and to connect with our consumers. An inability to do so due to regulatory restrictions on marketing activities could adversely affect the sales of our infant and children's nutrition products. Furthermore, as some of our competitors in this sector may respond differently to the WHO guidance and any resulting regulatory restrictions, the sales of their products could be affected to a lesser extent than the sales of our products, which could lead to a loss of market share. As a result, any such restrictions or prohibitions could have a material adverse effect on our business, results of operations, financial conditions and prospects. Marketing activities in the infant and children's nutrition sector could also adversely affect our reputation, including in light of the WHO Guidance on Ending the Inappropriate Promotion of Foods for Infants and Young Children opposing such activities.

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 matters. Investigations and legal proceedings relating to competition and antitrust matters 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, other sanctions or damages, 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 are subject to anti-money laundering and anti-corruption regulations.

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 U.S. Foreign Corrupt Practices Act of 1977, as amended, and similar laws worldwide. Given our extensive international operations, particularly in developing 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 direct 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.

The Acquisition also exposes us to the 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.

In the ordinary course of business, we are, and may in the future be, involved in various legal or regulatory proceedings.

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, including in relation to patient safety. 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. See "– *Risks related to our products, industry and the economic environment in which we operate – We face significant financial and reputational risk in relation to humidifier sanitiser products marketed by our Korean subsidiary*".

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.

We are exposed to risks related to taxation, including with respect to changes in applicable legislation and certain legacy tax obligations of Mead Johnson.

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 therefore are subject to tax laws in multiple jurisdictions, including those relating to the flow of funds and transactions between the companies in the Group. Our effective tax rate in any given financial year may reflect 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 and tax advice. In particular, international transfer pricing is an area of taxation that depends heavily on the underlying facts and circumstances and generally involves a significant degree of judgement.

Changes in tax laws, regulations and related interpretations (including those arising as a result of the Organisation for Economic Co-operation and Development's base erosion and profit shifting project and from the EU's investigations into potential breach of State Aid rules in respect of tax rulings, both in respect of RB's and Mead Johnson's operations in Europe) 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. In the United States, where we have an enlarged presence following the Acquisition, there is currently significant uncertainty as to the likelihood or timing of implementation of a comprehensive corporate tax reform and any specific elements of such reform. Developments in the tax legislation in the United States could adversely affect our business, financial condition and results of operations.

We have in the past faced, and may in the future face, audits and challenges brought by tax authorities. We are also 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, be subject to interest and penalty charges and incur costs in defending litigation or reaching a settlement. Furthermore, integration of RB's and Mead Johnson's business, and changes to our corporate structure and/or operating model following the Acquisition, could affect our effective tax rate, current or future tax liabilities or the amount of such liabilities as stated on our balance sheet. Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

In addition, in connection with Mead Johnson's split-off from Bristol-Myers Squibb Company ("**BMS**") on 23 December 2009, BMS and its counsel have relied on certain assumptions and representations as to factual matters from Mead Johnson, as well as certain covenants by Mead Johnson regarding the future conduct of Mead Johnson's business and other matters, the incorrectness or violation of which could affect the qualification for non-recognition of gain and loss of Mead Johnson's split-off from BMS. As a result, Mead Johnson agreed, generally, to indemnify BMS for taxes and certain related expenses resulting from the failure of Mead Johnson's split-off from BMS to qualify for non-recognition of gain and loss to the extent attributable to: (i) the failure of any of Mead Johnson's representations to be true or the breach by Mead Johnson of any of Mead Johnson's covenants; (ii) the application of Section 355(e) or Section 355(f) of the U.S. Internal Revenue Code of 1986 (the "**Code**") to any acquisition of Mead Johnson stock or assets or any of Mead Johnson's affiliates; or (iii) certain other acts or omissions by Mead Johnson or its affiliates. To the extent that we, as Mead Johnson's successor, become obliged to make an indemnification payment to BMS through the relevant audit years, such payment could be material and could have a material adverse effect on our financial condition and operating results.

3 Risks related to the Acquisition and the integration of Mead Johnson's business.

The anticipated benefits of the Acquisition may not be realised and the integration of the businesses of RB and Mead Johnson may create a number of challenges.

Although the Directors believe that we will be able to generate cost savings as a result of the Acquisition, there can be no assurance that the post-Acquisition integration of the businesses

of RB and Mead Johnson will achieve the anticipated cost savings, in either a timely manner or at all.

These potential benefits can only be fully realised through a successful integration of Mead Johnson's businesses with RB's businesses, which integration may not be successful. We may encounter challenges in combining RB's operations with the operations of Mead Johnson, including:

- business units and employees of different corporate heritages and cultural backgrounds may fail to work together effectively;
- key management or other personnel, including senior management and other key employees of Mead Johnson, could leave us;
- our management could fail to execute key business strategies of Mead Johnson, leading to a decline in sales of infant and children's nutrition products;
- key customers, intermediaries or suppliers, particularly those of Mead Johnson, could switch or divert all or part of their business or attempt to renegotiate terms of business with us, or our relationships with such customers, intermediaries, suppliers or regulatory and governmental authorities could be disrupted, including as a result of the departure of certain managers and employees of Mead Johnson or a failure by our management to maintain such relationships;
- we could experience difficulties in integrating the financial, food safety, quality control, regulatory compliance, technological and management standards and systems, which may adversely impact the reporting of our financial information in compliance with accounting standards and applicable legislation and the maintenance of adequate governance; and
- inconsistencies in the business culture, organisation and marketing focus of RB and Mead Johnson could adversely affect the sales of our products.

The Acquisition could also fail to realise the expected benefits or could result in substantial costs being incurred as a result of, for example, inconsistencies in standards, procedures and policies and business cultures between RB and Mead Johnson and the diversion of management's attention from their responsibilities as a result of the need to address integration issues.

We will be required to devote significant management attention and resources to integrating RB's and Mead Johnson's business practices and operations. This is particularly the case in light of Mead Johnson's size, with net revenue in the year ended 31 December 2016 of $3,742.7 million and products distributed in over 50 markets worldwide. Furthermore, the Acquisition exposes us to concentration risks in a product line, consumer segment and certain geographies where RB's current senior management has limited prior commercial and marketing expertise. See "–*As a result of the Acquisition, we are exposed to risks related to our expanded product range and exposure to new market segments*". There is a risk that the challenges associated with managing Mead Johnson's business as part of the Group will result in management distraction and that, consequently, the underlying businesses of Mead Johnson and/or RB will not perform in line with expectations and/or that we may incur additional costs due to greater reliance on external advisers.

All factors described above may have a significant adverse impact on our business, results of operations, financial condition and prospects.

We may be exposed to risks of undisclosed liabilities of Mead Johnson.

The Merger Agreement contained warranties and representations on the part of Mead Johnson, which, as is usual in such a transaction, were provided by Mead Johnson and can no longer be

enforced following completion of the Acquisition. Accordingly, the Company does not have a right to recover damages or compensation in the event of an undisclosed liability of Mead Johnson arising. In addition, RB did not have access to full information about Mead Johnson prior to the signing of the Merger Agreement. Limitations in the ability of RB to enforce the representations and warranties in the Merger Agreement and in the scope of information made available to RB could result in us realising a lower value from the Acquisition than anticipated.

Following the Acquisition, we are larger in scale, have a broader geographical spread and, in particular, have a significantly expanded presence in China, which may present us with new challenges.

Our scale has increased following the Acquisition and has a greater presence in and exposure to the United States and to developing markets (including China, the Philippines, Mexico and Thailand). Our greater scale and the increased presence in developing markets may present challenges, including:

- exposure to markets with differing levels of maturity together with new competitors. Less mature markets may have an increased risk of wage and cost inflation, volatility in currency exchange rates, declines in consumer spending and employment levels, changes in tax rates, potential tariffs, duties and other trade barriers. These developing regions also have less stability in legal systems and financial markets, are potentially more uncertain business environments than the more developed markets and could therefore present greater political, economic and operational risks;
- exposure to legislation, regulations, policies and regulators in the new markets;
- exposure to different customer expectations; and
- management having greater responsibilities due our size, potentially diverting management's attention from focusing on the business and operations of RB.

In particular, we have a significantly expanded presence in China, as a significant portion of Mead Johnson's revenue is derived from operations in that country. As a result, the risks highlighted above are particularly significant for us in China. The regulatory landscape in China is evolving faster, particularly in the infant and children's nutrition sector, than in developed markets. Therefore, to a greater extent than for RB's operations, our Chinese business may be adversely affected by the need to comply with China's continuously evolving laws and regulations, including those related to trade restrictions, product quality requirements, product labelling rules and advertising regulations, particularly to the extent changes in such laws affect the infant and children's nutrition products of Mead Johnson.

Risks associated with our China operations also include changes in economic conditions (including potential slowdowns in China's economy, wage and cost inflation, currency exchange rates, consumer spending and employment levels), changes in tax rates, potential tariffs, duties and other trade barriers and increased competitive promotional activity. Moreover, our success in China depends on our ability to predict, identify, interpret and react to changes in consumer product and sales channel preferences. The shift in consumer demand towards fully imported products and the increased interest in premium-priced products has negatively impacted, and may continue to negatively impact, demand for Mead Johnson's locally manufactured products, as well as sales in Hong Kong.

If we cannot effectively manage exposure to these challenges, this could have a material adverse effect on our business, financial condition, results of operations and prospects.

As a result of the Acquisition, we are exposed to risks related to our expanded product range and exposure to new market segments.

The scope and diversity of our product offering has increased following the completion of the Acquisition. In particular, we did not previously operate in the infant and children's nutrition sector, and, following the Acquisition, products in this sector are expected to comprise a significant proportion of our revenue. Our revenue will also be dependent on the continued success and developments of the Enfa family of brands.

The infant and children's nutrition sector is exposed to a number of unique risks, including:

- The Acquisition exposes us to new competitors and different competitive dynamics. Certain of our primary competitors in the infant and children's nutrition product segment have substantial financial, marketing and other resources, a greater degree of vertical integration in their production chains, and may benefit from greater economies of scale. In most product categories in this segment, we will compete not only with other widely advertised branded products, but also with private label and store brand products that are generally sold at lower prices.
- Customers in the infant and children's nutrition product segment, primarily new mothers, have substantially different demographic profiles, purchasing patterns, and marketing preferences, compared to many of our historical consumers. The success of our marketing initiatives in respect of infant and children's nutrition products is subject to risk, including uncertainties about trade and consumer acceptance of our marketing efforts and our ability to communicate our key brand and corporate messages to a growing number of social media users. The success of these initiatives is also subject to potential restrictions on the marketing of infant formula products. See also "*– Risks related to our regulatory and legal environment – Infant and children's nutrition products will expose us to additional regulatory risks and are subject to anti-infant formula policies and legislation in various jurisdictions*" and "*– Risks related to our products, industry and the economic environment in which we operate – Sales of infant and children's nutrition products are exposed to demographic trends, scientific opinion and certain government programmes*".
- Presence in the infant and children's nutrition sector will expose us to increased product safety risks, commodity price risks, and regulatory risk. See also "*– Risks related to our products, industry and the economic environment in which we operate – We are exposed to product safety and product liability risks*" and "*– Risks related to our regulatory and legal environment – Infant and children's nutrition products will expose us to additional regulatory risks and are subject to anti-infant formula policies and legislation in various jurisdictions*".

A significant reduction in sales of our infant and children's nutrition products, which could occur if we are not successful in addressing the foregoing challenges or due to other reasons, including underlying economic conditions in the target markets, shifts in consumer sentiment and underlying product demand, new or more stringent regulatory constraints and any events that adversely affect the reputation of the Enfa family of brands, could have a material adverse effect on our business, financial condition, results of operations and prospects.

4 Other risks related to our business and operations.

Our operations are subject to health, safety and human rights risks.

Accidents caused through a failure of our safety management systems could potentially lead to injury or loss of life for one or more of our employees. Although we maintain an external certification to OHSAS 18001 for management of health and safety issues at all of our production facilities (except for two recently acquired sites where we are working to achieve certification) and a programme covering manufacturing sites, warehouses, distribution centres

and laboratories, if accidents occur in the future, our business and results of operations and financial condition may be adversely impacted.

We are subject to health, safety and environmental laws of various jurisdictions. These laws impose duties to protect people, the environment and the communities in which we operate, as well as potential obligations to remediate contaminated sites. Failure to manage environmental, health and safety and sustainability risks could lead to significant harm to people, the environment and communities in which we operate, fines, failure to meet stakeholder expectations and regulatory requirements, litigation or regulatory action and damage to our reputation and could materially and adversely affect our financial results. In addition, 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. Our Global Manufacturing Standard for responsible production mandates minimum requirements regarding these issues, in line with international guidelines, for our own manufacturing sites, third party manufacturers and suppliers. If it is perceived that we are not respecting or advancing the economic and social progress and safety of the local communities we work in, our reputation could be damaged, which could have a negative impact on our 'social licence to operate', our ability to secure new resources and labour and our financial performance.

Our business depends on the continuity of supply of raw and packaging materials and finished goods from third parties.

We face risks of interruptions of our supply chain and disruptions in our production facilities or a failure of our business continuity plans, 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 international chemical and packaging companies and co-packers. In addition, the production of our infant and children's nutrition products depends on a reliable supply of skim milk powder, whole milk powder, lactose and whey protein concentrate. 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 speciality chemicals and components, as well as dairy products necessary for the manufacture of our infant and children's nutrition products. 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' or our own 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, particularly if the relevant business continuity plan does not adequately address the risk. 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, strikes, closure by government agencies 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.

Particularly with respect to our infant and children's nutrition products, reduced manufacturing capacity without adequate redundancy could result in an inability by us to meet market demand and lost market share. Infant and children's nutrition products are, in some countries, subject to restrictions or consumer preferences based on the country of origin of the products or ingredients, making it difficult or impossible to replace a loss of manufacturing capacity at certain key sites in a timely manner. Particularly in China, new regulations are being introduced with respect to registration and certification of both infant formula products and their manufacturing sites. If manufacturing sites are unable to meet the new requirements, or if there are disruptions in supply from those sites, there may not be alternative sources of supply for the products being manufactured at those sites. As a result, significant disruption in global manufacturing and sourcing activities for any of the above reasons could interrupt our business and lead to increased costs, lost sales and reputational damage.

In addition, any failure to comply with applicable legal and regulatory requirements could lead to interruption of production, product recalls, seizures and revocation of licences 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.

Volatility in the price of commodities, energy and transportation may impact our profitability, particularly with respect to the infant and children's nutrition products. These raw materials include, among others, skimmed milk powder, whole milk powder, lactose and whey protein concentrate. Our operating costs also depend on the cost of other inputs used to manufacture and ship our products (such as crude oil and energy) and the amount we pay to produce or purchase packaging for our products. Certain materials for the production or packaging of finished goods, such as oil-related commodities, are subject to fluctuating prices. Commodity price volatility is caused by conditions such as fluctuating commodities markets, fluctuations in currency exchange rates, availability of supply, weather, consumer demand and changes in governmental agricultural programmes. Dairy costs had historically been the largest component of Mead Johnson's cost of goods sold, and will account for a significant portion of our costs of goods sold going forward. 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.

A disruption to, or failure of, our information technology systems and infrastructure may adversely affect our business.

We are dependent on information technology systems and infrastructure, including that which is outsourced to third party service providers, to support a wide variety of key business processes, including processing and storage of confidential and personal data, as well as for international and external communications as part of our accounting, logistics and distribution functions with suppliers, customers and consumers. In particular, we are currently updating our legacy enterprise resource planning system, but until the rollout of the new system is complete, we face the risk that our existing system fails or, if the rollout is delayed, that the associated benefits and risk mitigation are also delayed. 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. In particular, the volume of customer data maintained by us has increased significantly following the Acquisition.

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. The legislative environment has also been strengthened with substantial financial penalties now available in relation to data protection breaches, and an increased risk of civil and/or criminal proceedings, penalties and damage to reputation in relation to such breaches.

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, employee, counterparty or other third party could result in legal liability, regulatory action and reputational harm.

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. Our ability to attract and retain key management and other personnel is dependent on a number of factors, including prevailing market conditions, attractiveness of competitors as potential employers and, in the case of Mead Johnson, any potential disruption caused by the Acquisition on the working conditions and culture. 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 to meet our demand.

With regard to the legacy Mead Johnson business, while incentive plans are being put in place for key personnel, there can be no assurance that the Acquisition will not result in the departure of personnel from the enlarged group. The risks of attrition are more acute with respect to legacy Mead Johnson's senior management and other key employees, and the loss of such personnel may adversely affect our ability to successfully integrate and operate the legacy Mead Johnson's business, as RB's senior management has limited experience in the infant and children's nutrition sector.

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 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.

Our business may be adversely affected by labour disruptions and disputes with unions.

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 healthcare 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.

We may fail to adequately protect our intellectual property and may be subject to adverse claims from third parties.

We may be unable to secure and protect our claims to intellectual property rights. Our business relies on protecting our brands and our claims to intellectual property rights. We may not be able to substantiate and secure these claims and, even if registered rights are obtained, these may be invalidated, circumvented or challenged in future. Third parties may challenge our rights by, for example, asserting prior rights in, or ownership of, certain 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 could be materially adversely affected. Sales of counterfeits could be detrimental to consumers and, consequently, to corporate reputation. ‘Lookalike’ brands may also result in consumer confusion and/or dilution of our brand equity. Any failure to substantiate or successfully assert our intellectual property rights could make us less competitive and may have a material adverse effect on our net revenue. In addition, our intellectual property rights would 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 would be allowed to use the genericised trademark to describe their similar products.

The loss of patent protection, ineffective protection or expiration of our patents may negatively impact our financial condition and results of operations. Intellectual property laws and patent offices are still developing, particularly in developing markets. Patent protection varies in different countries, and can be substantially weaker in developing 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 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 the 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.

We are subject to environmental risks from climate change and water scarcity.

The effects of climate change could disrupt our supply chain by affecting our ability to source raw materials, manufacture products and distribute products. Although we have taken steps to limit our products' total carbon footprint, we continue seeking to understand, measure and reduce the GHG emissions generated by all stages in the product lifecycle for our global product portfolio and including, amongst other things: the raw and packaging materials provided by our suppliers; our own direct manufacturing and other operations; transportation of both raw materials and finished products; the retail sale of our products; consumers' use of our products; and the disposal/recycling of those products and their packaging.

Furthermore, 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 our ability to source materials or make and deliver relevant products for our consumers. Although we have developed an approach to understanding the water impacts of our products' lifecycle, there can be no assurance that sustainable business solutions will be developed and failure to do so could have a material adverse effect on our financial condition and results of operations.

We may face risks and uncertainties with future acquisitions or divestitures.

While we are principally focused on organic growth, we have grown, and may continue to grow, in part, through acquisitions, joint ventures and business alliances, which present a range of risks and uncertainties. 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. We may bear substantial out-of-pocket expenses associated with a failed acquisition. In addition, we may have entered into or 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.

We have also disposed of some of our businesses and may continue to do so even as we focus on organic growth. There are a number of risks associated with such divestments. These include adverse market reaction to such changes or the timing or terms on which such changes are made, commercial objectives not being achieved as expected, unforeseen liabilities arising from such changes to the portfolio, sales revenues and operational performance not meeting our expectations, anticipated cost savings being delayed or not being achieved, an inability to retain key staff and transaction-related costs being more than anticipated. We may also remain liable for issues relating to the disposed businesses, whether known or unknown at the time of disposal.

Fluctuations in exchange rates could negatively impact us.

Our reporting currency is pound sterling, but most of our revenue and costs are denominated in currencies other than pound sterling. In the year ended 31 December 2016, 92 per cent. of our net revenue was derived from markets outside the United Kingdom. Therefore, our financial results are affected by fluctuations between the relative value of pound sterling and other functional currencies, particularly the U.S. dollar and Euro. For example, in the year ended 31 December 2016, we incurred a net exchange gain on foreign currency translation, net of tax, of £1,618 million in our statement of comprehensive income. The pound sterling value of our revenues, profits and cash flows from non-UK markets may be reduced or our supply costs, as measured in pound sterling in those markets, may increase. Additionally, a number of our competitors are based in countries whose currencies fluctuate against the pound sterling, and

they may benefit from having their costs incurred in weaker currencies relative to pound sterling.

Following the Acquisition, our exposure to foreign currencies, particularly U.S. dollar and Chinese renminbi has increased. As a result, the results of operations, financial condition and our equity are more sensitive to fluctuations in the exchange rate of a pound sterling against each of these currencies, which recently has experienced heightened volatility. In particular, pound sterling experienced sharp depreciation following the EU Referendum, falling to its lowest levels since the 1980s, with one pound sterling equal to $1.28 as of 6 July 2016, compared to $1.49 as of 23 June 2016 (before the result of the Brexit Referendum was known). Although the pound sterling exchange rate has stabilised in recent months, its movements continue to be influenced by political as well as economic factors, including, but not limited to, the results of the general election in the United Kingdom on 18 June 2017, and there can be no assurance that the pound sterling will not experience further significant volatility against other major currencies.

The primary impact of fluctuations in exchange rates for us is expected to be translational (i.e. the translation of foreign earnings and assets and liabilities into pound sterling for reporting purposes). An appreciation of the pound sterling against other currencies could result in a significant negative translational impact on our results of operations, as the contribution of our overseas operations, and the value of overseas earnings and assets, when translated into pound sterling, would decline. We will continue to be exposed to transactional currency risk, which arises when commercial transactions or recognised assets or liabilities are denominated in a currency that is not the functional currency of the relevant Group subsidiary.

We will continue to hedge our exposure to currency transaction risk and to hedge our exposure to foreign currency cash flows through the use of foreign currency debt and forward foreign exchange contracts, thereby exposing us to the risks associated with such hedging activities. Hedging transactions are entered into based on assumptions which may prove to be incorrect, and hedging activities involve the risk of an imperfect correlation between the hedging instrument and the item being hedged, which could result in losses both on the hedged transaction and on the hedging instrument. Use of hedging activities may not prevent significant losses and could increase losses.

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 developing markets, which impose exchange controls, including, but not limited to: Argentina, Brazil, China, India, Russia, Egypt, Nigeria, 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, £120 million of our cash and cash equivalents as of 31 December 2016 were restricted for use by us), borrow on the international markets to fund operations in that country or may 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, developing 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. These restrictions could affect our ability to increase prices to offset the impact of local currency devaluation as well as our ability to manage foreign exchange risk.

Furthermore, volatility in currency rates and inflation in certain markets in which we have a presence could impact our results, potentially or actually requiring us to apply hyperinflation accounting in those markets. For example, Mead Johnson applied hyperinflation accounting to its business in Venezuela and we may also be required to apply such accounting in Argentina in the future, the impact of which on our consolidated financial statements will depend upon movements in exchange rates, between the local currency and pound sterling.

As a result, adverse movements in currency exchange rates, if not effectively managed by us, could adversely affect our reported results of operations and financial condition.

We are exposed to a variety of financial risks that include the effects of changes in market prices, interest rates, credit risks and liquidity, as well as risks related to our increased level of indebtedness following the Acquisition.

We financed the consideration for the Acquisition with the proceeds of new debt financing, comprising new bank facilities, including bridging facilities that will be refinanced with the Notes offered hereby, three- and five-year term loans and a revolving credit facility. In addition, certain of Mead Johnson's existing debt obligations (approximately $3 billion as of 15 June 2017) remain in place following the Acquisition. As a result, we have a significantly higher level of indebtedness following the Acquisition.

Our higher level of indebtedness could cause us to dedicate additional resources from operations to service our debt, in particular, if market conditions deteriorate. In addition, an inability to restructure or refinance all or a substantial amount of these debt obligations when they become due, on commercially reasonable terms or at all, could have a material adverse effect on us. For example, we may be required to incur additional costs on our existing debt or incur new debt at higher rates. We will also be required to comply with any restrictive terms of our debt, including the financial covenant under the financing incurred to finance the Acquisition, any restrictive covenants in Mead Johnson's debt facilities that were retained after the Acquisition and any restrictive covenants in facilities that we incur to refinance the foregoing debt. These restrictions could affect our ability to plan for, or react to, changes in our business and the markets in which we will operate, which could place us at a competitive disadvantage compared to those competitors that have less debt.

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 2009. At 31 December 2016, we had £3.5 billion in undrawn commitments under our committed facilities. 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 London Interbank Offered Rate ("**LIBOR**") and the Euro Interbank Offered Rate ("**EURIBOR**"). Increases in such rates could result in significantly higher interest expense, which would negatively affect our results of operations.

An impairment of goodwill or other intangible assets would adversely affect our financial condition and results of operations.

In connection with our previous acquisitions, we have recorded goodwill and identifiable intangible assets, and these amounts have increased significantly following the Acquisition. In accordance with IFRS, we will assess goodwill and indefinite-lived intangible assets for impairment on at least an annual basis or more frequently if indicators of impairment arise. The recoverable amounts of the relevant cash generating units are determined based on value in use calculations, using discounted cash flow projections prepared by management, covering a five-year period, with cash flows beyond five years being extrapolated using estimated long-term growth rates and applying pre-tax discount rates. As a result, future impairments may be influenced by a number of factors, including changes in the expected performance of the relevant cash generating units or changes in assumptions about pre-tax discount rates. We may experience future events over which we have little or no control that result in impairments. A material impairment of the value of our goodwill and intangible assets could have a material adverse effect on our reported results of operations and financial condition.

5 Risks related to the Notes.

Our holding company structure means that the Issuer and the Guarantor are dependent on the RB Group subsidiaries' distributions to them to be able to satisfy their respective obligations with respect to the Notes and the Guarantees, and the claims of creditors of subsidiaries of the Guarantor may be structurally senior to claims on the Notes and the Guarantees.

The Issuer is a finance vehicle, the primary business of which is the raising of money for the purpose of on-lending to other members of the RB Group. Accordingly, substantially all of the assets of the Issuer are loans and advances made to other members of the RB Group. The ability of the Issuer to satisfy its obligations in respect of the Notes depends upon payments being made to it by other members of the RB Group in respect of loans and advances made by the Issuer. The Guarantor is a holding company for the RB Group and also relies upon distributions from its subsidiaries to generate funds necessary to meet its obligations, including any payments under the Guarantees. These operating subsidiaries have not guaranteed the Notes, and have no obligation, contingent or otherwise, to pay amounts due under the Notes or the Guarantees or to make funds available for these payments, whether in the form of loans, dividends or otherwise. The ability of the operating subsidiaries to make dividend or other payments to the Issuer or the Guarantor will depend on their cash flows and earnings which, in turn, will be affected by all of the factors discussed herein. In addition, under the corporate laws of many jurisdictions, including the United Kingdom, the ability of some subsidiaries to pay dividends is limited to the amount of distributable reserves of such companies.

The Notes and the Guarantees will not be secured by any of the Issuer's or the Guarantor's assets or those of its subsidiaries. The obligations of the Issuer under the Notes are unsecured and rank equally in right of payment with all unsecured, unsubordinated obligations of the Issuer. The obligations of the Guarantor under the Guarantees are unsecured and rank equally with all unsecured, unsubordinated obligations of the Guarantor. As a result, the Notes and the Guarantees are effectively subordinated to any secured debt that the Issuer or the Guarantor may incur. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of the Issuer's or the Guarantor's secured debt may assert rights against the secured assets in order to receive full payment of their debt before the assets may be used to pay the holders of the Notes.

Holders of any series of the Notes will have a direct claim based on such series of the Notes against the Issuer and based on the Guarantees against the Guarantor, but will not have a direct claim based on any series of the Notes or the Guarantees against any of our operating subsidiaries. The right of the Holders of any series of the Notes to receive payments under the Notes and the Guarantees may be structurally subordinated to liabilities of our operating subsidiaries. These liabilities may include secured and unsecured debt that some of our subsidiaries have incurred. In the event of a bankruptcy, liquidation, reorganisation or similar proceeding relating to a subsidiary, the right of Holders of any series of the Notes to participate in a distribution of the assets of such subsidiary will generally rank behind such subsidiary's creditors (including trade creditors) and preferred stockholders (if any), except to the extent that the Issuer or the Guarantor have direct claims against such subsidiary.

There is no assurance to holders of any series of the Notes that there will be sufficient assets to pay amounts due on the Notes or the Guarantees.

We may incur substantially more debt in the future.

We may incur substantial additional indebtedness in the future, including in connection with future acquisitions, some of which may be secured by some or all of our assets. The terms of the Notes will not limit the amount of indebtedness we may incur. Any such incurrence of additional indebtedness could exacerbate the related risks that we now face.

There may not be active trading markets for any series of the Notes, in which case your ability to sell the Notes may be limited.

Each series of the Notes comprise a new issue of securities for which there is currently no established trading market.

We cannot assure you as to the liquidity of any market in any series of the Notes; your ability to sell your Notes; or the prices at which you would be able to sell your Notes.

Future trading prices for any series of the Notes will depend on many factors, including, among other things, prevailing interest rates, currency exchange rates, economic and market conditions, our operating results and the market for similar securities. The liquidity of a trading market for any series of the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for any series of the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for any series of the Notes will be subject to disruptions. Any such disruption may have a negative effect on holders of any series of the Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for any series of the Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

Although an application has been made for the Notes to be listed for trading on the Professional Securities Market of the London Stock Exchange, the Issuer cannot assure you that the Notes will become or remain listed. Although no assurance is made as to the liquidity the Notes as a result of the admission to trading on the Professional Securities Market of the London Stock Exchange, failure to be approved for listing or the delisting of the Notes, as applicable, from the London Stock Exchange may have a material effect on a holder's ability to resell the Notes, as applicable in the secondary market.

Uncertainty relating to the LIBOR and EURIBOR calculation process may adversely affect the value of the Floating Rate Notes.

LIBOR, EURIBOR and other indices which are deemed "benchmarks" are the subject of recent national, international, and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes based on or linked to a "benchmark."

Any international, national or other proposals for reform or the general increased regulatory scrutiny of "benchmarks" could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain "benchmarks," trigger changes in the rules or methodologies used in certain "benchmarks," or lead to the disappearance of certain "benchmarks." The disappearance of a "benchmark" or changes in the manner of administration of a "benchmark" could result in adjustment to the terms and conditions, early redemption, discretionary valuation by the calculation agent, delisting or other consequence in relation to securities linked to such "benchmark."

Any of the above changes or any other consequential changes to LIBOR, EURIBOR, or any other "benchmark" as a result of United Kingdom, European Union, or other international, national, or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes could have a material adverse effect on the trading market for, value of and return on any Notes based on or linked to a "benchmark."

Ratings for the Notes may not reflect all risks of an investment in the Notes.

The Notes will be rated by S&P and Moody's. Any rating is not a recommendation to purchase, sell or hold any particular security, including the Notes and each agency's rating should be evaluated independently of any other agency's rating. These ratings are limited in scope and do not comment as to market price or suitability for a particular investor. The ratings for the Notes may not reflect the potential impact of all risks related to structure and other factors on any trading market for, or trading value of, the Notes. In addition, ratings may at any time be lowered or withdrawn in their entirety, including as a result of developments that are beyond our control. Actual or anticipated changes or downgrades in the ratings for the Notes could affect the market value of the Notes.

We may redeem any series of the Notes for certain tax reasons.

We may redeem any series of the Notes at any time in whole (but not in part) upon the occurrence of certain tax events, as more particularly described under "*Description of Notes – Redemption*." Certain of such events may occur at any time after the Issue Date and it is therefore possible that we would be able to redeem any series of the Notes at any time after the Issue Date.

If we redeem any series of the Notes in any of the circumstances mentioned above, you may not be able to reinvest the redemption proceeds in securities offering a comparable yield.

Changes to our credit ratings may affect the market value of the Notes.

Our credit ratings reflect an assessment by rating agencies of our ability to pay our debts when they fall due. Consequently, any changes in our credit ratings, whether real or anticipated, including any announcement that our ratings are under further review for a downgrade, is likely to affect the market value of the Notes.

The transfer of the Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold.

The Notes have not been registered under, and the Issuer is not obliged to register the Notes under, the Securities Act or the securities laws of any state or other jurisdiction of the United States and, unless so registered, the Notes may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. See "*Important Information – Notice to Investors in the United States*." The Issuer has not agreed to, or otherwise undertaken to, register the Notes under the Securities Act or the securities laws of any state or other jurisdiction of the United States or to effect any exchange offer for the Notes in the future, and the Issuer has no intention to do so. The Notes may only be transferred to purchasers outside the United States in offshore transactions to non-U.S. persons pursuant to Regulation S or to qualified institutional buyers within the United States pursuant to Rule 144A. You should read the discussion under the heading "*Transfer Restrictions*" for further information about the transfer restrictions that apply to the Notes. It is your obligation to ensure that your offers and sales of the Notes within the United States and other countries comply with all applicable securities laws.

Investors in the Notes may have limited recourse against the independent auditors.

See "*Independent Auditor*" for a description of the independent auditor's reports. In particular, in respect of their audit reports relating to the 2016 RB Financial Statements, 2015 RB Financial Statements and 2014 Financial Statements included herein, PricewaterhouseCoopers LLP, in accordance with guidance issued by the Institute of Chartered Accountants in England and Wales, provides:

"*This report, including the opinion, 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 this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing."

Investors in the Notes should understand that these statements are intended to disclaim any liability to parties (such as the purchasers of the Notes) other than the members of Reckitt Benckiser with respect to those reports. In the context of the Offering, PricewaterhouseCoopers LLP has reconfirmed to us that it does not intend its duty of care to extend to any party other than those to whom its reports were originally addressed (i.e., to the members of the Reckitt Benckiser). The SEC would not permit such limiting language to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the Securities Act, or in a report filed under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). If a U.S. court (or any other court) were to give effect to the language quoted above, the recourse that investors in the Notes may have against the independent accountants based on their reports or the financial statements to which they relate could be limited.

Enforcement of U.S. judgments relating to the Notes may be difficult.

Although the Notes will be governed by the laws of the State of New York, the Issuer and the Guarantor are each organised under the laws of England and Wales. Most of the Issuer's and the Guarantor's directors and executive officers reside outside the United States. Substantially all of the assets of these persons and assets of the Issuer, and most of the assets of the Guarantor are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer's and the Guarantor's directors and executive officers, or to enforce against any of them judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States. See "*Service of Process and Enforceability of Judgments*."

USE OF PROCEEDS

We expect that the net proceeds to us from the sale of the Notes offered hereby will be approximately $7,718 million after deducting fees incurred in raising debt finance. We expect to use the net proceeds of the issuance of the Notes to refinance the A1 Term Facility which we incurred to finance the Acquisition, as set out in the table below:

	Debt facilities incurred for the Acquisition	After use of expected net proceeds of the Offering
	($ millions)	
A1 Term Facility	7,664	—
A2 Term Facility	—	—
B Term Facility	4,490	4,463
C Term Facility	4,487	4,460
RCF	—	—
Notes[(1)]	—	7,718
Total[(1)]	16,641	16,641

Note:

(1) The amount of the A1 Term Facility incurred for the Acquisition reflects the final amount actually drawn, net of fees. The excess proceeds received from the sale of the Notes will be used to partially repay the B Term Facility and the C Term Facility, on a pro-rata basis.

CAPITALISATION

The following table sets out our consolidated cash and cash equivalents and capitalisation as of 31 December 2016, derived from our audited balance sheet as of 31 December 2016 included elsewhere in this Offering Memorandum.

The following table should be read in conjunction with our consolidated financial statements and the related notes included or incorporated by reference in this Offering Memorandum and the information under "*Presentation of Financial and Other Information*" and "*Operating and Financial Review.*"

Except as described below, as of the date of this Offering Memorandum, there have been no material changes to our capitalisation since 31 December 2016.

	As of 31 December 2016
	(£ millions)
Cash and cash equivalents	882
Current borrowings:	
Bank loans and overdrafts	25
Commercial paper	1,559
Finance lease obligations	1
Total current borrowings	1,585
Non-current borrowings:	
Bonds	804
Finance lease obligations	—
Total non-current borrowings	804
Total borrowings	2,389
Share capital	74
Share premium	243
Merger reserve	(14,229)
Hedging reserve	(4)
Foreign currency translation reserve	526
Retained earnings	21,811
Equity attributable to owners of the Parent	8,421
Non-controlling interests	5
Total equity	8,426
Total capitalisation[1]	11,692

Note:

(1) Excluding non-controlling interests.

The Acquisition was completed on 15 June 2017. As a result of the Acquisition and Mead Johnson becoming subsidiary of the Group, our financial position (including the amount of the Group's cash and cash equivalents and total borrowings) has changed, reflecting the amounts of cash and cash equivalents and borrowings of Mead Johnson on the date of the Acquisition. In addition, our borrowings have increased by the amount of the aggregate proceeds of the indebtedness we incurred to finance the Acquisition. For an illustration of the effects of the Acquisition and the related debt financing on the Group's financial position, please see the Pro Forma Statement of Net Assets included in the "*Selected Unaudited Pro Forma Financial Information*", which has been prepared as if the Acquisition had been completed on 31 December 2016.

SELECTED HISTORICAL FINANCIAL INFORMATION

You should read the data below together with the information contained in "Presentation of Financial and Other Information," "Risk Factors," "Operating and Financial Review," and our Financial Statements and the MJ Financial Statements, which are incorporated by reference in this Offering Memorandum.

Group Financial Information

The selected financial information of the Group provided below has been extracted without material adjustment from the RB Financial Statements. For a discussion of the basis of the preparation of our consolidated financial information, see Note 1 to the RB Financial Statements incorporated by reference in this Offering Memorandum. These Financial Statements have been prepared in accordance with IFRS. See "*Presentation of Financial and Other Information*". Our historical financial information is not indicative of our future results.

Consolidated Income Statement

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Net Revenue	9,891	8,874	8,836
Cost of sales	(3,865)	(3,628)	(3,740)
Gross profit	6,026	5,246	5,096
Net operating expenses	(3,616)	(3,005)	(2,932)
Operating profit	2,410	2,241	2,164
Adjusted operating profit	2,777	2,374	2,185
Exceptional items	(367)	(133)	(21)
Operating profit	2,410	2,241	2,164
Finance income	42	21	27
Finance expense	(58)	(54)	(65)
Net finance expense	(16)	(33)	(38)
Profit before income tax	2,394	2,208	2,126
Income tax expense	(558)	(463)	(462)
Net income from continuing operations	1,836	1,745	1,664
Net income from discontinued operations	—	—	1,560
Net income	1,836	1,745	3,224
Attributable to non-controlling interests	4	2	1
Attributable to owners of the parent	1,832	1,743	3,223
Net income	1,836	1,745	3,224

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss in subsequent years			
Net exchange gains/(losses) on foreign currency translation, net of tax	1,618	(124)	(191)
Losses on net investment hedges, net of tax	(128)	(49)	(137)
(Losses)/gains on cash flow hedges, net of tax	(22)	14	(11)
Reclassification of foreign currency translation reserves on disposal of foreign operations, net of tax	—	33	(3)
	1,468	(126)	(342)
Items that will not be reclassified to profit or loss in subsequent years			
Revaluation of available for sale financial assets	(2)	—	—
Remeasurements of defined benefit pension plans, net of tax	(138)	46	(75)
	(140)	46	(75)
Other comprehensive income/(expense), net of tax	1,328	(80)	(417)
Total comprehensive income	3,164	1,665	2,807
Attributable to non-controlling interests	4	2	—
Attributable to owners of the parent	3,160	1,663	2,807
Total comprehensive income	3,164	1,665	2,807

Consolidated Balance Sheet

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Assets			
Non-current assets			
Goodwill and other intangible assets	13,454	11,296	11,252
Property, plant and equipment	878	730	757
Available for sale financial assets	39	—	—
Deferred tax assets	81	57	61
Retirement benefit surplus	36	63	26
Other non-current receivables	81	240	240
	14,569	12,386	12,336
Current assets			
Inventories	770	681	745
Trade and other receivables	1,623	1,331	1,307
Derivative financial instruments	158	121	130
Current tax recoverable	14	9	60
Short-term investments	3	—	—
Available for sale financial assets	—	—	1
Cash and cash equivalents	882	740	917
	3,450	2,882	3,160
Total assets	18,019	15,268	15,496
Liabilities			
Current liabilities			
Short-term borrowings	(1,585)	(1,749)	(1,936)
Provisions for liabilities and charges	(251)	(229)	(317)
Trade and other payables	(3,495)	(2,948)	(2,883)
Derivative financial instruments	(58)	(22)	(29)
Current tax liabilities	(12)	(91)	(124)
	(5,401)	(5,039)	(5,289)
Non-current liabilities			
Long-term borrowings	(804)	(671)	(636)
Deferred tax liabilities	(1,983)	(1,692)	(1,749)
Retirement benefit obligations	(361)	(257)	(338)
Other provisions	(174)	(115)	(73)
Non-current tax liabilities	(740)	(559)	(500)
Other non-current liabilities	(130)	(29)	(77)
	(4,192)	(3,323)	(3,373)
Total liabilities	(9,593)	(8,362)	(8,662)
Net assets	8,426	6,906	6,834

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Equity			
Capital and reserves			
Share capital	74	74	74
Share premium	243	243	243
Merger reserve	(14,229)	(14,229)	(14,229)
Hedging reserve	(4)	18	4
Foreign currency translation reserve	526	(964)	(824)
Retained earnings	21,811	21,762	21,564
Attributable to owners of the parent	8,421	6,904	6,832
Attributable to non-controlling interests	5	2	2
Total equity	8,426	6,906	6,834

Consolidated Cash Flow Statement

	Year ended 31 December		
	2016	2015	2014
	(£ millions)		
Cash flows from operating activities			
Operating profit	2,410	2,241	2,164
Depreciation, amortisation and impairment	183	171	161
Other non-cash gains	—	(33)	(1)
Gains on sale of property, plant and equipment	—	—	(41)
Decrease in inventories	14	22	(44)
Increase in trade and other receivables	(39)	(218)	(168)
Decrease in payables and provisions	(1)	(23)	179
Non-cash exceptional items	318	85	21
Share-based payments	66	50	53
Cash generated from operations	2,951	2,295	2,324
Interest paid	(56)	(54)	(58)
Interest received	40	23	26
Tax paid	(513)	(480)	(416)
Net cash flows attributable to discontinued operations	—	—	223
Net cash generated from operating activities	2,422	1,784	2,099
Cash flows from investing activities			
Purchase of property, plant and equipment	(179)	(154)	(157)
Purchase of intangible assets	(214)	(25)	(27)
Proceeds from the sale of property, plant and equipment	7	51	19
Acquisition of businesses, net of cash acquired	(158)	(10)	(340)
Net cash transferred on demerger of RBP	—	—	(195)
Purchase of available for sale financial assets	(36)	—	—
Purchase of short-term investments	(3)	—	—
Maturity of short-term investments	—	3	1
Proceeds on disposal of subsidiaries	—	1	—
Net cash flows attributable to discontinued operations	—	—	(16)
Net cash used in investing activities	(583)	(134)	(715)

	Year ended 31 December		
	2016	2015	2014
	(£ millions)		
Cash flows from financing activities			
Shares repurchased and held in Treasury	(802)	(804)	(313)
Treasury shares re-issued	79	74	112
Proceeds from borrowings	469	23	—
Repayment of borrowings	(695)	(165)	(485)
Dividends paid to owners of the parent	(1,035)	(924)	(988)
Dividends paid to non-controlling interests	(1)	(2)	(1)
Other financing activities	219	—	—
Net cash used in financing activities	(1,766)	(1,798)	(1,194)
Net increase/(decrease) in cash and cash equivalents	73	(148)	190
Cash and cash equivalents at beginning of the year	737	913	805
Exchange gains/(losses)	63	(28)	(82)
Cash and cash equivalents at end of the year	873	737	913
Cash and cash equivalents comprise:			
Cash and cash equivalents	882	740	917
Overdrafts	(9)	(3)	(4)
	873	737	913
Reconciliation of net cash flows from operations			
Net cash generated from operating activities	2,422	1,784	2,099
Net purchases of property, plant and equipment	(172)	(103)	(138)
Net cash flow from operations	2,250	1,681	1,961

Additional Financial Information

Adjusted Operating Profit

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Operating profit	2,410	2,241	2,164
Exceptional items	367	133	21
Adjusted operating profits	2,777	2,374	2,185

Adjusted Net Income

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Net income attributable to owners of the parent	1,832	1,743	1,663
Exceptional items	367	133	21
Tax effect of exceptional items	(42)	(5)	—
Adjusted net income attributable to owners of the parent	2,157	1,871	1,684

Free Cash Flow

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Net cash generated from continuing operations	2,422	1,784	1,876
Purchase of property, plant and equipment	(179)	(154)	(157)
Purchase of intangible assets	(214)	(25)	(27)
Proceeds from the sale of property, plant and equipment	7	51	19
Free cash flow	2,036	1,656	1,711

Net Debt

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Total borrowings	2,389	2,420	2,572
Cash and cash equivalents	(882)	(740)	(917)
Other[1]	(116)	(60)	(112)
Net debt	1,391	1,620	1,543

Note:

(1) Consists of short-term investments and derivative financial instruments.

Trading Cash Flow

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Adjusted Operating Profit[1]	2,777	2,374	2,185
Share based payment	66	50	53
Depreciation and amortisation	183	171	161
Net Capital expenditure[2]	(386)	(168)	(174)
Movement in net working capital[3]	120	(79)	81
Movement in provisions and other creditors[3]	(53)	(50)	(48)
Other non-cash movements in operating profit	—	(33)	(1)
Trading cashflow	2,707	2,265	2,257

Notes:

(1) Adjusted to exclude the impact of exceptional items

(2) In 2015, net capital expenditure comprised purchases of property, plant and equipment and intangible assets and proceeds from the disposal of property, plant and equipment adjusted for the impact of exceptional items of £40 million.

In 2014, net capital expenditure comprised purchases of property, plant and equipment and intangible assets and proceeds from the disposal of property, plant and equipment adjusted for the impact of exceptional items of £9 million.

(3) In 2016, movement in net working capital and provisions and other creditors comprised net cash flows of £1 million, adjusted for the impact of exceptional items of £91 million. In 2015, movement in net working capital and provisions and other creditors comprised net cash flows of £23 million, adjusted for the impact of exceptional items of £90 million.

Reconciliation in net debt

	2016	2015
	(£ millions)	
Opening net debt	(1,620)	(1,543)
Free cashflow	2,036	1,656
Shares purchased	(802)	(804)
Shares reissued	79	74
Acquisition of businesses	(158)	(10)
Purchase of investments[1]	(36)	3
Dividends paid	(1,036)	(926)
Exchange and other movements[2]	146	(70)
Closing net debt	(1,391)	(1,620)

Notes:

(1) Purchase of investments consists of payments to acquire available for sale financial assets and short term investments, receipts from the maturity of short term investments, net of investments that form part of net debt (2016: £3 million, 2015: £nil).

(2) Exchange and other movements comprise foreign exchange losses of £73 million (2015: £70 million) and cash inflows from other financing activities of £219 million (2015: £nil).

Mead Johnson Financial Information

The selected financial information of the Group provided below has been extracted without material adjustment from the MJ Financial Statements. For a discussion of the basis of the preparation of Mead Johnson's consolidated financial information, see Note 2 to the MJ Annual Financial Statements incorporated by reference in this Offering Memorandum.

Consolidated Statements of Earnings

	Three months ended 31 March		For the year ended 31 December		
	2017	**2016**	**2016**	**2015**	**2014**
	(unaudited)		*(audited)*		
			($ millions)		
Net Sales	883.5	962.1	3,742.7	4,071.3	4,409.3
Cost of Products Sold	330.2	347.6	1,341.0	1,455.3	1,700.6
Gross Profit	553.3	614.5	2,401.7	2,616.0	2,708.7
Operating Expenses:					
Selling, General and Administrative	193.7	198.9	766.5	890.6	978.9
Advertising and Promotion	160.3	151.8	627.0	641.8	638.7
Research and Development	21.4	25.4	97.4	108.4	115.1
Other (Income)/Expenses – net	22.8	88.3	92.1	39.0	(12.3)
Earnings before Interest and Income Taxes	155.1	150.1	818.7	936.2	988.3
Interest Expense – net	27.1	26.2	105.4	65.0	60.3
Earnings before Income Taxes	128.0	123.9	713.3	871.2	928.0
Provision for Income Taxes	10.4	47.2	164.0	215.9	199.2
Net Earnings	117.6	76.7	549.3	655.3	728.8
Less: Net Earnings/(Loss) Attributable to Noncontrolling Interests	(2.3)	4.0	4.4	1.8	9.0
Net Earnings attributable to Shareholders	119.9	72.7	544.9	653.5	719.8

Consolidated Balance Sheets

	As of 31 March	As of 31 December	
	2017	2016	2015
	(unaudited)	(audited)	
		($ millions)	
Assets			
Current assets:			
Cash and Cash Equivalents	1,724.4	1,795.4	1,701.4
Restricted Cash	152.5	—	—
Receivables—net of allowances of $4.4 and $5.4, respectively	355.0	369.0	342.5
Inventories	498.5	473.5	484.9
Income Taxes Receivable	26.1	8.3	13.2
Prepaid Expenses and Other Assets	60.8	60.4	60.4
Total Current Assets	2,817.3	2,706.6	2,602.4
Property, Plant and Equipment – net	963.6	948.6	964.0
Goodwill	113.1	108.9	126.0
Other Intangible Assets – net	43.9	46.0	54.9
Deferred Income Taxes – net of valuation allowance	148.4	143.1	118.5
Other Assets	140.8	134.5	132.3
Total	4,227.1	4,087.7	3,998.1
Liabilities and Equity			
Current Liabilities:			
Short-Term Borrowings	4.5	3.9	3.0
Accounts Payable	536.0	515.8	481.5
Dividends Payable	76.3	76.0	77.8
Accrued Expenses	216.2	194.7	213.0
Accrued Rebates and Returns	415.0	417.4	376.8
Deferred Income	10.9	12.4	35.5
Income Taxes Payable	49.9	24.0	65.7
Total Current Liabilities	1,308.8	1,244.2	1,253.3
Long-Term Debt	2,973.3	2,976.2	2,981.0
Deferred Income Taxes	6.0	6.2	8.7
Pension and Other Post-employment Liabilities	99.2	104.2	132.4
Other Liabilities	232.6	229.0	215.2
Total Liabilities	4,619.9	4,559.8	4,590.6
Commitments and Contingencies			
Equity			
Shareholders' Equity			
Common Stock, $0.01 par value: 3,000 authorised, 188.3 and 191.4 issued, respectively	1.9	1.9	1.9
Additional Paid-in/(Distributed) Capital	(499.5)	(514.0)	(564.2)
Retained Earnings	812.4	773.4	640.4
Treasury Stock – at cost	(362.6)	(362.6)	(362.6)
Accumulated Other Comprehensive Loss	(383.3)	(411.4)	(347.8)
Total Shareholders' Equity/(Deficit)	(431.1)	(512.7)	(632.3)
Noncontrolling Interests	38.3	40.6	39.8
Total Equity/(Deficit)	(392.8)	(472.1)	(592.5)
Total	4,227.1	4,087.7	3,998.1

Consolidated Statements of Cash Flows

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		*($ millions)*	*(audited)*	
Cash Flows from Operating Activities:					
Net Earnings	117.6	76.7	549.3	655.3	728.8
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities:					
Depreciation and Amortisation	25.8	24.9	99.6	99.1	91.6
Stock-Based Compensation Expense	9.4	7.8	34.6	26.4	30.4
Deferred Income Taxes	(21.3)	(4.5)	(53.3)	43.3	(15.0)
Exchange Loss from Devaluation	—	31.2	31.7	2.3	6.1
Mark-to-market on Trading Security	—	—	—	(5.6)	—
Pension and Other Post-employment Benefits Expense	0.3	6.3	(7.4)	12.8	59.1
Impairment of Long-Lived Assets	—	45.9	45.9	—	—
Other	(1.0)	(4.8)	(3.6)	(1.4)	(3.4)
Change in Assets and Liabilities:	65.7	(23.4)			
Receivables	—	—	(42.0)	10.4	(36.5)
Inventories	—	—	(8.9)	25.8	(47.0)
Accounts Payable	—	—	52.5	3.7	2.8
Accrued Expenses, Rebates and Returns	—	—	47.0	73.8	12.9
Income Taxes Payable	—	—	(40.7)	15.3	5.3
Other Assets and Liabilities	—	—	6.2	38.8	8.5
Payments for Settlement of Interest Rate Forward Swaps	—	—	—	—	(45.0)
Pension and Other Post-employment Benefits Contributions	(0.1)	—	(19.3)	(90.1)	(5.2)
Net Cash Provided by Operating Activities	196.4	160.1	691.6	909.9	793.4

	Three months ended 31 March		Year ended 31 December		
	2017	2016	2016	2015	2014
	(unaudited)		*($ millions)*	*(audited)*	
Cash Flows from Investing Activities:					
Payments for Capital Expenditures	(48.5)	(55.6)	(149.0)	(173.7)	(186.6)
Proceeds from Sale of Property, Plant and Equipment	0.1	0.1	0.3	0.5	0.2
Proceeds from/(Investment in) Other Companies	—	—	—	—	4.0
Net Cash Used in Investing Activities	(48.4)	(55.5)	(148.7)	(173.2)	(182.4)
Cash Flows from Financing Activities:					
Proceeds from Short-term Borrowings	0.6	0.4	1.6	1,003.0	3.2
Repayments of Short-term Borrowings	—	(0.1)	(0.3)	(1,002.9)	(0.6)
Proceeds from Issuance of Long-term Notes, net of original issue discounts and expenses paid	—	—	(0.1)	1,487.7	492.0
Repayments of Notes Payable	—	—	—	—	(500.0)
Proceeds from Long-term Revolver Borrowings	—	—	—	446.0	—
Repayment of Long-term Revolver Borrowings	—	—	—	(446.0)	—
Debt Issuance Costs	—	(0.1)	—	—	—
Payments of Dividends	(75.9)	(77.4)	(308.8)	(326.0)	(296.6)
Stock-based Compensation related Proceeds and Excess Tax Benefits	5.4	3.7	15.9	25.4	46.2
Stock-based Compensation Tax Withholdings	(4.7)	(3.5)	(4.4)	(11.4)	(7.9)
Payments for Repurchase of Common Stock	—	—	(100.4)	(1,437.0)	(54.1)
Purchase of Noncontrolling Interest Redeemable Shares	—	—	—	(24.2)	—
Purchase of Trading Securities	—	—	—	(16.2)	—
Sale of Trading Securities	—	—	—	21.7	—
Distributions to Noncontrolling Interests	—	—	(3.1)	(6.9)	(7.7)
Net Cash Used in Financing Activities	(74.6)	(77.0)	(399.6)	(286.8)	(325.5)
Effects of Changes in Exchange Rates on Cash and Cash Equivalents	8.1	(26.7)	(49.3)	(46.2)	(38.6)
Net Increase in Cash and Cash Equivalents	81.5	0.9	94.0	403.7	246.9
Cash and Cash Equivalents:					
Beginning of Period	1,795.4	1,701.4	1,701.4	1,297.7	1,050.8
End of Period	1,876.9	1,702.3	1,795.4	1,701.4	1,297.7

SELECTED UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following Pro Forma Information gives pro forma effect to the Acquisition as if it had been completed on 1 January 2016 (in the case of the Pro Forma Income Statement, in order to give pro forma effect to a full year of Mead Johnson Group results for the year ended 31 December 2016) or on 31 December 2016 (in the case of the Pro Forma Statement of Net Assets).

To enable the preparation of the Pro Forma Information presented below, the Group reconciled Mead Johnson's consolidated balance sheet and consolidated statement of earnings as presented in the MJ Annual Financial Statements under U.S. GAAP to the accounting policies of the Group under IFRS, including as to the presentation of the specific line items in the statement of net assets and the income statement, respectively, and reflecting translation of Mead Johnson's reporting currency, U.S. dollar, to the Group's reporting currency, pound sterling. This reconciliation is shown in notes (3) and (2) to the tables below, respectively.

References to the Company are to Reckitt Benckiser Group plc; references to the Mead Johnson Group are to Mead Johnson Nutrition Company and its consolidated subsidiaries; references to the Group are to the Company and its consolidated subsidiaries excluding Mead Johnson; and references to the Enlarged Group are to the Company and its consolidated subsidiaries including Mead Johnson.

The Pro Forma Information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation. It does not purport to represent what the Group's financial performance actually would have been if the Acquisition had been completed on the dates indicated, nor does it purport to represent the results of operations for any future period or financial performance at any future date.

The Pro Forma Information does not reflect the effect of anticipated synergies and efficiencies or the related costs of achieving these synergies that may result from the Acquisition, nor does it reflect the results of any purchase price allocation. Pro forma information about the effect of the Notes offered hereby on the Pro Forma Information is given in footnote 5 to the Pro Forma Income Statement.

Pro Forma Statement of Net Assets

	Group as at 31 December 2016[(1)]	Adjustments: Debt raising[(2)]	Adjustments: Mead Johnson Group as at 31 December 2016[(3)]	Adjustments: Acquisition adjustment[(4)]	Pro forma Enlarged Group
			(£ millions)		
Non-current assets					
Goodwill and other intangible assets	13,454	—	127	13,686	27,267
Property, plant and equipment	878	—	791	—	1,669
Available for sale financial assets	39	—	—	—	39
Deferred tax assets	81	—	141	—	222
Retirement benefit surplus	36	—	3	—	39
Other non-current receivables	81	—	84	—	165
	14,569	—	1,146	13,686	29,401
Current assets					
Inventories	770	—	384	—	1,154
Trade and other receivables	1,623	—	331	—	1,954
Derivative financial instruments	158	—	9	—	167
Current tax recoverable	14	—	7	—	21
Short-term investments	3	—	—	—	3
Cash and cash equivalents	882	13,587	1,454	(13,497)	2,426
	3,450	13,587	2,184	(13,497)	5,724
Total assets	18,019	13,587	3,330	189	35,125
Current liabilities					
Short-term borrowings	(1,585)	(6,397)	(3)	—	(7,985)
Provisions for liabilities and charges	(251)	—	(4)	—	(255)
Trade and other payables	(3,495)	—	(985)	—	(4,480)
Derivative financial instruments	(58)	—	(5)	—	(63)
Current tax liabilities	(12)	—	(81)	—	(93)
	(5,401)	(6,397)	(1,078)	—	(12,876)
Non-current liabilities					
Long-term borrowings	(804)	(7,190)	(2,411)	—	(10,405)
Deferred tax liabilities	(1,983)	—	(7)	—	(1,990)
Retirement benefit obligations	(361)	—	(101)	—	(462)
Other provisions	(174)	—	—	—	(174)
Non-current tax liabilities	(740)	—	(90)	—	(830)
Other non-current liabilities	(130)	—	(6)	—	(136)
	(4,192)	(7,190)	(2,614)	—	(13,996)
Total liabilities	(9,593)	(13,587)	(3,692)	—	(26,872)
Net assets/(liabilities)	8,426	—	(362)	189	8,253

Notes:

(1) The Group's financial information as at 31 December 2016 has been extracted, without material adjustment, from the RB 2016 Financial Statements.

(2) On the Signing Date, the Company and the Issuer entered into the Facilities Agreement, as defined herein. The adjustment reflects a £13,610 million ($17,000 million) drawdown of the syndicated bank facilities, of which £6,405 million ($8,000 million) is short-term, payable within 12 months after the Completion and £7,205 million ($9,000 million) is long-term. In presenting their respective carrying values, certain utilisation fees incurred have

been deducted from these amounts. The amounts in this note have been calculated using an exchange rate of £1:$1.2491 at 10 February 2017, being the date of announcement of the Acquisition.

(3) The Mead Johnson Group's net liabilities are based on the MJ Annual Financial Statements, as adjusted to the Group's accounting policies and presentation. A reconciliation of the Mead Johnson's consolidated balance sheet to the Group's accounting policies and presentation is presented below:

Mead Johnson Group balance sheet line items	Mead Johnson Group balance sheet line items as at 31 December 2016[(a)]	Group balance sheet line items	Mead Johnson Group balance sheet as at 31 December 2016 under the Group balance sheet presentation[(b)]	IFRS adjustments and reclassifi-cations[(c)]	Mead Johnson Group balance sheet as at 31 December 2016 under the Group's balance sheet presentation and after IFRS adjustments	Translated into the Group's reporting currency[(d)]
	($ million)			*($ million)*		*(£ million)*
		ASSETS				
Goodwill	108.9	**Non-current assets**				
Other intangible assets – net	46.0					
	154.9	Goodwill and other intangible assets	154.9	2.1	157.0	127.2
Property, plant and - equipment net	948.6	Property, plant and Equipment	976.6	—	976.6	791.1
		Available for sale financial assets	—	—	—	—
Deferred income taxes – net of valuation allowance	143.1	Deferred tax assets	143.1	31.5	174.6	141.4
		Retirement benefit surplus	3.4	—	3.4	2.8
Other assets	134.5	Other non-current Receivables	103.1	—	103.1	83.5
	1,381.1		1,381.1	33.6	1,414.7	1,146.0
		Current assets				
Inventories	473.5	Inventories	473.5	—	473.5	383.6
Receivables	369.0					
Prepaid expenses and other assets	60.4					
	429.4	Trade and other receivables	418.5	(10.2)	408.3	330.7
		Derivative financial instruments	10.9	—	10.9	8.8
Income taxes receivable	8.3	Current tax recoverable	8.3	—	8.3	6.7
		Short term investments	—	—	—	—
Cash and cash equivalents	1,795.4	Cash and cash equivalents	1,795.4	—	1,795.4	1,454.4
	2,706.6		2,706.6	(10.2)	2,696.4	2,184.2
	4,087.7	**Total assets**	4,087.7	23.4	4,111.1	3,330.2

Mead Johnson Group balance sheet line items	Mead Johnson Group balance sheet line items as at 31 December 2016[(a)]	Group balance sheet line items	Mead Johnson Group balance sheet as at 31 December 2016 under the Group balance sheet presentation[(b)]	IFRS adjustments and reclassifi-cations[(c)]	Mead Johnson Group balance sheet as at 31 December 2016 under the Group's balance sheet presentation and after IFRS adjustments	Translated into the Group's reporting currency[(d)]
	($ million)			*($ million)*		*(£ million)*
		LIABILITIES				
		Current liabilities				
Short-term borrowings	(3.9)	Short-term borrowings	(3.9)	—	(3.9)	(3.2)
		Short-term provisions for liabilities and charges	—	(4.4)	(4.4)	(3.6)
Accounts payable	(515.8)					
Accrued expenses	(194.7)					
Accrued rebates and returns	(417.4)					
Deferred Income	(12.4)					
Dividends payable	(76.0)					
	(1,216.3)	Trade and other payables	(1,216.1)	—	(1,216.1)	(985.1)
		Derivative financial instruments	(6.5)	—	(6.5)	(5.3)
Income taxes payable	(24.0)	Current tax liabilities	(112.1)	12.3	(99.8)	(80.8)
	(1,244.2)		(1,338.6)	7.9	(1,330.7)	(1,077.9)
		Non-current liabilities	—			
Long-term debt	(2,976.2)	Long-term borrowings	(2,976.2)	—	(2,976.2)	(2,410.9)
Deferred income taxes	(6.2)	Deferred tax liabilities	(6.2)	(2.1)	(8.3)	(6.7)
Pension and other post-employment liabilities	(104.2)	Retirement benefit Obligations	(124.5)	—	(124.5)	(100.9)
		Other provisions	—	—	—	—
		Non-current tax liabilities	(111.2)	—	(111.2)	(90.1)
Other liabilities	(229.0)	Other non-current liabilities	(3.1)	(4.0)	(7.1)	(5.8)
	(3,315.6)		(3,221.2)	(6.1)	(3,227.3)	(2,614.3)
	(4,559.8)	**Total liabilities**	(4,559.8)	1.8	(4,558.0)	(3,692.2)
Shareholders' equity	(472.1)	**Net liabilities**	(472.1)	25.2	(446.9)	(362.0)

Notes:

(a) The Mead Johnson Group's balance sheet line items are directly extracted without adjustment form the Mead Johnson Group's consolidated balance sheet at 31 December 2016, included in the MJ Annual Financial Statements.

(b) This reflects the Mead Johnson Group's consolidated balance sheet as at 31 December 2016 re-presented to conform to the Group's line item presentation format:

(i) Under U.S. GAAP, Mead Johnson Group's "Other assets" includes $28.0 million of property, plant and equipment and $3.4 million of retirement benefit surplus, each of which has been reclassified to the respective line items in accordance with the Group's IFRS balance sheet presentation.

(ii) Under U.S. GAAP, Mead Johnson Group's "Prepaid expenses and other assets" and "Accrued expenses" include $10.9 million and $0.2 million of derivative financial instruments, respectively, each of which has been included in a separate line item in accordance with the Group's IFRS balance sheet presentation.

(iii) "Other liabilities" includes $6.3 million of derivative financial instruments and $20.3 million retirement benefit obligations, each of which have been reclassified to the respective separate line items in accordance with the Group's IFRS balance sheet presentation. "Other liabilities" also includes $164.2 million tax liabilities, of which $53.0 million are current tax liabilities and $111.2 million are non-current tax liabilities, which were also reclassified to the respective separate line items in accordance with the Group's IFRS balance sheet presentation. A further $35.1 million relates to current tax liabilities, which has been included in the respective line in accordance with the Group's IFRS balance

sheet presentation. The remaining balance of "Other liabilities" includes a non-current portion of tax liabilities and other non-current liabilities, which have been presented separately in accordance with the Group's IFRS balance sheet presentation.

(c) Certain adjustments and reclassifications have been applied to the Mead Johnson Group consolidated balance sheet at 31 December 2016, as extracted from the MJ Annual Financial Statements, to align the classification of assets and liabilities with IFRS and accounting policies applied by the Group, as opposed to U.S. GAAP, as applied historically by the Mead Johnson Group. These are summarised below:

(i) *Deferred tax basis adjustment*: Mead Johnson Group recognised deferred tax liabilities on certain intangible assets recorded as a result of a historical business combination. Under Mead Johnson's U.S. GAAP accounting policy, the deferred tax liability was calculated based on the assumption that the recoverable value of the intangible asset would be through sale. Under the Group's IFRS accounting policy, the tax consequence of recovery is treated as being through use. Accordingly, an increase in goodwill and intangible assets of $2.1 million has been recorded as an IFRS adjustment.

(ii) *Tax accounting adjustments for share based payments*: Under U.S. GAAP, a deferred tax asset is recognised for the amount of expected future tax benefit, by applying the tax rate to the share based payment expense recorded in the income statement in each period. Subsequently, when the share awards are exercised or vest, any difference between the deferred tax asset and the amount of current tax deduction is recorded as an adjustment to additional paid in capital. Under IFRS, deferred tax assets are recognised based on the intrinsic value of the unexercised and unvested awards at each balance sheet date. This difference results in lower deferred tax assets of $7.4 million at 31 December 2016.

(iii) *Inter-company transfers*: Under U.S. GAAP, income tax charges recorded by Mead Johnson Group subsidiaries on inter-company profits earned from selling assets to fellow group subsidiaries are eliminated on consolidation, such that the tax charge is not recognised on consolidation until the profit is realised by the group through a sale to an external party. As a result, any such taxes paid are recorded as prepaid tax balances. Under IFRS, these taxes are recognised as an expense as they are incurred and not eliminated on consolidation. Instead, a deferred tax asset is recognised for the deductible temporary difference between the carrying value of the transferred asset on consolidation (which excludes any inter-company profit) and the tax base of the asset held by the group subsidiary, which represents the amount of tax deduction that will become available when the asset is subsequently sold (which includes any inter-company profit). This adjustment results in an increase of $28.9 million to reported deferred tax assets and a reduction in prepaid tax balances of $9.9 million. The increase in deferred tax assets is higher than the reduction in prepaid tax balances because of differences in tax rates between buying and selling companies.

(iv) *Intra-group dividends*: During early 2017, the Mead Johnson Group repatriated earnings from certain of its subsidiaries to the U.S., which, upon repatriation, gave rise to U.S. foreign tax credits. Under U.S. GAAP, the benefit of such foreign tax credits was recorded at the date of repatriation and not at 31 December 2016. Under IFRS, the recognition criteria are informed by events after the balance sheet date, including the finalisation or payment of dividends, provided that sufficiently advanced plans about the amount and timing of dividends existed at the balance sheet date. For the year ended 31 December 2016, such dividends were paid soon after the year end, which, in conjunction with plans for dividend repatriation at each balance sheet date meant that the recognition criteria were met and, accordingly, an adjustment included in the reconciliation for the recognition of $10.0 million additional deferred tax assets and $12.3 million reduction of current tax liabilities at 31 December 2016.

(v) *Venezuela adjustments*: As explained in the income statement footnotes, certain adjustments have been made in respect of Mead Johnson Group's operations in Venezuela. The impact of these adjustments, while significant to the income statement, are trivial in respect of the balance sheet. An adjustment of $0.3 million is recorded to reduce trade receivables.

(vi) *Share based payments*: The Mead Johnson Group net settles certain awards and pays the corresponding minimum statutory tax withholding liability in cash to the tax authorities. Under U.S. GAAP, these awards are treated as equity settled. Under IFRS, this portion of the award is accounted for as a cash-settled award and classified as a liability, measured at fair value at each reporting date and expensed over the period until the vesting date. Changes in the fair value of the liability are recognised in the income statement. As a result, an adjustment of $4.4 million and $4.0 million has been made to increase short term provisions and other non-current liabilities, respectively, as at 31 December 2016.

(d) The Mead Johnson Group consolidated financial information has been converted form $ to £ using the exchange rate of £1: $1.2345 as at 31 December 2016.

(4) The adjustments arising as a result of the Acquisition are as follows:

(a) The Pro Forma Information has been prepared on the basis that the Group will apply acquisition accounting. The Pro Forma Statement of Net Assets does not reflect the fair value adjustments to the acquired assets and liabilities as the purchase price allocation exercise will not be finalised until after the Completion. Upon

completion of the purchase price allocation exercise, the Group expects that fair value adjustments will be recognised in respect of certain assets and liabilities. For the purposes of the Pro Forma Statement of Net Assets, the excess purchase consideration over the carrying amount of the net liabilities acquired has been attributed to the line item goodwill and other intangible assets. The fair value adjustments, when finalised following the Completion, may be material. The pro forma goodwill arising has been calculated as follows:

	£ million
Consideration for shares (184,226,320 shares at $90 each)	13,274
Other cash payments included as part of consideration	50
Add: Mead Johnson Group net liabilities acquired	362
Pro forma goodwill	13,686

Cash consideration is calculated as $90 per share on the 184,226,320 shares of common stock of Mead Johnson outstanding at the latest practicable date prior to the publication of this Offering Memorandum. Included within these shares are certain share award arrangements that vest immediately prior to completion. Other payments included in the calculation of consideration represent related amounts payable. All amounts have been translated using an exchange rate of £1:$1.2491 as at 10 February 2017.

The adjustment to cash and cash equivalents of £13,497 million comprises:

	£ millions
Consideration for shares (184,226,320 shares at $90 each)	13,274
Other cash outflow[(1)]	223
Cash outflow	13,497

Note:

(1) Other cash outflow comprising total change in control payments of £93 million and estimated transaction costs of £130 million incurred by the Group.

(5) In preparing the Pro Forma Statement of Net Assets, no account has been taken of the trading or transactions of the Group or of the Mead Johnson Group since 31 December 2016.

Pro Forma Income Statement

	Group for the year ended 31 December 2016[1]	Adjustments: Mead Johnson Group for the year ended 31 December 2016[2]	Adjustments: Acquisition Adjustment[3]	Pro forma Enlarged Group[4]
	(£ millions)			
Net revenue	9,891	2,762	—	12,653
Cost of sales	(3,865)	(990)	—	(4,855)
Gross profit	6,026	1,772	—	7,798
Net operating expense	(3,616)	(1,159)	(104)	(4,879)
Operating profit	2,410	613	(104)	2,919
Adjusted operating profit	2,777	682	26	3,485
Exceptional items	(367)	(69)	(130)	(566)
Operating profit	2,410	613	(104)	2,919
Finance income	42	10	—	52
Finance expense	(58)	(94)	(227)	(379)
Net finance expense	(16)	(84)	(227)	(327)
Profit before income tax	2,394	529	(331)	2,592
Income tax expense	(558)	(133)	62	(629)
Net income	1,836	396	(269)	1,963

Notes:

(1) The Group's financial performance information for the year ended 31 December 2016 has been extracted, without material adjustment, from the RB 2016 Financial Statements.

(2) The Mead Johnson Group's net earnings are based on the consolidated income statement of Mead Johnson Group for the year ended 31 December 2016, as adjusted to the Group's accounting policies and presentation. A reconciliation of Mead Johnson Group's consolidated income statement to the Group's accounting policies and presentation is presented below:

	Mead Johnson Group income statement line items for year ended 31 December 2016[(a)]	Group income statement line items	Mead Johnson Group income statement as at 31 December 2016 under the Group's income statement presentation[(b)]	IFRS adjustments and reclassifi-cations[(c)]	Mead Johnson Group income statement as at 31 December 2016 under the Group's income statement presentation and after IFRS adjustments	Translated into the Group's reporting currency[(d)]
	($ millions)			*($ millions)*		*(£ millions)*
NET SALES	3,742.7	Net revenue	3,742.7	—	3,742.7	2,762.1
Cost of Products Sold	(1,341.0)	Cost of sales	(1,341.0)	—	(1,341.0)	(989.7)
GROSS PROFIT	2,401.7	**Gross profit**	2,401.7	—	2,401.7	1,772.5
Operating Expenses:						
Selling, General and Administrative	(766.5)					
Advertising and Promotion	(627.0)					
Research and Development	(97.4)					
Other (Income)/ Expenses – net	(92.1)					
	(1,583.0)	Net operating expenses	(1,583.0)	12.6	(1,570.4)	(1,159.0)
Earnings Before Interest and Income Taxes	818.7	**Operating profit**	818.7	12.6	831.3	613.5
		Adjusted operating profit	926.8	(2.1)	924.7	682.4
		Exceptional items	(108.1)	14.7	(93.4)	(68.9)
		Operating profit	818.7	12.6	831.3	613.5
		Finance income	13.6	—	13.6	10.0
		Finance expense	(119.0)	(8.9)	(127.9)	(94.4)
Interest Expense – net	(105.4)	**Net finance expense**	(105.4)	(8.9)	(114.3)	(84.3)
Earnings Before Income Taxes	713.3	**Profit before income tax**	713.3	3.7	717.0	529.2
Provision for Income Taxes	(164.0)	Income tax expense	(164.0)	(16.0)	(180.0)	(132.8)
Net Earnings	549.3	**Net income**	549.3	(12.3)	537.0	396.3

Notes:

(a) The Mead Johnson Group's consolidated income statement line items are directly extracted without adjustment from the Mead Johnson Group's consolidated income statement for the year ended 31 December 2016, included in the MJ Annual Financial Statements.

(b) This reflects the Mead Johnson Group's consolidated income statement for the year ended 31 December 2016 re-presented to conform to the Group's line item presentation format.

(c) Certain IFRS adjustments and reclassifications have been applied to the Mead Johnson Group consolidated income statement for the year ended 31 December 2016, as extracted from the MJ Annual Financial Statements, to align to the accounting policies applied by the Group, in accordance with IFRS, as opposed to U.S. GAAP as applied historically by the Mead Johnson Group, these are summarised below:

(i) *Pensions:* Under U.S. GAAP, the Mead Johnson Group has elected to record all actuarial gains/ (losses) immediately in the income statement, within exceptional items. Prior service costs are recognised initially in other comprehensive income and subsequently recognised in the income statement through amortisation. Current service costs were recognised in 2016 based on the spot rate derived from a high-quality corporate bond yield curve matched with separate cash flows for each future period. Under IFRS, actuarial gains/ (losses) are recognised in other comprehensive income. Past service costs are recognised immediately in the income statement. In addition, a single weighted-average discount rate is used to determine the current service costs and net interest cost components of expense in the year ended 31 December 2016. An adjustment of $9.2 million has been made to increase net operating expenses, of which $7.6 million increase has been made to exceptional items, and $8.9 million increase to finance expenses to reflect the effect of the reclassification between the income statement and other comprehensive income for the year ended 31 December 2016.

(ii) *Share-based payments:* Under U.S. GAAP, the Mead Johnson Group has valued its graded vesting awards with service-only conditions as a single award and has recorded the share-based compensation expense using a straight-line method over the related vesting period for the entire award. Under IFRS, each tranche of the graded vesting awards with service only conditions is valued as a separate award and the associated share-based compensation expense is recorded using a straight-line basis over the related vesting period for each separately vesting portion of the award. An adjustment of $0.5 million increase has been made to net operating expenses to reflect the impact of graded vesting awards with service only conditions for the year ended 31 December 2016.

(iii) *Venezuela adjustments:* The Mead Johnson Group has operations in Venezuela which, from 2009, has been a hyperinflationary economy. Under U.S. GAAP, any subsidiary in a hyperinflationary economy is required to adopt the functional currency of its parent entity as its own functional currency. For the Mead Johnson Group, this is U.S. dollar. Under IFRS, IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires that an entity's functional currency is determined based on the primary economic environment in which the entity operates, regardless of whether or not that currency is hyperinflationary. A reduction of exceptional costs of $22.3 million is recorded, principally because the impairments recorded by Mead Johnson Group in 2016 are lower under the Group's IFRS accounting policies. The charges are lower because of the impact of applying hyperinflation and functional currency accounting differences since 2009. The impact of applying the Group's IFRS accounting policies is insignificant to other income statement line items.

(iv) *Tax impact of accounting adjustments:* An adjustment of $6.3 million has been made to reduce income tax expense to reflect the impact of the accounting adjustments set out above, except for the impact of the share-based payments adjustment, which is presented within other tax accounting adjustments, as explained in note (v), below.

(v) *Tax accounting adjustments:*

(1) *Share-based payments:* Under U.S. GAAP, a deferred tax asset is recognised for the amount of expected future tax benefit, by applying the tax rate to the share based payment expense recorded in the income statement in each period. Under IFRS, deferred tax is recorded in the income statement up to the tax effect of the cumulative share based payment expense and any excess is recorded directly in equity. An adjustment of $4.3 million has been made to increase income tax expense to reflect the changes in the intrinsic value of unexercised and unvested share awards.

(2) *Intra-group dividends:* During early 2016, the Mead Johnson Group repatriated earnings from certain of its subsidiaries to the U.S., which, upon repatriation, gave rise to U.S. foreign tax credits. Under U.S. GAAP, the benefit of such excess foreign tax credits was recorded at the date of repatriation and not at 31 December 2016. Under IFRS, the recognition criteria are informed by events after the balance sheet date, including the finalisation or payment of dividends, provided that sufficiently advanced plans about the amount and timing of dividends existed at the balance sheet date. As explained in the footnotes to the balance sheet IFRS adjustments, the recognition criteria for the tax benefit recorded by Mead Johnson Group in respect of foreign tax credits on dividends is different between U.S. GAAP and IFRS. The result of earlier recognition of tax benefit under IFRS at both 31 December 2015 and 2016 results in an increase in the 2016 tax charge recorded of $19.3 million because the value of the accelerated credit recorded in 2015 is higher than that recorded in 2016.

(3) *Subsequent reversal of deferred tax:* Under U.S. GAAP, the reversal of previously recognised deferred tax is recorded in net earnings. Under IFRS, such reversal follows the initial recognition of the deferred tax asset or liability. The Mead Johnson Group reversed certain previously recognised deferred tax items that were originally recognised in other comprehensive income and as such, a reclassification adjustment of $3.8 million is made to increase income tax expense for the year ended 31 December 2016.

(4) *Inter-company transfers:* Under U.S. GAAP, income tax charges recorded by the Mead Johnson Group subsidiaries on inter-company profits earned from selling assets to fellow group subsidiaries are eliminated on consolidation, such that the tax charge is not recognised on consolidation until the profit is realised by the group through a sale to an external party. As a result, any such taxes paid are recorded as prepaid tax balances. Under IFRS, these taxes are recognised as an expense as they are incurred and not eliminated on consolidation. Instead, a deferred tax asset is recognised for the deductible temporary difference between the carrying value of the transferred asset on consolidation (which excludes any inter-company profit) and the tax base of the asset held by the group subsidiary, which represents the amount of tax deduction that will available when the asset is subsequently sold (which includes any inter-company profit). This adjustment results in an increase to the deferred tax assets recognised during 2016, resulting in a reduction to the income tax charge of $5.1 million.

(d) The Mead Johnson Group consolidated financial information has been converted form $ to £ using the average exchange rate of £1: $1.355 for the year ended 31 December 2016.

(3) The Acquisition Adjustments reflect the following impacts of the Acquisition as if it had occurred on 1 January 2016, as follows:

(a) An increase in net operating expenses of £104 million, comprising £130 million of estimated transaction costs offset by a reduction in share-based payment charges of £26 million, because of the settlement of these share awards at Completion.

(b) An increase in finance expense of £227 million in respect of estimated interest costs on acquisition-related finance (but without giving effect to the cost of the Notes being offered hereby).

(c) A consequential reduction in income tax expense of £62 million.

(d) Where amounts above are denominated in U.S. dollar, each has been translated using an average exchange rate of £1:$1.355 for the year ended 31 December 2016.

(4) In preparing the Pro Forma Income Statement, no account has been taken of the trading or transactions of the Group or of the Mead Johnson Group since 31 December 2016.

(5) As described in "*Use of Proceeds*", and together with available cash, the proceeds of £6,091 million ($7,718 million) received from the issuance of Notes will be used to repay the A1 Term facility (included in short-term borrowings) in its entirety. In addition, long-term borrowings would increase by the amount of the proceeds received. Furthermore, had the Notes been issued on 1 January 2016, Pro forma Enlarged Group finance expense would increase by approximately £59 million.

For the actual impact on the Group's debt facilities incurred for the Acquisition and after the use of expected net proceeds of the Offering, refer to *Use of Proceeds*.

The amounts in this footnote have been translated from $ to £ using the exchange rate of £1:$1.26715 as at 21 June 2017.

The Directors
Reckitt Benckiser Treasury Services plc
103 - 105 Bath Road
Slough, Berkshire,
SL1 3UH
United Kingdom

The Board of Directors
Reckitt Benckiser Group plc
103-105 Bath Road
Slough
Berkshire
SL1 3UH
United Kingdom

22 June 2017

Dear Sirs

Reckitt Benckiser Group plc (the "Company")

We report on the unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") set out in the section entitled "Selected Unaudited Pro Forma Financial Information" of the Company's offering memorandum dated 22 June 2017 comprising listing particulars (the "**Listing Particulars**"). The Listing Particulars have been prepared on the basis described in the notes to the Unaudited Pro Forma Financial Information, for illustrative purposes only, to provide information about how the acquisition of Mead Johnson Nutrition Company might have affected the financial information presented on the basis of the accounting policies adopted by the Company and the offering of senior notes in preparing the financial statements for the year ended 31 December 2016. This report is required by Listing Rule 4.2.3 and item 7 of Annex II to the PD Regulation and is given for the purpose of complying with Listing Rule 4.2.3 and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company and the directors of Reckitt Benckiser Treasury Services plc to prepare the Unaudited Pro Forma Financial Information in accordance with Annex II of the PD Regulation.

It is our responsibility to form an opinion, as required by item 7 of Annex II to the PD Regulation, as to the proper compilation of the Unaudited Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
T: +44 (0) 2075 835 000, F: +44 (0) 2072 124 652, www.pwc.co.uk

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under item 4.2.13(1)(c) of the Listing Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.2 of Annex IX to the PD Regulation, consenting to its inclusion in the Listing Particulars.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing standards or other standards and practices generally accepted in the United States of America and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Listing Rule 4.2.13(1)(c), we are responsible for this report as part of the Listing Particulars and we declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Listing Particulars in compliance with item 1.2 of Annex IX to the PD Regulation.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PricewaterhouseCoopers LLP, 1 Embankment Place, London, WC2N 6RH
T: +44 (0) 2075 835 000, F: +44 (0) 2072 124 652, www.pwc.co.uk

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

OPERATING AND FINANCIAL REVIEW

*The following discussion summarises the significant factors and events affecting results of operations and the financial condition of the Group for the years ended 31 December 2016, 2015 and 2014, and should be read in conjunction with the consolidated financial information of the Group reported in accordance with IFRS and the other financial information contained elsewhere in this Offering Memorandum, including under "Presentation of Financial and Other Information" and "Selected Historical Financial Information". In addition, the discussion below contains certain unaudited financial information relating to net revenue of the Group for the three months ended 31 March ("**Q1**") 2017 and Q1 2016.*

The following discussion of the Group's results of operations and financial condition contains forward -looking statements that reflect the current view of the Group's management. The Group's actual results could differ materially from those anticipated in any forward-looking statements as a result of the factors discussed below and elsewhere in this Offering Memorandum, particularly under "Risk Factors". Investors should carefully consider the following information, together with the other information contained in this Offering Memorandum, before investing in the Notes.

Overview

We are a world leading consumer health and hygiene company. Driven by a purpose of providing innovative solutions for healthier lives and happier homes, we have operations in over 60 countries. From the foundations of infant and child nutrition, to the fundamentals of a hygienic home, our global brands help people live healthier, happier lives.

We operate in the following product categories:

- Our **Health** products category consists of OTC medications for everyday issues such as pain, sore throat, cough and flu, but also wellness products in sexual wellbeing and footcare, and health nutrition products such as vitamins and supplements, as well as the infant and children's nutrition business added with the completion of the Acquisition. Health products accounted for 34 per cent. of our net revenue for 2016.

- Our **Hygiene** products category consists of personal hygiene products (including depilatory products for removal of body hair and acne treatments) and home hygiene products (including disinfectant cleaners, all-purpose cleaners, lavatory cleaners, detergents for automatic dishwashing and pest control products). Hygiene products accounted for 41 per cent. of our net revenue for 2016.

- Our **Home** products category consists of air care products, garment care products, fabric treatment products and water softeners. Home products accounted for 18 per cent. of our net revenue for 2016.

- Our **Portfolio Brands** include laundry detergents and fabric softeners that do not fit within our Health, Hygiene and Home categories and that are intended to build scale in local markets, as well as a largely North American food business that is currently under strategic review. Portfolio Brands accounted for 7 per cent. of our net revenue for 2016.

RB has over 20 Powerbrands which include household names such as Enfamil, Nutramigen (both added with the completion of the Acquisition), Nurofen, Strepsils, Gaviscon, Mucinex, Durex, Scholl, Clearasil, Lysol, Dettol, Veet, Harpic, Cillit Bang, Mortein, Finish, Vanish, French's, Air Wick and Woolite.

Recent developments

Acquisition of Mead Johnson

On 10 February 2017, we announced that we signed an agreement to acquire Mead Johnson for $16.6 billion in cash. The Acquisition was completed on 15 June 2017 (the "Completion"). The Acquisition is a significant step forward in our journey as a leader in Consumer Health and is expected to increase our revenues in this area by approximately 90 per cent.

As a result of the Acquisition, Mead Johnson shareholders received $90 in cash for each share of common stock, valuing the total equity at $16.6 billion. Including net debt of $1.2 billion as at 31 December 2016, the total enterprise value of the transaction is $17.9 billion.

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

The Acquisition was financed through new debt facilities with Bank of America, N.A., Deutsche Bank AG, London Branch and HSBC Bank plc. These facilities include $9 billion of term loans over three to five years and $8 billion of bridge funding to cover the cash consideration, plus a further $3 billion to refinance existing Mead Johnson bonds if required. They also include an additional £1 billion revolving credit facility, to provide financing headroom from the date of the Completion. Certain of these facilities will be refinanced with the Notes offered hereby.

Strategic review of Food business

On 3 April 2017, we announced a strategic review of our food business, which is considered non-core to the Group.

Principal Factors Affecting Results of Operations

As a leading manufacturer and marketer of branded health, hygiene and home products that sells a comprehensive range of products in most countries, our results are impacted by a variety of factors common to the fast-moving consumer goods ("**FMCG**") industry:

Macro conditions, both globally and in the key markets in which we operate

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 continued to be difficult during the periods under review. In 2016 economic growth was slow in developed markets and mixed in developing markets, with India expanding rapidly but major economies such as Brazil and Russia proving weak, and geopolitical and social issues affecting the Middle East and Turkey. Commodity prices, which had been favourable, have also started to rise.

In addition, demand for our products and our brands can be affected by political instability, terrorist and other hostile activities, and natural catastrophes, which can impact economic conditions and consumer confidence, degrade infrastructure, disrupt supply chains and otherwise result in business interruption. Certain of these factors may impact a single market or a region directly, and may have further effects to the extent supply chains are disrupted. The foregoing could impact consumer confidence and customers' abilities to fund their operations, and also impact our liquidity, exacerbate fluctuations in foreign currency movements, increase commodity prices and increase transportation and energy costs. While we cannot control most of these events, our results will be impacted by our ability to respond appropriately to these events.

Success in achieving our strategy to deliver market out-performance

On a category basis, our growth continues to be driven by our strategic priorities in the faster growing and higher margin Consumer Health brands, as well as Hygiene brands. We focus in particular on our Powerbrands and Powermarkets, and believe that delivering innovative products that meet consumer needs is among the principal factors that influence our performance. We believe that our success, therefore, is a function of constant innovation, increased penetration in countries in which we already have a presence and selective geographic roll-out in countries where we have no current presence, in each case underpinned by executional in-market excellence and investment in Brand Equity Investment ("**BEI**") programs.

In 2016, Consumer Health saw broad-based growth across the portfolio, with the exception of the Scholl/Amopé franchise, which was significantly impacted by the Wet & Dry express pedi innovation failing to deliver to our expectations. Hygiene had an improved performance in the year, with growth across most Powerbrands, driven by innovation and penetration building initiatives. Our Home care category had a weak year, due to specific issues in South Korea. The underlying performance of the Home category was in line with our goal of performing in line with the market.

HS issue in South Korea

In 2001, we acquired Oxy, a South Korean company. Oxy RB manufactured and sold household products, including HS products which accounted for less than 0.5 per cent. of their sales. By 2011, Oxy RB was one of about 13 suppliers of HS products in the South Korean market. We did not sell HS products in any other market. Oxy RB continued to sell the HS products in South Korea for the next 10 years. In 2011 the KCDC determined that HS products might be responsible for serious respiratory diseases, including fatalities. Oxy RB immediately began to withdraw its HS products.

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

We recognised in April 2016 that this court-led process was taking too long and was not fair on victims. In July 2016, the Compensation Plan was established by Oxy RB to provide fair compensation to Oxy HS product users categorised by the South Korean government in Rounds 1 and 2 of the South Korean government's categorisation process as Category I or Category II. It was designed in consultation with these victims and their families, informed by four overarching values of fairness, transparency, respect and speed and is aimed at addressing each person according to their own individual circumstances, including those who have previously entered into settlement agreements with Oxy RB. As of 31 January 2017, 97 per cent. of eligible victims were participating in the Compensation Plan.

In 2016, we charged £300 million to exceptional costs related to the HS issue, to cover certain one-off costs arising from the HS issue, including one-off litigation costs, civil settlements and medical costs, the compensation of Oxy HS Category I and II victims classified within Rounds 1, 2 and 3 of the KCDC classification process, as well as some impairment of certain Korean assets. The risk of additional financial exposure remains. See "*– Key income statement items – Contingencies*" below and "*Risk Factors – We face significant financial and reputational risk in relation to humidifier sanitiser products marketed by our Korean subsidiary*."

Costs and Costs Saving Initiatives

Our results are impacted by our ability to manage our costs, including changes in commodity prices, cost of raw materials, labour costs, foreign currency exchange rates and interest rates.

Our ability to do so depends in part on management actions to improve productivity and adjust prices, the success of cost cutting initiatives, our ability to pass on cost increases to consumers, the effectiveness of hedging arrangements and the outcome of negotiations of manufacturing and supply arrangements.

At the start of 2015, we announced Project Supercharge. Although primarily a cultural programme, designed to fight the complexity that arises in big companies, Project Supercharge also delivered substantial costs savings during periods under review, as we have completed the majority of the programme to achieve our planned £150 million cost savings over three years. Offsetting these costs savings were the exceptional costs related to the restructuring of the Group's operations and integration of recently completed acquisitions, which amounted to £76 million in 2015 and £67 million in 2016.

We also expect the integration of RB's and Mead Johnson's businesses to deliver cost savings of approximately £200 million per annum for the Group by the end of the third full year following the Acquisition. These cost savings arise principally from removing duplication in back office functions and leveraging the enhanced scale of the Group in the procurement of raw and packaging materials, advertising and promotional expenditure and other spend. The one-off costs to achieve the savings are expected to be approximately £450 million.

Acquisitions and disposals

We consider acquisitions where they offer a strategic opportunity to further accelerate growth. These might be high-potential brands in adjacent categories, such as the Acquisition, or companies that strengthen our existing platform in a certain market. We also seek to exit certain businesses not core to our business strategy.

Among our acquisitions and disposals during the periods under review are the following:

- In May 2014, we completed the acquisition of the K-Y brand and related businesses. This transaction was accounted for under IFRS 3: Business Combinations. The fair values of the identifiable assets and liabilities at the date of acquisition were provisionally estimated and disclosed in the 2014 Financial Statements. In 2015, the provisional values have been finalised leading to a £6 million increase in deferred tax liabilities and a related £6 million increase in Goodwill. 2014 amounts have not been restated.

- 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.

- On 23 December 2014, we completed a demerger of the pharmaceutical business in the form of a dividend in specie. The transaction was recognised and measured in accordance with IFRIC 17 Distribution of Non-Cash Assets to Owners. This treatment resulted in a gain of £1,282 million on the distribution of non-cash assets to our shareholders. In 2014, for the period to 23 December 2014, RB Pharmaceuticals business contributed revenue of £677 million and net income of £278 million to our consolidated results of operations.

- In October 2015, in line with our continued focus on its core business of Health, Hygiene and Home, we disposed of the Medcom hospital business in Russia. The reported loss on sale of the entity was £57 million. This is included within exceptional items. It comprises a £24 million difference between the net sale proceeds and the net assets; and a recycling from reserves of previous exchange losses arising on consolidation of the legal entity sold. Due to the significant devaluation of the Russian rouble since acquisition, the non-cash exchange loss required to be recycled through the income statement was £33 million.

- On 3 October 2016, we completed the acquisition of 100 per cent. shareholding in Nances Holdings S.A with a purchase consideration of BRL 671 million. Hypermarcas is the leading

Brazilian condom manufacturer, through its three brands – Jontex, Olla and Lovetex. These brands will sit alongside the RB Powerbrand Durex to create a unique portfolio of brands in the sexual wellbeing category. Their addition will immediately transform RB's sexual wellbeing category in Brazil. These brands will benefit from RB's strong innovation, brand equity investment and go-to-market capabilities. The transaction has been accounted for by the acquisition method. Acquisition-related costs have been expensed within exceptional items in the income statement for 2016.

Foreign currency translation

Items included in the financial statements of each of our entities are measured using the currency of the primary economic environment in which the entity operates (i.e., the functional currency). We present our consolidated financial statements in pound sterling.

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

We translate the financial statements of our overseas subsidiary undertakings into pound sterling on the following basis:

- assets and liabilities at the rate of exchange at the period-end date; and
- profit and loss account items at the average rate of exchange for the period.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity on consolidation. As a result of the foregoing, movements in exchange rates relative to the pound sterling affect our actual reported results, and such effects can be significant. Therefore, in addition to analysing our reported results giving effect to exchange rate movements, we also present comparisons of certain line items in our results of operations on a constant exchange rate basis, which adjusts the more recent line item, such that the foreign currency conversion applied to that line item is made using the same exchange rate as was applied to that same line item in the prior period.

During the periods under review, the devaluation of pound sterling following the EU Referendum had a significant positive impact on our reported results, as the majority of the Group's revenue and profits are earned outside the UK. For a quantitative assessment of the impact of currency movements on our results of operations in each of 2014, 2015 and 2016, see "– *Results of Operations of the Group for 2014-2016*" below.

Seasonality

While demand for the majority of our products is not subject to significant seasonal fluctuations, some health and pest control products do exhibit seasonal fluctuations. Peak demand in the northern hemisphere markets offsets lower demand in the southern hemisphere markets and vice-versa. The intensity of, in particular, the flu season can vary from year to year, with a corresponding influence on our revenue and profit. For example, while in 2015 our results of operations were positively affected by a strong flu season at the beginning of the year, in 2016 our U.S. business revenues were adversely affected by a later flu season than in 2015.

Key performance indicators

The following tables present our KPIs for the periods under review. These indicators provide useful data for measuring performance and also have a direct impact on our results of operations.

KPI	Definition	Why we use the KPI
Like-for-like Net Revenue growth	Growth in Net Revenue, excluding the impact of changes in exchange rates, acquisitions and disposals	Measures the increase in our sales
Developing market presence	Net Revenue generated in our DvM Area, as a percentage of total Net Revenue	Measures the contribution to the Group from DvM, which contains the majority of our Powermarkets
Health and Hygiene brands	Net Revenue generated by our Health and Hygiene categories, as a percentage of total Net Revenue	Measures the contribution to our Group performance of our higher-growth categories of Health and Hygiene
Adjusted Operating Margin (%)	Operating profit before exceptional items as a percentage of total net revenue	Measures our profitability
BEI	Investment in brand equity, as a percentage of total Net Revenue	Measures the rate of reinvestment in our brands
Gross margin (%)	Gross profit as a percentage of total net revenue	Measures the resources available for reinvestment or profit growth
Free cash flow	Net cash generated from operating activities less net capital expenditures (i.e., purchases and disposals of property, plant and equipment and intangible assets)	Measures our ability to convert profits into cash
Net working capital	Inventories, trade and other receivables and trade and other payables as a percentage of total net revenue	Measures our ability to finance our expansion and release cash from working capital

	As at 31 March		
	2016	2015	2014
	(£ millions, unless otherwise stated)		
LFL Net revenue growth (%)	3%	6%	4%
DvM exposure (%)	31%	30%	30%
Health and hygiene brands (%)	75%	74%	72%
Adjusted Operating Margin (%)	28.1%	26.8%	24.7%
BEI (%)	13.20%	12.70%	12.5%
Gross margin (%)	60.9%	59.1%	57.7%
Free cash flow	2,036	1,656	1,711[1]
Net working capital	(1,102)	(936)	(831)
Net working capital as a percentage of total net revenue (%)	(11)%	(11)%	(9)%

Note:

(1) Free cash flow in 2014 excludes cash flows from discontinued operations.

Key income statement items

Net revenue

Revenue from the sale of products is recognised 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. 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.

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

Cost of sales

Cost of sales consists of raw materials, packaging costs, merchandise costs, freight and production expenses.

Net operating expenses

Net operating expenses consist of distribution costs, administrative expenses and exceptional costs, net of other net operating income.

Distribution costs

Distribution costs consist primarily of distribution, selling and marketing expenses. Distribution expenses include payroll costs of the sales and marketing functions, selling expenses, advertising, warehouse costs for finished goods and transport costs for distribution of finished goods.

Administrative expenses

Administrative expenses consist of consumer health research and development, other research and development, and other expenses. Other expenses consist of support function costs.

Exceptional items

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

- restructuring and other expenses relating to the integration of an acquired business and related expenses for reconfiguration of our activities;
- impairments of current and non-current assets;
- gains/losses on disposal of businesses;
- acquisition-related costs; and
- costs arising as a result of material and non-recurring regulatory and litigation matters.

The following exceptional costs were incurred during the periods under review:

- In 2016, a pre-tax exceptional charge of £367 million was incurred, £300 million of which related to costs associated with the HS issue in South Korea, with the remaining £67 million related to the restructuring of our operations, and the integration of acquisitions. Costs incurred consist primarily of legal and other professional fees, redundancy and business integration costs which have been included within net operating expenses.
- In 2015, a pre-tax exceptional charge of £133 million was incurred, £76 million of which related to the ongoing restructuring of our organisation and the integration of prior year acquisitions and a further £57 million loss on the disposal of the Medcom hospital business. This included a loss of £33 million arising from the recycling, from equity, of previous exchange losses arising from consolidation of the legal entity sold.
- In 2014, a pre-tax exceptional charge of £21 million was incurred 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. The restructuring costs consisted primarily of redundancy and business integration costs which were included within operating expenses.

Net finance expense

Net finance expense comprises finance income net of finance expenses. Finance income consists of interest income on our cash and cash equivalents. Finance expense consists of interest payable on borrowings, amortisation of issue costs of bank loans and other finance expenses. Finance income and expense are not allocated to our segments, as they are managed on a central basis.

Income tax expense

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

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

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

Certain Non-IFRS Measures

Our discussion of financial results includes certain non-IFRS financial measures. We believe these measures provide our investors with additional information about our underlying results and trends, as well as insight into some of the metrics used to evaluate management. These measures include:

Constant exchange rates

In addition to analysing our reported results giving effect to exchange rate movements, we also present comparisons of net revenue and adjusted operating profit on a constant exchange rate basis. Constant exchange rates adjust the actual consolidated results such that the foreign currency conversion applied is made using the same exchange rates as was applied in the prior year.

Like-for-like change

We use the term "like-for-like" ("**LFL**") growth on net revenue to describe the performance of our business by excluding the impact of changes in foreign currency exchange rates, acquisitions and disposals. We believe this provides readers with a more complete understanding of underlying performance of the business and enables comparison across periods on a consistent basis. Like-for-like growth is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation.

Other non-IFRS measures

We also present certain adjusted measures that exclude the impact of the exceptional items, including adjusted net income, adjusted operating profit and adjusted operating margin, which Management believe provide additional useful information on underlying trends. See "*Presentation of Financial and Other Information*" for more information on these measures.

Q1 2017 trading update

Financial information set out in this section relates to net revenue of the Group for Q1 2017 and Q1 2016. This financial information is unaudited.

Our Q1 results are in line with expectations as macro conditions remain challenging. Against this backdrop we believe that our underlying business remains strong. We delivered continued outperformance relative to the market in consumer health and good growth in DvM, offset by previously flagged headwinds, which we expect to persist during the first half. We expect our growth trajectory to improve as we progress through the year and we remain on track to achieve our full year net revenue target of +3 per cent. like-for-like growth.

Net revenue by segment

The following tables presents our net revenue by segment for Q1 2017 and 2016, and net revenue growth in percentage terms on LFL basis, net of acquisitions and dispositions ("**net M&A**"), on a constant currency ("**FX**") basis and as reported for Q1 2017 compared to Q1 2016.

	Q1	
	2017	**2016**
	(£ millions)	
ENA	1,669	1,496
DvM	869	719
Food	105	88
Group	2,643	2,303

	Q1 2017 vs Q1 2016			
	LFL	Net M&A	FX	Reported
		(%)		
ENA	(2)	—	14	12
DvM	4	1	16	21
Food	3	—	16	19
Group	—	—	15	15

ENA

Net revenue in Q1 2017 was £1,669 million, an increase of £173 million, or 12 per cent., from £1,496 million in Q1 2016, with like-for-like decline of 2 per cent. In the United States, strong performances from Mucinex and our Vitamins, Minerals and Supplements ("**VMS**") portfolio due to a combination of seasonal factors and innovation-led growth such as our Cool & Clear initiative across the Mucinex Fast Max and Sinus Max range, and MegaRed 4in1 innovation. Growth was offset by a significant decline in Amopé as we lap strong sell-in of the Wet & Dry initiative in Q1 2016. Air Wick had a weaker quarter due to market challenges. Other ENA markets delivered a mixed performance. Russia returned to modest growth. France, and the UK also saw positive momentum. This growth was more than offset by declines in Germany, Italy and ANZ predominantly due to the impact of the Wet & Dry Express pedi.

DvM

Net revenue in Q1 2017 was £869 million, an increase of £150 million, or 21 per cent., from £719 million in Q1 2016, with like-for-like growth of 4 per cent. India delivered strong growth behind penetration gains in the Dettol franchise and Harpic. Demonetisation had a similar negative effect on the growth rates in India as in the last quarter of 2016. China growth was led by strong performance in Durex and Guilong OTC. Africa experienced good growth, led by Dettol. Turkey and Korea saw continued weakness due to respective geopolitical and HS issues. Latin America performance was in line with expectations. Mexico had a good performance. Market conditions in Brazil remain challenging.

Food

Net revenue in Q1 2017 was £105 million, an increase of £17 million, or 19 per cent., from £88 million in Q1 2016, with like-for-like growth of 3 per cent. This segment displayed good growth, demonstrating the strength of our brands and commitment of our people.

Net revenue by product category

The following tables present our net revenue by product category for Q1 2017 and 2016, and net revenue growth in percentage terms on like-for-like basis, net of acquisitions and dispositions, on a constant currency basis and as reported for Q1 2017 compared to Q1 2016.

	Q1	
	2017	2016
	(£ millions)	
Health	904	786
Hygiene	1,124	956
Home	458	414
Portfolio (including Food)	157	147
Group	2,643	2,303

	Q1 2017 vs Q1 2016			
	LFL	Net M&A	FX	Reported
		(%)		
Health	—	1	14	15
Hygiene	3	—	15	18
Home	(4)	—	15	11
Portfolio	(6)	—	13	7
Group	—	—	15	15

Health

Net revenue in Q1 2017 was £904 million, an increase of £118 million, or 15 per cent., from £786 million in Q1 2016, flat on a like-for-basis. In this category, performance was driven by strong, broad-based growth which continued across our consumer health portfolio, offset by Scholl/Amopé. Scholl/Amopé franchise continued to develop with launches in compression hosiery and gelActiv insoles. The negative impact from lapping the Wet & Dry Express pedi sell-in and launch last year had a meaningful impact on the Health category's performance in the quarter. Mucinex experienced strong growth due to a combination of higher incidence of cold and flu, and good performance from the recent launch of our Cool & Clear innovation across the Fast Max and Sinus Max range. The Durex/K-Y franchise experienced good growth driven by innovation (K-Y Duration spray and Durex Invisible in China). Gaviscon and Strepsils also saw good growth. Our health nutrition VMS brands experienced strong growth, led by a combination of innovations such as Megared 4in1, in-store initiatives, and Move Free sales in China.

Hygiene

Net revenue in Q1 2017 was £1,124 million, an increase of £168 million, or 18 per cent., from £956 million in Q1 2016, with like-for-like growth of 3 per cent. Growth was led by our hygiene health brand of Dettol. In DvM we had the successful launch of our new Dettol Deep Cleanse soap. We also saw continued penetration gains from the Banega Swachh initiative in India, and similar programmes in parts of Africa. Veet had an excellent performance in ENA with the continued success of our recent innovation, the Sensitive Precision Hair Trimmer. Finish grew in the quarter with our Quantum relaunch (improved cleaning performance) and continued investment in penetration programs in developing markets. Veja in Brazil and Harpic in a number of developing markets also performed well. The pest category had a meaningful decline as we lapped strong pest growth in Brazil (due to the Zika virus) from the prior year.

Home

Net revenue in Q1 2017 was £458 million, an increase of £44 million, or 11 per cent., from £414 million in Q1 2016, with a like-for-like decline of 4 per cent. AirWick saw growth in the "Rest of ENA", driven by our recently launched Freshmatic Pure initiative, building on the initial success of the Pure aerosol. This growth was more than offset by weakness in the United States due to challenging market conditions. Vanish grew in the "Rest of ENA" behind our recently launched Platinum powder and gel innovation in the UK. However overall Vanish declined in the quarter, due mainly to Korea HS issue.

Portfolio (including Food)

Net revenue in Q1 2017 was £157 million, an increase of £10 million, or 7 per cent., from £147 million in Q1 2016, with a like-for-like decline of 6 per cent. The quarter was characterised by solid performance in laundry detergents in ENA, in what continues to be a challenging category and significant declines in Korean portfolio brands. Food growth was driven by both French's and Frank's Red Hot.

Results of operations of the Group for 2014-2016

The following table presents our consolidated income statements for the years ended 31 December 2016, 2015 and 2014.

	Year ended 31 December		
	2016	2015	2014
	(£ millions)		
Net revenue	9,891	8,874	8,836
Cost of sales	(3,865)	(3,628)	(3,740)
Gross profit	6,026	5,246	5,096
Net operating expenses	(3,616)	(3,005)	(2,932)
Operating profit	2,410	2,241	2,164
Adjusted operating profits	2,777	2,374	2,185
Exceptional items	(367)	(133)	(21)
Finance income	42	21	27
Finance expense	(58)	(54)	(65)
Net finance expense	(16)	(33)	(38)
Profit before income tax	2,394	2,208	2,126
Income tax expense	(558)	(463)	(462)
Net income from continuing operations	1,836	1,745	1,664
Net income from discontinued operations	—	—	1,560
Net income	1,836	1,745	3,224

Year ended 31 December 2016 compared to 2015

Net revenue

Net revenue in 2016 was £9,891 million, an increase of £1,017 million, or 11.5 per cent., from £8,874 million in 2015. At constant exchange rates, net revenue increased by 2 per cent., while like-for-like net revenue increased by 3 per cent.

The positive foreign exchange impact on translation increased net revenue by 9 per cent. The devaluation of sterling following the EU Referendum and Brexit had a significant positive impact on reported results, as the majority of our revenue and profits are earned outside the UK.

Net revenue by segment

The following tables present our net revenue by segment for the years ended 31 December 2016 and 2015, and net revenue growth in percentage terms on like-for-like basis, net of acquisitions and dispositions, on a constant currency basis and as reported for 2016 compared to 2015.

	Year ended 31 December	
	2016	2015
	(£ millions)	
ENA	6,410	5,830
DvM	3,070	2,695
Food	411	349
Group	9,891	8,874

	2016 vs 2015			
	LFL	Net M&A	FX	Reported
		(%)		
ENA	1	(1)	10	10
DvM	8	—	6	14
Food	5	—	13	18
Group	3	(1)	9	11

ENA

Net revenue in 2016 was £6,410 million, an increase of £580 million, or 9.9 per cent., from £5,830 million in 2015, with like-for-like growth of 1 per cent. While we achieved good growth in our VMS brands, Mucinex and Finish, this was offset by weakness with our Amopé Wet & Dry pedi innovation.

Russia had a very weak year, with a double-digit like-for-like decline in revenue. Volume declines arose from a combination of customer and consumer destocking and weakness in Scholl. The rest of ENA saw robust growth during the year. Growth was innovation led in our larger markets of Germany, the UK, France, Spain and Australia, with strong performances from the Veet precision trimmer, Harpic Waves and Air Wick Pure. Scholl's performance was mixed, with strong performance from our GelActive insoles more than offset by weakness from the Wet & Dry pedi.

DvM

Net revenue in 2016 was £3,070 million, an increase of £375 million, or 13.9 per cent., from £2,695 million in 2015, with like-for-like growth of 8 per cent. Had it not been for the impact of South Korea, like-for-like growth in DvM would have been double-digit in percentage terms.

In South Asia, India delivered strong growth, despite a significant slowdown in the fourth quarter caused by demonetisation disrupting the market. We achieved further strong penetration gains with our leading Dettol and Harpic brands, underpinned by innovation and consumer education programmes. China had another strong year, with e-commerce driven initiatives and the launch of Move Free driving the growth, with over 30 per cent. of China's net revenue via e-commerce channels. Indonesia and Thailand also had strong performances. The Brazil macro environment remains challenging, although a strong performance from Veja and pest brands helped mitigate some of the weakness. Turkey and Saudi Arabia had a weaker year, due to geopolitical issues in the second half.

Food

Net revenue in 2016 was £411 million, an increase of £62 million, or 17.8 per cent., from £349 million in 2015, with like-for-like growth of 5 per cent. French's continued to deliver a strong performance, driven by the growth of French's Ketchup, regaining share in French's Mustard, outperformance on Frank's Red Hot and continued expansion in international markets, most notably Canada.

Net revenue by product category

The following tables present our net revenue by product category for the years ended 31 December 2016 and 2015, and net revenue growth in percentage terms on like-for-like basis, net of acquisitions and dispositions, on a constant currency basis and as reported for 2016 compared to 2015.

	Year ended 31 December	
	2016	2015
	(£ millions)	
Health	3,332	2,942
Hygiene	4,066	3,589
Home	1,828	1,715
Portfolio (including Food)	665	628
Group	9,891	8,874

	2016 vs 2015			
	LFL	Net M&A	FX	Reported
		(%)		
Health	4	—	9	13
Hygiene	4	—	9	13
Home	(1)	(1)	8	7
Portfolio	—	(5)	11	6
Group	3	(1)	9	11

Health

Net revenue in 2016 was £3,332 million, an increase of £390 million, or 13.3 per cent., from £2,942 million in 2015, with like-for-like growth of 4 per cent. Our Scholl/Amopé franchise experienced a double-digit decline. The cause was twofold: an exceptional year of product launches and geographic expansion in 2015, followed by the launch of the Wet & Dry rechargeable pedi in 2016, which failed to meet expectations.

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

The broad-based growth in 2016 included the Durex "Invisible" ultra-thin condom and the launch of our KY Duration spray in the United States, the continued strong growth of our Gaviscon Double Action innovation, the growth of all of our key VMS brands (MegaRed, Move Free, Digestive Advantage and Airborne), Move Free's particularly strong growth following its launch in China, and the successful launch of our Mucinex Clear & Cool range of liquids within Fast Max and Sinus Max.

Hygiene

Net revenue in 2016 was £4,066 million, an increase of £477 million, or 13.3 per cent., from £3,589 million in 2015, with like-for-like growth of 4 per cent. Growth continues to be led by our key emerging market brands of Dettol and Harpic, as we focus on the right combination of relevant and appropriately targeted innovations (such as Dettol Squeezy and Harpic bathroom cleaner) and consumer awareness programmes.

Dettol also launched an innovative new mask in China to protect families from the harmful effects of air pollution. Banega Swachh in India continues to gain momentum in championing better hygiene and Global Handwashing day, which helps teach children better hand hygiene, delivered more than 2 billion impressions.

Finish was a growth driver in ENA, with particular success in the United States as a result of our in-store initiatives and successful Max-in-1 innovation. We also saw a near doubling of our Finish business in China where we announced a new global partnership with a leading dishwasher manufacturer in China.

Veet had a successful year, with the launch and scaling of our new precision trimmer innovation. Our pest brands had a very strong year experiencing high market growth due to the spread of

mosquito borne illnesses like Zika, the launch of our premium insect repellent range in Brazil and the recovery of our business in India. Veja also had a strong performance in Brazil.

Home

Net revenue in 2016 was £1,828 million, an increase of £113 million, or 6.6 per cent., from £1,715 million in 2015, with a like-for-like decline of 1 per cent. Air Wick grew, with a good performance from our recent Air Wick Pure innovation, which we scaled across a number of ENA markets during the year. We also experienced success in the United States from the launch of the new liquid electrical fragrance diffuser. The Vanish franchise declined in 2016, driven solely by the impact of events in South Korea.

Portfolio (including Food)

Net revenue in 2016 was £665 million, an increase of £37 million, or 5.9 per cent., from £628 million in 2015, with flat like-for-like growth. Laundry detergents and fabric softeners suffered from the twin impact of weakness in Southern Europe and South Korea. Food was driven by the growth of French's Ketchup, regaining share in French's Mustard, outperformance by Frank's Red Hot and continued expansion in international markets, most notably Canada.

Cost of sales

Cost of sales in 2016 was £3,865 million, an increase of £237 million or 6.5 per cent., from £3,628 million in 2015. This represented a reduction of 180 bps as a percentage of net revenue (from 40.9 per cent. to 39.1 per cent.). The majority of this reduction, 130 bps, was driven by input cost savings and supply efficiencies, with the balance being the effect of price rises, transactional foreign exchange and the sale of the Medcom hospital business during 2015.

Gross profit

Gross profit in 2016 was £6,026 million, an increase of £780 million, or 14.9 per cent., from £5,246 million in 2015. Gross margin in 2016 increased by 180 bps to 60.9 per cent., driven by favourable input costs, margin accretive innovation, pricing, mix, cost of sales optimisation initiatives and supply-related Project Supercharge savings.

Net operating expenses

Net operating expenses in 2016 were £3,616 million, an increase of £611 million, or 20.3 per cent., from £3,005 million in 2015.

Operating profit

Operating profit in 2016 was £2,410 million, an increase of £169 million, or 7.5 per cent., from £2,241 million in 2015, but decreased 3 per cent. on a constant currency basis.

Adjusted operating profit in 2016 was £2,777 million, an increase of £403 million, or 17.0 per cent., from £2,374 million in 2015, and increased 6 per cent. on a constant currency basis. The following table presents our adjusted operating profit by segment for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
	2016	**2015**
	(£ millions)	
ENA	1,978	1,744
DvM	681	528
Food	118	102
Group	2,777	2,374

Adjusted operating margin in 2016 increased by 130 bps to 28.1 per cent. due to the strong gross margin expansion and fixed cost containment.

Net finance expense

Net finance expense in 2016 was £16 million, a decrease of £17 million, or 51.5 per cent., from £33 million in 2015. Borrowing levels and the cost of finance remained broadly the same in 2016, and benefitted from some cash temporarily held in high interest countries.

Income tax expense

Income tax expense in 2016 was £558 million, an increase of £95 million, or 20.5 per cent., from £463 million in 2015. The increase was primarily due to an increase in our effective tax rate to 23 per cent. from 21 per cent. in 2015 and the tax rate on adjusted profit, excluding the effect of exceptional items, was 22 per cent. from 20 per cent. in 2015. The effective rate in the year was reduced by 1 per cent. due to the deferred tax effect of the enactment of a 1 per cent. reduction in the UK corporate tax rate in 2020.

Net income

Net income in 2016 was £1,836 million, an increase of £91 million, or 5.2 per cent., from £1,745 million in 2015, but decreased 5 per cent. on a constant currency basis.

Adjusted net income in 2016 was £2,157 million, an increase of £286 million, or 15.3 per cent., from £1,871 million in 2015.

Year ended 31 December 2015 compared to 2014

Net revenue

Net revenue in 2015 was £8,874 million, an increase of £38 million, or 0.4 per cent., from £8,836 million in 2014. At constant exchange rates, net revenue increased by 5 per cent., while like-for-like net revenue increased by 6 per cent.

The impact of net M&A was slightly negative, as a positive impact from our K-Y acquisition was more than offset by the disposal of our Footwear and Medcom Hospital businesses. The negative foreign exchange on translation reduced net revenue by 5 per cent.

Net revenue by segment

The following table presents our net revenue by segment for the years ended 31 December 2015 and 2014, and net revenue growth in percentage terms on like-for-like basis, net of acquisitions and dispositions, on a constant currency basis and as reported for 2015 compared to 2014.

	Year ended 31 December	
	2015	**2014**
	(£ millions)	
ENA	5,830	5,891
DvM	2,695	2,629
Food	349	316
Group	8,874	8,836

	2015 vs 2014			
	LFL	Net M&A	FX	Reported
		(%)		
ENA	5	(1)	(5)	(1)
DvM	9	—	(6)	3
Food	4	—	6	10
Group	6	(1)	(5)	—

ENA

Net revenue in 2015 was £5,830 million, a decrease of £61 million, or 1.0 per cent., from £5,891 million in 2014, with like-for-like growth of 5 per cent. Absolute growth was led by our larger markets (UK, France, Germany and Spain) whilst smaller markets in Eastern and South Eastern Europe had strong rates of growth. Australia performed well throughout the year. Operational performance in Russia and CIS was strong with an improved go-to-market model for our Consumer Health business.

North America had a good year with 3 per cent. like-for-like growth, driven by the launch of our successful Velvet Smooth Express Pedi under the new brand name, Amopé, and in the second half, our new electronic nail file. VMS brands were mixed with good growth in Digestive Advantage and Move Free offset by weakness in MegaRed and Airborne. Mucinex had a strong end to the year, benefitting from the launch of new liquid filled caplets across the adult Fast Max Multi-Symptom and Sinus variants. Lysol performed well, driven by health education programmes, offset by competitive market conditions for Finish.

DvM

Net revenue in 2015 was £2,695 million, an increase of £66 million, or 2.5 per cent., from £2,629 million in 2014, with like-for-like growth of 9 per cent. In South Asia, India continued to deliver improving growth trends. Our penetration-building initiatives within Dettol and Harpic support the Government's health and hygiene initiatives. China had a strong performance with Durex and e-commerce driven initiatives leading the growth. Middle East, Turkey and South Africa also had strong performances. Brazil remained challenging, although strong pest demand in the second half helped mitigate some of the weakness. Thailand, Indonesia and West Africa also remained challenging.

Food

Net revenue in 2015 was £349 million, an increase of £33 million, or 10.4 per cent., from £316 million in 2014, with like-for-like growth of 4 per cent. In North America, growth was led by Frank's RedHot and the launch of French's Ketchup, but was partially offset by share losses in French's Mustard due to a competitive entry. Increased distribution drove growth outside the United States.

Net revenue by product category

The following table presents our net revenue by product category for the years ended 31 December 2015 and 2014, and net revenue growth in percentage terms on like-for-like basis, net of acquisitions and dispositions, on a constant currency basis and as reported for 2015 compared to 2014.

	Year ended 31 December	
	2015	2014
	(£ millions)	
Health	2,942	2,701
Hygiene	3,589	3,627
Home	1,715	1,810
Portfolio (including Food)	628	698
Group	8,874	8,836

	2015 vs 2014			
	LFL	Net M&A	FX	Reported
	(%)			
Health	14	1	(5)	9
Hygiene	3	—	(4)	(1)
Home	2	—	(7)	(5)
Portfolio	1	(9)	(2)	(10)
Group	6	(1)	(5)	—

Health

Net revenue in 2015 was £2,942 million, an increase of £241 million, or 8.9 per cent., from £2,701 million in 2014, with like-for-like growth of 14 per cent. Growth was driven by a number of factors, including:

- strong category growth due to a strong cold and flu season at the beginning of the year;
- innovation within the Scholl franchise, in particular our Velvet Smooth Express Pedi, a series of insole initiatives, and the Velvet Smooth Electronic Nail Care System, which have delivered strong performance throughout many ENA markets and a number of DvM markets;
- a full year of contribution from the successful Amopé franchise in North America following its initial launch in the fourth quarter of 2014;
- broad based growth across all of our Health Powerbrands, driven by innovation such as Durex RealFeel and Strefen Direct Spray;
- consumer education programmes (e.g., Nurofen Express), improved go-to-market capabilities in Russia and Turkey and improved distribution and in-store execution programmes in pharmacies and online (e.g., Durex China); and
- Mixed VMS performance, with good growth in Digestive Advantage and Move Free offset by weakness in MegaRed and Airborne.

Hygiene

Net revenue in 2015 was £3,589 million, a decrease of £38 million, or 1.0 per cent., from £3,627 million in 2014, with like-for-like growth of 3 per cent. DvM weighted brands of Dettol and Harpic led the growth in this category behind both penetration-building programmes and innovations such as our new Dettol Squeezy hand wash and Harpic bathroom cleaner in India. Our pest franchise (led by Mortein and SBP) had a mixed performance, with innovations and strong demand in Brazil and Australia offset by weakness in India behind competitive activity. Finish also had a mixed performance with strong growth across emerging market countries and the UK offset by competitive market conditions in the United States.

Home

Net revenue in 2015 was £1,715 million, a decrease of £95 million, or 5.2 per cent., from £1,810 million in 2014, with like-for-like growth of 2 per cent. Our largest Powerbrands of Air Wick and Vanish led the growth driven by fewer but larger innovations (Air Wick Life Scents range and Vanish Gold range) and scaling of these innovations across many markets. Vanish in Brazil had a challenging year due to both market conditions and competitive activity.

Portfolio (including Food)

Net revenue in 2015 was £628 million, a decrease of £70 million, or 10.0 per cent., from £698 million in 2014, with like-for-like growth of 1 per cent. The laundry detergents and fabric softener market in Southern Europe remained weak and competitive. However, the organisational changes made in 2014 helped stabilise the performance of our brands in this challenging category.

Cost of sales

Cost of sales in 2015 was £3,628 million, a decrease of £112 million, or 3.0 per cent., from £3,740 million in 2014. This represented a reduction of 140 bps as a percentage of net revenue (from 42.3 per cent. to 40.9 per cent.). This reduction was primarily driven by input cost savings and supply efficiencies, in addition to the effect of sales price increases and improved product mix.

Gross profit

Gross profit in 2015 was £5,246 million, an increase of £150 million, or 2.9 per cent., from £5,096 million in 2014. Gross margin in 2015 increased by 140 bps to 59.1 per cent. due to favourable product mix, lower input costs and efficiencies achieved from cost programmes.

Net operating expenses

Net operating expenses in 2015 were £3,005 million, an increase of £73 million, or 2.5 per cent., from £2,932 million in 2014.

Operating profit

Operating profit in 2015 was £2,241 million, an increase of £77 million, or 3.6 per cent., from £2,164 million in 2014, and increased 7 per cent. on a constant currency basis.

Adjusted operating profit in 2015 was £2,374 million, an increase of £189 million, or 8.6 per cent., from £2,185 million in 2014, and increased 12 per cent. on a constant currency basis. The following table presents our adjusted operating profit by segment for the years ended 31 December 2015 and 2014.

	Year ended 31 December	
	2015	**2014**
	(£ millions)	
ENA	1,744	1,640
DvM	528	460
Food	102	85
Group	2,374	2,185

Adjusted operating margin in 2015 increased by 210 bps to 26.8 per cent. due to the strong gross margin expansion and approximately £100 million of cost efficiencies from Project Supercharge.

Net finance expense

Net finance expense in 2015 was £33 million, a decrease of £5 million, or 13.2 per cent., from £38 million in 2014. The decrease was due to a reduction in amortisation of issue costs of bank loans and other finance expenses, which was partially offset by a decrease in interest income.

Income tax expense

Income tax expense in 2015 was £463 million, which was in line with an income tax expense of £462 million in 2014, as an increase in taxable income was offset by a decrease in the effective tax rate to 21 per cent. from 22 per cent. in 2014 and the tax rate excluding exceptionals to 20 per cent. from 22 per cent. in 2014.

Furthermore, in 2015, the UK Chancellor enacted future reductions in the UK corporate tax rate in 2017 and 2020, which had a non-recurring accounting impact on our reported tax charge for 2015 as we have a significant deferred tax liability in the UK, the size of which will be reduced by lower future tax rates.

Net income

Net income from continuing operations in 2015 was £1,745 million, an increase of £81 million, or 4.9 per cent., from £1,664 million in 2014, and increased 8 per cent. on a constant currency basis. Net income in 2014 presented above excludes income from discontinued operations, which amounted to a total of £1,560 million, including £1,282 million exceptional gain on non-cash dividend distributed and £278 million contribution to net income from the de-merged RB Pharmaceuticals business.

Adjusted net income in 2015 was £1,871 million, an increase of £187 million, or 11.1 per cent. actual, from £1,684 million in 2014 (excluding discontinued operations).

Liquidity and capital resources

Overview

Our primary sources of funds are cash generated from operations and funds available under our credit facilities and commercial paper programs. The primary uses of funds are for cost of sales and operating expenses, acquisitions, share repurchases and dividends, debt service and repayment, and capital expenditure.

As of 31 December 2016, we had:

- total borrowings of £2,389 million, the majority of which were short-term commercial paper borrowings;
- cash and cash equivalents of £882 million;
- net debt (which we define as total borrowings less cash and cash equivalents, short-term available-for-sale financial assets and financing derivative financial instruments) of £1,391 million; and
- undrawn committed borrowing facilities of £3,500 million.

See "– *Borrowings*" below.

Our net working capital as of 31 December 2016 was negative £1,102 million.

Cash flow forecasting is performed by our local business units and aggregated by Group Treasury. Group Treasury monitors rolling forecasts of our liquidity requirements with the aim of ensuring that we have sufficient cash to meet operational needs while maintaining sufficient headroom on our undrawn committed borrowing facilities. Funds over and above those required for short-term working capital purposes by the local businesses are generally remitted

to Group Treasury. We use 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 higher.

We operate in a number of territories where there are either foreign currency exchange restrictions, or where it is difficult for us to extract cash readily and easily in the short-term. As a result, £120 million (an increase of approximately £55 million compared to 31 December 2015) of cash included in cash and cash equivalents is restricted for use by the Group, yet available for use in the relevant subsidiary's day-to-day operations.

Cash flows

The following table presents our condensed consolidated cash flow statements for the years ended 31 December 2016, 2015 and 2014.

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Net cash generated from operating activities	2,422	1,784	2,099
Net cash used in investing activities	(583)	(134)	(715)
Net cash used in financing activities	(1,766)	(1,798)	(1,194)
Net increase/(decrease) in cash and cash equivalents	73	(148)	190
Cash and cash equivalents at beginning of year	737	913	805
Cash and cash equivalents at end of year	873	737	913

Net cash generated from operating activities

Net cash generated from operating activities was £2,422 million in 2016, an increase of £638 million, or 35.8 per cent., from £1,784 million in 2015. This increase reflects an increase in reported operating profit, the add back of a non-cash exceptional charge for the HS issue in South Korea and a lower increase in trade and other receivables compared to 2015.

Net cash generated from operating activities was £1,784 million in 2015, a decrease of £315 million, or 15.0 per cent., from £2,099 million in 2014. This decrease was primarily due to the net cash flows attributable to discontinued operations in 2014.

Net cash used in investing activities

Net cash used in investing activities was £583 million in 2016, an increase of £449 million, or 335.1 per cent., from £134 million in 2015. This increase in 2016 was primarily due to the purchase of certain Bristol Myers Squibb intangible assets and the acquisition of businesses, primarily Nance Holdings S.A.

Net cash used in investing activities was £134 million in 2015, a decrease of £581 million, or 81.3 per cent., from £715 million in 2014. This decrease was due to the acquisition of K-Y and the net cash transfer on the demerger of RB Pharmaceuticals in 2014.

Net cash used in financing activities

Net cash used in financing activities was £1,766 million in 2016, a decrease of £32 million, or 1.8 per cent., from £1,798 million in 2015, as repaid borrowings in 2016 were offset by proceeds from new borrowings in 2016.

Net cash used in financing activities was £1,798 million in 2015, an increase of £604 million, or 50.6 per cent., from £1,194 million in 2014. This increase was primarily due to higher repurchase of shares in 2015 compared to 2014, and the non-recurring net cash flows attributable to discontinued operations in 2014, partially offset by lower repayment of borrowings in 2015 compared to 2014.

Free cash flow

Free cash flow is the amount of cash generated from operating activities after capital expenditure on property, plant and equipment and intangible assets, and any related disposals. Free cash flow reflects cash flows that could be used for payment of dividends, repayment of debt or to fund acquisitions or other strategic objectives. In 2016 free cash flow as a percentage of adjusted net income was 94 per cent., compared to 89 per cent. in 2015 and 102 per cent. in 2014, excluding cash flows from discontinued operations.

The following table presents our free cash flow for the years ended 31 December 2016, 2015 and 2014.

	Year ended 31 December		
	2016	2015	2014
		(£ millions)	
Net cash generated from continuing operating activities	2,422	1,784	1,876
Purchase of property, plant and equipment	(179)	(154)	(157)
Purchase of intangible assets	(214)	(25)	(27)
Proceeds from the sale of property, plant and equipment	7	51	19
Free cash flow	2,036	1,656	1,711

Free cash flow was £2,036 million in 2016, an increase of £380 million, or 22.9 per cent., from £1,656 million in 2015. This increase was due to the increase in net cash generated from operating activities, partially offset by purchases of intangible assets.

Free cash flow was £1,656 million in 2015, a decrease of £55 million, or 2.8 per cent., from £1,711 million in 2014. This decrease was due to the decrease in net cash generated from operating activities, partially offset by proceeds from the sale of property, plant and equipment.

Net working capital

Net working capital was negative £1,102 million in 2016, an increase of £166 million, or 17.7 per cent., from negative £936 million in 2015.

Net working capital was negative £936 million in 2015, an increase of £105 million, or 12.6 per cent., from negative £831 million in 2014.

Capital expenditures

Capital expenditure consists of purchases of property, plant and equipment, as well as intangible assets. Our capital expenditure was £393 million in 2016, £179 million in 2015 and £184 million in 2014. The increase in capital expenditure in 2016 is primarily attributable to our exercise of our option to acquire the legal title to certain intellectual property associated with the collaboration agreement with Bristol Myers Squibb.

Borrowings

The following table presents our total borrowing and net debt as of 31 December 2016, 2015 and 2014, and does not reflect the new debt facilities entered into in connection with the Acquisition.

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Current:			
Bank loans and overdrafts[1]	25	42	13
Commercial paper[2]	1,559	1,706	1,921
Finance lease obligations	1	1	2
Non-current:			
Bonds	804	671	634
Finance lease obligations	—	—	2
Total borrowings	2,389	2,420	2,572
Cash and cash equivalents	(882)	(740)	(917)
Other[3]	(116)	(60)	(112)
Net debt	1,391	1,620	1,543

Notes:

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

(2) Commercial paper was issued in U.S. dollars and Euros, is unsecured and bears interest based on the relevant LIBOR equivalent.

(3) Consists of short-term investments and derivative financial instruments.

Commercial paper

The Group obtains short-term financing from the commercial paper market. The Issuer has a commercial paper programme with a programme limit of $8 billion. The Group also has a multi-currency commercial paper programme with a programme limit of €1 billion. Both programmes are guaranteed by the Company. Commercial paper is unsecured and bears interest based on the relevant LIBOR equivalent.

As at 31 December 2016, the Group had commercial paper in issue amounting to $1,412 million (nominal values) at rates of between 0.95 per cent. and 1.38 per cent. with maturities ranging from 4 January 2017 to 15 September 2017, and €500 million (nominal values) at the rate of negative 0.26 per cent. with maturities ranging from 21 February 2017 to 23 February 2017.

Bank loans and overdrafts

We have various borrowing facilities available to our business, including bilateral credit facilities with high quality international banks. The facilities have been arranged to cover general corporate purposes including support for commercial paper issuance. All facilities incur commitment fees at market rates.

All of these facilities have similar or equivalent terms and conditions, and have a financial covenant, which is not expected to restrict our future operations.

As of 31 December 2016, we had, in addition to its long-term debt of £804 million, committed borrowing facilities totalling £3,500 million, of which £3,500 million exceeded 12 months' maturity. Of the total facilities at the year end, £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 following table presents the maturity profile of our undrawn committed facilities available in respect of which all conditions precedent have been met.

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Expiring within one year	—	—	—
Expiring between one and two years	—	—	—
Expiring after more than two years	3,500	3,500	3,500
Total undrawn committed borrowing facilities	3,500	3,500	3,500

In addition, in connection with the Acquisition, we entered into new debt facilities with Bank of America, N.A., Deutsche Bank AG, London Branch and HSBC Bank plc. These facilities include $9 billion of term loans over three to five years and $8 billion of bridge funding to cover the cash consideration, plus a further $3 billion to refinance existing Mead Johnson bonds if required. They also include an additional £1 billion revolving credit facility, to provide financing headroom from the date of the Completion. Certain of these facilities will be refinanced with the Notes offered hereby.

Debt profile

The following table presents our financial liabilities and the derivatives which will be settled on a net basis into relevant maturity groupings based on the remaining period as at 31 December 2016 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which have been calculated using spot rates as at 31 December 2016, including interest to be paid.

	As of 31 December				
	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
			(£ millions)		
Commercial paper	1,570	1,570	—	—	—
Bonds	930	23	428	44	435
Other borrowings	25	25	—	—	—
Trade payables	1,243	1,243	—	—	—
Other payables	2,170	2,073	97	—	—

Dividends and share repurchases

The following table presents the dividends paid on our ordinary shares.

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Dividends paid	1,035	924	2,034[(1)]

Note:

(1) This includes both cash dividends of £988 million and non-cash dividends of £1,046 million.

On 25 May 2017, we paid to shareholders a final dividend in respect of the financial year ended 31 December 2016 of 95.0 pence per share which absorbed an estimated £665 million of shareholders' funds.

On 23 December 2014, the pharmaceutical business was demerged by means of a non-cash dividend, granting all 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.

On 30 December 2015, the Company announced its intention to commence a share repurchase programme for 2016 to offset the dilutive impact of employee share schemes and to maintain borrowings at around current levels. In accordance with that announcement and subsequent announcements made on 10 May 2016, 28 June 2016 and 20 October 2016, during the period from 4 January 2016 to 5 December 2016, a total of 11,658,939 ordinary shares of 10 pence (representing 1.58 per cent. of the ordinary shares in issue on 30 December 2016) were repurchased for a consideration of £702 million, including expenses, and subsequently transferred to be held in Treasury for the purpose of satisfying the Company's obligations under employee equity incentive schemes.

The authority granted to Directors at the 2016 annual general meeting ("**AGM**") to repurchase shares in the market remains valid until the conclusion of this year's AGM. At the 2017 AGM, Directors will seek to renew the authority granted to them. Such authority, if approved, will be limited to a maximum of 69 million ordinary shares, representing less than 10 per cent. of the Company's issued ordinary share capital (excluding treasury shares) calculated as at the latest practicable date prior to publication of the Notice of AGM, and sets the minimum and maximum prices which may be paid. The Company's present intention is to hold shares acquired under such authority in Treasury to satisfy outstanding awards under employee share incentive plans.

Off-balance sheet arrangements

We do not have off-balance sheet financing or unconsolidated special purpose entities.

Contingencies

We are involved in a number of civil and/or criminal investigations by government authorities as well as litigation proceedings and we have made provisions for such matters where appropriate. Where it is too early to determine the likely outcome of these matters, or to make a reliable estimate, the Directors have made no provision for such potential liabilities.

From time to time, the Group is involved in discussions in relation to ongoing tax matters in a number of jurisdictions around the world. Where appropriate, the Directors make provisions based on their assessment of each case.

HS South Korea

Provision has been made for certain costs arising as a result of the HS issue, including costs arising from compensating Oxy HS category I and II victims classified within Rounds 1, 2 and 3 of KCDC classification process.

There were, in addition, a number of further costs/income relating to the HS issue that were either not able to be estimated or quantified or were considered not probable at the time. See "*Our Business – Material Governmental and Legal Proceedings – South Korea HS issue*" *and "Risk Factors – We face significant financial* and *reputational risk in relation to humidifier sanitiser products marketed by our Korean subsidiary.*"

Indivior investigations

The Group is involved in ongoing investigations by the DOJ and the FTC and related litigation proceedings arising from certain matters relating to the RB pharmaceuticals business prior to its demerger in December 2014 to form Indivior and may incur liabilities in relation to such matters, which could be material. These investigations and related proceedings are continuing and the Company is in active discussions with the DOJ. The Group is cooperating with the relevant agencies and remains committed to ensuring that these investigations and related proceedings are concluded or resolved satisfactorily. The outcome for the Group in relation to ultimate resolution and/or cost at this stage remains uncertain. See "*Risk Factors – Risks related to our regulatory and legal environment – We are subject to a wide range of laws and*

regulations, which are subject to change, and a failure to comply could expose us to fines, regulatory restrictions, civil litigation, criminal prosecution and/or reputational damage".

Market risks

The main financial risks associated with our business have been identified as foreign exchange risk, price risk and cash flow and fair value interest rate risk.

Foreign exchange risk

We operate internationally and are 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.

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

It is our policy to monitor and, only where appropriate, hedge our 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 Group Treasury to manage these exposures where practical and allowed by local regulations. Group Treasury matches the Group exposures, and hedges the position where possible, using spot and forward foreign currency exchange contracts.

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2016 was £4,614 million payable, compared to £5,606 million payable at 31 December 2015 and £4,337 million payable at 31 December 2014.

As at 31 December 2016, we designated bonds totalling $1,000 million as the hedging instrument in a net investment hedge relationship. The hedged risk is the foreign exchange currency risk on the value of our net investment in assets and liabilities denominated in U.S. dollars. On 21 November 2016, we designated commercial paper totalling €500 million as the hedging instrument in a net investment hedge relationship. This is to hedge the risk of loss in value of our Euro denominated intangible brand assets due to exchange rate fluctuations. The net gain or loss under these arrangements is recognised in other comprehensive income. The net effect on other comprehensive income for the year ended 31 December 2016 was a £128 million loss, compared to a loss of £49 million in 2015 and a loss of £137 million in 2014. If sterling strengthens or weakens by 5 per cent. against the U.S. dollar and Euro, the maximum impact on shareholders' equity due to net investment hedging by U.S. dollar bond and Euro commercial paper would be £43 million and £22 million, respectively.

Cash flow hedge profile

Our strategy is to minimise income statement volatility by monitoring foreign currency balances, external financing, and external hedging arrangements. Our hedging profile is regularly reviewed to ensure it is appropriate and to mitigate these risks as far as possible. We held forward foreign exchange contracts denominated as cash flow hedges primarily in Euro, U.S. dollars, pound sterling, Australian dollars, Canadian dollars and Brazilian real. The following table presents the notional value of the payable leg resulting from these financial instruments.

	As of 31 December		
	2016	2015	2014
		(£ millions)	
Euro	368	597	432
U.S. dollars	260	396	154
Sterling	259	163	153
Australian dollars	87	118	73
Brazilian real	86	70	17
Canadian dollars	70	74	15
Other	311	405	511
Total	1,441	1,823	1,355

These forward foreign exchange contracts are expected to mature over the period January 2017 to December 2020 (2015: January 2016 to March 2017; 2014: January 2015 to February 2016).

The ineffective portion recognised in the income statement arising from cash flow hedges in each of 2016, 2015 and 2014 was immaterial.

Gains and losses recognised in the hedging reserve in other comprehensive income on forward exchange contracts in 2016 of £22 million loss (2015: £14 million gain; 2014: £11 million loss) are recognised in the income statement in the year or years during which the hedged forecast transaction affects the income statement, which is generally within 48 months from the balance sheet date.

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

In the case of cash flow hedges, these are denominated in a diverse range of currencies, where a fluctuation in one individual currency relationship, with all others held constant, does not have a significant effect on the income statement or shareholders' equity. A fluctuation analysis has been performed for all currencies. The four largest currency pairs and their potential fluctuations are as Euro/Polish zloty, Euro/U.S. dollar, U.S. dollar/ sterling, and Euro/sterling. If the Euro had strengthened or weakened by 5 per cent. against any of the stated currencies, with all other variables held constant, the impact on shareholders' equity by currency pair would have been maximum £33 million, which is in Euro/Polish zloty currency pair hedges (2015: £31 million; 2014: 2 million). As at 31 December 2016, 2015 and 2014, if all other currencies had strengthened or weakened by 5 per cent. against sterling with all other variables held constant, this would have had an immaterial effect on the income statement or shareholders' equity.

The remaining major monetary financial instruments (liquid assets, receivables, interest and non-interest bearing liabilities) are directly denominated in our functional currency or are transferred to the functional currency of the local entity through the use of derivatives.

The gains and losses from fair value movements on derivatives held at fair value through the profit or loss, recognised in the income statement in 2016 was a £537 million gain, compared to a £75 million gain in 2015 and a £116 million gain in 2014.

Price risk

Due to the nature of our business, we are 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.

Cash flow and fair value interest rate risk

We have both interest-bearing and non-interest-bearing assets and liabilities. We monitor our interest income and expense rate exposure on a regular basis. We manage our interest income rate exposure on our 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, we calculate the impact on the income statement of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies, calculated on a full year and pre-tax basis.

The scenarios are only run for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on the income statement of a 50 basis-point shift in interest rates would be a maximum increase of £7 million (2015: £5 million; 2014: £7 million) or decrease of £7 million (2015: £5 million; 2014: £7 million), respectively for the liabilities covered. The simulation is done on a periodic basis to verify that the maximum loss simulated is within the limit given by management.

Pensions

We operate a number of defined benefit and defined contribution pension plans around the world covering many of our employees, which are principally funded. Our most significant defined benefit pension plan, which is in the United Kingdom, 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.

We also operate a number of other post-retirement plans in certain countries. The major plan is in the United States, the U.S. 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 presents our pension costs for 2016 and 2015.

	Year ended 31 December	
	2016	**2015**
	(£ millions)	
Income Statement charge/(credit) included in operating profit for[1]:		
Defined contribution plans	27	24
Defined benefit plans (net charge/(credit) excluding interest)		
UK	6	8
U.S. (Medical)	(35)	(17)
Other	10	12
Total pension costs recognised in operating profit	8	27
Income Statement charge included in finance expense	6	8
Income Statement charge included in profit before income tax	14	35

Note:

(1) The Income Statement charge included within operating profit includes current service cost, past service costs and gains and losses on settlement and curtailment.

The following table presents our net pension liability as of 31 December 2016 and 2015.

	Year ended 31 December	
	2016	2015
	(£ millions)	
Balance Sheet obligations for:		
UK	(84)	—
U.S. (Medical)	(108)	(122)
Other	(169)	(135)
Liability on Balance Sheet	(361)	(257)
Balance Sheet assets for:		
UK	—	33
Other	36	30
Asset on Balance Sheet	36	63
Net pension liability	(325)	(194)

Critical accounting policies and use of estimates

In the application of our accounting policies the Directors are required to make a number of estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

For a complete description of our principal accounting policies, see Note 1 of our 2016 Financial Statements.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, that the Directors have made in the process of applying our accounting policies, that have the most significant effect on the amounts recognised in our Financial Statements.

- We recognise legal and regulatory provisions in line with our provisions policy. The level of provisioning for regulatory civil and/or criminal investigation is an issue where management and legal judgement is important (Note 17 of our 2016 Financial Statements). These are valued based on the Directors' best estimates taking into account all available information, external advice and historical experience.

- We have identified matters which may incur liabilities in the future, but do not recognise these where it is too early to determine the likely outcome or make a reliable estimate (Note 19 of our 2016 Financial Statements).

- The continuing enduring nature of our brands supports the indefinite life assumption of these assets (Note 9 of our 2016 Financial Statements).

- The actual tax paid on profits is determined based on tax laws and regulations that differ across the numerous jurisdictions in which we operate. Assumptions are made in applying these laws to the taxable profits in any given period in order to calculate the tax charge for that period. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the income statement in the period in which it is determined (Note 7 of our 2016 Financial Statements).

- Assumptions are made as to the recoverability of tax assets especially as to whether there will be sufficient future taxable profits in the same jurisdictions to fully utilise losses in future years (Note 11 of our 2016 Financial Statements).
- We are subject to tax audits and uncertainties in a number of jurisdictions. The issues involved can be complex and disputes may take a number of years to resolve. Each uncertainty is separately assessed and the provision recognised depends on the specific context of each case. The accounting estimates and judgements considered include:
  - Status of the unresolved matter;
  - Strength of technical argument and clarity of legislation;
  - External advice;
  - Resolution process, past experience and precedents set with the particular taxing authority;
  - Agreements previously reached in other jurisdictions on comparable issues; and
  - Statute of limitations.

Management is of the opinion that the carrying values of the provisions made in respect of these matters represent the most accurate measurement once all facts and circumstances have been taken into account. Nevertheless, the final amounts paid to discharge the liabilities arising (either through negotiated settlement or litigation) will in all likelihood be different from the provision recognised. The net liabilities are included in amounts disclosed in Note 21 of our 2016 Financial Statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Estimates of future business performance and cash generation, discount rates and long-term growth rates supporting the net book amount of indefinite life intangible assets at the balance sheet date (Note 9 of our 2016 Financial Statements). If the actual results should differ, or changes in expectations arise, impairment charges may be required which would adversely impact operating results.
- Measurement of intangible assets both in business combinations and other asset acquisitions requires us to identify such assets. Assumptions and estimates are made about future cash flows and appropriate discount rates to value identified intangible assets (Note 27 of our 2016 Financial Statements).
- We provide for amounts payable to our trade customers for promotional activity. Where a promotional activity spans across the year end, an accrual is reflected in the consolidated Financial Statements based on our estimation of customer and consumer uptake during the promotional period and the extent to which temporary promotional activity has occurred. Details of trade spend accrued as at 31 December 2016 are provided in Note 20 of our 2016 Financial Statements.
- The value of our defined benefit pension plan obligations are dependent on a number of key assumptions. These include assumptions over the rate of increase in pensionable salaries, the discount rate to be applied, the level of inflation and the life expectancy of the schemes members. Details of the key assumptions and the sensitivity of the principal schemes carrying value to changes in the assumptions are set out in Note 22 of our 2016 Financial Statements.

Accounting standards and interpretations in issue but not yet effective

There are no new standards, amendments or interpretations which have been adopted for the first time and have a significant impact on the accounting policies applied in preparing our annual consolidated Financial Statements.

We have not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 15: Revenue from Contracts with Customers which will be effective for annual periods beginning on or after 1 January 2018;
- IFRS 9: Financial Instruments which will be effective for annual periods beginning on or after 1 January 2018; and
- IFRS 16: Leases which will be effective for annual periods beginning on or after 1 January 2019.

We are in the process of evaluating the impact of each of these new standards, focusing on IFRS 9 and IFRS 15, given their application dates. IFRS 9 is likely to impact the measurement and disclosure of financial instruments and IFRS 15 may have an impact on revenue recognition. IFRS 16 will impact the treatment of our operating leases. It is not practicable to provide an impact of these new standards until this evaluation has been completed.

A number of other new standards, amendments and interpretations are effective for annual periods beginning on or after 1 January 2017 and have not yet been applied in preparing the Financial Statements. None of these are expected to have a significant effect on our Financial Statements.

MATERIAL CONTRACTS

Except as set out below, there are no contracts, except those entered into in the ordinary course of business, that are or may be material and:

- have been entered into by members of the Group within the two years immediately preceding the date of this Offering Memorandum; or
- have been entered into by members of the Group and contain any provision under which any such member has any obligation or entitlement that is material to the Group as of the date of this Offering Memorandum.

RB Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Group. For information on existing credit facilities and commercial paper of the Group, see "*Operating and Financial Review – Borrowings.*"

Acquisition of Mead Johnson

On 10 February 2017, the boards of directors of the Company and Mead Johnson announced that they had entered into the Merger Agreement, which sets out the terms for the acquisition of Mead Johnson by RB. The Acquisition has been completed on 15 June 2017. The Acquisition has been implemented by way of merger whereby an indirect wholly-owned subsidiary of the Company, Marigold Merger Sub, Inc., has been merged with Mead Johnson, with Mead Johnson surviving the merger and becoming an indirect wholly-owned subsidiary of the Company. Mead Johnson stockholders received $90 in cash for each share of Mead Johnson's common stock. For more information on the financing of the Acquisition, see "*Operating and Financial Review – Recent developments – Acquisition of Mead Johnson*" and "*– Description of Certain Financings related to he Acquisition of Mead Johnson.*"

Indivior Demerger Agreement

The Company entered into a demerger agreement with Indivior (the "**Indivior Demerger Agreement**") to effect the demerger of Indivior from the Group (the "**Indivior Demerger**") and to govern the relationship between the Company and Indivior following the Indivior Demerger. The Indivior Demerger was effected on 23 December 2014. Most of the Company's rights and obligations under the Indivior Demerger Agreement have either been satisfied or have expired. However, there are mutual indemnities which remain in effect, under which Indivior has indemnified the Group against certain liabilities arising in respect of the Indivior business and the Company has indemnified Indivior against certain liabilities arising in respect of the business carried on by the Group other than the Indivior business. These mutual indemnities are unlimited in terms of amount and duration and are customary for an agreement of this type.

Indivior Demerger Tax Deed

The Company entered into a demerger tax deed with Indivior on 23 December 2014 (the "**Indivior Demerger Tax Deed**") in connection with the Indivior Demerger. Subject to certain exceptions, the Company has indemnified Indivior against certain tax liabilities arising as a result of the Indivior Demerger or certain pre-Demerger reorganisation steps. The Company has also indemnified Indivior against certain tax liabilities which are properly liabilities of the Group being imposed on a member of the Indivior group, and against certain tax liabilities arising as a result of a member of the Group making a chargeable payment within the meaning of section 1088 of the Corporation Tax Act 2010, and against certain tax liabilities arising as a result of the Indivior group carrying on a non-pharma business at any time before the Indivior Demerger, and against certain tax liabilities arising as a result of any non-U.S. controlled foreign company rules applying in relation to the Group. Subject to certain exceptions, Indivior has also indemnified the Company against certain tax liabilities which are properly liabilities of the

Indivior group being imposed on a member of the Group and against certain tax liabilities arising as a result of a member of the Indivior group making a chargeable payment within the meaning of section 1088 of the Corporation Tax Act 2010 or taking any other action after the Indivior Demerger which prevents the transfer of the shares in RBP Global Holdings Limited and the issue of Indivior ordinary shares by Indivior pursuant to the Indivior Demerger Agreement from being an exempt distribution for the purposes of section 1075 of the Corporation Tax Act 2010, and against certain tax liabilities arising as a result of the Group carrying on pharma business at any time before the Indivior Demerger, and against certain tax liabilities arising as a result of any non-US controlled foreign company rules applying in relation to the Indivior group. All these indemnities are unlimited in terms of amount. They do not cover liabilities which have not been notified by the indemnified party to the indemnifying party within three months after the expiry of the period specified by statute during which an assessment of the relevant tax liability may be issued by the relevant tax authority or, if there is no such period, prior to 30 January 2020.

Indivior Demerger U.S. Tax Agreement

The Company entered into an agreement relating to U.S. tax matters with Indivior on 23 December 2014 (the "**Indivior Demerger U.S. Tax Agreement**") in connection with the Indivior Demerger. The Indivior Demerger U.S. Tax Agreement governs both Indivior's and the Company's rights and obligations after the Indivior Demerger with respect to U.S. federal, state and local taxes for both pre-and post-demerger periods. Under the Indivior Demerger U.S. Tax Agreement, the Indivior group and the Group generally will be responsible for any taxes attributable to their respective operations for all taxable periods, except for transfer taxes imposed in connection with an internal restructuring and the Indivior Demerger, which are the Group's responsibility, and income taxes resulting from the failure of the internal restructuring or the Indivior Demerger to qualify as a tax free transaction, which are generally shared by Indivior and the Group according to relative fault.

Under the Indivior Demerger U.S. Tax Agreement, Indivior is generally required to indemnify RB against any tax resulting from the failure of the internal restructuring or the Indivior Demerger to qualify as a tax-free transaction (including such taxes of any third party for which any member of the Group is or becomes liable) if that tax results from (i) an issuance of a significant amount of equity securities of Indivior, a redemption of a significant amount of the equity securities of the Indivior group or the involvement by the Indivior group in other significant acquisitions of equity securities of Indivior (excluding the Indivior Demerger), (ii) other actions or failures to act by the Indivior group, or (iii) any of the representations or undertakings of Indivior referred to in the Indivior Demerger U.S. Tax Agreement being incorrect or violated. The Company is generally required to indemnify Indivior for any tax resulting from the failure of the internal restructuring or the Indivior Demerger to qualify as a tax-free transaction (including such taxes of any third party for which any member of the Indivior group is or becomes liable) if that tax results from (a) the Company's issuance of its equity securities, redemption of its equity securities or involvement in other acquisitions of its equity securities, (b) other actions or failures to act by the Company, or (c) any of the Company's representations or undertakings referred to in the Indivior Demerger U.S. Tax Agreement being incorrect or violated.

Existing bond issuance

On 23 September 2013, the Issuer issued $500,000,000 2.125 per cent. Senior Notes due 2018 (the "**2018 Notes**") and $500,000,000 3.625 per cent. Senior Notes due 2023 (the "**2023 Notes**", and together with the 2018 Notes, the "**Existing Notes**"). Each series of Existing Notes are issued under separate indentures among, inter alia, the Issuer, the Company as guarantor and Deutsche Bank Trust Company Americas as trustee, principal paying agent and registrar. The balance in respect of the Existing Notes as at 31 December 2016 was £804 million.

The Existing Notes are unsecured and unsubordinated obligations of the Issuer and are unconditionally guaranteed on a senior, unsecured basis by the Company. Interest on the

Existing Notes is payable semi-annually in arrears on 21 March and 21 September of each year, at the rate of 2.125 per cent. per annum in the case of the 2018 Notes and 3.625 per cent. per annum in the case of the 2023 Notes.

The Issuer may redeem each series of the Existing Notes, in whole or in part, at its option, at any time and from time to time prior to 21 September 2018, in the case of the 2018 Notes, and prior to 21 June 2023, in the case of the 2023 Notes (being the day that is three months prior to the maturity date of the 2023 Notes) at a make-whole redemption price, and thereafter at par. Other terms of the Existing Notes are substantially at the same as the terms of the Notes offered hereby.

Description of Certain Financings related to the Acquisition of Mead Johnson

The Company (as the guarantor) and the Issuer (as the borrower) entered into a term and revolving facilities agreement with Bank of America, N.A., Deutsche Bank AG, London Branch and HSBC Bank plc (the "**Facilities Agreement**") on 10 February 2017, the date the merger agreement with Mead Johnson was signed (the "**Signing Date**"). The financing facilities under the Facilities Agreement is provided on an unsecured basis. These facilities have now been syndicated. The facilities provided by the Facilities Agreement include:

(a) $9 billion of term loans, made up of a $4.5 billion term facility with a maturity of three years (the "**B Term Facility**") and a $4.5 billion term facility with a maturity of five years (the "**C Term Facility**");

(b) $8 billion of bridge funding (the "**A1 Term Facility**");

(c) $3 billion to refinance existing bonds issued by members of the Mead Johnson Group (the "**A2 Term Facility**"), (together, the "**Term Facilities**"); and

(d) a £1 billion revolving credit facility (the "**RCF**") to provide financing headroom from the date of the Acquisition. The RCF is also available for drawing as a swingline facility.

Purpose

The Term Facilities (other than the A2 Term Facility) are available to: (i) finance payments in connection with the Acquisition; (ii) refinance existing indebtedness of the Mead Johnson Group and/or hedging arrangements of the Mead Johnson Group acquired as part of the Acquisition and payment of any termination or make-whole payments, breakage costs, prepayment fees or similar; and (iii) pay the Acquisition costs.

The A2 Term Facility may only be applied towards refinancing existing indebtedness of the Mead Johnson Group and/or hedging arrangements of the Mead Johnson Group acquired as part of the Acquisition and payment of any termination or make-whole payments, breakage costs, prepayment fees or similar.

The RCF is available for general corporate purposes including, without limitation, as a backstop to commercial paper issued by members of the Group.

Availability and maturity

The Term Facilities have been drawn in connection with the consummation of the Acquisition in the aggregate amount of $16,965 million as of 15 June 2017 (for a description of amounts outstanding after giving effect to the Offer of Notes hereunder see "*Use of Proceeds*"). The Company expects to cancel the A2 Facility. The RCF is available for drawing from the date of the Acquisition until the date on which the RCF matures.

Subject to an extension option, the aggregate outstanding amounts under the A1 and A2 Term Facilities are required to be repaid on the date falling on the first anniversary of the date on

which the Acquisition is completed. The extension option allows for the final repayment date of the A1 and A2 Term Facilities to be extended by six or 12 months, at the option of the Company.

The aggregate outstanding amounts under the B Term Facility are required to be repaid on the date falling on the third anniversary of the date of the Acquisition. The aggregate outstanding amounts under the C Term Facility are required to be repaid on the date that is 12 weeks after the fifth anniversary of the Signing Date.

The RCF is required to be repaid on the last day of the interest period relating to the relevant advance but, subject to certain conditions, can be immediately redrawn. No amount may be drawn under the RCF on or after the date falling 12 weeks after the fifth anniversary of the Signing Date (the "**RCF Termination Date**"), and all outstanding amounts under the RCF are required to be repaid on the RCF Termination Date.

Interest

Interest accrues on loans made under the Facilities Agreement at the prevailing LIBOR rate for the relevant interest period, plus a margin. Interest is payable at the end of the relevant interest period.

Other terms

The Facilities Agreement contains representations and warranties, financial covenants, certain funds provisions, undertakings and events of default customary for a facilities agreement of this nature.

The Facilities Agreement includes provisions allowing certain wholly-owned subsidiaries of Reckitt Benckiser to accede to the Facilities Agreement as an additional borrower.

The Facilities Agreement permits, subject to the payment of any applicable break costs, voluntary prepayments and voluntary cancellation of undrawn amounts.

Mead Johnson Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by members of the Mead Johnson Group.

China joint venture

Mead Johnson has an approximately 89 per cent. interest in Mead Johnson Nutritionals (China) Limited, a joint venture in relation to the manufacture and sale of certain Mead Johnson products in China. The minority shareholders are Guangzhou Light Industry and Trade Group Ltd. and the Guangzhou Development District Commercial Development Group Co., Ltd. The joint venture was originally entered into in 1993. The joint venture agreement contains certain minority shareholder protection rights and customary rights in relation to the transfer of shares. The joint venture agreement is governed by Chinese law.

BMS split-off

In February 2009, Mead Johnson completed its initial public offering ("**IPO**") of common stock, following which BMS retained a significant ownership interest in Mead Johnson. BMS then completed a split-off of its remaining interest in Mead Johnson in December 2009, making Mead Johnson an independent public company.

On 18 December 2009, Mead Johnson and BMS entered into an Amended and Restated Tax Matters Agreement in anticipation of the separation from BMS. Under the Amended and Restated Tax Matters Agreement, BMS agreed to indemnify Mead Johnson for (i) any tax attributable to a Mead Johnson subsidiary for any taxable period ending on or before 31 December 2008; (ii) any tax arising solely as a result of Mead Johnson's IPO and the restructuring preceding the IPO; and (iii) any transaction tax associated with the separation

transaction. Mead Johnson agreed to indemnify BMS for (a) any tax payable with respect to any separate return that Mead Johnson is required to file or cause to be filed; (b) any tax incurred as a result of any gain which may be recognised by a member of the BMS affiliated group with respect to a transfer of certain foreign affiliates by Mead Johnson in preparation for the IPO; and (c) any tax arising from the failure or breach of any representation or covenant made by Mead Johnson which failure or breach results in the intended tax consequences of the separation transaction not being achieved. Additionally, under the Amended and Restated Tax Matters Agreement, Mead Johnson continues to maintain responsibility for any tax positions which may exist for any taxable period ending after 31 December 2008.

Revolving Credit Facility Agreement

Mead Johnson has an unsecured, five-year revolving credit facility agreement (the "**MJ Revolving Credit Facility**") which is repayable at maturity in June 2019, subject to annual extensions if a sufficient number of lenders agree. The maximum amount of outstanding borrowings and letters of credit permitted at any one time under the MJ Revolving Credit Facility is $750.0 million, which may be increased from time to time up to $1,000.0 million at Mead Johnson's request, subject to obtaining additional commitments and other customary conditions. The MJ Revolving Credit Facility contains financial covenants customary for a facility agreement of this nature.

Borrowings from the MJ Revolving Credit Facility are used for working capital and other general corporate purposes. As of 31 December 2016, Mead Johnson had no borrowings outstanding under the MJ Revolving Credit Facility and had $750.0 million available.

Borrowings under the MJ Revolving Credit Facility bear interest at a rate that is determined as a base rate plus a margin. The base rate is either (i) LIBOR for a specified interest period; or (ii) a floating rate based upon the prime rate of JPMorgan Chase Bank N.A., the Federal Funds rate or LIBOR. The margin is determined by reference to Mead Johnson's credit rating.

Mead Johnson has guaranteed the obligations of all of its subsidiaries that may from time to time become borrowers under the MJ Revolving Credit Facility. If Mead Johnson's corporate credit rating falls below (a) Baa3 by Moody's Investors Service, Inc.; or (b) BBB- by Standard & Poor's Ratings Service, Mead Johnson & Company, LLC shall automatically be deemed to guarantee the obligations under the MJ Revolving Credit Facility in addition to the guarantee provided by Mead Johnson. Moody's Investors Service, Inc.'s credit rating for Mead Johnson is currently Baa1. Standard & Poor's Ratings Service's credit rating for Mead Johnson is currently BBB.

As at the date of Completion, Mead Johnson had no borrowings outstanding under the MJ Revolving Credit Facility and had $750.0 million available.

Long-Term Debt

The components of the long-term debt issued by Mead Johnson as at 31 December 2016 are detailed in the table below:

	Principal Amount
	($ millions)
4.900% Notes due 2019	700.0
3.000% Notes due 2020	750.0
4.125% Notes due 2025	750.0
5.900% Notes due 2039	300.0
4.600% Notes due 2044	500.0
Total	3,000.0

Mead Johnson's long-term debt may be prepaid at any time, in whole or in part, at a redemption price equal to the greater of par value or an amount calculated based upon the sum of the present values of the remaining scheduled payments. Upon a change of control, Mead Johnson may be required to repurchase the notes for an amount equal to 101 per cent. of the then-outstanding principal amount plus accrued and unpaid interest. Interest on the notes is due semi-annually, and the notes are not subject to amortisation.

During 2013, Mead Johnson entered into interest rate forward starting swaps with a combined notional value of $500.0 million. The forward starting rates of the swaps ranged from 3.79 per cent. to 3.94 per cent. and had an effective date of 31 October 2014. The forward starting swaps effectively mitigated the interest rate exposure associated with Mead Johnson's offering of the 4.600% Notes due 2044.

As at the date of Completion, $3,000 million of Mead Johnson's long-term debt remained outstanding. This amount is gross of unamortised costs and derivatives.

OUR BUSINESS

Overview

We are a world leading consumer health and hygiene company. Driven by a purpose of providing innovative solutions for healthier lives and happier homes, we have operations in over 60 countries. From the foundations of infant and child nutrition, to the fundamentals of a hygienic home, our global brands help people live healthier, happier lives.

Our Products

We operate in the following product categories:

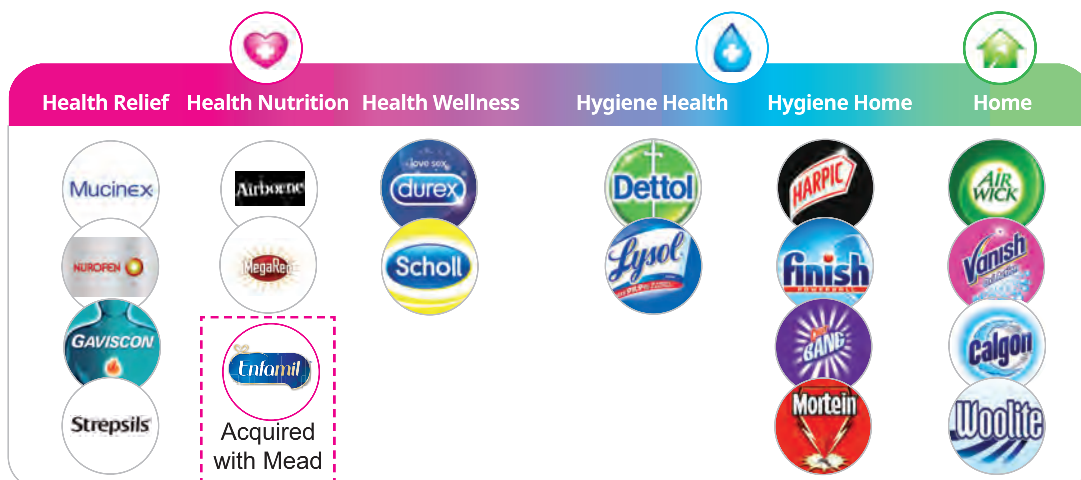
- Our **Health** products category consists of OTC medications for everyday issues such as pain, sore throat, cough and flu, but also wellness products in sexual wellbeing and footcare, and health nutrition products such as vitamins and supplements. In addition, it includes the infant and children's nutrition business of Mead Johnson added with the completion of the Acquisition. Health products accounted for 34 per cent. of our net revenue for 2016.

- Our **Hygiene** products category consists of personal hygiene products (including depilatory products for removal of body hair and acne treatments) and home hygiene products (including disinfectant cleaners, all-purpose cleaners, lavatory cleaners, detergents for automatic dishwashing and pest control products). Hygiene products accounted for 41 per cent. of our net revenue for 2016.

- Our **Home** products category consists of air care products, garment care products, fabric treatment products and water softeners. Home products accounted for 18 per cent. of our net revenue for 2016.

- Our **Portfolio Brands** include laundry detergents and fabric softeners that do not fit within our Health, Hygiene and Home categories and that are intended to build scale in local markets, as well as a largely North American food business that is currently under strategic review. Portfolio Brands accounted for 7 per cent. of our net revenue for 2016.

RB has over 20 Powerbrands which include household names such as Enfamil, Nutramigen (both added with the completion of the Acquisition), Nurofen, Strepsils, Gaviscon, Mucinex, Durex, Scholl, Clearasil, Lysol, Dettol, Veet, Harpic, Cillit Bang, Mortein, Finish, Vanish, French's, Air Wick and Woolite. These Powerbrands are in turn segmented along product categories:



Seven of our top ten Powerbrands focus on healthier lives. See "– *Products*" for further details relating to our product portfolio.

Our markets

We organise our business principally into two areas, centred on groups of countries with many similarities in consumer behaviour, brand development and how the retail trade is organised. These are **ENA** (Europe (including Russia/CIS and Israel), North America and Australia/New Zealand) and **DvM** (Africa, Middle East (excluding Israel), Turkey, Asia (excluding Russia/CIS) and Latin America).

In 2016, ENA and DvM accounted for 65 per cent. and 31 per cent., respectively, of our total net revenue, with the balance being attributed to Food. Additionally, Mead Johnson will initially operate as a separate division of RB with its own leadership team and accountability.

In addition to our over 20 Powerbrands, we have also identified 16 "Powermarkets" around the world in which we believe we have the greatest potential for growth, including Brazil, Russia, India, China and the United States.

Reckitt Benckiser Group plc is listed on the London Stock Exchange under the symbol "RB", and was in the top 10 of the FTSE 100 by market capitalisation as of the date of this Offering Memorandum.

As of and for the year ended 31 December 2016, the existing RB business (excluding Mead Johnson) reported:

- net revenue of £9,891 million (compared to £8,874 million in 2015);
- net income of £1,836 million (compared to £1,745 million in 2015);
- total assets of £18,019 million (compared to £15,268 million as of 31 December 2015); and
- total equity of £8,426 million (compared to £6,906 million as of 31 December 2015).

Our Competitive Strengths

We believe that we have significant competitive strengths that position us well to deliver strong cash generation and long-term earnings growth. These competitive strengths include the following:

Portfolio of household brands with market leading positions. We benefit from strong market positions (based on market share) for many brands in our portfolio and have leading positions in selected health, hygiene and home product categories. These positions derive from the strength of our Powerbrands, which are our flagship brands and on which we focus the majority of our efforts and investment:

- In the Health category, **Nurofen** and **Gaviscon** are leading analgesic and gastro-intestinal brands in Europe and Australia; **Durex** is the number 1 condom brand worldwide; **Strepsils** is the number 1 brand in medicated sore throat worldwide; **Mucinex** is the number 1 cough brand in the United States; **Scholl/Amopé** is number 1 globally in footcare; and the **Enfa** franchise is the global number 1 in infant and children's nutrition.
- In the Hygiene category, RB's brands are number 1 globally in the overall category of surface care; we are number 2 worldwide in lavatory care with **Lysol** in North America and **Harpic** across Europe and developing markets; **Dettol** is the number 1 brand worldwide in antiseptic liquids; **Finish** is number 1 worldwide in automatic dishwashing; we are number 2 worldwide in pest control with **Mortein**, RB's international brand, supported by local brand franchises like d-Con in North America; and **Veet** holds the number 1 position worldwide in depilatory products.
- In the Home category, we are number 1 worldwide in fabric treatment with **Vanish** and in water softener with **Calgon**; and number 2 worldwide in air care with **Air Wick**.
- In the Portfolio category, **French's Mustard** is the number 1 brand of mustard in North America.

Track record of innovation. We believe that we deliver innovative products that meet consumer needs, which is a cornerstone of our success. We invest significantly in bringing new ideas to consumers, and have one of the highest innovation rates within the industry. We are recognised consistently for product innovation. Examples of our innovations in recent years include the following:

Scholl, Velvet Smooth Express Pedi	The Velvet Smooth Express Pedi is an electronic hard skin remover. After proving its potential in lead markets in 2013, we scaled up rapidly during 2014 and successfully launched into over 50 markets. It also provided the flagship product to introduce the Scholl/Amope brand across BRIC and US markets.
Dettol Squeezy	Recognising the importance of hand washing in leading healthier lives, we took up the challenge to produce a liquid hand soap for the price of a bar of soap. The result is the innovative delivery mechanism for new Dettol Squeezy, which comes in a squeezable bottle. India is our largest hand wash market and we achieved one of our most successful launches there, when we introduced Dettol Squeezy there in March 2015.
Wave toilet block	Keeping the toilet clean and fresh is an everyday struggle for consumers. We honed in on this need by developing the Wave toilet block. Available under the Harpic, Cillit Bang and Lysol brands, it delivers best-in-class fragrance and cleaning cues, lasting up to four weeks. The toilet block was launched just six months after conception in France, Germany, US, Turkey, UK and Benelux and is poised for a global rollout in 2017.
Veet Sensitive Precision	The Veet Sensitive Precision is distinctive: a versatile electric trimmer, tailored to gently trim and precisely style hair in areas such as the face, bikini and underarms. After test marketing in Germany, which proved the high penetration potential of mass-distributing the device and maximising its visibility and accessibility, in six months, we rolled out the trimmer in more than 20 markets.

Diversity across geography and product category. We conduct our operations in more than 60 countries, and our products are sold in most countries worldwide. The geographic spread of our operations and the reach of our products reduce our exposure to any single country or region. Our Powerbrands are mostly either market leaders or ranked second in their respective markets and they generated over 80 per cent. of our net revenue in 2016. In terms of product categories, our 2016 net revenue was derived 34 per cent. from Health products, 41 per cent. from Hygiene products, 18 per cent. from Home products and 7 per cent. from Portfolio Brands.

Track record of identifying and integrating acquisitions. We have a track record of successfully identifying and executing acquisitions. Our acquisitions over the years have added several important brands and product categories to our portfolio, as well as expanded our geographic reach.

- In 2006, we completed the acquisition of Boots Healthcare International, which added Nurofen, Strepsils and Clearasil to our product portfolio;
- In 2008, we completed the acquisition of Adams Respiratory Therapeutics, which added Mucinex to our product portfolio;

- In 2010, we completed the acquisition of SSL International plc (“**SSL**”), which added Durex and Scholl to our product portfolio;
- In 2012, we completed the acquisition of Schiff, a leading provider of branded vitamins, nutrition supplements and nutrition bars in the United States;
- In 2014, we completed the acquisition of K-Y, a leader in intimate lubricants; and
- In 2017, we completed the acquisition of Mead Johnson, a leading provider of infant and children’s nutrition products.

We also have a strong track record of integrating our acquisitions, having fully integrated SSL, Schiff and various smaller acquisitions.

Track record for cost containment and cash conversion.

By emphasising working capital management, we are able to convert a high proportion of operating profit into cash. Further, our tight control over net capital expenditure (purchases less disposals of property, plant and equipment and intangible assets) means that we are able to convert a high proportion of our net cash generated from operating activities into free cash flow (i.e. net cash generated from operating activities less net capital expenditure) with the conversion rate as a percentage of adjusted net income in 2016 being 94 per cent. (2015: 89 per cent.) (See “*Better financials*” under “*Our Strategy*” below).

Experienced and incentivised management team. Our management team has extensive experience in the FMCG and pharmaceutical sectors. Our Chief Executive Officer, Rakesh Kapoor, has more than 25 years’ experience in the industry, having served at Reckitt Benckiser (then, Reckitt & Colman) since 1987. Our Chief Financial Officer, Adrian Hennah, was previously the chief financial officer of Smith & Nephew plc (for six years) and at Invensys (for four years), and spent 18 years at GlaxoSmithKline plc in various senior management roles. The members of our Executive Committee have been with us for an average of 12 years.

We believe that our culture of global mobility has helped create a diverse management team. There are seven nationalities among the nine members of our Executive Committee, and over 40 nationalities within our Top400, with many working in a country that is not their original domicile, consistent with our policy to develop a multinational management team. Voluntary turnover within the Top400, which we consider to be a KPI for our business, in 2016 was six per cent., which we consider satisfactory given the need to retain high-quality management offset by the benefits of refreshing the team with new talent. We train and develop our management pipeline through formal training programs focusing on leadership skills, functional skills and general skills, and through a deliberate policy of training on the job. We also believe strongly in the benefits of gender diversity and, to that end, we have initiated Project DARE, which aims to attract, retain and engage talented women.

In terms of executive remuneration, to reinforce a performance-led culture, we position aggregate elements of fixed pay of the Executive Directors at or below median market levels, while providing significant opportunities for performance-contingent variable reward. In addition, our performance-driven remuneration philosophy is underpinned by an ownership culture throughout the Group, which is reinforced by significant executive shareholding requirements. This focus on encouraging senior executives to think as an owner and act in the long term interests of shareholders is cascaded throughout RB. The aggregate current shareholding for our “Top 40” executives is in excess of £190 million. We believe that these features align the interests of our management team with shareholders and ensure that our management team has significant interest in the long-term sustainability of the business.

Our Strategy

Our better business strategy is purpose-driven, intended to deliver long-term success. It has three principal elements: *better financials*, *better society*, and *better environment*.

Better financials

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

Organisation: our business is principally organised into two geographical areas, which helps us to allocate resources and scale innovations. We continually evolve our organisation to ensure fast decision making and execution.

Powerbrands: we invest heavily in our focused portfolio of more than 20 market-leading Powerbrands. They provide over 80 per cent. of our net revenue in 2016 and offer higher revenue growth and margins.

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

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

At the start of 2015, we announced Project Supercharge. This is primarily a cultural programme, born from our desire to always be better. It is designed to fight the complexity that arises in big companies, which means we must constantly simplify and reduce the layers of decision-making. Supercharge does this by ensuring we focus on the two things that really matter: the consumer and the retail customer. As of the end of 2016, we have completed the majority of the programme of our planned £150 million cost savings over three years in connection with Project Supercharge.

In 2016, the better financials element of our strategy has enabled us to outperform our Adjusted Operating Margin expansion target, and make further progress towards our Net Revenue targets for DvM and Health and Hygiene. We have also formed a Safety, Quality and Compliance ("**SQC**") team, and established a dedicated e-business function to accelerate online revenues.

Going forward, we will continue to invest heavily behind our Powermarkets and Powerbrands, particularly in Health and Hygiene, to increase penetration and distribution, and advance our SQC processes and practices. Our long term target is strong and stable "A"-band credit ratings.

Better society

The better society element of our strategy is about how we meet our responsibilities in the workplace and in our communities, as well as in relation to our products. This involves a three-pronged strategic approach:

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

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

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

In 2016, we have continued to reduce our lost working day accident rate, further restructured our health and safety compliance program and focused on gender balance in our workforce. We have also relaunched our Human Rights and Responsible Business policy, reached 365 million people through our health and hygiene messages, invested £8 million in social impact programmes and have started reviewing our Restricted Substances List ("**RSL**"). The proportion of our net revenue from more sustainable products increased to 13.2 per cent. from 2015 to 2016.

Going forward, we intend to launch global standards for health and safety and focus on diversity, talent, succession and performance in our workforce. In addition, we will develop our networks to scale our health and hygiene programmes globally, continue to increase revenue from sustainable products, complete the review of our RSL and deliver further improvements to our human rights due diligence and remediation processes.

Better environment

The better environment element of our strategy sets out how we minimise emissions, water use and waste, and ensure we source responsibly. This includes:

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

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

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

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

In 2016, we have successfully reduced our total greenhouse gas emissions and water use per unit of production. Overall, our water footprint has declined overtime although our carbon footprint changed little since 2012 due to how our business has grown across the product portfolio and key markets. We have invested in reusing, recycling and treating waste water, achieved our 2020 waste reduction goal ahead of schedule, strengthened our recycling processes and further improved our product packaging. We have further increased traceability within our palm oil supply chain and successfully started three smallholder farmer programmes, as well as continued to engage with suppliers to ensure materials are sourced responsibly against our policies.

Going forward, we continue to implement our better environment strategy to look for further opportunities to reduce greenhouse gas emissions across our sites. We will work across our value chain to further explore opportunities to reduce the water impact of our products. In our manufacturing sites, we will identify ways to reduce, reuse and recycle water, and invest in waste water treatment facilities and monitoring systems. In addition, we will continue to drive towards zero waste to landfill, with an emphasis on finding new ways to reuse and recycle waste. Finally, we will further develop our palm oil programme, focusing on increasing traceability within our supply chain and the implementation of transformation programmes, and increase human rights due diligence for palm oil.

History and Development

While our immediate history can be traced back to 1999, when we were formed by the merger of the UK-based Reckitt & Colman plc and the Netherlands-based Benckiser NV, our roots can be traced back to 1823, when Johann A. Benckiser founded Benckiser, whose core business focused on industrial chemicals. This was followed in the 1840s by an expansion into other household products; particularly starch, washing blue and black lead for polishing. In the meantime, the UK-based Reckitt & Sons began its expansion and opened businesses around the world, first Australia, in the 1880s, and listed on the London Stock Exchange in 1888.

The 20th century witnessed a number of mergers and acquisitions and product launches for both companies.

- Major mergers and acquisitions included: Reckitt & Sons' joint venture in South America with J&J Colman to form Atlantis Ltd. (1913); the joint venture with the Mason brothers to form Chiswick Polish Company (1913), which later merged with Reckitt & Colman Ltd (1954); the purchase of Harpic Lavatory Cleaners (1932); the merger between Reckitt & Sons and J&J Colman to form Reckitt & Colman Ltd. (1938); Benckiser's expansion into consumer goods via acquisitions and disposals (1982) and acquisition of St. Marc S.A, France (1985); Reckitt & Colman's purchase of Airwick products (1985); Reckitt & Colman's purchase of Boyle-Midway, an American household products group with brands such as Woolite, Easy-Off, Sani-Flush, Wizard and Old English, as well as its purchase of the worldwide branded business of Beecham Household Products in the United States and Canada (both in 1990); Reckitt & Colman's acquisition of Lehn & Fink Products, including Lysol, the household disinfectant brand in the United States (1994) and its sale of the Colman's food business (1995).
- In terms of products, 1932 marked a major breakthrough for Reckitt & Sons, with the decision to market a germicide, Dettol, endorsed by the medical profession. Other notable launches during the 20th century included Finish (1953); Calgon water softener (1956); Calgonit Automatic Dishwashing Detergent (1964); Quanto Fabric Softener (1966); Gaviscon (1965); Vanish Stain Removal Bar (1972) and Nurofen (1983), which is the first OTC product to use ibuprofen and is the first new OTC analgesic since 1950s.

Since the merger of Reckitt & Colman and Benckiser in 1999 to become Reckitt Benckiser, we have continued to expand our business through mergers and acquisitions and to improve our lines with the introduction of new products.

- In 2006, we completed the acquisition of Boots Healthcare International for £1,926 million, gaining a new platform for growth in the attractive OTC healthcare market.
- In 2008, we completed the acquisition of Adams Respiratory Therapeutics, Inc., allowing us to enter the U.S. OTC market with Mucinex – the number 1 cough remedy in the United States.
- In 2010, we completed the acquisition of SSL and added Durex and Scholl to our list of Powerbrands.
- In 2012, we completed the acquisition of nutritional supplement and vitamin company Schiff Nutrition.
- In 2014, we completed the acquisition of K-Y, a leader in intimate lubricants.
- In 2017, we completed the acquisition of Mead Johnson and added the Enfa franchise of brands as our largest Powerbrand.

Competitive landscape

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

The industry is intensely competitive, with a comparatively small number of major multinational competitors accounting for a large proportion of total global supply. We compete with numerous, well-established, local, regional, national and international companies, some of which are very large and have significant resources with which to establish and defend their products, market shares and brands. Our principal competitors include fast-moving consumer goods companies like Clorox, Colgate-Palmolive, Henkel, Procter & Gamble, SC Johnson and Unilever, and pharmaceutical companies such as Bayer, GSK Novartis, Johnson & Johnson and Sanofi-Aventis, plus a number of strong local industry companies.

We compete in strongly branded segments by focusing on our leading positions in higher growth categories. We are typically the market leader or a close follower, a position obtained, we believe, through our ability to introduce new products (whether improved or newly developed), and supported by a rising and substantial level of BEI. Competition in the industry often focuses on competing claims for product performance, rather than price or terms. For this reason, failure to introduce new products and gain acceptance may significantly impact our operating results. We also need to defend ourselves against challenges to our leadership positions in markets; this requires significant marketing expenditure and promotional activity.

Our products also compete with private label products sold by major retail companies. We do this by focusing on delivering innovative new products with real consumer benefits. Consistent BEI communicates the benefits of our brands directly to consumers.

In our new category of infant and children's nutrition products, our main global competitors include Nestlé, Danone and Abbott. We have local and regional competitors as well. Other companies, including manufacturers of branded products, private label and store brand products, manufacture and sell one or more products with a similar purpose to those marketed by us. We believe sources of our competitive advantage in this product category include the unique nutrition science and innovation behind our products, clinical claims for efficacy and product quality, brand image and associated value, broad sales force and distribution capabilities and consumer satisfaction. Significant expenditures for product development, advertising, promotion and marketing, where permitted, are generally required to achieve acceptance of products among consumers and health care professionals and to support the trend in consumer preferences for premium products in key markets.

Products

The following table sets forth information relating to our product categories.

	Health
Profile	Our products in this category include treatment products for everyday issues such as pain and flu, but also wellness products in sexual wellbeing, footcare vitamins and supplements as well as the infant and children's nutrition business added with the completion of the Acquisition.
Market positions	• **Nurofen** and **Gaviscon** are leading analgesic and gastro-intestinal brands in Europe and Australia.

- **Strepsils** is number 1 in medicated sore throat worldwide.
- **Mucinex** is the number 1 cough brand in the United States.
- **Durex** is the number 1 condom brand worldwide.
- **Scholl/Amopé** is number 1 globally in footcare.
- **Enfa** franchise is the global number 1 in infant and children's nutrition.
- **Nurofen**: Nurofen was the first OTC medicine to use ibuprofen. Nurofen is the leading analgesic brand in Europe and Australia. Nurofen is available in a variety of formats, including tablets, gel caps and liquids. Its range includes Nurofen for Children and heat patches for back pain and menstrual pain.

Powerbrands

- **Durex**: Durex has been making condoms for nearly 90 years, and is the number 1 condom brand worldwide. We have expanded the Durex product range to include Durex Play pleasure gels and devices. Today, consumers can buy their condoms and other sexual wellbeing products from mainstream retail shelves, in convenience stores or order online via e-commerce. We continue to develop Durex condoms with new products such as Durex Air and "Invisible" range.
- **Strepsils**: Strepsils is the world's leading sore throat medicine and present in over 50 countries. From its inception as a sore throat gargle in 1950, the range has grown to a wide range of both lozenges and sprays.
- **Mucinex**: Mucinex is the leading cough and decongestion remedy in the United States. It has developed into a range of cough and chest congestion, multi-symptom, and sinus remedies for adults and children, including the Clear & Cool range of liquids within the Mucinex Fast Max and Sinus Max product lines.
- **Gaviscon**: Gaviscon is a well-established heartburn and indigestion remedy that provides relief though its unique mode of action which forms a strong protective barrier at the top of the stomach to stop acid and stomach contents from rising and causing pain. It is prescribed by doctors and recommended by pharmacists and sufferers alike. Gaviscon Advance is stronger and offers longer lasting relief.
- **Scholl**: Scholl footcare products address foot, skin and nail conditions; changes to foot condition due to body function or activities; and invaders to the condition of feet, such as wart/verrucas and athlete's foot.
- Our infant and children's nutrition products (which became a part of our product portfolio as a result of the Acquisition), including under the **Enfa** and **Nutramigen** Powerbrands, are designed to meet the nutritional needs of children at different stages of development. Other products

include maternal nutrition products, vitamins, supplements and oral electrolyte solutions for infants and children. We market these products under different names in various regions across the world based on marketing strategies and brand recognition.

Other brands

In addition to the Powerbrands discussed above, our health portfolio includes well-known brands such as Moov, Disprin, Tempra, Lemsip, Naldecon, Contex, E45, Luftal, Picot, Senokot, Optex, MegaRed, Airborne, Digestive Advantage, Move Free, Delsym and MYSN.

Hygiene

Profile

Our hygiene brands help to promote both personal hygiene and home hygiene. Our disinfectant cleaners clean and disinfect surfaces. Our all-purpose cleaners are aimed at household surfaces, particularly in the bathroom and kitchen. Our lavatory cleaners offer cleaning and disinfecting for the toilet bowl and cistern. Our speciality cleaners are designed for specific tasks, from cleaning ovens to removing limescale. In automatic dishwashing, we have a range of detergents aimed at cleaning and shining dishes, and a range of additives aimed at enhancing the performance of dishwashers and detergents. Our pest control products offer solutions to domestic infestation. Our depilatory products remove body hair and our skin products include acne treatments for clearer skin.

Market positions

- **Finish** is number 1 worldwide in automatic dishwashing.
- We are number 1 worldwide in surface care due to leading positions across disinfectant cleaners, non-disinfectant multi-purpose cleaners, lavatory care and speciality cleaners.
- Within antiseptic liquids, **Dettol** is the number 1 brand worldwide.
- Our lavatory care range is number 2 with **Lysol** in North America and **Harpic** across Europe and developing markets.
- **Mortein** is the worldwide number 2 in pest control, supported by local brand franchises like **d-Con** in North America.
- **Veet** holds a number 1 position worldwide in depilatory products.

Powerbrands

- **Cillit Bang**: Cillit Bang is a range of powerful surface cleaners launched in 2004. The brand has evolved over the years to give consumers the versatility of moderating power for both light and tough cleaning. It is sold in over 60 countries with a range of products.
- **Lysol**: Lysol is the number 1 disinfectant brand in the United States, with over 50 per cent. of households using Lysol products.

- **Harpic**: Launched in England in the 1920s, Harpic toilet bowl cleaner has been successfully extended to 47 countries. Harpic provides a range of liquid toilet bowl cleaners, tablets, wipes, toilet bowl blocks and cistern blocks.

- **Dettol**: As the world's leading brand of antiseptics, Dettol products offer a high standard of germ kill and are recommended by healthcare professionals. We believe that the brand has stayed contemporary through the launch of new products (such as Dettol Squeezy) and has offered consumers a breadth of products across categories, including bar soaps, hand sanitisers, liquid hand washes, shower gels and antibacterial wipes. Dettol has also launched an innovative new mask in China to protect from the harmful effects of air pollution.

- **Finish**: Finish is our global brand of automatic dishwashing products. Finish offers a range of detergents and additives in many formats and variants. The most popular Finish detergents are the unique multi-benefit PowerBall Tabs with an all-inclusive system incorporating rinse aid function, salt function and glass protection. Finish PowerBall is also available as Quantum, with three chambers combined. Quantum is also available with power gel. Finish additives include Diamond Shine Rinse Aid, Special Salt, Machine Cleaner, Freshener, the glass protection product Protector and the new Turbo Dry for cupboard dry dishes.

- **Mortein**: Mortein was first launched in the 1880s in Australia. It has been successfully launched throughout New Zealand, South Asia and the South Pacific. This pest control brand is famous for its Louie the Fly cartoon character advertising in Australia, which has been used for over three decades. Louie is now being used in South Asia for Mortein and in Malaysia, Singapore and Thailand for Shieldtox.

- **Veet**: Veet is the world leader in depilatory products, and markets a range of products aimed at giving women smoother skin. We aim to drive its leadership positions by constant innovations; for example, Spray-On Hair Removal Creams are aimed to achieving "superior to shaving" smoothness, while the High Precision Facial Wax is aimed at achieving salon precision and long-lasting results at home. A recent new innovation is the Sensitive Precision trimmer.

- **Clearasil**: Clearasil is known for its range of acne treatment creams, facial washes and cleansing pads that are aimed at giving consumers visibly clearer skin. We reinforce its strong market position continuously with innovations such as the re¬launch of the Stay Clear range of products, as well as launches in the Ultra range.

Other brands

Apart from the Powerbrands discussed above, this category includes some local and multi-country brands like Sagrotan, RidX, d-Con, Destop, Easy Off, St Marc and Veja.

Home

Profile	Our home brands are aimed at creating more comfortable home environments. Our air care products remove malodours and fragrance the air in the home. Formats include autosprays, electrical plug-ins, aerosols, gels and candles. Our fabric treatment products remove stains from clothes, carpets and upholstery. Our garment care products are specially formulated for cleaning all clothes without risk of damaging the fabric. Our water softeners are aimed at protecting the machine and laundry against the build-up of limescale and other deposits.
Market positions	• **Vanish** is number 1 worldwide in fabric treatment. • **Calgon** is number 1 worldwide in water softeners. • **Woolite** is number 2 in garment care. • **Air Wick** is number 2 worldwide in air care. • **Vanish**: Vanish is the leading global stain removal product for both fabrics and carpets. For stains on fabrics, Vanish is available in both in-wash formats and pre-treat. The Vanish range includes Vanish Oxi Action Intelligence, aimed at removing tough, greasy stains. • **Calgon**: Calgon, which has been sold for over 50 years, and is currently sold in over 30 countries, is aimed at protecting all vital parts of washing machines from limescale build up. It is the only water softener recommended by leading washing machine manufacturers. • **Woolite**: Sold in more than 40 countries, Woolite is a range of detergents that protects clothes against wash-related damages. Woolite protects fabrics against shape loss, as well as colours against fading and colour run accidents.
Powerbrands	• **Air Wick**: Air Wick was first launched in the United States in 1944 with the invention of Air Wick Liquid, a wick in a glass bottle of liquid, which absorbs odours as it is pulled up within the bottle. Air Wick offers consumers a large and growing range of fragrances and formats, including plug-ins, battery operated devices, candles, gels and aerosols, as well as a liquid electrical fragrance diffuser that gives users more control. They are used to eliminate bad odours, freshen and fragrance the air, but also, increasingly, to create ambience.
Other brands	In addition to the Powerbrands discussed above, our home category includes local and multi-country brands like Bom Ar, Napisan, Oxyclean, Resolve and Spray 'n Wash.

Portfolio Brands (including Food)

Profile	We have a number of local market positions in laundry detergents and fabric softeners (for example, in Spain, Italy, certain East European markets and Korea) and ironing aids. We continue to market products in this category, seeking local scale and

incremental profit in conjunction with our offerings in other product lines.

Our food business is run as a standalone business and reported as a separate operating segment within the broader RB Group. The business is focused on condiments and toppings, with a portfolio of iconic brands with leading positions including French's, Frank's RedHot, and Cattlemen's. Our major products include hot sauce, mustard, crispy vegetables, barbecue sauce, and ketchup. The business is focused primarily in North America, with a platform across both retail and branded foodservice. On 3 April 2017, we announced a strategic review of our food business, which is considered non-core to the Group.

Market positions

- **French's Mustard** is the number 1 mustard in global retail and foodservice; as well as the number 1 crispy vegetable in U.S. retail and foodservice.
- **Frank's RedHot** is the number 1 hot sauce in U.S. retail and foodservice.

Powerbrand

- **French's Mustard** has been produced for over 100 years, and has been sold in the United States since 1904. Using fine grade mustard seeds, French's Classic Yellow is the number 1 best-selling mustard based on US retail sales. The French's family of products has grown to include a variety of flavours: Honey Dijon, Spicy Brown, Horseradish, Honey and BBQ.

Other brands

In addition to the brands discussed above, the Food business also includes the following brands: French's Ketchup, French's Worcestershire Sauce, French's Crispy Vegetables, Frank's Redhot and Cattlemen's.

Structure of Operations

We structure our business through a matrix of a centralised category development, global sales, supply and support functions (finance, human resources and information services), combined with the two area organisations: ENA and DvM, with a separate segment for the Food business and for the infant and child nutrition business.

Our central category development function is responsible for Powerbrand strategies, brand equity programs and best practices, and new product development (including R&D and consumer and market research), for implementation by the area organisations.

Our supply function is responsible for all procurement (raw and packaging materials and services), production and logistics worldwide, and is directly responsible for the operation of our production facilities worldwide.

Our information services function is responsible for our global systems infrastructure and global systems, including our ERP systems.

Research and Development

We undertake R&D to support the development of new and improved products in all of our product categories and for increased manufacturing efficiencies. In addition, R&D activities will be an important part of our business in the infant and children's nutrition product category.

Technological change and product improvement is a key determinant of our success. We believe that our success in introducing new and improved products stems from our focus on developing a pipeline of product innovation through consumer-focused approaches. We maintain a large category development organisation (including market and consumer research, R&D and marketing/sales best practice) to fuel the innovation pipeline and share category success factors and learning. We also maintain a form in the Innovation section of our website where consumers can submit their ideas for innovative products, technologies or licensing arrangements.

We invested £149 million in R&D in 2016, £140 million in 2015 and £146 million in 2014. In addition, Mead Johnson's R&D expense was $97.4 million, $108.4 million and $115.1 million in the same periods.

Suppliers

The major resources required by our business are an adequate supply of the raw and packaging materials consumed by our products and the necessary funds for developing new products and reinvestment in advertising and promoting those brands. We consider that our primary raw materials, such as bulk chemicals (including a number of petrochemicals), plastics, pulp and metal cans, are generally in adequate global supply. The cost of these items fluctuates from time to time but not at levels that seriously impinge on our ability to supply our products or generate profit.

We source our raw and packaging materials and finished goods from a wide variety of predominantly international chemical and packaging companies and co-packers. In addition, approximately 75 per cent. of the raw materials for the production of the infant and children's nutrition products are sourced from approximately 40 suppliers worldwide. We also outsource the manufacture of certain of our products to third parties.

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. Our Global Manufacturing Standard ("**GMS**") mandates minimum requirements regarding employment arrangements, labour standards and health, safety and environmental management, in line with international guidelines, for our own manufacturing sites and third party manufacturers and suppliers. Management processes and controls in place include group-wide, area and regional monitoring and assessment of compliance with the GMS (and other) requirements.

Customers

Our key external relationships are broadly-based. Although these customers continue to become more concentrated in their chosen markets, we believe that our wide geographical spread and diversity of product lines provide a balance.

Production

As of 31 March 2017, the existing RB business had 45 production facilities worldwide. These facilities are spread across Asia, Europe, North America, Latin America, and Africa and the Middle East. The following table sets forth details relating to our main production facilities:

Location	Approximate Area (square footage)	Products produced
Hull, Humberside, UK	592,015	Consumer health products in liquid or solid
Nottingham, UK[1]	538,195	Consumer health products in liquid or solid
Derby, Derbyshire, UK	280,754	Household cleaning products in aerosol and liquid
Nowy Dwor, Poland	986,756	Liquids, powders, gel capsules and tablets
Mira, Italy	182,242	Powders, liquids, tablets and gel caps
Chartres, France	686,791	Hygiene, healthcare and cosmetics products
Belle Mead, New Jersey, USA	408,200	Aerosol and liquid household cleaners and air fresheners
Salt Lake City, USA[2]	388,350	OTC drugs, vitamins and health supplements
St Peters, Missouri, USA	440,000	Household cleaners, wipes, liquids, gel caps and tablets
Sao Paulo, Brazil	765,000	Pest and air freshener aerosols, household cleaning liquids, powders, sanitary blocks, personal insect repellent
Shangma, China	186,355	Condoms
Bangpakong, Thailand	143,160	Condoms
Uttaranchal, India	372,194	Personal care products, surface, toilet and fabric cleaner products
Tlalplan, Mexico	161,458	OTC tablets and liquids

Notes:

(1) Leasehold (150 year lease until 2157).
(2) Site is leased.

In addition, the Infant and Child Nutrition business (acquired as part of the Acquisition) operates in-house production facilities at different locations around the world. Its manufacturing and finishing facilities are located in the United States, the Netherlands, Mexico, Brazil, Singapore, Thailand, China and the Philippines. It also uses third-party manufacturers for a portion of its production requirements. Adapting to Chinese consumers' shifting demand for fully imported products, products are increasingly manufactured and finished in the Netherlands for shipment to China. We maintain our R&D headquarters in Evansville, Indiana, where we own office, operations and laboratory buildings comprising approximately 1,269,000 square feet. We also own (or lease) the manufacturing facilities identified in the table below:

Location Approximate	Area (square footage)	Products produced
Zeeland, Michigan, USA	698,773	Infant and child nutrition products
Evansville, Indiana, USA	458,595	Infant and child nutrition products
Nijmegen, The Netherlands	205,134	Infant and child nutrition products
Delicias, Mexico	134,549	Infant and child nutrition products
Singapore[1]	466,077	Infant and child nutrition products
Chonburi, Thailand	158,456	Infant and child nutrition products
Guangzhou, China[1]	149,944	Infant and child nutrition products

Note:

(1) The land on which this facility is built is subject to a long-term lease.

Sales and Marketing; Distribution

As of 31 March 2017, we had sales and marketing operations in more than 60 countries.

Our sales strategies vary by country based on our go-to-marketing strategy, scale of operations, the structure and complexity of the market, as well as country-specific regulatory requirements. In certain countries, we have direct relationships with trade customers while in other countries we use distributor channels to access trade customers. In each country in which we operate, we have marketing directors and brand managers who are responsible for the execution of our global product category roll-out strategy.

We believe that our marketing investment is among the highest in the industry, with our BEI in 2016 at 13.2 per cent. of net revenue.

In the infant and children nutrition products division, our regional marketing activities are conducted within a strategic framework focused on both parents and health care professionals in accordance with country-specific regulatory requirements. We maintain both a health care professional sales force and a retail sales organisation within the regions throughout the world where we sell these products. The sales volumes of infant and children nutrition product in the United States also depend on our continued participation in the USDA's WIC programme. As of 31 December 2016, Mead Johnson held the contracts that supplied approximately 43 per cent. of WIC births in the United States. WIC sales represented approximately 16 per cent. of Mead Johnson's global gross sales in the year ended 31 December 2016. After taking into account the rebates paid to the state WIC agencies, net WIC sales represented approximately 1 per cent. of Mead Johnson's global net sales in the year ended 31 December 2016.

Regulatory Overview

RB legacy products

The health, hygiene and home industry is heavily regulated by, among others, the European Union and individual country governments around the world. In the United States, federal authorities, including the U.S. Food and Drug Administration ("**FDA**"), the Federal Trade Commission, the Consumer Product Safety Commission and the Environmental Protection Agency, regulate different aspects of our business, along with parallel authorities at the state and local level. Ingredients, manufacturing standards, labour standards, product safety, marketing and advertising claims are all subject to detailed and developing regulation.

We have a comprehensive set of policies and procedures designed to govern our business methods and practices and protect our reputation. These cover, among other things, a comprehensive Code of Conduct, an Environment Policy, the GMS, and a Product Safety Policy, including compliance with regulatory and product quality requirements.

Infant and Children's nutrition products

The infant and children's nutrition business is subject to extensive government regulation in a number of jurisdictions as well as policy and guidance affecting the sales and marketing of these products, as described below.

Rules and Regulations. In the United States, infant formula manufacturers are governed by the rules and regulations of the FDA and its Center for Food Safety and Applied Nutrition in connection with the Infant Formula Act of 1980. Outside of the United States, country-specific regulations define the requirements with which infant and children's formula must comply with regard to definition, composition, safety, quality, labeling and marketing as well as requirements for placing new formulas on the market. Many country-specific requirements are comparable to or will refer to regulations, guidelines and policies promulgated by the FDA, the European Commission, the Codex Alimentarius and/or the World Health Organization (discussed below). Global regulatory provisions that govern our ability to bring innovative formulas to market have become increasingly stringent with regard to requirements for

scientific substantiation for innovation. Similarly, regulatory criteria with respect to safety and quality requirements have become increasingly stringent. It is our policy to comply with all applicable laws and regulations in each country in which we do business.

Policy and Guidance. The Codex Alimentarius (also referred to as the "Codex" or the "food code") is a collection of internationally recognised standards, codes of practice, guidelines and other recommendations related to foods. The Codex, managed jointly by the United Nations Food and Agriculture Organization and the WHO, has become the global reference point for consumers, food producers and processors, national food control agencies and the international food trade. The Codex includes several standards regarding formulas and foods for infants and young children. WHO policies and, in particular, the WHO's International Code of Marketing of Breastmilk Substitutes, are relevant to infant formula manufacturers, particularly when this code is incorporated into country-specific regulatory requirements. Certain advocates and governmental and non-governmental organisations (particularly in Hong Kong, Mexico, the Philippines, Thailand, Malaysia, Vietnam, Indonesia, Colombia and Singapore) have advocated for heightened restrictions on the marketing, labeling and even the sale of some pediatric nutrition products as well as trademark restrictions, restrictions on interactions with health care providers and bans on claims for products covering children up to three years of age, including the "Guidance on Ending the Inappropriate Promotion of Foods for Infants and Young Children" that was published by the WHO in 2016. Mead Johnson and other industry participants were unable to persuade the WHO to modify its guidance to recognise the scientifically proven benefits of infant formula products. The WHO guidance is now under consideration to be introduced as potential legislation in several countries where we market our infant and children's nutrition products.

Employees

During 2016, we employed an average of 34,700 (2015: 34,700) people worldwide, of whom approximately 27,000 were our direct permanent employees and the remaining were contractors and seasonal workers. As of 31 December 2016, Mead Johnson employed approximately 7,600 people worldwide.

Approximately one-third of our full-time employees are subject to collective bargaining arrangements.

We recognise the importance to our success of the employment, empowerment and engagement of talented individuals and the development of high-performing teams and culture. Sustainable efforts are also being made to improve gender balance and female leadership development, engagement and retention across all functions and management levels at RB.

We are committed to the principle of equal opportunity in employment that no applicant or employee should receive less favourable treatment on the grounds of nationality, age, gender, religion, race, ethnicity or disability. We recognise our responsibilities to disabled persons and endeavour 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 our business that each employee understands our strategies, policies and procedures. Open and regular communication with employees at all levels is an essential part of the management process. A continuing program of training and development reinforces our commitment to employee development. We hold regular departmental meetings where opinions of employees are sought on a variety of issues. We operate internal communications programs that include the provision of a Group intranet and the publication of regular newsletters.

Our incentive schemes are aimed at reinforcing financial and economic factors affecting the performance of the business. Employees typically have three to five performance objectives that are directly linked to their job and their specific contribution to our overall performance. In addition, presentations, in person and by video, are given to employees on publication of our financial results.

We encourage employees to become shareholders and to participate in our employee share ownership schemes should they so wish. Savings-related share plans covering most of the world give employees the opportunity to acquire shares in Reckitt Benckiser by means of regular savings.

Intellectual Property

We rely on our brand names and intellectual property. All of our major brand names are protected by nationally or internationally registered trademarks. We also maintain patents or other protection for our significant product formulations, designs and processing methods. Patent rights registered in respect of the Mead Johnson business relate primarily to ingredients (and combinations thereof) that we use in our products. We aggressively monitor these protections and pursue any apparent infringements.

We register our intellectual property rights strategically. For example, trademarks are registered in all countries relevant to our actual or intended use of that trademark, whereas patents are registered selectively in accordance with various legal and business factors, including patent enforceability and key intended markets. In addition to patents, licenses and trademark protections, we rely on a combination of security measures, confidentiality policies, contractual arrangements and trade secret laws to protect our un-registrable intellectual property rights.

We license intellectual property rights from third parties and are active in licensing in several areas of our operations, including R&D and new product development, marketing and manufacturing.

We are active in challenging third parties if they appear to be infringing intellectual property rights that are material to our business. In addition, we make careful checks while developing and before launching new products so that we have reasonable assurance that we will not infringe any third party intellectual property rights.

Corporate Responsibility, Sustainability, Ethics and Compliance

The Board regularly considers and takes account of the significance of sustainability matters, their potential risks to our business and the opportunities to enhance value that may arise from an appropriate response including risks relating to environmental impacts, employees, society and communities, as well as reputational risks. In July 2016, the Board established a new Corporate Responsibility, Sustainability, Ethics and Compliance Committee to lead our business in the promotion of best practice in corporate responsibility and ethical matters, to encourage sustainable operations, and to oversee management's compliance framework and challenge accordingly.

In conjunction with the establishment of our new Board committee, a new organisational structure comprising three management committees was also set up. Matters covered by the three management committees, whose work is overseen and monitored by the Committee, include:

- Governance Review Board – Operating model compliance;
- Compliance Management Committee – Consumer safety, employee health and safety, product regulation, substance regulation, environmental strategy, policy and human rights; and

- Ethical Management Committee – Ethics, the Group's Code of Conduct, whistleblowing, and legal compliance, including data protection, anti-bribery and corruption, anti-money laundering, competition law and trade sanctions.

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

Within corporate responsibility, sustainability, ethics and compliance, we been focused on five key programmes:

- Health and Safety – Providing clearer guidelines and standards and ensuring clear and independent auditing;
- Product safety – Ensuring that our structure and governance continues to put consumer safety at the core through our SQC team;
- Quality – Approval and funding to put in place improved business process to support the Quality Management System including change control;
- Environment and Human rights – Further strengthening our internal and external programme to actively manage compliance to RB standards in our own operations and with our direct suppliers; and
- Continue to drive significant reductions in the carbon and water footprint of our products.

In addition, the Audit Committee reviews and monitors, on an ongoing basis, the scope and effectiveness of internal financial, operational and compliance risk management processes.

Environmental matters

As a manufacturer of home, health and hygiene products, we store, and utilise, a variety of hazardous materials at each of our production and R&D locations, and each location also generates hazardous waste. Our facilities and operations are subject to various environmental, health and safety ("**EHS**") laws and regulations in each of the jurisdictions in which we operate. Each production and R&D site is required to comply with local legal requirements covering the storage, handling, use, and where appropriate disposal, of these materials and waste. Additionally, we have developed a number of mandatory internal standards covering hazardous materials management and waste management, which each of our production and R&D sites (as appropriate to their operations) is required to comply with. The sites are required to self-assess, and report, their current level of compliance against each of these Global Environmental Standards monthly using our online EHS reporting system.

Our Group Sustainability department collects monthly data on waste and hazardous waste generation levels from our production and R&D sites through Entropy. This data is reported quarterly to our Global Supply Leadership Team, and is included in our annual sustainability report, which is assured by PwC.

Our Group Sustainability department also implements a program of periodic legal and company standard EHS compliance reviews at our production facilities, warehouses and R&D facilities. The reviews are usually undertaken by an external, locally based consultant, knowledgeable in EHS legislation (often accompanied by a member of the Group Sustainability department). As part of this process, each site's self-assessed compliance status against the requirements of selected Key Items and PSS is also checked. The frequency of review is based on perceived risk.

Health & Safety management

Accidents caused through a failure of our safety management systems could potentially lead to loss of life for one or more of our employees. As of 31 December 2016, 96 per cent. of our production facilities maintained an external certification to OHSAS 18001 for management of health and safety issues.

Climate Change

The effects of climate change could disrupt our supply chain by affecting our ability to source raw materials and manufacture and distribute products. Due to our industry sectors and product categories the greenhouse gas ("**GHG**") emissions originating from energy use at our 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; specifically, the GHG emissions from our global manufacturing operations were 228,825 tonnes CO-equivalents in 2016, a 25 per cent. decrease from 2012.

We believe we have taken a leadership position with regard to our products' total carbon footprint, by seeking to understand, measure and reduce the GHG emissions generated by all stages of the product lifecycle for our global product portfolio, and including, among other things: the raw and packaging materials provided by our suppliers; our own direct manufacturing and other operations; transportation of both raw materials and finished products; the retail sale of our products; consumers' use of our products; and the disposal/recycling of those products and their packaging. We have launched a number of initiatives as a part of our "better environment" strategy, setting targets for reducing our environmental impact by 2020. For example, we have set a target of reducing our energy consumption per unit of production by 35 per cent. by 2020, and have achieved an 18.5 per cent. reduction since 2012. We have set similar goals for our total carbon and water footprints, emissions, water management, and EHS management systems. For more information on these goals, see "*– Our Strategy – Better Environment.*"

Material Governmental and Legal Proceedings

As a global company, we are routinely subject to a wide variety of legal proceedings. These include proceedings relating to antitrust and trade regulation, intellectual property, product liability, marketing, advertising, foreign exchange controls, as well as labour and employment, environmental and tax matters. See "*Risk Factors – Risks related to our regulatory and legal environment.*"

Except as described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware), during the 12 months preceding the date of this Offering Memorandum which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer, the Issuer and its subsidiaries taken as a whole, the Guarantor or the Group. For the year ended 31 December 2016, we allocated total legal provisions of £329 million.

South Korea HS issue

In 2001, we acquired Oxy, a South Korean company. Oxy RB manufactured and sold household products, including HS products which accounted for less than 0.5 per cent. of their sales. By 2011, Oxy RB was one of about 13 suppliers of HS products in the South Korean market. We did not sell HS products in any other market. Oxy RB continued to sell the HS products in South Korea for the next 10 years. In 2011 a Korean Government agency determined that HS products might be responsible for serious respiratory diseases, including fatalities. Oxy RB immediately began to withdraw its HS products.

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

We recognised in April 2016 that this court-led process was taking too long and was not fair on victims. In July 2016, the Compensation Plan was established by Oxy RB to provide fair compensation to Oxy HS product users categorised by the South Korean government in Rounds 1 and 2 of the South Korean government's categorisation process as Category I or Category II. It was designed in consultation with these victims and their families, informed by four overarching values of fairness, transparency, respect and speed and is aimed at addressing each person according to their own individual circumstances, including those who have previously entered into settlement agreements with Oxy RB. As of 31 January 2017, 97 per cent. of eligible victims were participating in the Compensation Plan.

Compensation for Category I and II Oxy HS victims categorised in Rounds 1 and 2 comprises two elements:

1. A payment to reflect mental distress/pain and suffering, lost income (past and future), past medical, certain legal and other expenses plus interest. This payment for a victim could be up to approximately KRW 1 billion (approximately £700 thousand) for death or severe disability.

2. Compensation proposals for victims living with the ongoing effects of the Oxy HS product include a commitment to cover their future medical costs and care needs which are incurred as a reasonably foreseeable consequence of their HS-related lung condition.

In 2014, Oxy RB announced the creation of the Humanitarian Fund of KRW 5 billion (£3 million) for HS-affected individuals, to be administered in co-operation with two governmental organisations in South Korea. In April 2016, Oxy RB announced its intention to add another KRW 5 billion (£3 million) to the Humanitarian Fund.

We expect to incur a number of other non-recurring costs in relation to the HS issue. These include advisers' fees, costs in administering the Compensation Plan and costs associated with operation of the local business.

In the accounts for the year ended 31 December 2016, we charged £300 million to exceptional costs in relation to this issue, comprising both cash and non-cash items. These include:

- Expected compensation payments, including the value of expected future medical costs, to be paid on an "as incurred" basis where borne by Oxy RB, to Oxy HS Round 1 and 2 victims categorised as Category I or II (a total of 183 victims, four of whom have already received settlements from another manufacturer). 97 per cent. of these victims have registered for the Compensation Plan.

- An estimate of compensation payments and future medical costs for victims who could be categorised as Category I and II Round 3 applicants. As of 31 March 2017, 452 (60 per cent. of the total 752 applicants) Round 3 cases have been reviewed. Of them, 57 (13 per cent.) have been recognised as Category I or II HS victims, 52 of whom indicated that they used the Oxy HS product either on its own or in conjunction with another HS product and who may be eligible for compensation under a compensation plan. The South Korean government has stated its intention to complete categorisation of the remaining Round 3 applicants by the end of 2017.

- Legal and other associated costs directly linked to the HS issue, including civil and criminal proceedings – including both legal fees and potential fines. On 6 January 2017, the South Korean criminal court found Oxy RB guilty of false labelling under South Korea's

Fair Labelling & Advertising Act, a charge which the company did not contest, and fined Oxy RB KRW 150 million (£0.1 million). Two current Oxy RB employees were sentenced to five and seven years' imprisonment respectively for occupational negligence and false labelling. Oxy RB's former General Manager and former Head of R&D were each sentenced to seven years' imprisonment for the same offences. All four individuals were employees of Oxy at the time it was acquired by us in 2001. Some of the conduct that was the object of the criminal prosecution took place prior to our acquisition of Oxy. A former General Manager was acquitted of all charges. These sentences were generally less than the prosecutor had requested. The current and former employees who were convicted have appealed. The Prosecutor's Office has appealed against: (i) the acquittal of four of the current and former employees on charges of criminal fraud; (ii) the acquittal of a former General Manager on all charges; and (iii) the sentences of all those convicted (except Oxy RB because the maximum fine was imposed).

- Costs associated with the set-up and operation of the Compensation Plan infrastructure.
- A provision for the additional amount committed to the Humanitarian Fund in April 2016.
- An impairment charge against the carrying value of a number of Oxy RB local brands (approximately £44 million).
- Other directly connected costs of the local business.

The provision in the accounts for the year ended 31 December 2016 did not include a number of further costs/income relating to the HS issue that were either not able to be estimated or quantified or were considered not probable at the relevant time, as set out below:

- Round 4 applicants: The South Korean government opened Round 4 to new applicants on 22 April 2016 and it remains open. As of 31 March 2017, the Ministry of Environment ("**MoE**") reported it had received 4,259 applications to participate in Round 4. Because no categorisation has been published and it remains open, we are currently unable to determine how many applicants may be eligible for compensation through a compensation plan. The MoE has stated its intention to complete and announce the results of the review by the end of 2017. The recognition of HS victims as Category I or II has steadily declined, from 48 per cent. in Round 1 to 30 per cent. for Round 2 and, to date, 13 per cent. for the three tranches of categorisations released in respect of Round 3.
- Costs associated with the wider HS issue: Oxy RB is considering how best to contribute to addressing the wider HS issue, including contributions to a Special Relief Account contemplated by the HS Damage Relief Act (the "**Act**") passed on 20 January 2017. The Act requires, among other things, that South Korean government agencies establish and operate a Special Relief Account for the benefit of certain HS victims, funded through contributions by HS manufacturers and ingredient suppliers (the "**Account**"). The size of the contributions will be determined through the application of a formula. The Act contemplates an initial Account of KRW 125 billion (£84 million) towards which Oxy RB expects to be required to contribute slightly over half. The Act provides that the maximum size of the Account will be KRW 200 billion (£134 million).
- Potential recoveries from other HS manufacturers: Oxy RB has committed to compensating Category I and II Oxy HS victims from Rounds 1 and 2 in full under the terms of the Compensation Plan, even if they used other manufacturers' HS products in conjunction with that of Oxy, taking into account the delay that had occurred. Of the 183 Oxy RB Round 1 and 2, Category I and II victims, approximately 50 used both Oxy and at least one other PHMG HS manufacturer's product. For these "multi-user" cases, Oxy RB is seeking to recover an element of compensation costs from the relevant other PHMG HS manufacturer. Oxy RB has yet to agree a fair recovery mechanism with the other HS manufacturers and has therefore not recognised any potential receivable.

- We continue to assess and, where appropriate, pursue rights which Oxy RB may have to recover sums from other involved parties.
- Given the high profile and complex nature of this issue, rules and regulations to be determined under the Act and other legal or governmental proposals or developments in South Korea may give rise to further financial liability for us.

Reports by the United Nations ("Report of the Special Rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and waste" and "Report of the Special Rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and wastes on its mission to the Republic of Korea") and by a special committee of the South Korean National Assembly ("Report on the Results of the National Assembly Investigation for Fact Finding, Injury Relief and Reoccurrence Prevention Regarding the Humidifier Sanitizer Incident") have identified multiple causes of this tragedy. These reports identify the role of government, ingredient manufacturers, and private label suppliers as contributing to the tragedy.

In addition, given the elapse of time since relevant HS products were used by consumers (from 17 to six years ago), it is difficult to demonstrate which products contributed to harm caused to victims.

We also believe that victims should be provided with a single, consistent and readily accessible source of compensation which also covers uncertain long-term medical needs, regardless of which products they used and whether they can demonstrate this.

We believe that this requires a single, industry-wide approach to compensation, funded fairly by all the contributors to this tragedy. We are working hard to try to find such an approach to compensating Category I and II victims for Round 4 with the South Korean government, other manufacturers and other relevant stakeholders.

Indivior investigations

We are involved in ongoing investigations by the DOJ and the FTC and related litigation proceedings arising from certain matters relating to the RB pharmaceuticals business prior to its demerger in December 2014 to form Indivior, and may incur liabilities in relation to such matters, which could be material. These investigations and related proceedings are continuing and the Company is in active discussions with the DOJ. We are co-operating with the relevant agencies and remain committed to ensuring that these investigations and related proceedings are concluded or resolved satisfactorily. The outcome for the Group in relation to ultimate resolution and/or cost at this stage remains uncertain.

MANAGEMENT

Reckitt Benckiser

Board of Directors

Currently, the Board of Directors of Reckitt Benckiser has eleven members – the Chairman, two executive directors and eight non-executive directors. The current members of the Board of Directors are as follows:

Name	Age	Position
Adrian Bellamy	75	Chairman(2)(3)(4)
Adrian Hennah	59	Chief Financial Officer
Kenneth Hydon	72	Non-Executive Director(1)(3)
Rakesh Kapoor	58	Chief Executive Officer(3)
André Lacroix	57	Non-Executive Director(1)(3)
Judith Sprieser	63	Non-Executive Director(2)(3)
Warren Tucker	54	Non-Executive Director(1)
Nicandro Durante	60	Non-Executive Director(2)(4)
Mary Harris	51	Non-Executive Director(2)
Dr Pamela Kirby	63	Non-Executive Director(1)(3)(4)
Christopher Sinclair	66	Non-Executive Director(2)

Notes:

(1) Member of the Audit Committee.

(2) Member of the Remuneration Committee.

(3) Member of the Nomination Committee.

(4) Member of the Corporate Responsibility, Sustainability, Ethics and Compliance Committee.

See "*Information on the Issuer and the Guarantor – The Guarantor – Directors and Senior Managers*" for the list of directorships of each of the Directors in the five years prior to the date of this Offering Memorandum.

Adrian Bellamy – Chairman. Adrian Bellamy joined RB as a non-executive director in 1999 and was appointed as Chairman of the Board in May 2003. He was Chairman of The Body Shop International plc until March 2008, and was formerly Chairman and Director of Gucci Group NV and The Robert Mondavi Corporation. His other previous directorship include River Island and The Gap Inc. He currently serves as Chairman of Williams-Sonoma Inc and Chairman of the Supervisory Board of Action Nederland BV.

Adrian Hennah – Chief Financial Officer. Adrian Hennah joined Reckitt Benckiser in January 2013, as Chief Financial Officer Designate. He was appointed Chief Financial Officer in February 2013. Prior to joining RB, Mr Hennah spent six years at Smith & Nephew plc as CFO and four years as CFO of Invensys plc. Mr Hennah also spent 18 years at GlaxoSmithKline plc, where he held a number of senior management and financial roles. He has worked at PwC and Stadtsparkasse Koeln, the German regional bank. Mr Hennah currently serves as a non-executive director of RELX Group plc and as a member of the supervisory board of RELX NV.

Kenneth Hydon – Non-Executive Director. Kenneth Hydon joined our Board of Directors as a non-executive director in December 2003, and was appointed Chairman of the Audit Committee in November 2006. Mr Hydon retired as Chairman of the Audit Committee in May 2017 but remains a member of the Committee. He has also served as the Senior Independent Director between February 2005 and November 2006. Previously, Mr Hydon served as Financial Director of Vodafone Group plc, until his retirement in 2005 and served as a non-executive director on the board of directors of Tesco plc until February 2013. He also served as a non-executive director

on the board of directors of Pearson plc. He currently serves as a non-executive director on the board of directors of Merlin Entertainments plc. Mr Hydon is a Fellow of the Chartered Institute of Management Accountants, the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.

Rakesh Kapoor – Chief Executive Officer. Rakesh Kapoor became Reckitt Benckiser's Chief Executive Officer in 2011 and joined the Board of Directors in September 2011, following his appointment as Chief Executive Officer. Mr Kapoor joined Reckitt Benckiser in 1987, serving in various regional and central marketing roles. In 2006, Mr Kapoor was appointed Executive Vice President of Category Development, where he was responsible for global category management, research and development, media, market research and strategic alliances.

André Lacroix – Non-Executive Director. André Lacroix joined our Board of Directors as a non-executive director and a member of the Audit Committee in October 2008. He became the Senior Independent Director and a member of the Nomination Committee in June 2013. Mr Lacroix was appointed Chairman of the Audit Committee in May 2017. Previously, Mr Lacroix served as Chairman and Chief Executive Officer of Euro Disney, and also held positions at Burger King (Diageo), Colgate, PepsiCo, and Ernst & Young LLP. He also served as Group Chief Executive of Inchcape plc. He currently serves as Chief Executive Officer of Intertek Group plc.

Judith Sprieser – Non-Executive Director. Judith Sprieser joined our Board of Directors in August 2003, and was appointed Chair of the Remuneration Committee in June 2004. Ms Sprieser will retire as Chair of the Remuneration Committee in November 2017, but will remain a member of the Committee. Previously, Ms Sprieser served as Chief Executive Officer of Transora, Inc., an e-commerce software and service company, Executive Vice President and Chief Financial Officer of Sara Lee Corporation, Director and Vice Chairman at Royal Ahold NV and on the Board of Directors of Experian plc. She is currently serving on the board of directors of Allstate Corporation and InterContinental Exchange Inc.

Warren Tucker – Non-Executive Director. Warren Tucker joined our Board of Directors and the Audit Committee in February 2010. Mr Tucker was Non-Executive Chairman at Paypoint plc and previously served as Chief Financial Officer of Cobham plc from 2003 until May 2013. He currently serves as a non-executive director of Thomas Cook Group plc, Survitec Limited and the UK Foreign and Commonwealth Office.

Nicandro Durante – Non-Executive Director. Nicandro Durante joined our Board of Directors in December 2013. Mr Durante joined British American Tobacco in 1981 and held senior positions, including Regional Director for Africa and the Middle East, and was appointed Chief Operating Officer prior to his current appointment. Since March 2011, he has served as Chief Executive Officer of British American Tobacco plc.

Mary Harris – Non-Executive Director. Mary Harris joined our Board of Directors as a non-executive director in February 2015. Ms Harris joined the Remuneration Committee in May 2017 and will be appointed Chair of the Remuneration Committee in November 2017. Ms Harris 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 currently serving on the board of directors of ITV plc and J Sainsbury plc. She is a Member of Supervisory Board of Unibail-Rodamco SE.

Dr Pamela Kirby – Non-Executive Director. Dr Pamela Kirby joined our Board of Directors in February 2015. Dr Kirby is Chair of the Corporate Responsibility, Sustainability, Ethics and Compliance Committee and serves on the Audit Committee and Nomination Committee. She formerly served as Chairman of Scynexis Inc, Chief Executive Officer of Quintiles Transnational Corporation, and held senior positions at AstraZeneca plc and Hoffman-La Roche. She is currently on the Board of Directors of DCC plc, Victrex plc, Hikma Pharmaceuticals PLC and a member of the Supervisory Board of AkzoNobel N.V.

Christopher Sinclair – Non-Executive Director. Christopher Sinclair joined our Board of Directors in February 2015. Mr Sinclair was formerly the Executive Chairman of Scandent Holdings and Cambridge Solutions Ltd. He served as the Chairman and Chief Executive Officer of Caribiner International, President and Chief Executive Officer at Quality Foods Centers, Inc and held senior management positions with PepsiCo, including Chairman and Chief Executive Officer of Pepsi Cola Co., and Chairman of PepsiCo International Foods and Beverages. He is currently the Chairman of Mattel Inc.

Executive Committee

Our Board of Directors has delegated the executive management of our business to the Chief Executive Officer, who has appointed an Executive Committee. The Executive Committee is headed, and its members are appointed, by the Chief Executive Officer. The Executive Committee conducts the day-to-day business operations and serves as our chief operating decision maker. The Executive Committee considers the business principally from a geographical perspective, but with each of the Food business and the Infant and Child Nutrition business being managed separately.

The members of our Executive Committee, their ages and current positions, as of the date of this Offering Memorandum, are as follows:

Name	Age	Position
Rakesh Kapoor	58	Chief Executive Officer
Rupert Bondy	55	Senior Vice President, General Counsel, Company Secretary
Amedeo Fasano	55	Executive Vice President, Supply
Roberto Funari	51	Executive Vice President, Category Development Organisation
Rob de Groot	50	Executive Vice President, ENA
Adrian Hennah	59	Chief Financial Officer
Darrell Stein	49	Senior Vice President, Information Services
Frederic Larmuseau	47	Executive Vice President, Developing Markets
Deborah Yates	44	Senior Vice President, Human Resources
Aditya Sehgal	45	Executive Vice President, Infant and Child Nutrition

Rakesh Kapoor – See "*– Board of Directors – Rakesh Kapoor – Chief Executive Officer*".

Rupert Bondy – Rupert Bondy was appointed as Senior Vice President, General Counsel and Company Secretary in January 2017. Rupert began his career as a lawyer in private practice. In 1989 he joined the U.S. law firm Morrison & Foerster, working in San Francisco and London, and from 1994 he worked for Lovells in London. He also worked at SmithKline Beecham as Senior Counsel for mergers and acquisitions and other corporate matters, and after its merger with GlaxoWellcome, was appointed Senior Vice President and General Counsel of GlaxoSmithKline. In 2008, he became Group General Counsel of BP plc, holding that position until he joined RB in January 2017.

Amedeo Fasano – Mr Fasano was appointed Executive Vice President of Supply in March 2009. Mr Fasano joined Reckitt Benckiser in 1997, as Supply Director for Italy. He also served as Manufacturing Director for the Central, South Western and Southern Europe Regions, and in 2002, became Regional Supply Director for North America. In 2003, Mr Fasano was appointed Senior Vice President of Supply for North America, Australia and New Zealand and took over the role of Senior Vice President of Supply, Development Markets in 2007. Previously, he worked for Pirelli Tyres in multiple supply roles in Italy, Turkey, Argentina and the UK.

Roberto Funari – Mr Funari was appointed Executive Vice President of Category Development Organisation in January 2015. Previously, he was appointed as Executive Vice President of Latin America, Asia Pacific in July 2013, where he was responsible for Latin America, North Asia, South East Asia, Australia and New Zealand. Mr Funari re-joined Reckitt Benckiser in February 2013,

following two years at Imperial Tobacco, where he served as Group Marketing Director and Executive Committee member. Previously, Mr Funari held various senior marketing and general management roles with us, in both developing and developed markets, including Brazil, Netherlands, South Africa and Central Europe.

Rob de Groot – Mr de Groot was appointed Executive Vice President of ENA in January 2012, where he is currently responsible for North America, Europe, Russia, CIS and Australia/New Zealand and is headquartered in Amsterdam. Mr de Groot joined Reckitt Benckiser in 1988, and has held various international roles in marketing and sales prior to serving as General Manager for The Netherlands, Senior Vice President, Regional Director, Eastern Europe, Global Category Officer of Surface, Dish and Home Care, and Executive Vice President for North America and Australia.

Adrian Hennah – See "*– Board of Directors – Adrian Hennah – Chief Financial Officer*".

Darrell Stein – Mr Stein joined Reckitt Benckiser in 2014 upon his appointment as Senior Vice President of Information Services. He previously worked at Marks & Spencer plc, on its global online platform, and supply chain systems. He also served as Global Director Information Technology, Strategy and Planning at Vodafone.

Frederic Larmuseau – Mr Larmuseau was appointed Executive Vice President of Developing Markets in January 2015. He was previously appointed as Executive Vice President of Russia, the Middle East and Africa in June 2013. Mr Larmuseau joined Reckitt Benckiser in 2001 as marketing director for Malaysia & Singapore. In 2003 he became regional marketing director for East Asia and in 2005 became Global Category Director for Vanish. In 2008 he was appointed general manager for Brazil and a year later was promoted to Senior Vice President, regional director Latin America. He worked for Procter & Gamble prior to joining Reckitt Benckiser.

Deborah Yates – Ms Yates was appointed Senior Vice President of Human Resources in 2015. She joined Reckitt Benckiser in 2004 in the Australian business, since then working in the United States, United Kingdom and Netherlands. She was appointed Global Human Resources Director ("**HRD**") Finance and IS in 2009, Regional HRD Australia, New Zealand in 2011, Regional HRD North America in 2012, and Area HRD Europe and North America is 2013. Prior to joining Reckitt Benckiser, she worked in a variety of industries in HR such as News Limited, George Weston Foods, and Qantas Airways.

Aditya Sehgal – Mr Sehgal was appointed Executive Vice President of Infant and Child Nutrition in 2017. He joined Reckitt Benckiser in 1994 as a management trainee and has held positions of increasing responsibility, including General Manager, China, Regional Director North Asia, Global Category Officer for Healthcare and Regional Director North America. On announcement of the Acquisition, Aditya was appointed Executive Vice President, Infant and Child Nutrition, leading the Mead Johnson division globally.

Issuer

Directors

Name	Age	Position
Candida Davies	43	Director, (Senior Vice President. Corporate Controller)
John Dixon	61	Director (Senior Vice President, Head of Tax)
Adrian Hennah	59	Director (Chief Financial Officer)
Simon Neville	59	Director (Group Treasury Director)

See "*Information on the Issuer and the Guarantor – The Issuer – Directors*" for the list of directorships of each of the Directors in the five years prior to the date of this Offering Memorandum.

Candida Davies – Candida Davies joined RB in 2011 as Senior Vice President, Corporate Controller. Prior to joining RB, Ms Davies held various roles at Eli Lilly, including CFO, Australia/NZ and President of Eli Lilly Export covering Russia, CIS, Middle East, Africa and Central Eastern Europe.

John Dixon – John Dixon joined RB in 2016 as Senior Vice President, Head of Tax. Prior to joining RB, John spent 17 years at E&Y as a tax partner and was Head of UK Tax and a member of the firm's management team for eight years up to his retirement from the firm in 2014.

Adrian Hennah – See "*– Board of Directors – Adrian Hennah – Chief Financial Officer*".

Simon Neville – Simon Neville joined RB in 2013 as Group Treasury Director. Simon is a Fellow of the Chartered Association of Certified Accountants and the Association of Corporate Treasurers. Prior to RB, Simon held senior treasury and CFO level roles in a number of diverse international groups including Tesco, Tullett Prebon, the Jardine Matheson Group and TOTAL.

Corporate Governance

The UK Corporate Governance Code ("**Corporate Governance Code**") issued by the Financial Reporting Council ("**FRC**") in effect for financial periods beginning on or after 1 October 2014, was applicable to Reckitt Benckiser throughout FY 2016.

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

Areas of non-compliance (strict interpretation)

Our Board of Directors recognises that the objective of the Corporate Governance Code is to facilitate management's delivery of business success in a transparent and responsible manner. The Corporate Governance Code does not impose a rigid set of rules and recognises that certain actions and behaviours do not automatically imply poor organisational governance. Except as explained below, Reckitt Benckiser complied with the Corporate Governance Code throughout FY 2016:

- As of 20 March 2017 (the date of the Chairman's Statement on Corporate Governance), Adrian Bellamy, as the Chairman, had served on the Board of Directors for more than nine years and would be offering himself for re-election at the 2017 AGM (at which he was re-elected); and
- As of 20 March 2017, Kenneth Hydon and Judith Sprieser had been on the Board of Directors for more than nine years each. We believe that we continue to benefit from the skills and experience they bring to their roles and they offered themselves for re-election at the 2017 AGM (at which they were re-elected).

We believe that, notwithstanding the foregoing and following the detailed performance evaluation undertaken during 2016, each Director's independence of thought and actions was assured and all decisions were taken to promote the success of RB Group as a whole.

The Board has established four Board committees to assist in the execution of its responsibilities. These are the Nomination Committee, Audit Committee, Remuneration Committee and the Corporate Responsibility, Sustainability, Ethics and Compliance Committee. Each committee operates under terms of reference approved by the Board. The Board has also established two supporting management committees, the Disclosure Committee, which ensures accuracy and timeliness of disclosure of financial and other public announcements, and the Executive Committee, which is RB's key management committee.

Nomination Committee

The Nomination Committee comprises the Chairman, the Senior Independent Director, the Chief Executive Officer and the Chairs of the Remuneration and CRSEC Committees. The Board of Directors has delegated authority to the Nomination Committee through its terms of reference. Its key objective is to make recommendations to the Board on suitable candidates for appointment to the Board and its committees and regularly review and refresh their composition to ensure that they comprise individuals with the necessary skills, knowledge and experience to effectively discharge their responsibilities.

Audit Committee

The Audit Committee comprises five independent non-executive Directors: André Lacroix, Chairman since May 2017, Kenneth Hydon (whom the Board of Directors has deemed independent notwithstanding he has services more than nine years on the Board of Directors), Pamela Kirby and Warren Tucker. The Audit Committee: (a) monitors the adequacy and effectiveness of the system of internal control; (b) reviews compliance procedures and the RB Group's overall risk framework (including the RB Group's whistleblowing arrangements); (c) considers reports on Internal Audit's activities, significant legal claims and regulatory issues; (d) reviews the interim and full year financial statements before submission to the full Board of Directors; (e) makes recommendations to the Board of Directors regarding the auditors and their terms of appointment; (f) reviews and monitors the auditors' independence and services supplied and the objectivity and the effectiveness of the audit process; and (g) considers operational risk and control presentations from management covering assurance providers, geographical and functional areas.

Remuneration Committee

The Remuneration Committee is chaired by Judith Sprieser (whom the Board of Directors has deemed independent notwithstanding she has served more than nine years on the Board of Directors) and comprises four other members. Nicandro Durante, Christopher Sinclair and Mary Harris are considered independent under the Corporate Governance Code. Mary Harris will succeed Judy Sprieser as chair of the committee from 1 November 2017. The final member of Remuneration Committee is the Chairman, Adrian Bellamy, who was independent on appointment but has served on the Board for more than nine years. The Remuneration Committee assists the Board in fulfilling its oversight responsibility by ensuring that Remuneration Policy and practices reward fairly and responsibly; are linked to corporate and individual performance; and take account of the generally accepted principles of good governance.

Corporate Responsibility, Sustainability, Ethics and Compliance Committee

The Corporate Responsibility, Sustainability, Ethics and Compliance Committee comprises three members, Dr. Pamela Kirby, its Chair, Adrian Bellamy and Nicandro Durante. The Corporate Responsibility, Sustainability, Ethics and Compliance Committee was established in July 2016 to support the Board in reviewing, monitoring and assessing the Company's approach to responsible, sustainable, ethical and compliant corporate conduct and to assist the Board in upholding its values of honesty and respect.

INFORMATION ON THE ISSUER AND THE GUARANTOR

The Issuer

The Issuer was incorporated as a private limited company under the laws of the England and Wales on 9 October 2006 with registered number 05960843 and was re-registered as a public limited company on 7 September 2007. Its principal executive offices and registered office are located at 103-105 Bath Road, Slough, Berkshire SL1 3UH, United Kingdom. The telephone number of its registered office is +44 (0)1753 217800.

The principal legislation under which the Issuer operates is the Companies Act and regulations made thereunder.

The principal activity of the Issuer is that of a finance subsidiary. No change in the Issuer's activities is envisaged in the foreseeable future.

The Issuer is part of the Group. The risks that the Group faces are set out in "*Risk Factors*," and its material contracts are disclosed under "*Our Business – Material Contracts*". The sole shareholder of the Issuer is Reckitt Benckiser plc, and the Guarantor is the sole shareholder of Reckitt Benckiser plc.

The Directors of the Issuer are Candida J. Davies, John Dixon, Adrian N. Hennah and Simon Neville. The business address of each of the Directors is 103-105 Bath Road, Slough, Berkshire SL1 3UH, United Kingdom.

PricewaterhouseCoopers LLP, whose address is 1 Embankment Place, London WC2N 6RH, is the auditor of the Issuer. PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

Directors

The Directors of the Issuer and their biographies are set out in "*Management – Issuer – Directors*". The business address of each of the Directors is 103-105 Bath Road, Slough, Berkshire SL1 3UH, United Kingdom.

In addition to their directorships of the Issuer and companies in the Group, the Directors of the Issuer hold or have held the following directorships and/or are or have been partners of the following partnerships in the five years prior to the date of this Offering Memorandum:

Name(*)	Position	Company/Partnership	Held (Y/N)
Candida Davies	Director	29 St Leonard's Avenue Limited (09136052)	N
John Dixon	LLP Member	Ernst & Young Europe LLP	N
	LLP Member	Ernst & Young LLP	N
Adrian Hennah	Non-executive Director	Indivior plc	N
	Non-executive Director	Relx plc and Relx NV	Y
	Director	Relx Group plc	Y
	Director	Smith & Nephew plc (00324357)	N
	Director	Smith & Nephew USD Limited (01146741)	N
	Director	Smith & Nephew UK Limited (04421171)	N
Simon Neville	Director	Centrium Freehold Limited (06028707)	Y
	Director	Affinity Sutton Community Foundation (07156509)	N
	Director	Affinity Sutton Funding Limited (05589011)	N
	Director	CWC Enterprises Limited (02924440)	Y
	Director	Nasco Treasury Services Limited (08567130)	N
	Director	Woodham Waye Residents Association Limited (02057198)	N

At the date of this Offering Memorandum, none of the Directors of the Issuer has at any time in the five years preceding the date of this Offering Memorandum:

(a) except as disclosed above, been a director or partner of any companies or partnerships;

(b) had any convictions in relation to fraudulent offences (whether spent or unspent);

(c) been adjudged bankrupt or entered into an individual voluntary arrangement;

(d) been a director of any company that has entered into receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;

(e) been a partner or senior manager in any partnership that has entered into any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

(f) owned any assets which have formed the subject of any receivership or has been a partner of a partnership that has had any assets thereof being the subject of a receivership;

(g) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or

(h) ever been disqualified by a court from acting as a director or other officer of a company or from acting in the management or conduct of the affairs of any company.

None of the Directors have any family relationship with another Director. None of the Directors have any potential conflicts of interest between their duties to the Issuer and their private interests or duties.

The Guarantor

Reckitt Benckiser was incorporated on 6 June 2007 with the name Trushelfco (Number 3293) Limited and registered in England and Wales as a private limited company under the Companies Act with registered number 6270876. Its registered office is located at 103-105 Bath Road, Slough, Berkshire SL1 3UH, United Kingdom and the telephone number of its registered office is +44 (0)1753 217800.

On 24 July 2007, the Guarantor's name was changed from Trushelfco (Number 3293) Limited to "Reckitt Benckiser Group Limited" and on 30 August 2007, it was re-registered as a public limited company.

The principal legislation under which Reckitt Benckiser operates is the Companies Act and regulations made thereunder.

The principal activity of Reckitt Benckiser is to serve as the listed holding company of the Group. As such, it has no independent business operations, and is dependent on dividends from its subsidiaries.

PricewaterhouseCoopers LLP, whose address is 1 Embankment Place, London WC2N 6RH, has been the auditor of Reckitt Benckiser since 2000. PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

Subsidiaries

The following table sets forth our principal subsidiaries. Each subsidiary is wholly owned, and its issued share capital is fully paid.

Name	Incorporated in	Nature of Business
Reckitt Benckiser (Australia) Pty Limited	Australia	Health, hygiene, home
Reckitt Benckiser (Brasil) Limitada	Brazil	Health, hygiene, home
Reckitt Benckiser Deutschland GmbH	Germany	Health, hygiene, home
Reckitt Benckiser France SAS	France	Health, hygiene, home
RB UK Commercial Limited	UK	Health, hygiene, home
Reckitt Benckiser LLC	United States	Health, hygiene, home and food
Reckitt Benckiser (India) Limited	India	Health, hygiene, home
Reckitt Benckiser Arabia FZE	UAE (Dubai)	Health, hygiene, home
The French's Food Company LLC	United States	Food

Directors and Senior Managers

The Directors of Reckitt Benckiser and their biographies are set out in "*Management – Reckitt Benckiser – Directors*". The business address of each of the Directors is 103-105 Bath Road, Slough, Berkshire SL1 3UH, United Kingdom.

In addition to their directorships of Reckitt Benckiser and companies in the Group, the Directors of Reckitt Benckiser hold or have held the following directorships and/or are or have been partners of the following partnerships in the five years prior to the date of this Offering Memorandum:

Name	Position	Company/Partnership	Held (Y/N)
Adrian Bellamy	Chairman	Action Holding B.V.	Y
	Chairman	Williams-Sonoma Inc	Y
	Chairman	Total Wine & More	Y
	Director	Gap Inc	N
	Director	Ontex N.V.	N
	Chairman	River Island	N
	Director	Mills-Peninsula Heath Services	Y
Rakesh Kapoor	Director	14/15 Grosvenor Square Freehold Limited	N
Adrian Hennah	Non-executive Director	Indivior plc	N
	Non-executive Director	Relx plc and Relx NV	Y
	Director	Relx Group plc	Y
	Director	Smith & Nephew plc	N
	Director	Smith & Nephew USD Limited	N
	Director	Smith & Nephew UK Limited	N
Nicandro Durante	CEO	BAT Industries plc	Y
	Director	British American Tobacco (NGP) Limited	Y
	Director	British American Tobacco (2012) Limited	Y
	Director	British American Tobacco (Holdings) Limited	Y
	Director	Weston (2009) Limited	Y
	Director	British American Tobacco plc	Y
Kenneth Hydon	Non-executive Director	Merlin Entertainments plc	Y
	Non-executive Director	Tesco plc	N
	Non-executive Director	Pearson plc	N

Name	Position	Company/Partnership	Held (Y/N)
André Lacroix	CEO	Intertek Group plc	Y
	CEO	Inchcape plc	N
	Chairman	Good Restaurants AG	N
	Director	International Federation of Inspection Agencies Limited (The)	Y
Mary Harris	Non-executive Director	ITV plc	Y
	Non-executive Director	J Sainsbury plc	Y
	Member of Supervisory Board	Unibail-Rodamco SE	Y
	Member of Supervisory Board	TNT NV/TNT Express NV	N
	Member of Supervisory Board	Scotch & Soda NV	N
Judith Sprieser	Director	Allstate Corporation	Y
	Director	Intercontinental Exchange Inc	Y
	Director	Total Wine & More	Y
	Non-executive Director	Jimmy Choo plc	N
	Non-executive Director	Experian plc	N
	Director	Grant Thornton International Limited	Y
Dr Pamela Kirby	Non-executive Director	Victrex Plc	Y
	Non-executive Director	DCC Plc	Y
	Member of Supervisory Board	Akzo Nobel NV	Y
	Advisor	Kings Health Academic Partnership	Y
	Chairman	Scynexis Inc	N
	Non-executive Director	Smith & Nephew plc	N
	Non-executive Director	Informa plc	N
	Non-executive Director	Simmons & Simmons LLP	N
	Director	Hikma Ventures Limited	Y
	Director	Hikma Pharmaceuticals Public Limited Company	Y
Christopher Sinclair	Chairman	Mattel Inc	Y
	CEO	Mattel Inc	N
Warren Tucker	Non-executive Director	Thomas Cook Group plc	Y
	Non-executive Director	Survitec Topco Limited	Y
	Non-executive Director	UK Foreign & Commonwealth Office	Y
	Non-executive Director	Paypoint plc	N

Name	Position	Company/Partnership	Held (Y/N)
Warren Tucker (continued)	Director	Multiphase Pumping Systems Limited	N
	Director	Lockman Electronic Holdings Limited	N
	Director	Lockman Finance Limited	N
	Director	Lockwash US Limited	N
	Director	Cobham plc	N
	Director	Manlock Investments Limited	N
	Director	Lockman Properties Limited	N
	Director	Lockman Investments Limited	N
	Director	Air Precision Limited	N
	Director	Chelton (Forming) Limited	N

At the date of this Offering Memorandum, none of the Directors of Reckitt Benckiser has at any time in the five years preceding the date of this Offering Memorandum:

(a) except as disclosed above, been a director or partner of any companies or partnerships;

(b) had any convictions in relation to fraudulent offences (whether spent or unspent);

(c) been adjudged bankrupt or entered into an individual voluntary arrangement;

(d) been a director of any company that has entered into receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors;

(e) been a partner or senior manager in any partnership that has entered into any compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

(f) owned any assets which have formed the subject of any receivership or has been a partner of a partnership that has had any assets thereof being the subject of a receivership;

(g) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or

(h) ever been disqualified by a court from acting as a director or other officer of a company or from acting in the management or conduct of the affairs of any company.

None of the Directors has any family relationship with another Director. None of the Directors has any potential conflicts of interest between his/her duties to Reckitt Benckiser and his/her private interests or other duties.

Remuneration and Benefits of Directors

Reckitt Benckiser operates a global remuneration policy for its senior executives. The remuneration is heavily weighted towards long-term variable equity components (performance-vesting shares and options) and is reviewed every three years.

Executive Directors' remuneration comprises base salary and benefits and variable remuneration incentives.

The Executive Directors and senior executives participate in share-based incentive schemes.

Directors' Service Agreements and Emoluments

The aggregate Executive Directors' total remuneration were £37 million in 2016 (2015: £40 million).

Variable pay is a major element of Reckitt Benckiser's current Executive Directors' and senior executives' total compensation package. The Executive Directors' compensation package comprises a base salary, an annual cash bonus and share-based long term incentives. If performance is unsatisfactory, no cash bonuses will be paid and long-term incentives will not vest.

Executive Directors

Service agreements

The Chief Executive Officer and Chief Financial Officer service contracts are rolling and terminable on twelve months' notice. In the event that there is a termination of either service contract, the compensation commitments in respect of each contract could amount to one year's remuneration based on base salary, benefits in kind and pension rights during the notice period. The termination payments may take the form of payments in lieu of notice.

In the event of an Executive Director leaving Reckitt Benckiser, payments may be made under the annual bonus plan. In such an instance, if the termination is by reason of voluntary resignation or 'for cause', no bonus will be made for the financial year in which employment terminates. In all other circumstances, any bonus due will be paid after the end of the relevant financial year, paid on a pro-rata basis, taking account of the period actually worked. The LTIP (defined below) rules provide for vesting in certain circumstances (in line with best practice), in the event that an Executive were to leave Reckitt Benckiser.

Upon a change of control of Reckitt Benckiser, unvested LTIP awards will vest immediately, but only to the extent that any performance conditions have been satisfied, unless the Remuneration Committee determines that the conditions should not apply. Awards will be pro-rated to take into account the proportion of the performance period not completed, unless otherwise decided by the Remuneration Committee.

Base salaries

Base salaries are reviewed annually with effect from 1 January of each year. Increases to base salaries are determined by reference to competitive practice in Reckitt Benckiser's remuneration peer group, individual performance, and in the context of pay considerations across the Group as a whole.

Annual cash bonus

The annual cash bonus is closely linked to the achievement of pre-determined targets geared to above-industry performance. In 2016, net revenue growth and adjusted net income growth, both measured in GBP at a constant exchange rate, were the performance measures attached to the bonus plan. Performance targets are set each year by the Remuneration Committee, with reference to prevailing growth rates in Reckitt Benckiser's peer group, and across the healthcare and fast-moving consumer goods industries more broadly. For 2017, the annual cash bonus plan remains unchanged.

Long-term incentives

Reckitt Benckiser's Long Term Incentive Plan ("**LTIP**") provides long-term incentives that comprise a mix of share options and performance shares. Both the levels and combination of share options and performance shares are reviewed annually, with reference to market data and the associated cost to Reckitt Benckiser.

The appropriate value of the long-term incentives is determined by benchmarking the 'fair' value of total remuneration for Executives against Reckitt Benckiser's peer group and deducting base salary and annual cash bonus. Reckitt Benckiser's long-term incentives (and those of our peer group) are valued using an expected value methodology (Black-Scholes) to enable like-for-like comparisons.

LTIP award sizes are calibrated as a fixed number. The Remuneration Committee adjusts the fixed number of shares to ensure that the fair value of total remuneration is appropriately positioned relative to Reckitt Benckiser's pay peer group.

Long-term incentives vest subject to the achievement of earnings per share (measured on an adjusted diluted basis, as shown in our financial statements) growth targets that exceed industry performance levels. The vesting of LTIP awards granted in December 2013 are subject to earnings per share performance over three consecutive financial years, starting with 2014. Whilst the structure for the awards made to Executive Directors remains in line with the approved Remuneration Policy, the Remuneration Committee made a significant reduction in the size of the awards granted for FY 2017.

Reckitt Benckiser executive pension plan

The Chief Executive Officer and the Chief Financial Officer receive cash in lieu of pension contributions at the rates of 30 per cent. and 25 per cent. of pensionable salary, respectively.

Executive share ownership policy

Executive Directors and other senior executives are subject to a compulsory share ownership policy. Executives, including those newly recruited or promoted into senior executive positions, are allowed eight years to attain these shareholdings and targets are pro¬rated until they are met. If an executive does not meet the requirements within the required time period, the Remuneration Committee will not make any further awards of performance shares or options to the executive until the targets have been met. The Remuneration Committee, may, in its discretion, reduce the levels of grants and awards, if in its opinion, the executive is not making sufficient progress towards satisfying the share ownership requirements.

Non-Executive Directors

Non-Executive Directors do not have service agreements but are engaged on the basis of a letter of appointment. They are subject to re-election annually. Fee levels are determined by the Board every two years. Remuneration consists of fees for their services in connection with the Board and Board Committee meetings, and the Senior Independent Director and Chairs of the Audit, Remuneration and Corporate Responsibility, Sustainability, Ethics and Compliance Committees also receive an additional fee. Non-Executive Directors are not eligible to participate in any of our bonus, share option, long-term incentive or pension schemes. An element of the basic fee is however, paid in Reckitt Benckiser shares.

Other than as described above, no benefit, payment or compensation of any kind is payable to any Director upon termination of his or her employment.

PRINCIPAL SHAREHOLDERS

As of 31 May 2017, the issued share capital of the Company was 736,535,179 ordinary shares. The total number of voting rights at this date was 702,944,062.

As of 31 May 2017 (being the last practicable date prior to the publication of this Offering Memorandum), in so far as it is known to the Company, the name of each person, other than a Director, who holds voting rights (within the meaning of Chapter 5 of the Disclosure and Transparency Rules) representing 3 per cent. or more of the total voting rights in respect of the ordinary shares of the Company is as follows:

Name	Number of Ordinary Shares	% of voting rights
JAB Holdings BV[(1)]	63,167,626	8.93%
Massachusetts Financial Services Company and/or its subsidiaries[(2)]	35,974,048	5.00+%[(3)]

Notes:

(1) Date of last TR-1 Notification: 27 January 2016.

(2) Date of last TR-1 Notification: 16 January 2013.

(3) Under a s.793 Companies Act 2006 request Massachusetts Financial Services Company confirmed on 2 February 2017 that their holding had increased to 8.07 per cent., of which they had the ability to vote 6.62 per cent.

Except as disclosed above, the Directors are not aware of any holdings of voting rights (within the meaning of Chapter 5 of the Disclosure and Transparency Rules) that represent 3 per cent. or more of the total voting rights in respect of the issued ordinary share capital of the Company.

So far as the Company is aware no person or persons, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

There are no differences between the voting rights enjoyed by the shareholders described in this section and those enjoyed by any other holder of Ordinary Shares.

RELATED PARTY TRANSACTIONS

In 2011, as part of the SSL acquisition, we acquired a stake in RB & Manon Business Co, Ltd (“**Manon**”), a privately owned company incorporated in China, and a distributor in the Chinese market. In 2016, we completed new arrangements with the non-controlling shareholders of Manon, under which we agreed to terminate the then existing arrangements in place. Under the terms of the new arrangements, the non-controlling shareholders agreed to invest in two entities, RB (China Trading) Ltd and RB & Manon Business Ltd, acquiring from us a 20 per cent. and 25 per cent. stakes in those entities respectively, whilst retaining their 24.95 per cent. stake in Manon, for a combined consideration of £27 million.

As part of the new arrangements, the parties are subject to symmetrical put and call options over the non-controlling shareholdings, exercisable together after a period of six years, with possible extensions available at the agreement of the parties. The present value of the put option at 31 December 2016 was a liability of £94 million.

Subsequent to the demerger of the pharmaceuticals business on 23 December 2014, we continue to lease part of a building to, and provide operational services to, Indivior. The transitional services between us and Indivior are on an arm’s length basis. The amount included in other operating income in respect of these services is £5 million (2015: £8 million). Certain outstanding balances, totalling £6 million, were settled with Indivior during the period. These related to adjustments in the final UK corporation tax liabilities settled on behalf of Indivior by Reckitt Benckiser plc. Adrian Hennah, our CFO, also sat on the Board of Directors in Indivior until his resignation in May 2016. Rupert Bondy, our SVP General Counsel and Company Secretary was also a director of Indivior until he resigned from the Board of Indivior on 30 September 2016. He joined us in January 2017.

DESCRIPTION OF NOTES

The following is a summary of the material provisions of the Indentures, the Notes and the Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indentures, the Notes and the Guarantees. Copies of the Indentures, the Notes and the Guarantees will be available for inspection during normal business hours at any time after the closing date of the offering of the Notes at the New York offices of the Trustee, which are currently located at 60 Wall Street, 16th Floor, New York, NY 10005. Any capitalised term used herein but not defined shall have the meaning assigned to such term in the Indentures.

General

On 26 June 2017 (the "**Issue Date**"), Reckitt Benckiser Treasury Services plc, a public limited company incorporated under the laws of England and Wales (the "**Issuer**"), will issue $7,750 million in aggregate principal amount, comprised of the following:

- $2,500 million 2.375 per cent. Senior Notes due 2022 (the "**2022 Fixed Rate Notes**");
- $2,000 million 2.750 per cent. Senior Notes due 2024 (the "**2024 Fixed Rate Notes**");
- $2,500 million 3.000 per cent. Senior Notes due 2027 (the "**2027 Fixed Rate Notes**", and, together with the 2022 Fixed Rate Notes and the 2024 Fixed Rate Notes, the "**Fixed Rate Notes**"); and
- $750 million Floating Rate Senior Notes due 2022 (the "**Floating Rate Notes**").

The Fixed Rate Notes and the Floating Rate Notes are herein referred to as the "**Notes**". The Notes will be issued on the Issue Date.

Each series of the Fixed Rate Notes will be issued under an indenture (together, the "**Fixed Rate Notes Indentures**") dated as of the Issue Date among, inter alia, the Issuer, Reckitt Benckiser Group plc, a public limited company incorporated under the laws of England and Wales (the "**Guarantor**") and Deutsche Bank Trust Company Americas, as trustee (the "**Trustee**"), principal paying agent (the "**Principal Paying Agent**") and registrar (the "**Registrar**").

The Floating Rate Notes will be issued under an indenture (the "**Floating Rate Notes Indenture**" and together with the Fixed Rate Notes Indentures, the "**Indentures**") dated as of the Issue Date among, inter alia, the Issuer, the Guarantor, the Trustee, the Principal Paying Agent and the Registrar.

The Indentures are not required to be nor will they be qualified under the U.S. Trust Indenture Act of 1939, as amended (the "**Trust Indenture Act**"), and will not incorporate by reference any of the provisions of the Trust Indenture Act. Consequently, the Holders will not be entitled to the protections provided under such Act to holders of debt securities issued under a qualified indenture, including those requiring the Trustee to resign in the event of certain conflicts of interest and to inform the Holders of certain relationships between it and the Issuer or the Guarantor. In this "*Description of Notes*," the terms "Holder," "Noteholder" and other similar terms refer to a "registered holder" of the Notes, and not to a beneficial owner of a book-entry interest in any Notes, unless the context otherwise clearly requires.

Deutsche Bank Securities Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of the several initial purchasers (the "**Initial Purchasers**"), propose to resell the Rule 144A Global Notes in registered form to certain institutions in the United States in reliance upon Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and the Regulation S Global Notes to non-U.S. persons located outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. The Rule 144A Global Notes may not be sold or otherwise transferred except pursuant to registration under the Securities Act or in accordance with Rule 144A or

pursuant to Rule 904 of Regulation S thereunder or in a resale transaction that is otherwise exempt from such registration requirements, and will bear a legend to this effect. The Regulation S Global Notes may not be sold or otherwise transferred except pursuant to registration under the Securities Act or pursuant to Rule 904 of Regulation S thereunder or in a resale transaction that is otherwise exempt from such registration requirements, and will bear a legend to this effect.

Certain terms used in this description are defined under the caption "– *Certain Definitions*." Defined terms used in this description but not defined under "– *Certain Definitions*" will have the meanings assigned to them in the applicable Indentures.

Principal and Maturity

The Issuer will issue $2,500 million initial aggregate principal amount of the 2022 Fixed Rate Notes. The 2022 Fixed Rate Notes will mature on 24 June 2022.

The Issuer will issue $2,000 million initial aggregate principal amount of the 2024 Fixed Rate Notes. The 2024 Fixed Rate Notes will mature on 26 June 2024.

The Issuer will issue $2,500 million initial aggregate principal amount of the 2027 Fixed Rate Notes. The 2027 Fixed Rate Notes will mature on 26 June 2027.

The Issuer will issue $750 million initial aggregate principal amount of the Floating Rate Notes. The Floating Rate Notes will mature on 24 June 2022.

The Notes will be unsecured and unsubordinated obligations of the Issuer and will be unconditionally guaranteed on a senior, unsecured basis by the Guarantor (the "**Guarantees**").

Interest

Fixed Rate Notes

The 2022 Fixed Rate Notes will bear interest at 2.375 per cent. per annum, the 2024 Fixed Rate Notes will bear interest at 2.750 per cent. per annum and the 2027 Fixed Rate Notes will bear interest at 3.000 per cent. per annum, in each case from and including the Issue Date or from the most recent interest payment date to which interest has been paid or provided for.

Interest on the 2022 Fixed Rate Notes is payable semi-annually in arrears on 24 June and 24 December of each year, commencing 24 December 2017. Interest on the 2024 Fixed Rate Notes and the 2027 Fixed Rate Notes is payable semi-annually in arrears on 26 June and 26 December of each year, commencing 26 December 2017. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. If the date on which any interest payment or principal payment is to be made is not a Business Day, such payment will be made on the next day which is a Business Day at the place of payment of such interest or principal without any further interest or other amounts being paid or payable in connection therewith.

So long as the Fixed Rate Notes remain in book-entry only form, the applicable record date for each interest payment date will be the close of business on the business day before the applicable interest payment date. If the Fixed Rate Notes are not in book-entry only form, the applicable record date for each interest payment date will be the close of business on the fifteenth calendar day (whether or not a business day) before the applicable interest payment date.

Floating Rate Notes

The Floating Rate Notes will bear interest at a floating rate equal to the LIBOR for deposits in U.S. dollars determined for the relevant interest period plus 56 basis points from and including the Issue Date (the "**Applicable Rate**"); provided, however, that in no event shall the Applicable Rate be less than zero. Interest on the Floating Rate Notes will be payable quarterly in arrears

on 24 March, 24 June, 24 September and 24 December of each year, commencing on 24 September 2017, to the person in whose name any Floating Rate Note is registered at the close of business on the business day before the applicable interest payment date. If the Floating Rate Notes are not in book-entry only form, the applicable record date for each interest payment date will be the close of business on the fifteenth calendar day (whether or not a business day) before the applicable interest payment date. Interest on the Floating Rate Notes will be computed on the basis of the actual number of days in the interest period divided by 360.

"**Business Day**" convention means the following: If any LIBOR Reset Date or interest payment date (other than the maturity date) would otherwise be a day that is not a Business Day, that LIBOR Reset Date or interest payment date will be postponed to the next succeeding Business Day; *provided, however*, that if that date would fall in the next succeeding calendar month, such date will be the immediately preceding Business Day. If any such LIBOR Reset Date or interest payment date (other than the maturity date) is postponed or brought forward as described above, the interest amount will be adjusted accordingly. If the maturity date falls on a day that is not a Business Day, payment of principal and interest on the Floating Rate Notes will be made on the next Business Day, and no interest will accrue for the period from and after the maturity date. Postponement as described above will not result in a default under such Notes.

As long as any Floating Rate Notes are outstanding, the Issuer will maintain a calculation agent (the "**Calculation Agent**") for calculating the interest rates on the Floating Rate Notes. The Issuer has initially appointed Deutsche Bank Trust Company Americas to serve as the Calculation Agent.

The Calculation Agent will reset the rate of interest on the Floating Rate Notes on each interest payment date and with respect to the first interest period, the Issue Date (each also a "**LIBOR Reset Date**"). The interest rate set for the Floating Rate Notes on a particular LIBOR Reset Date will remain in effect during the interest period commencing on that LIBOR Reset Date. Each interest period will be the period from and including a LIBOR Reset Date to but excluding the next LIBOR Reset Date or until the maturity date of the Floating Rate Notes, as the case may be. The aggregate amount of interest payable on the Floating Rate Notes in respect of an Interest Period will be calculated by applying the Applicable Rate to the principal amount of each Floating Rate Note outstanding at the commencement of the Interest Period, multiplying each such amount by the actual amounts of days in the Interest Period concerned divided by 360.

LIBOR will be determined by the Calculation Agent in accordance with the following provisions:

(1) On the LIBOR Interest Determination Date (as defined below), the Calculation Agent will determine the LIBOR, which will be the rate for deposits in U.S. dollars having a three-month maturity which appears on the Reuters Screen LIBOR01 as of 11:00 a.m., London time, on the Interest Determination Date; or if such rate does not appear on the Reuters Screen LIBOR01 on any LIBOR Interest Determination Date, then the corresponding rate appearing on the Bloomberg L.P. page "BBAM" as of 11:00 a.m., London time, on the relevant LIBOR Interest Determination Date.

(2) If no rate appears on the Reuters Screen LIBOR01 or the Bloomberg L.P. page "BBAM" on the LIBOR Interest Determination Date the rate will be determined on the basis of the rates at which deposits in U.S. Dollars are offered by four major banks in the London interbank market (the "**Reference Banks**") at approximately 11:00 a.m., London time, on that LIBOR Interest Determination Date to prime banks in the London interbank market for the period of three months commencing on the applicable LIBOR Reset Date and in a principal amount that is representative for a single transaction in U.S. Dollars in that market at that time. The Issuer will request the principal London office of each of the Reference Banks to provide a quotation for its rate. If at least two such quotations are provided, then the LIBOR for that LIBOR Interest Determination Date will be the arithmetic mean of the quotations (rounded, if necessary, to the nearest one hundredth (0.01) of a

percent). If fewer than two quotations are provided as requested, the rate for that LIBOR Interest Determination Date will be the arithmetic mean (rounded, if necessary, to the nearest one hundredth (0.01) of a percent) of the rates quoted by major banks in New York City, selected by the Issuer, at approximately 11:00 a.m., New York time on that LIBOR Interest Determination Date for loans in U.S. dollars to leading European banks having a three-month maturity commencing on the applicable LIBOR Reset Date and in a principal amount that is representative for a single transaction in U.S. dollars in that market at that time.

"**Reuters Screen LIBOR01**" means the display designated as "Page LIBOR01" on Reuters Money 3000 Service or any successor service (or such other page as may replace Page LIBOR01 on that service) or such other service displaying the London Inter Bank offered rates of major banks, as may replace Reuters Money 3000 Service.

"**LIBOR Interest Determination Date**" means the second London Banking Day preceding each LIBOR Reset Date.

"**London Banking Day**" means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London. The interest rate determined on a LIBOR Interest Determination Date will become effective on and as of the next LIBOR Reset Date.

All percentages resulting from any calculation of any interest rate on the Floating Rate Notes will be rounded, if necessary, to the nearest one hundred thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (for example, 9.876545 per cent. (or 0.09876545) would be rounded to 9.87655 per cent. (or 0.0987655)), and all dollar amounts would be rounded to the nearest cent, with one-half cent being rounded upward.

All determinations and any calculations made by the Calculation Agent for the purposes of calculating the applicable interest on the Floating Rate Notes will be conclusive and binding on the holders of the Floating Rate Notes, the Issuer, the Guarantor, the Trustee and the paying agent, absent manifest error. The Calculation Agent shall notify the Trustee of the applicable interest rate. In no event will the rate of interest on the Floating Rate Notes be higher than the maximum rate permitted by applicable law; *provided, however*, that the Calculation Agent shall not be responsible for verifying that the rate of interest on the Floating Rate Notes is permitted under any applicable law. The Calculation Agent will not be responsible to the Issuer, the Guarantor, the holders of the Floating Rate Notes or any third party for any failure of the Reference Banks to provide quotations as requested of them or as a result of the calculation agent having acted on any quotation or other information given by any Reference Bank which subsequently may be found to be incorrect or inaccurate in any way.

Paying Agent and Registrar for the Notes

The Issuer will maintain one or more paying agents (each, a "**Paying Agent**") for the Notes in New York City. The initial Principal Paying Agent will be Deutsche Bank Trust Company Americas, in New York City.

The Issuer will also maintain one or more registrars (each, a "**Registrar**") in New York City. The initial Registrar will be Deutsche Bank Trust Company Americas for the Notes. The Issuer will also maintain a transfer agent (the "**Transfer Agent**") in New York City. The initial Transfer Agent will be Deutsche Bank Trust Company Americas for the Notes. The Registrar and the Transfer Agent will each maintain a register reflecting ownership of the applicable Definitive Notes (as defined herein) outstanding from time to time and facilitate transfers of the applicable Definitive Notes on behalf of the Issuer.

Form and Denomination

The Notes will be issued in fully registered form and only in denominations of $200,000 and integral multiples of $1,000 in excess thereof. The Notes will be issued initially as Global Notes.

Further Issues

The Issuer may, from time to time, without notice to or the consent of the Holders, issue as many distinct series of debt securities under the Indentures as it wishes. It may also from time to time, without notice to or the consent of the Holders, "re-open" each series of the Notes and create and issue additional notes having identical terms and conditions as the Fixed Rate Notes and the Floating Rate Notes, as the case may be (or in all respects except for the issue date, the issue price, the payment of interest accruing prior to the issue date of such additional notes and/or the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series of notes with the applicable Notes (a "**Further Issue**"); *provided, however*, that if additional notes are not fungible with the applicable Notes for U.S. federal tax purposes, the additional notes will have a separate CUSIP, ISIN or other identifying number to the applicable Notes.

Except as otherwise provided for in the Indentures, each of the Notes issued in this offering and, if issued, any additional notes will be treated as a single class for all purposes under each of the Indentures, including, without limitation, with respect to waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, in this "*Description of Notes*," references to the "Notes" include the Notes and any additional notes that are actually issued.

Status of the Notes and the Guarantees

The Notes will be unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* in right of payment among themselves and with other unsecured and unsubordinated indebtedness of the Issuer (save for certain obligations required to be preferred by law) from time to time outstanding. Upon issue, the Guarantor will unconditionally guarantee, on a senior, unsecured basis, the due and punctual payment of the principal of, premium, if any, and interest on the Notes (and the payment of additional amounts described under "*– Payment of Additional Amounts*") when and as the same shall become due and payable, whether on the interest payment date, at stated maturity, by declaration of acceleration, call for redemption or otherwise, in accordance with the applicable Indenture. The Guarantees will be unsecured and unsubordinated obligations of the Guarantor and will rank *pari passu* in right of payment among themselves and with other unsecured and unsubordinated indebtedness of the Guarantor (save for certain obligations required to be preferred by law) from time to time outstanding.

Payment of Additional Amounts

The Issuer or, if applicable, the Guarantor (pursuant to the terms of the Guarantees) will make payments of, or in respect of, principal and interest on the Notes or any payment pursuant to the Guarantees, as the case may be, without withholding or deduction for or on account of any and all present or future tax, levy, impost or other governmental charge whatsoever imposed, assessed, levied or collected ("**Taxes**") by or for the account of a Relevant Jurisdiction (as defined below), unless such withholding or deduction is required by law.

If the Issuer or, if applicable, the Guarantor is required by a Relevant Jurisdiction to deduct or withhold an amount of or in respect of Taxes, the Issuer or, if applicable, the Guarantor will pay to a Holder of a Note or the Guarantees or the beneficial owner thereof such additional amounts ("**Additional Amounts**") as may be necessary so that after deduction or withholding for any Taxes the net amount received by such Holder or beneficial owner after deduction or withholding for any Taxes, will not be less than the amount such Holder or beneficial owner would have received if such amount of or in respect of Taxes had not been withheld or

deducted; *provided, however*, that the Issuer or, if applicable, the Guarantor shall not be required to pay any Additional Amounts for or on account of:

(i) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that the Holder of the applicable Note or Guarantee (or a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such Holder, if such Holder is an estate, trust, partnership or corporation) is or has been a domiciliary, national or resident of, or engaging or having been engaged in a trade or business or maintaining or having maintained a permanent establishment or being or having been physically present in the jurisdiction in which such Taxes have been imposed, assessed, levied or collected or otherwise having or having had some connection with such jurisdiction, other than the mere holding or ownership of, the collection of principal of, and interest on or the enforcement of a Note or a Guarantee, as the case may be;

(ii) any Taxes that would not have been so imposed, assessed, levied or collected but for the fact that, where presentation is required in order to receive payment, the applicable Note or Guarantee was presented more than 30 days after the date on which such payment became due and payable or was provided for, whichever is later, except to the extent that the Holder or beneficial owner thereof would have been entitled to Additional Amounts had the applicable Note or Guarantee been presented for payment on any day during such 30-day period;

(iii) any estate, inheritance, gift, sales, transfer, excise, personal property or similar Taxes;

(iv) any Taxes that are payable other than by deduction or withholding from payments on or in respect of the applicable Note or Guarantee;

(v) any Taxes that would not have been so imposed, assessed, levied or collected but for the failure by the Holder or the beneficial owner of the applicable Note or Guarantee to comply (following a reasonable written request addressed to the Holder or beneficial owner, as applicable), with any certification, identification or other reporting requirements concerning the nationality, residence or identity of such Holder or beneficial owner or its connection with a Relevant Jurisdiction if compliance is required by statute, regulation or administrative practice of such Relevant Jurisdiction as a condition to relief or exemption from such Taxes; or

(vi) any combination of the Taxes described in (i) through (v) above.

Notwithstanding any other provision of the Indenture, any amounts to be paid on the Notes by or on behalf of the Issuer will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulation thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer nor any other person will be required to pay any Additional Amounts in respect of FATCA Withholding. In addition, Additional Amounts will not be paid in respect of any payment in respect of the applicable Note or Guarantee to any Holder or beneficial owner of the applicable Note that is a fiduciary, a partnership, a limited liability company or any person other than the sole beneficial owner of such payment to the extent such payment would be required by the laws of a Relevant Jurisdiction to be included, for tax purposes, in the income of a beneficiary or settlor with respect to such fiduciary, a member of such partnership, an interest holder in such limited liability company or a beneficial owner that would not have been entitled to such amounts had

such beneficiary, settlor, member, interest holder or beneficial owner been the Holder of such Note or Guarantee.

If the Issuer or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or the Guarantees, the Issuer or the Guarantor, as the case may be, will deliver to the Trustee, copied to the Principal Paying Agent, on a date that is at least 30 days prior to the date of that payment (unless the Issuer or Guarantor becomes aware of the obligation to pay Additional Amounts less than 45 days prior to that payment date, in which case the Issuer or the Guarantor shall notify the Trustee and the Principal Paying Agent promptly thereafter) an officer's certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The officer's certificate must also set forth any other information reasonably necessary to enable the Principal Paying Agent to pay Additional Amounts to Holders on the relevant payment date. The Trustee shall be entitled to rely solely on such officer's certificate as conclusive proof that such payments are necessary.

The Issuer or the Guarantor will make or cause to be made all withholdings and deductions required by law and will remit or cause to be remitted the full amount deducted or withheld to the relevant tax authority in accordance with applicable law. The Issuer or the Guarantor will use its reasonable efforts to obtain tax receipts from each tax authority evidencing the payment of any Taxes so deducted or withheld. The Issuer or the Guarantor will furnish to the Trustee, within a reasonable time after the date the payment of any Taxes so deducted or withheld is made, certified copies of tax receipts evidencing payment by the Issuer or a Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments (reasonably satisfactory to the Trustee) by such entity. Upon reasonable request, copies of tax receipts or other evidence of payments, as the case may be, will be made available by the Trustee to the holders or beneficial owners of the Notes.

The above obligations will survive any termination, defeasance or discharge of the Indentures, any transfer by a Holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Issuer or any Guarantor is incorporated, domiciled or resident for tax purposes and any department or political subdivision thereof or therein.

Whenever in the Indentures, the Notes, the Guarantees or this Offering Memorandum reference is made to the payment of the principal of, any premium, any interest or other amounts to which a Holder or beneficial owner is entitled, if any, on or in respect of the Notes or the Guarantees, unless the context otherwise requires, such reference also includes the payment of Additional Amounts to the extent that, in context, Additional Amounts are, were or would be payable.

Redemption

Redemption for Tax Reasons

Each series of the Notes will be redeemable by the Issuer, in whole but not in part, at 100 per cent. of the principal amount of such series of the Notes plus accrued and unpaid interest to the applicable date fixed for redemption (the "**Redemption Date**") and any Additional Amounts payable with respect thereto at the Issuer's option at any time prior to their maturity if due to a Change in Tax Law (as defined below) the Issuer or, if applicable, the Guarantor, in accordance with the terms of the Notes or the Guarantees, respectively, has, or would, become obligated to pay to the Holder or beneficial owner of any Note any Additional Amounts (but, in the case of the Guarantor, only if such amount cannot be paid by the Issuer without the obligation to pay Additional Amounts). In such case, the Issuer may redeem the applicable series of the Notes in whole, but not in part, upon not less than 10 nor more than 30 days' notice as provided in "– *Notices*" below, at 100 per cent. of the principal amount of the applicable series of the Notes plus accrued and unpaid interest, if any, to the applicable Redemption Date and any Additional Amounts payable with respect thereto; *provided* that, (a) no such notice of redemption shall be

given earlier than 90 days prior to the earliest date on which the Issuer or, if applicable, the Guarantor would be obligated to pay any such Additional Amounts were a payment in respect of the applicable series of the Notes or the Guarantees then due and (b) at the time such notice is given, such obligation to pay such Additional Amounts remains in effect. The Issuer's right to redeem the Notes shall continue as long as the Issuer or the Guarantor, as the case may be, is obligated to pay such Additional Amounts, notwithstanding that the Issuer or the Guarantor shall have made payments of Additional Amounts. Prior to the giving of any such notice of redemption, the Issuer must deliver to the Trustee (1) an officer's certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent counsel of recognised standing selected by the Issuer or the Guarantor, as applicable, to the effect that the Issuer or the Guarantor has, or would, become obligated to pay such Additional Amounts as a result of such change or amendment.

For purposes hereof, "**Change in Tax Law**" shall mean (i) any amendment to, or change in, the laws or any regulations or rulings promulgated thereunder of a Relevant Jurisdiction; or (ii) any amendment to, or change in, an official written interpretation or application of such laws, regulations or rulings (including by virtue of a holding, judgment, order by a court of competent jurisdiction or a change in published administrative practice); for purposes of (i) and (ii), which amendment or change becomes effective on or after the date of this Offering Memorandum (or, if the applicable Relevant Jurisdiction became a Relevant Jurisdiction on a date after the Issue Date, such later date).

The foregoing provisions will apply *mutatis mutandis* to any successor Person, after such successor Person becomes a party to either Indenture, with respect to a Change in Tax Law occurring after the time such successor Person becomes a party to either Indenture.

Optional Redemption— Fixed Rate Notes

The Issuer may redeem each series of the Fixed Rate Notes, in whole or in part, at the Issuer's option, at any time and from time to time prior to, in the case of the 2022 Fixed Rate Notes, 24 May 2022 (the day that is one month prior to the maturity date of the 2022 Fixed Rate Notes) (such date, the "**2022 Fixed Rate Notes Par Call Date**"), in the case of the 2024 Fixed Rate Notes, 26 April 2024 (the day that is two months prior to the maturity date of the 2024 Fixed Rate Notes) (such date, the "**2024 Fixed Rate Notes Par Call Date**") in the case of the 2027 Fixed Rate Notes, 26 March 2027 (the day that is three months prior to the maturity date of the 2027 Fixed Rate Notes) (such date, the "**2027 Fixed Rate Notes Par Call Date**", and together with the 2022 Fixed Rate Notes Par Call Date and the 2024 Fixed Rate Notes Par Call Date, the "**Fixed Rate Notes Par Call Date**") at a "make-whole" redemption price equal to the greater of (i) 100 per cent. of the principal amount of the Fixed Rate Notes to be redeemed and (ii) as determined by the Independent Investment Banker, the sum of the present values of the applicable Remaining Scheduled Payments discounted to the Redemption Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 10 basis points in the case of the 2022 Fixed Rate Notes, 15 basis points in the case of the 2024 Fixed Rate Notes and 15 basis points in the case of the 2027 Fixed Rate Notes, together with accrued and unpaid interest (including any applicable Additional Amounts) on the principal amount of the Fixed Rate Notes to be redeemed to but excluding the Redemption Date.

In addition, the Issuer may redeem each series of the Fixed Rate Notes in whole or in part, at the Issuer's option, at any time and from time to time on and after the applicable Fixed Rate Notes Par Call Date at a redemption price equal to 100 per cent. of the principal amount of the Fixed Rate Notes to be redeemed, together with accrued and unpaid interest (including any applicable Additional Amounts) on the principal amount of the Fixed Rate Notes to be redeemed to but excluding the Redemption Date.

In connection with the foregoing sections under "– *Optional Redemption*", the following defined terms apply:

"**Independent Investment Banker**" means one of the Reference Treasury Dealers appointed by the Issuer to act as the Independent Investment Banker.

"**Remaining Scheduled Payments**" means, with respect to each series of Fixed Rate Notes to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related Redemption Date but for such redemption (if such Fixed Rate Notes had matured on the applicable Fixed Rate Notes Par Call Date); *provided, however*, that if that Redemption Date is not an interest payment date with respect to such series of Fixed Rate Notes, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that Redemption Date.

"**Treasury Rate**" means, with respect to any Redemption Date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as at the third Business Day immediately preceding that Redemption Date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date, where:

(1) "**Comparable Treasury Issue**" means the United States Treasury security selected by the Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the applicable Fixed Rate Notes to be redeemed (if such Fixed Notes had matured on the applicable Fixed Rate Notes Par Call Date) that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the applicable Fixed Rate Notes.

(2) "**Comparable Treasury Price**" means, with respect to any Redemption Date, (i) the average of the Reference Treasury Dealer Quotations for that Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (ii) if the Independent Investment Banker for the Fixed Rate Notes obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

(3) "**Reference Treasury Dealer Quotation**" means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding that Redemption Date.

(4) "**Reference Treasury Dealer**" means each of Deutsche Bank Securities Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated or their respective successors and one other nationally recognised investment banking firm that is a Primary Treasury Dealer specified from time to time by the Issuer; *provided, however*, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in the United States (a "**Primary Treasury Dealer**"), the Issuer shall substitute therefor another nationally recognised investment banking firm that is a Primary Treasury Dealer.

Notice of any redemption will be given in accordance with "– *Notices*" below at least 10 days but not more than 60 days before the Redemption Date to each Holder of the Notes to be redeemed. Unless the Issuer defaults in the payment of the redemption price, on and after any Redemption Date, interest will cease to accrue on the Notes or any portion thereof called for redemption.

Upon presentation of any definitive certificated Note redeemed in part only, the Issuer will execute and instruct the Trustee (or its authenticating agent) to authenticate and deliver (or cause to be transferred by book-entry) to or on the order of the Holder thereof, at the expense

of the Issuer, a new Note or Notes, of authorised denominations, in principal amount equal to the unredeemed portion of the Note so presented.

On or before any Redemption Date, the Issuer shall deposit with the applicable Paying Agent money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed on such date. If less than all the Notes of a series are to be redeemed, the Notes of such series to be redeemed shall be selected by the Trustee in accordance with the rules and procedures of DTC and/or Euroclear and/or Clearstream. The redemption price shall be calculated by the Independent Investment Banker and the Issuer, and the Trustee and any paying agent for the Notes shall be entitled to rely on such calculation without independent verification and without liability.

There is no optional redemption for the Floating Rate Notes.

Reacquisition

There will be no restriction on the ability of the Issuer or the Guarantor or any of their respective Subsidiaries to purchase or repurchase Notes.

Covenants of the Issuer and the Guarantor

Negative Pledge

So long as any of the Notes of a series remains outstanding, the Issuer and the Guarantor will not and will procure that none of their respective Subsidiaries will create or permit to subsist any Mortgage upon the whole or any part of its undertaking, property, assets or revenues present or future to secure any Relevant Debt of the Issuer, the Guarantor or any Person or to secure any guarantee of or indemnity in respect of any Relevant Debt of the Issuer, the Guarantor or any Person, except in each case for Permitted Interests, unless, at the same time or prior thereto, the Issuer's obligations under or in respect of the Notes of such series and the applicable Indenture or, as the case may be, the Guarantor's obligations under or in respect of the Notes of such series or the Guarantees (A) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be or (B) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by holders of a majority of the principal amount of such series of the Notes then outstanding.

The foregoing restriction will not apply to:

- Mortgages arising by operation of law;
- Mortgages on property, assets or revenues of any Person, which liens are existing at the time such Person becomes a Subsidiary; and
- Mortgages on property, assets or revenues of a Person existing at the time such person is merged with or into or consolidated with the Guarantor or any of its Subsidiaries or at the time of a sale, lease or other disposition to the Guarantor or any of its Subsidiaries of the properties of a Person as an entirety or substantially as an entirety.

In connection with the foregoing, the following definitions shall apply:

"**Permitted Interest**" means any Mortgage, Securitisation Lien or other form of encumbrance or security interest which arises in relation to any securitisation or other structured finance transaction where:

(i) the primary source of payment of any obligations of the issuer is linked or otherwise related to cash flow from particular property or assets (or where payment of such obligations is otherwise supported by such property or assets); and

(ii) recourse to the issuer in respect of such obligations is conditional on cash flow from such property or assets.

"**Relevant Debt**" means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other debt securities that are for the time being or are capable of being quoted, listed or ordinarily traded on any stock exchange or other organised and regulated securities market.

"**Securitisation Lien**" means a customary back-up security interest granted as part of a sale, lease, transfer or other disposition of assets by the Issuer or the Guarantor to, either directly or indirectly, any issuer in a securitisation or other structured finance transaction.

Limitation on Mergers and Consolidations

Each Indenture will provide that for so long as any of the Notes are outstanding under such Indenture, each of the Issuer and the Guarantor may not consolidate or amalgamate with or merge (including by way of a scheme of arrangement) into or with any other Person, or, directly or indirectly, sell, convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to any Person (other than a Person satisfying the condition set forth in clause (i), below, that is directly or indirectly wholly owned by the Guarantor), unless:

(i) the Person formed by or continuing from such consolidation or amalgamation or into which the Issuer or the Guarantor is merged or the Person which acquires or leases the Issuer's or the Guarantor's properties and assets as an entirety or substantially as an entirety is organised and existing under the laws of the United States, the United Kingdom or any other country that is a member of the Organization for Economic Cooperation and Development as of the date of such succession;

(ii) the successor Person assumes, or assumes by operation of law, the Issuer's or the Guarantor's obligations under the applicable Notes, the Guarantee and the Indenture to pay Additional Amounts;

(iii) if the Issuer or Guarantor, as applicable, is not the continuing entity, the successor Person expressly assumes or assumes by operation of law all of the Issuer's or the Guarantor's obligations under the applicable Notes, the Guarantee and under the Indenture;

(iv) immediately after giving effect to such transaction, no Event of Default (as defined below) and no event which, after notice or lapse of time or both, would become an Event of Default, will have happened and be continuing; and

(v) the Issuer or the Guarantor or the successor Person, as the case may be, shall have delivered to the Trustee an officer's certificate and an opinion of counsel, each to the effect that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the applicable Indenture and, if the Issuer or the Guarantor is not the surviving entity, an opinion of counsel to the effect that such supplemental indenture has been duly authorised, executed and delivered and is a legal, valid and binding agreement enforceable against the successor Person; *provided* that in giving an opinion of counsel, counsel may rely on an officer's certificate as to any matters of fact.

If, as a result of any such transaction, any of the Issuer's, the Guarantor's or any of their respective subsidiaries' undertaking, property, assets or revenues would become subject to a Mortgage, to secure payment of any Relevant Debt of the Issuer or the Guarantor which would not be permitted under the Indentures, the Issuer or the Guarantor or any of their respective subsidiaries or such successor Person, as the case may be, shall take such steps as shall be

necessary to effectively secure the Notes equally and ratably with (or prior to) all Relevant Debt secured thereby.

The Notes will not contain covenants or other provisions to afford protection to Holders in the event of a highly leveraged transaction or a change in control of the Issuer or the Guarantor except as provided herein.

Upon certain mergers or consolidations involving the Issuer or the Guarantor, or upon certain sales or conveyances of the respective properties of the Issuer or the Guarantor as an entirety or substantially as an entirety, the obligations of the Issuer or the Guarantor, as the case may be, under the Notes or the Guarantees, as the case may be, shall be assumed by the Person formed by such merger or consolidation or which shall have acquired such property and upon such assumptions such Person shall succeed to and be substituted for the Issuer or the Guarantor, as the case may be, and then the Issuer or the Guarantor, as the case may be, will be relieved from all obligations under the Notes or the Guarantees, as the case may be. The terms "Issuer" and "Guarantor," as used in the Notes, the Guarantees and the Indentures, also refer to any such successors or assigns so substituted.

Provision of Financial and Other Information

For so long as any Notes are outstanding, the Guarantor shall deliver to the Trustee electronically, and post on its website, copies of any of its annual reports or periodic results announcements it files with each of the UK Financial Conduct Authority and the London Stock Exchange within 30 days after it files such documents with the UK Financial Conduct Authority or London Stock Exchange, as the case may be; *provided, however*, that this covenant shall not create any obligation to make any such filings or to make such filings in a timely manner.

Additionally, for so long as any Notes of a series remain outstanding and bear the restrictive legend set forth in the Indentures, the Guarantor will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available to any registered Holder of the Notes of such series (or any Holder of a book-entry interest in such Notes designated by the registered holder thereof) in connection with any sale thereof and to any prospective purchaser of the Notes of such series or a book-entry interest in Notes of such series designated by such registered holder, in each case upon request of such registered holder, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act. As of the date of this Offering Memorandum, the Guarantor is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

Events of Default

The following will be Events of Default (each an "**Event of Default**") with respect to the applicable Notes:

(i) default in the payment of any installment of interest and/or Additional Amounts upon any applicable Note as and when the same shall become due and payable, and continuance of such default for 30 days; or

(ii) default in the payment of all or any part of the principal of or premium (if any) on any applicable Note as and when the same shall become due and payable either at maturity, upon any redemption, by declaration or otherwise; or

(iii) default in the performance or breach of any covenant of the Issuer or the Guarantor in respect of the applicable Notes or the applicable Indenture (other than those described in paragraphs (i) and (ii) above), and continuance of such default or breach for a period of 60 days after there has been given a written notice, to the Issuer and the Guarantor by the Trustee or to the Issuer, the Guarantor and the Trustee by the Holders of at least 25 per cent. in principal amount of the

outstanding Notes affected thereby, specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the applicable Indenture; or

(iv) (a) any present or future indebtedness of the Issuer, the Guarantor or any Significant Subsidiary, other than the applicable Notes, for or in respect of moneys borrowed is declared or becomes due and payable prior to its stated maturity as the result of any Event of Default (howsoever described) and remains unpaid, or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period or (c) the Issuer, the Guarantor or any Significant Subsidiary fails to pay, within any applicable grace period therefor, any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised and which remains unpaid, *provided* that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned in this paragraph (iv) will have occurred and is or are continuing (which indebtedness, guarantees or indemnities have not been repaid or paid and as to which such default has not been cured or such acceleration has not been rescinded or annulled) exceeds $100,000,000 or its equivalent; or

(v) a distress, attachment, execution or other legal process is levied or enforced against any assets of the Issuer, the Guarantor or any Significant Subsidiary having a value exceeding $100,000,000 or its equivalent following upon a decree or judgment of a court of competent jurisdiction and (A) is not discharged or stayed within 90 days or (B) is the subject of a bona fide active dispute (for the avoidance of doubt, any such distress, attachment, execution or other legal process shall be deemed discharged upon any enforcement of a Mortgage on any such assets); or

(vi) the Issuer, the Guarantor or any Significant Subsidiary admits in writing that it is unable to pay its debts generally; a resolution is passed by the board of directors of the Issuer or the Guarantor for such entity to be wound up or dissolved; the Issuer or Guarantor is unable to pay its debts within the meaning of Section 123(2) of the Insolvency Act of Great Britain or makes a general assignment for the benefit of its creditors; an administrator is appointed in respect of, or an administration order is made in relation to, the Issuer or the Guarantor; the Issuer or the Guarantor stops payment of its obligations generally or ceases to carry on its business or substantially all thereof; or an encumbrancer takes possession or an administrative or other receiver is appointed over the whole or any material part of the either the Issuer's or the Guarantor's assets; or

(vii) certain specified events in bankruptcy, insolvency or reorganisation involving the Issuer, the Guarantor or any Significant Subsidiary; or

(viii) the Guarantor ceases to own, directly or indirectly, all of the Voting Stock of the Issuer, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation permitted hereby (including, for greater certainty, pursuant to the events described in "– *Limitation on Mergers and Consolidations*").

The Issuer and/or the Guarantor shall promptly notify the Trustee in writing upon becoming aware of the occurrence of a default or an Event of Default. The Trustee shall not be deemed to have knowledge of a default or Event of default unless and until it receives such notice from the Issuer or the Guarantor.

The Indentures provide that if an Event of Default occurs and is continuing, then and in each and every such case (other than certain Events of Default specified in paragraphs (vi) and (vii) above with respect to the Issuer or the Guarantor), unless the principal of all the applicable Notes shall have already become due and payable, either the Trustee (at the direction of the

Holders) or the Holders of not less than 25 per cent. in aggregate principal amount of the applicable Notes then outstanding, by notice in writing to the Issuer and the Guarantor (and to the Trustee if given by the Holders), may, and the Trustee at the request of such Holders shall, subject to its receiving indemnification and/or security to its reasonable satisfaction, declare the entire principal amount of all applicable outstanding Notes issued pursuant to the applicable Indenture and interest accrued and unpaid thereon, if any, to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, without any further declaration or other act on the part of the Trustee or any Holder. If the Events of Default described in paragraph (vi) or (vii) above occur with respect to the Issuer or the Guarantor and are continuing, the principal amount of and accrued and unpaid interest on all the applicable outstanding Notes issued pursuant to the applicable Indenture shall become immediately due and payable, without any declaration or other act on the part of the Trustee or any Holder. Under certain circumstances, the Holders of a majority in aggregate principal amount of the applicable Notes then outstanding, by written notice to the Issuer, the Guarantor and the Trustee, may waive defaults and rescind and annul declarations of acceleration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

The Holders of a majority in aggregate principal amount of the applicable Notes then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, subject to certain limitations to be specified in the Indentures.

The Indentures will further provide that no Holder of any Note may institute any action or proceeding at law or in equity or in bankruptcy or otherwise upon or under or with respect to the Indentures, or for the appointment of a trustee, receiver, liquidator, custodian or other similar official or for any other remedy under the Indentures (except suits for the enforcement of payment of overdue principal or interest) unless such Holder previously shall have given to the Trustee written notice of an Event of Default and continuance thereof and unless the Holders of not less than 25 per cent. in aggregate principal amount of the applicable Notes then outstanding shall have made written request upon the Trustee to institute such action or proceedings in its own name as Trustee and shall have offered the Trustee indemnity and/or security (including pre-funding) satisfactory to the Trustee, as it may require against the costs, expenses and liabilities to be incurred therein or thereby, the Trustee shall not have instituted any such action or proceeding within 90 days of its receipt of such notice, request and offer of such indemnity and/or security and the Trustee shall not have received direction inconsistent with such written request by the Holders of a majority in aggregate principal amount of the applicable Notes at the time outstanding.

An Event of Default with respect to a given series of the Notes would not necessarily constitute an Event of Default with respect to the securities of any other series issued in the future under the Indentures.

The Indentures shall provide that each of the Issuer and the Guarantor will furnish to the Trustee on or before 31 December in each year (commencing on 31 December 2017), if Notes are then outstanding, an officer's certificate of the Issuer's or the Guarantor's, as the case may be, compliance with all conditions and covenants under the Indentures, specifying the defaults (if any) and what is being or has been done in respect thereof.

Defeasance

The Indentures will provide that the Issuer will have the option either (a) to be deemed (together with the Guarantor) to have paid and discharged the entire indebtedness represented by, and obligations under, the applicable Notes and the Guarantees and to have satisfied all the obligations under the Indentures relating to the Notes and the Guarantees (except for certain obligations, including those relating to the defeasance trust and obligations to register the

transfer or exchange of the Notes, to replace mutilated, destroyed, lost or stolen Notes and to maintain paying agencies) on the day after the applicable conditions described below have been satisfied or (b) to cease (together with the Guarantor) to be under any obligation to comply with the covenants described under "*– Covenants of the Issuer and the Guarantor – Negative Pledge*" and "*– Covenants of the Issuer and the Guarantor – Provision of Financial and Other Information*" and the condition relating to the absence of any events of default under "*– Covenants of the Issuer and the Guarantor – Limitation on Mergers and Consolidations*" under the Notes, and noncompliance with such covenants and the occurrence of certain events described above under "– Events of Default" will not give rise to any Event of Default under the Indentures, at any time after the applicable conditions described below have been satisfied.

In order to exercise either defeasance option, the Issuer must deposit with the Trustee (or such other entity designated or appointed by the Trustee for this purpose), irrevocably in trust, money or Government Obligations for the payment of principal of, premium (if any) and interest (including Additional Amounts) on the outstanding Notes of a series to and including the Redemption Date irrevocably designated by the Issuer on or prior to the date of deposit of such money or Government Obligations, and must (i) comply with certain other conditions, including delivering to the Trustee an opinion of U.S. counsel, or a ruling received from or published by the U.S. Internal Revenue Service (the "**IRS**"), to the effect that beneficial owners of the Notes of such series will not recognise income, gain or loss for U.S. federal income tax purposes as a result of the exercise of such option and will be subject to United States federal income tax on the same amount and in the same manner and at the same time as would have been the case if such option had not been exercised and, in the case of (a) above, such opinion must state that it is based on a change of law or final and binding ruling received from or published by the IRS after the Issue Date and (ii) pay in full all other amounts due and owing under the Indentures.

Modification and Waiver

Without Consent of Noteholders

Each of the Indentures will contain provisions permitting the Issuer, the Guarantor and the Trustee, without notice to or the consent of the Holders of any of the applicable Notes at any time outstanding, from time to time and at any time, to enter into an indenture or indentures supplemental to the Indenture or to otherwise amend the applicable Indenture to:

- convey, transfer, assign, mortgage or pledge to the Trustee as security for the applicable Notes any property or assets;
- evidence the succession of another person to the Issuer or the Guarantor, as the case may be, or successive successions, and the assumption by the successor person of the covenants, agreements and obligations of the Issuer or the Guarantor, as the case may be, pursuant to the applicable Indenture;
- evidence and provide for the acceptance of appointment of a successor trustee, principal paying agent, registrar or transfer agent, as the case may be;
- add to the covenants of the Issuer and the Guarantor, as the case may be, such further covenants, restrictions, conditions or provisions as the Issuer and the Guarantor, as the case may be, shall consider to be for the protection of the Holders of the applicable Notes, and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions, conditions or provisions an Event of Default under the applicable Indenture permitting the enforcement of all or any of the several remedies provided in the applicable Indenture, Notes or Guarantees; *provided* that, in respect of any such additional covenant, restriction, condition or provision, such supplemental indenture may provide for a particular period of grace after default (which may be shorter or longer than that allowed in the case of other defaults) or may limit the remedies available to the Trustee upon such an Event of Default or may limit the right of

Holders of a majority in aggregate principal amount of the applicable Notes to waive such an Event of Default;

- modify the restrictions on, and procedures for, resale and other transfers of the applicable Notes pursuant to law, regulation or practice relating to the resale or transfer of restricted securities generally;

- cure any ambiguity or to correct or supplement any provision contained in the applicable Indenture which may be defective or inconsistent with any other provision contained therein or in any supplemental indenture or to make such other provision in regard to matters or questions arising under the applicable Indenture as the Issuer or the Guarantor may deem necessary or desirable and which will not adversely affect the interests of the Holders of the applicable Notes in any material respect (*provided*, that any modification or amendment to conform language in the applicable Indenture to that appearing in this "*Description of Notes*" shall be deemed not to adversely affect the interests of the Holders of the applicable Notes in any material respect); or

- issue as many distinct series of debt securities under the applicable Indenture as the Issuer wishes or to "re-open" each series of notes and create and issue additional notes having identical terms and conditions as an existing series of the Notes (or in all respects except for the issue date, issue price, the payment of interest accruing prior to the issue date of such additional notes or except for the first payment of interest following the issue date of such additional notes) so that the additional notes are consolidated and form a single series with the applicable Notes and are in compliance with the terms of the applicable Indenture.

In connection with any of the above matters, the Trustee shall be entitled to request and rely exclusively on such evidence as it deems necessary or appropriate, including officer's certificates and opinions of counsel.

With Consent of Noteholders

Each of the Indentures will contain provisions permitting the Issuer, the Guarantor and the Trustee, with the consent of the Holders of not less than a majority in aggregate principal amount of the applicable Notes at the time outstanding (including consents obtained in connection with a tender offer or exchange offer for the applicable Notes), from time to time and at any time, to enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the applicable Indenture or any supplementary indenture or of modifying in any manner the rights of the Holders of the applicable Notes or the Guarantees, *provided* that no such indenture may, without the consent of the Holder of each of the applicable Notes so affected:

- change the stated maturity of the principal of or the date for payment of any installment of interest on any applicable Note;

- reduce the principal amount of or interest on any applicable Note or Additional Amounts payable with respect thereto or reduce the amount payable thereon in the event of redemption or default;

- change the currency or place of payment of principal of or interest on any applicable Note;

- change the obligation of the Issuer or the Guarantor, as the case may be, to pay Additional Amounts (except as otherwise permitted by such applicable Note);

- impair the right to institute suit for the enforcement of any such payment on or with respect to any applicable Note;

- reduce the aforesaid percentage in principal amount of the outstanding applicable Notes, the consent of whose Holders is required for any such supplemental indenture; or
- reduce the aforestated aggregate principal amount of any applicable Note outstanding necessary to modify or amend the applicable Indenture or any such Notes or to waive any future compliance or past default or reduce the quorum requirements or the percentage of aggregate principal amount of any such Notes outstanding required for the adoption of any action at a meeting of Holders of such Notes or reduce the percentage of the aggregate principal amount of such Notes outstanding necessary to rescind or annul any declaration of the principal of and all accrued and unpaid interest on any Notes to be due and payable,

provided that no consent of any Holder of any applicable Note shall be necessary to permit the Trustee, the Issuer and the Guarantor to execute supplemental indentures described under "– *Modification and Waiver – Without Consent of Noteholders*" above.

Any modifications, amendments or waivers to the applicable Indentures or to the conditions of the applicable Notes will be conclusive and binding on all Holders of the applicable Notes, whether or not they have consented to such action or were present at the meeting at which such action was taken (other than in respect of amendments which require the consent of all Holders of such Notes), and on all future Holders of the applicable Notes, whether or not notation of such modifications, amendments or waivers is made upon such Notes. Any instrument given by or on behalf of any Holder of such a Note in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent registered holders of such Note.

Listing

Application has been made for the admission of the Notes to listing on the Official List of the UK Listing Authority and to trading on the Professional Securities Market thereof.

The Issuer and the Guarantor will use their reasonable best efforts to have such listing and admission to trading become effective and then maintain such listing and admission to trading for so long as any of the Notes remain outstanding.

Notices

So long as any Global Notes representing a given series of the Notes are held in their entirety on behalf of a clearing system, or any of its participants, notices to Holders regarding the Notes will be delivered to the clearing system for communication to its participants. Any such notice shall be deemed to have been given to the participants on the third day after the day on which the said notice was given to the clearing system. If Definitive Notes have been issued, notices to the Holders will (if the Notes are in definitive, certificated form) be mailed by first-class mail (or equivalent) postage prepaid to the Holders at their last registered addresses as they appear in the Notes register. The Issuer and the Guarantor will consider any mailed notice to have been given two Business Days after it has been sent.

In addition, for so long as a given series of the Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the Professional Securities Market, the Issuer and the Guarantor will comply with the notice and disclosure requirements of the UK Listing Authority and the Professional Securities Market.

Consent to Service, Submission to Jurisdiction; Enforceability of Judgments

Each of the Issuer and the Guarantor will appoint Corporation Service Company, 1180 Avenue of the Americas, Suite 210, New York, New York 10036, as its process agent for any action brought by a Holder based on the Indentures or the Notes or Guarantees, as applicable, instituted in any state or federal court in the Borough of Manhattan, The City of New York.

Each of the Issuer and the Guarantor will irrevocably submit to the non-exclusive jurisdiction of any state or federal court in the Borough of Manhattan, The City of New York in respect of any action brought by a Holder based on the Notes, the Guarantees or the Indentures. Each of the Issuer and the Guarantor will also irrevocably waive, to the extent permitted by applicable law, any objection to the venue of any of these courts in an action of that type. Holders may, however, be precluded from initiating actions based on the Notes, the Guarantees or the Indentures in courts other than those mentioned above.

Each of the Issuer and the Guarantor will, to the fullest extent permitted by law, irrevocably waive and agree not to plead any immunity from the jurisdiction of any of the above courts in any action based upon the Notes, the Guarantees or the Indentures.

Since a substantial portion of the assets of each of the Issuer and the Guarantor is outside the United States, any judgment obtained in the United States against the Issuer or the Guarantor, including judgments with respect to the payment of principal, premium, interest and any redemption price and any purchase price with respect to the Notes or payments due under the Guarantees, may not be collectable within the United States.

Governing Law

The Indentures, the Notes and the Guarantees shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws thereof.

Book-Entry System; Delivery and Form

Upon issuance, the Notes will be represented by beneficial interests in Global Notes. Each Global Note will be deposited with a custodian on behalf of DTC and registered in the name of Cede & Co., as nominee of DTC. Except under the circumstances described below, Global Notes will not be exchangeable at the option of the Holder for certificated notes and Global Notes will not otherwise be issuable in definitive form.

Upon issuance of the Global Notes, DTC will credit the respective principal amounts of the Notes represented by the Global Notes to the accounts of institutions that have accounts with DTC or its nominee (called participants of DTC), including Euroclear and Clearstream. Ownership of beneficial interests in the Global Notes will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interest in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to participants' interests) or by participants or persons that hold through participants. Such beneficial interest shall be in denominations of $200,000 and in multiples of $1,000 in excess thereof.

So long as DTC, or its nominee, is the registered owner or holder of the Global Notes, DTC or its nominee, as the case may be, will be considered the sole owner and holder of the Global Notes for all purposes under the applicable Indentures.

Except as set forth below, owners of beneficial interests in the Global Notes:

- will not be entitled to have the Notes represented by the Global Notes registered in their names, and
- will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered the owners or holders thereof under the applicable Indenture.

Accordingly, each person owning a beneficial interest in the Global Notes must rely on the procedures of DTC, and indirectly Euroclear and Clearstream, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder under the applicable Indenture.

Principal and interest payments on Global Notes registered in the name of or held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner or holder of the Global Note. None of the Issuer, the Guarantor, the Trustee or any paying agent for such Global Notes will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC, upon receipt of any payments of principal or interest in respect of the Global Notes, will credit the accounts of the related participants (including Euroclear and Clearstream), with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on the records of DTC. Payments by participants to owners of beneficial interest in the Global Notes held through such participants will be the responsibility of the participants, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name."

Unless and until it is exchanged in whole or in part for Notes in definitive form in accordance with the terms of the applicable Indenture, a Global Note may not be transferred except as a whole by the depositary to a nominee of the depositary or by a nominee of DTC to DTC or another nominee of DTC.

If any Note, including a Global Note, is mutilated, defaced, stolen, destroyed or lost, such note may be replaced with a replacement note at the office of the registrar or any successor registrar or transfer agent, on payment by the Noteholder of such costs and expenses as may be incurred in connection with the replacement, and on such terms as to evidence and indemnity as we may reasonably require. Mutilated or defaced Notes must be surrendered before replacement Notes will be issued.

Exchanges of Global Notes for Definitive Notes

Global Notes shall be exchangeable for definitive notes registered in the names of persons other than DTC, Euroclear and Clearstream or any of their respective nominees for such Global Notes ("**Definitive Notes**") only if:

- DTC, Euroclear or Clearstream, as the case may be, has notified the Issuer that it is unwilling or unable to continue as depositary or has ceased to be a clearing agency registered under the Exchange Act, and in either case, the Issuer has failed to appoint a successor depositary within 120 days of such notice, or
- the owner of a book-entry interest requests such an exchange in writing delivered through DTC, Euroclear or Clearstream, as the case may be, following an Event of Default (as defined in the Indentures) with respect to the Notes.

Any Global Note that is exchangeable for definitive notes pursuant to the preceding sentence shall be exchangeable for Notes issuable in denominations of $200,000 and in multiples of $1,000 in excess thereof and registered in such names as DTC shall direct and registered in such names as Euroclear or Clearstream shall direct. Subject to the foregoing, a Global Note shall not be exchangeable, except for a Global Note of like denomination to be registered in the name of DTC, Euroclear and Clearstream or any of their respective nominees.

Exchanges Between and Among Global Notes

The "distribution compliance period," as defined in Regulation S under the Securities Act, will begin on the closing date and end 40 days after the closing date of the Offering, unless otherwise notified by the Issuer to the Trustee and the Paying Agent.

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. Depending on whether the transfer is being made during or after the distribution

compliance period, and to which Global Note the transfer is being made, the Principal Paying Agent, Transfer Agent or Registrar may require the seller to provide certain written certifications in the form provided in the Indentures.

A beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Certain Definitions

Set forth below are certain of the defined terms used in the Notes and the Indentures. You should refer to the Notes and the Indentures for the full set of definitions.

"**Business Day**" means any day which is not, in London, England, New York City, or the place of payment of interest or principal, a Saturday, Sunday, a legal holiday or a day on which banking institutions in such places are authorised or obligated by law to close.

"**Government Obligations**" means money or obligations issued by the United States government.

"**Group**" means, at any time, the Guarantor together with its Subsidiaries.

"**IFRS**" means International Financial Reporting Standards as adopted by the European Union.

"**Indebtedness**" means all obligations for borrowed money represented by notes, bonds, debentures or similar evidence of indebtedness and obligations for borrowed money evidenced by credit, loan or other like agreements.

"**Mortgage**" means any mortgage, deed of trust, pledge, hypothec, lien, encumbrance, charge or other security interest of any kind.

"**Person**" means any individual, corporation, partnership, joint venture, association, limited liability company, joint stock company, trust, unincorporated organisation or government or any agency or political subdivision thereof.

"**Relevant Jurisdiction**" means any jurisdiction in which the Issuer or any Guarantor is then incorporated, domiciled or resident for tax purposes or any political subdivision thereof or therein.

"**Significant Subsidiary**" means any Subsidiary that would be a "significant subsidiary" under the definition in Article 1, Rule 1-02(w)(2) of Regulation S-X (but as calculated pursuant to IFRS), promulgated pursuant to the Securities Act, as such Regulation is in effect on the date hereof.

"**Subsidiary**" means, at any relevant time, any person of which the voting shares or other interests carrying more than 50 per cent. of the outstanding voting rights attached to all outstanding voting shares or other interests are owned, directly or indirectly, by or for the Guarantor and/or one or more Subsidiaries of the Guarantor.

BOOK-ENTRY, DELIVERY AND FORM

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear and/or Clearstream and/or DTC as applicable, currently in effect. The information in this section concerning Euroclear, Clearstream and DTC has been obtained from sources that the Issuer and the Guarantor believe to be reliable, but none of the Issuer, the Guarantor, the Trustee under the relevant series of Notes, the Paying Agents, the Registrar nor the Initial Purchasers under the relevant series of Notes take any responsibility for the accuracy thereof. Investors wishing to use the facilities of Euroclear, Clearstream or DTC, as applicable, are advised to confirm the continued applicability of the rules, regulations and procedures of such facilities. None of the Issuer, the Guarantor, the Trustee nor any other party to the Indentures will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of Euroclear and/or Clearstream and/or DTC, as applicable, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

General

The Notes sold pursuant to Regulation S under the Securities Act will initially be represented by a global note in registered form without interest coupons attached (the "**Regulation S Global Note**"). The Notes sold to qualified institutional buyers, pursuant to Rule 144A, will initially be represented by a global note in registered form without interest coupons attached (the "**144A Global Note**" and, together with the Regulation S Global Note, the "**Global Notes**"). On the closing date the Global Notes will be deposited with a custodian for and on behalf of, DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of interests in the 144A Global Note (the "**144A Book-Entry Interest**") and in the Regulation S Global Note (the "**Regulation S Book-Entry Interest**" and, together with the 144A Book-Entry Interest, the "**Book-Entry Interests**") will be limited to persons that have accounts with DTC, Euroclear and/or Clearstream or persons that may hold interests through such participants. Euroclear and Clearstream will hold interests in the Regulation S Global Note on behalf of their participants through their respective depositories, which in turn will hold the interests in the Regulation S Global Note in customers' securities accounts in the depositaries' names on the books of DTC. Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by DTC and its participants. The Book-Entry Interests in the Global Notes will be issued only in denominations of $200,000 and integral multiples of $1,000 in excess thereof.

The Book-Entry Interests will not be held in definitive form. Instead, DTC will credit on its book-entry registration and transfer systems a participant's account with the interest beneficially owned by such a participant. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, owners of interest in the Global Notes will not have the Notes registered in their names, will not receive physical delivery of the Notes in certificated form and will not be considered the registered owners or "holder" of the Notes under the Indentures for any purpose.

So long as the Notes are held in global form, DTC (or its nominees) will be considered the holders of Global Notes for all purposes under the Indentures. As such, participants must rely on the procedures of DTC and indirect participants must rely on the procedures of DTC and the participants through which they own Book-Entry Interests in order to exercise any rights of holders under the Indentures.

None of the Issuer, the Trustee, the Paying Agents or Registrar under the Indentures, Deutsche Bank Trust Company Americas as custodian for DTC, as applicable or any of the Issuer's

respective agents will have any responsibility or be liable for any aspect of the records relating to the Book-Entry Interests.

Issuance of Definitive Registered Notes

Under the terms of the Indentures, owners of Book-Entry Interests will receive definitive Notes in registered form (the "**Definitive Registered Notes**") if:

- DTC has notified the Issuer that it is unwilling or unable to continue to act as depositary and a successor depositary has not been appointed by the Issuer within 120 days of such notice, or
- the owner of a book-entry interest requests such an exchange in writing delivered through DTC following an Event of Default (as defined in the Indentures) with respect to the Notes.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of DTC or the Issuer, as applicable (in accordance with its customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend referred to in "*Transfer Restrictions*," unless that legend is not required by the Indentures or applicable law.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, DTC, Euroclear and/or Clearstream, as applicable, will distribute the amount received by it in respect of the Global Note so redeemed to the holders of the Book-Entry Interests in such Global Note from the amount received by it in respect of the redemption of such Global Note. The redemption price payable in connection with the redemption of such Book-Entry Interests will be equal to the amount received by DTC, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Issuer understands that under existing practices of DTC, Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, DTC, Euroclear and Clearstream, will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided, however*, that no Book-Entry Interest of less than $200,000, as applicable, principal amount at maturity, or less, may be redeemed in part.

Euroclear and Clearstream will hold interests in the Regulation S Global Note on behalf of their participants through their respective depositaries, which in turn will hold the interests in the Regulation S Global Note in customers' securities accounts in the depositaries' names on the books of DTC.

Payments on Global Notes

Payments of amounts owing in respect of the Global Notes (including principal, premium, interest, additional interest and additional amounts) will be made by the Issuer to the Principal Paying Agent. The Principal Paying Agent will, in turn, make such payments to DTC or its nominee, which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of the Indentures, the Issuer, the Trustee, the Paying Agents and the Registrar will treat the registered holder of the Global Notes (i.e., the custodian for DTC or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Trustee, the Paying Agents, the Registrar or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest, for any such payments made by DTC, Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest; or
- payments made by DTC, Euroclear, Clearstream or any participant or indirect participant, or for maintaining, supervising or reviewing the records of DTC, Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a Book-Entry Interest; or
- DTC, Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of Book-Entry Interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in "street name".

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interest in such Notes through DTC in. U.S. dollars.

Action by Owners of Book-Entry Interests

DTC, Euroclear and Clearstream have advised the Issuer that they will take any action permitted to be taken by a holder of the Notes only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such participant or participants has or have given such direction. DTC, Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the notes, each of DTC, Euroclear and Clearstream reserves the right to exchange the Global Notes for Definitive Registered Notes in certificated form, and to distribute such Definitive Registered Notes to their respective participants.

Transfers

Transfers between participants in DTC will be done in accordance with DTC rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such holder must transfer its interest in the Global Notes in accordance with the normal procedures of DTC and in accordance with the provisions of the Indentures.

The Global Notes will bear a legend to the effect set forth in "*Transfer Restrictions*". Book-Entry Interests in the Global Notes will be subject to the restrictions on transfer discussed in "*Transfer Restrictions*".

During the period ending 40 days after the closing of the Offering (the "**40-Day Period**"), beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the Principal Paying Agent and Transfer Agent a certificate (in the form provided in the Indentures) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with all applicable securities laws of the United States and the states of the United States and other jurisdictions. After the expiration of the 40-Day Period, beneficial interests in a Regulation S Global Note may be transferred to a person who takes delivery in the

form of a beneficial interest in the Rule 144A Global Note without compliance with these certification requirements.

Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Note only if the transferor first delivers to the Trustee a certificate to the effect that such transfer is being made in accordance with the transfer restrictions described under "*Transfer Restrictions*" and in accordance with all applicable securities laws of the United States and the states of the United States and other jurisdictions.

Subject to the foregoing, and as set forth in "*Transfer Restrictions*," Book-Entry Interests may be transferred and exchanged as described under "*—Transfers*". Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in the other Global Note of the same denomination will, upon transfer, cease to be a Book-Entry Interest in the first-mentioned Global Note and become a Book-Entry Interest in the other Global Note, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it retains such a Book-Entry Interest.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under "*—Transfers*" and, if required, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See "*Transfer Restrictions*".

Transfers involving an exchange of a Regulation S Book-Entry Interest for Rule 144A Book-Entry Interest will be done by DTC by means of an instruction originating from the Trustee through the DTC Deposit/Withdrawal Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the relevant Regulation S Global Note and a corresponding increase in the principal amount of the corresponding Rule 144A Global Note. The policies and practices of DTC may prohibit transfers of unrestricted Book-Entry Interests in the Regulation S Global Note prior to the expiration of the 40 days after the date of initial issuance of the Notes. Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Information concerning DTC, Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of DTC, Euroclear and Clearstream, as applicable. The Issuer provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Issuer nor the Initial Purchasers are responsible for those operations or procedures. DTC has advised the Issuer that it is:

- a limited purpose trust company organised under New York Banking Law;
- a "banking organisation" under New York Banking Law;
- a member of the Federal Reserve System;

- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC’s owners are the New York Stock Exchange, Inc. the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. and a number of its direct participants. Others, such as banks, brokers and dealers and trust companies that clear through or maintain a custodial relationship with a direct participant, also have access to the DTC system and are known as indirect participants.

Like DTC, Euroclear and Clearstream hold securities for participating organisations, they also facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in the accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organisations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in DTC or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such person may be limited. In addition, owners of beneficial interests through DTC will receive distributions attributable to the 144A Global Notes only through DTC participants.

Global Clearance and Settlement under the Book-Entry System

The Notes represented by the Global Notes are expected to be admitted to trading on the Professional Securities Market of the London Stock Exchange and admitted to the Official List of the UK Listing Authority and to trade in DTC’s Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will therefore be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any certificated notes will also be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Notes, cross market transfers between participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC’s rules on behalf of each of Euroclear or Clearstream by its common depository; however, such cross market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and regulations and within the established deadlines of such system (Brussels time). Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the common depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes by DTC, and making and receiving payment in accordance with normal procedures for same-day funds settlement application to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the common depository.

Because of the time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Global Note by or through a Euroclear or Clearstream participant to a participant in DTC, will be received with value on the settlement date of DTC, but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear or Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Guarantor, the Trustee or the Paying Agent or the Registrar will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in U.S. dollars. Book-Entry Interests owned through DTC accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-Entry Interests may be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of DTC and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

Special Timing Considerations

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving the Notes through DTC on days when those systems are open for business.

Trustee's Powers

In considering the interests of the holders of the Notes, while title to the Notes is registered in the name of a nominee of a clearing system, the Trustee may have regard to, and rely on, any information provided to it by that clearing system as to the identity (either individually or by category) of its accountholders with entitlements to Notes and may consider such interests as if such accountholders were the holders of the Notes.

Enforcement

For the purposes of enforcement of the provisions of the Indentures by the Trustee, the persons named in a certificate of the holder of the Notes in respect of which a Global Note is issued shall be recognised as the beneficiaries of the trusts set out in the Indentures relating to the applicable series of Notes to the extent of the principal amounts of their interests in the Notes set out in the certificate of the holder, as if they were themselves the holders of the Notes in such principal amounts.

TAX CONSIDERATIONS

United Kingdom Taxation

The comments below are of a general nature and are not intended to be exhaustive. They assume that there will be no substitution of the Issuer or further issues of securities that will form a single series with the Notes, and do not address the consequences of any such substitution or further issue (notwithstanding that such substitution or further issue may be permitted by the terms and conditions of the Notes). Any Noteholders who are in doubt as to their own tax position should consult their professional advisers.

The comments in this part are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs). They do not necessarily apply where the income is deemed for tax purposes to be the income of any other person. They relate only to the position of persons who hold their Notes as investments (regardless of whether the holder also carries on a trade, profession or vocation through a permanent establishment, branch or agency to which the Notes are attributable) and are the absolute beneficial owners thereof. Certain classes of persons such as dealers, certain professional investors, or persons connected with the Issuer may be subject to special rules and this summary does not apply to such Noteholders.,

Payments of interest on the Notes may be made without deduction or withholding on account of United Kingdom income tax provided that the Notes are, and continue to be, listed on a "recognised stock exchange" within the meaning of Section 1005 of the Income Tax Act 2007 (the "**ITA**"). The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List by the United Kingdom Listing Authority and are admitted to trading on the London Stock Exchange. HM Revenue & Customs have confirmed that securities that are admitted to trading on the Professional Securities Markets satisfy the condition of being admitted to trading on the London Stock Exchange. Provided, therefore, that the Notes are, and remain, so listed and the London Stock Exchange continues to be a "recognised stock exchange" within the meaning of Section 1005 of the ITA, interest on the Notes will be payable without withholding or deduction on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that either: (i) the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; or (ii) the payment falls within section 935, 936 or 937 of the ITA, provided that, in both cases, HM Revenue & Customs has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to interest paid to a noteholder, HM Revenue & Customs can issue a notice to the Issuer to pay interest to the noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

The United Kingdom tax treatment of payments by the Guarantor under the terms of the Guarantees in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) is uncertain. Such payments may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.), subject to such relief as may be available following a direction by HM Revenue and Customs pursuant to

the provisions of any applicable double taxation treaty or to any other exemption which may apply. Such payments by the Guarantor may not be eligible for the exemptions described above.

No UK stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on their subsequent transfer.

Certain U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes who purchase Notes at the "issue price" (the first price at which a substantial amount of Notes is sold for money, excluding sales to underwriters, placement agents or wholesalers), that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or Medicare tax on net investment income), and does not address U.S. federal non-income (such as estate or gift), state, local or non-U.S. tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, entities or arrangements treated as partnerships for U.S. federal income tax purposes or investors therein, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if (A)(i) a court within the United States is able to exercise primary supervision over the administration of the trust and (ii) one or more U.S. persons have the authority to control all substantial decisions of the trust, or (B) the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This summary is based on the tax laws of the United States, including the Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF U.S. FEDERAL NON-INCOME, STATE, LOCAL AND NON-U.S. TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

Interest on a Note generally will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes (including any amounts withheld and any Additional Amounts paid in respect of withholding taxes imposed on payments on the Notes) constitutes income from sources outside the United States. For purposes of computing allowable foreign tax credits for U.S. federal income tax purposes, interest generally will be treated as "passive category" income, or, in the case of certain U.S. Holders, "general category" income. The rules relating to foreign tax credits are complex and prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

Sale, Retirement or Other Taxable Disposition of the Notes

A U.S. Holder generally will recognise gain or loss on the sale, retirement or other taxable disposition of a Note equal to the difference between the amount realised on the sale, retirement or other taxable disposition and the U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note generally will be its cost. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income.

Gain or loss recognised by a U.S. Holder on the sale, retirement or other taxable disposition of a Note generally will be U.S. source capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year at the time of the sale, retirement or other taxable disposition. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale, retirement or other taxable disposition of Notes.

Information Reporting and Backup Withholding

Payments of principal and interest on, and the proceeds of sale, retirement or other taxable disposition of Notes by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable U.S. Treasury regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Notes, including requirements related to the holding of certain "specified foreign financial assets".

PLAN OF DISTRIBUTION

Deutsche Bank Securities Inc., HSBC Securities (USA) Inc., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as representatives to the Initial Purchasers (the "**Representatives**"). The Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally agreed to purchase from the Issuer, the entire principal amount of the Notes if any of the Notes are purchased. The sale will be made pursuant to a purchase agreement among the Issuer, the Guarantor and the Initial Purchasers, dated 21 June 2017 (the "**Purchase Agreement**").

The Issuer has agreed to sell to the Initial Purchasers, and the Initial Purchasers have severally agreed to purchase from the Issuer, the principal amount of the Notes set forth below.

	Principal Amount			
Initial Purchaser	**Floating Rate Notes**	**2022 Fixed Rate Notes**	**2024 Fixed Rate Notes**	**2027 Fixed Rate Notes**
Deutsche Bank Securities Inc.	$75,000,000	$250,000,000	$200,000,000	$250,000,000
HSBC Securities (USA) Inc.	75,000,000	250,000,000	200,000,000	250,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	75,000,000	250,000,000	200,000,000	250,000,000
J.P. Morgan Securities LLC	56,250,000	187,500,000	150,000,000	187,500,000
Citigroup Global Markets Inc.	45,000,000	150,000,000	120,000,000	150,000,000
Banco Santander, S.A.	37,500,000	125,000,000	100,000,000	125,000,000
BNP Paribas Securities Corp.	37,500,000	125,000,000	100,000,000	125,000,000
Mizuho Securities USA LLC	37,500,000	125,000,000	100,000,000	125,000,000
SMBC Nikko Securities America, Inc.	37,500,000	125,000,000	100,000,000	125,000,000
Standard Chartered Bank	37,500,000	125,000,000	100,000,000	125,000,000
MUFG Securities Americas Inc.	33,750,000	112,500,000	90,000,000	112,500,000
Bank of China Limited London Branch	26,250,000	87,500,000	70,000,000	87,500,000
BBVA Securities Inc.	26,250,000	87,500,000	70,000,000	87,500,000
Commerz Markets LLC	26,250,000	87,500,000	70,000,000	87,500,000
ING Financial Markets LLC	26,250,000	87,500,000	70,000,000	87,500,000
RBC Capital Markets, LLC	26,250,000	87,500,000	70,000,000	87,500,000
Scotia Capital (USA) Inc.	26,250,000	87,500,000	70,000,000	87,500,000
UniCredit Bank AG	26,250,000	87,500,000	70,000,000	87,500,000
Wells Fargo Securities, LLC	11,250,000	37,500,000	30,000,000	37,500,000
Skandinaviska Enskilda Banken AB (publ)	7,500,000	25,000,000	20,000,000	25,000,000
Total	**$750,000,000**	**$2,500,000,000**	**$2,000,000,000**	**$2,500,000,000**

The obligations of the Initial Purchasers under the Purchase Agreement, including their agreement to purchase the Notes from the Issuer, are several and not joint. The Purchase Agreement provides that the Initial Purchasers will purchase all the Notes if any of them are purchased.

The Initial Purchasers initially propose to offer the Notes for resale at the issue prices that appear on the cover of this Offering Memorandum. After the initial Offering, the Initial Purchasers may change the offering prices and any other selling terms at any time without notice. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

Persons who purchase the Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering prices set forth on the cover page hereof.

The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by their counsel and our counsel. The Purchase Agreement also provides that, if an Initial Purchaser defaults, the purchase commitments of non-defaulting Initial Purchasers may be increased or, in some cases, the Offering may be terminated.

The Purchase Agreement provides that the Issuer and the Guarantor will indemnify and hold harmless the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof.

No action has been taken in any jurisdiction, including the United States and the United Kingdom, by the Issuer, the Guarantor or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Issuer, the Guarantor or the Notes in any jurisdiction where action for this purpose is required. Accordingly, the Notes and the Guarantees may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material or advertisements in connection with the Notes and the Guarantees may be distributed or published, in or from any country or jurisdiction, except under circumstances that would result in compliance with any applicable rules and regulations of any such country or jurisdiction. This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Offering Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the Offering, the distribution of this Offering Memorandum and resale of the Notes. See "*Transfer Restrictions*".

The Issuer and the Guarantor have also agreed that they will not at any time offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any securities under circumstances in which such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the Securities Act or the safe harbours of Rule 144A and Regulation S to cease to be applicable to the offer and sale of the Notes.

During the period beginning on the date of this Offering Memorandum and continuing to the date that is 60 days after the closing of this Offering, no member of the Group will, without the prior written consent of the Representatives, directly or indirectly, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise dispose of (except as contemplated hereunder), other than commercial paper, any debt securities of the Issuer or the Guarantor or any of its subsidiaries (or guaranteed by the Issuer or the Guarantor or any of its subsidiaries) or other securities of the Issuer or the Guarantor or any of its subsidiaries (or guaranteed by the Issuer or the Guarantor or any of its subsidiaries) that are convertible into, or exchangeable for, the Notes or other debt securities (other than the Notes).

The Notes are new issues of securities for which there are currently no markets. Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List of the UK Listing Authority and for the Notes to be admitted to trading on the Professional Securities Market of the London Stock Exchange. However, the Issuer cannot assure you that the Notes will be approved for listing or that such listing will be maintained.

The Initial Purchasers have advised the Issuer that they intend to make a market in each series of the Notes as permitted by applicable law. The Initial Purchasers are not obligated, however, to make a market in the Notes, and any market-making activity may be discontinued at any time at the sole discretion of the Initial Purchasers without notice. In addition, any such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Issuer cannot assure you that any markets for the Notes will develop, that they will be liquid if they do develop, or that you will be able to sell any Notes at a particular time or at prices which will be favourable to you. See "*Risk Factors – Risks Relating to the Notes –*

There may not be an active trading markets for any series of the Notes, in which case your ability to sell the Notes may be limited".

In connection with the Offering, the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market prices of the Notes at levels higher than that which might otherwise prevail. Accordingly, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager or persons acting on behalf of the Stabilisation Manager in accordance with all applicable laws and rules.

Certain of the Initial Purchasers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Group in the ordinary course of business, for which they have received or may receive customary fees and commissions. In addition, in the ordinary course of their business activities, the Initial Purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Group. If any of the Initial Purchasers or their affiliates have a lending relationship with the Group, certain of those Initial Purchasers or their affiliates routinely hedge, and certain other of those Initial Purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, such Initial Purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The Initial Purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities sand instruments.

It is expected that the delivery of the Notes will be made against payment on the Notes on or about the date specified on the cover page of this Offering Memorandum, which will be three business days (as such term is used for purposes of Rule 15c6-1 of the Exchange Act) following the date of pricing of the Notes (this settlement cycle is being referred to as "**T+3**"). Settlement procedures in other countries may vary and purchasers of Notes may be affected by such local settlement practices. Purchasers of the Notes who wish to make such trades should consult their own advisors.

United States

The Notes and the Guarantees have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Initial Purchaser has represented and agreed that, except as permitted by the Purchase Agreement, it will not offer or sell the Notes and the Guarantees (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Initial Purchaser to which it sells Notes and the Guarantees during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes and the Guarantees within the United

States or to, or for the account or benefit of, U.S. persons. Except as otherwise defined herein, terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the Offering of the Notes and the Guarantees, an offer or sale of Notes or Guarantees within the United States by any dealer that is not participating in the Offering may violate the registration requirements of the Securities Act.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Initial Purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of Notes which are the subject of the Offering contemplated by this Offering Memorandum to the public in that Relevant Member State, other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Initial Purchaser or Initial Purchasers nominated by the Issuer for any such offer; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes shall require the Issuer or any Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the foregoing restrictions:

- the expression an "**offer of Notes to the public**" in relation to the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State;
- the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Initial Purchaser has represented and agreed that.

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in; from or otherwise involving the United Kingdom.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions*

or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("**NI 33-105**"), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this Offering.

Hong Kong

Each Initial Purchaser has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

Each Initial Purchaser has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore Accordingly, each Initial Purchaser has represented and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute. this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act. Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA. or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor: or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Japan

The Notes have not been, and will not be, registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Initial Purchaser has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

TRANSFER RESTRICTIONS

The Notes and the Guarantees have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and, unless so registered, may not be offered, sold or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes offered hereby are being offered and sold only to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and in offshore transactions to non-U.S. persons in reliance on Regulation S. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as defined therein.

Each purchaser of the Notes within the United States, by accepting delivery of this Offering Memorandum, will be deemed to have acknowledged, represented to and agreed with the Issuer and the Initial Purchasers as follows:

(1) It is (a) a QIB, (b) acquiring such Notes and the Guarantees for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes and the Guarantees has been advised, that the sale of such Notes and the Guarantees to it is being made in reliance on Rule 144A.

(2) It understands and acknowledges that the Notes and the Guarantees have not been, and will not be, registered under the Securities Act or any other applicable securities laws, and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction to non-U.S. persons in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.

(3) It understands that such Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THIS NOTE AND THE GUARANTEE IN RESPECT HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, PRIOR TO THE DATE WHICH IS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS NOTE, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION TO NON-U.S. PERSONS IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) TO THE ISSUER, THE GUARANTOR OR ANY SUBSIDIARY THEREOF, OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

(4) It acknowledges that the Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements and agrees that if any of the acknowledgements, representations, warranties and agreements deemed to have been made by its purchase of the Notes are no longer

accurate, it shall promptly notify the Initial Purchasers. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

(5) It understands that the Notes offered in reliance on Rule 144A will be represented by 144A Global Notes. Before any interest in 144A Global Notes may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S Global Notes, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Indenture) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes and the Guarantees may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser of Notes and the Guarantees outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes and the Guarantees in resales prior to the expiration of 40 days after the later of the original Issue Date of the Notes and the Guarantees and the date on which the Notes and the Guarantees were first offered to persons other than "distributors", as defined in Rule 902 of Regulation S (the "**distribution compliance period**"), by accepting delivery of this Offering Memorandum and the Notes and the Guarantees, will be deemed to have represented, acknowledged and agreed with the Issuer and the Initial Purchasers as follows:

(1) It is, or at the time Notes and the Guarantees are purchased will be, the beneficial owner of such Notes and the Guarantees and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

(2) It understands and acknowledges that the Notes and the Guarantees have not been, and will not be, registered under the Securities Act, and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes and the Guarantees except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

(3) It acknowledges that the Issuer, the Initial Purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations, warranties and agreements.

(4) It understands that the Notes offered in reliance on Regulation S will be represented by Regulation S Global Notes. Prior to the expiration of the distribution compliance period, before any interest in Regulation S Global Notes may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the 144A Global Notes, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Indenture) as to compliance with applicable securities laws.

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for us by Linklaters LLP, with respect to U.S. federal, New York law and English law. Certain legal matters in connection with the Offering will be passed upon for the Initial Purchasers by Shearman & Sterling (London) LLP, London, England, with respect to U.S. federal, New York and English law.

INDEPENDENT AUDITORS

The consolidated financial statements of Reckitt Benckiser as of and for the years ended 31 December 2016, 2015 and 2014, and the non-consolidated financial statements of Reckitt Benckiser Treasury Services plc as of and for the years ended 31 December 2016 and 2015, included in this Offering Memorandum have been audited by PricewaterhouseCoopers LLP of 1 Embankment Place, London WC2N 6RH, United Kingdom, as set forth in their opinions appearing herein.

The consolidated financial statements of Mead Johnson as of 31 December 2016 and 2015 and for the years ended 31 December 2016, 2015 and 2014, incorporated by reference in this Offering Memorandum have been audited by Deloitte & Touche LLP of 111 S Wacker Dr, Chicago, IL 60606, United States.

WHERE YOU CAN FIND MORE INFORMATION

We are not subject to the periodic reporting and other information requirements of the Exchange Act. In connection with this Offering, we do not intend to register the Notes with the SEC and thereby trigger reporting obligations under the Exchange Act.

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this Offering Memorandum and, to the extent provided to the Initial Purchasers by us for such purpose, any related amendments or supplements to this Offering Memorandum. Each person receiving this Offering Memorandum and any related amendments or supplements to this Offering Memorandum acknowledges that:

(1) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to (1) above, no person has been authorised to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorised by us or the Initial Purchasers.

For so long as any of the Notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, Reckitt Benckiser will, during any period in which it is neither subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act nor exempt from reporting thereunder pursuant to Rule 12g3-2(b), make available to any holder or beneficial owner the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act upon the written request of any such holder or beneficial owner. We expect to be exempt from Exchange Act reporting by reason of Rule 12g3-2(b).

Pursuant to the Indentures and so long as any series of the Notes are outstanding, we will furnish periodic information to holders of such series of the Notes. See "*Description of Notes – Covenants of the Issuer and the Guarantor – Provision of Financial and Other Information*". For so long as any series of the Notes are listed on the Official List of the UK Listing Authority and the London Stock Exchange and the rules of such exchange so require, copies of the Issuer's and the Guarantor's organisational documents, the Indentures (which include the Guarantees and the form of the applicable Notes), and the RB Financial Statements, the Issuer Financial Statements and the MJ Financial Statements may be inspected and obtained by request to the Company Secretary at the Issuer's and Guarantor's registered office at 103-105 Bath Road, Slough, Berkshire SL1 3UH United Kingdom, telephone number + 44 (0)1753 217800.

See also "*Listing and General Information – Documents Available for Inspection*" in respect of documents available for a period of 12 months from the date of this Offering Memorandum, including the annual reports of Reckitt Benckiser for 2015 and 2016.

LISTING AND GENERAL INFORMATION

Listing

Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List of the UK Listing Authority and for the Notes to be admitted to trading on the Professional Securities Market of the London Stock Exchange.

The total fees and expenses of this Offering are approximately $32 million (equivalent), of which expenses related to the admission to trading of the Notes are approximately £2,000.

Clearing Information

The Notes have been accepted for clearance through the facilities of DTC. The CUSIP and ISIN numbers are as follows:

Floating Rate Notes:

- Rule 144A: CUSIP: 75625Q AF6; ISIN: US75625QAF63.
- Regulation S: CUSIP: G7420T AF3; ISIN: USG7420TAF33.

2022 Fixed Rate Notes:

- Rule 144A: CUSIP: 75625Q AC3; ISIN: US75625QAC33.
- Regulation S: CUSIP: G7420T AC0; ISIN: USG7420TAC02.

2024 Fixed Rate Notes:

- Rule 144A: CUSIP: 75625Q AD1; ISIN: US75625QAD16.
- Regulation S: CUSIP: G7420T AD8; ISIN: USG7420TAD84.

2027 Fixed Rate Notes:

- Rule 144A: CUSIP: 75625Q AE9; ISIN: US75625QAE98.
- Regulation S: CUSIP: G7420T AE6; ISIN: USG7420TAE67.

Authorisation

The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer, dated 14 June 2017. The giving of the Guarantees was duly authorised by resolutions of the Board of Directors of the Guarantor, dated 4 May 2017 and by resolutions of the Transaction Committee of the Board of Directors of the Guarantor, dated 14 June 2017.

Yield for the Fixed Rate Notes

On the basis of the issue price of 2022 Fixed Rate Notes of 99.906 per cent. of their principal amount, the yield on the 2022 Fixed Rate Notes is 2.395 per cent. on an annual basis.

On the basis of the issue price of 2024 Fixed Rate Notes of 99.892 per cent. of their principal amount, the yield on the 2024 Fixed Rate Notes is 2.767 per cent. on an annual basis.

On the basis of the issue price of 2027 Fixed Rate Notes of 99.700 per cent. of their principal amount, the yield on the 2027 Fixed Rate Notes is 3.035 per cent. on an annual basis.

No Significant Change

There has been no material adverse change in the prospects of the Issuer, the Guarantor or the Group since 31 December 2016. There has also been no significant change in the financial or trading position of (a) the Issuer, or the Issuer and its subsidiaries taken as a whole, since 31 December 2016 and (b) the Guarantor or the Group since 31 December 2016.

Consents

PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion of the report included in "*Selected Unaudited Pro Forma Financial Information*", in the form and context in which it appears, and has authorised the contents of its reports for the purposes of LR4.2.13(1)(c).

Documents Available for Inspection

Copies of the documents set out below are available for inspection during usual business hours on any weekday (public holidays excepted) for a period of 12 months from the date of this Offering Memorandum at the registered office of Reckitt Benckiser Group plc at 103-105 Bath Road, Slough, Berkshire SL1 3UH, United Kingdom, telephone number + 44(0)1753 217800:

- the constitutional documents of the Issuer and the constitutional documents of the Guarantor;
- a copy of this Offering Memorandum, together with any supplement to this Offering Memorandum;
- the Annual Report and Financial Statements of Mead Johnson as filed on Form 10-K for the year ended 31 December 2016 and the Quarterly Report of Mead Johnson as filed on Form 10-Q for the quarter ended 31 March 2017; and
- the Indentures.

DEFINITIONS AND GLOSSARY

The following definitions apply throughout this document, unless stated otherwise:

Acquisition	the acquisition of Mead Johnson pursuant to the Merger Agreement
Board	the board comprising the Directors
BMS	Bristol-Myers Squibb Company
BRL	Brazilian Real
China	the People's Republic of China including Hong Kong
Company, Reckitt Benckiser or the Guarantor	Reckitt Benckiser Group plc
Completion	completion of the Acquisition on 15 June 2017
consumer health	over-the-counter medicines, sexual wellbeing products, footcare products, vitamins and infant and children's nutrition
developing markets	the geographic regions that RB reports as "DvM" and the geographic regions that Mead Johnson reports as Asia and Latin America
DHA	docosahexaenoic acid
Directors	the directors of the Company, whose names are set out on page 140 of this Offering Memorandum
DOJ	United States Department of Justice
DvM	Africa, Middle East (excluding Israel), Turkey, Asia (excluding Russia/CIS) and Latin America business segment
ENA	Europe (including Russia/CIS and Israel), North America and Australia/New Zealand business segment
Enlarged Group	the Company and its consolidated subsidiaries including Mead Johnson
Facilities Agreement	a term and revolving facilities agreement entered into by the Company and the Issuer with Bank of America, N.A., Deutsche Bank AG, London Branch and HSBC Bank plc
FDA	United States Food and Drug Administration
FSMA	Financial Services and Markets Act 2000
FTC	United States Federal Trade Commission
Group or RB	(1) prior to the Acquisition, the Company and its consolidated subsidiaries excluding Mead Johnson and (2) after the Acquisition, the Company and its consolidated subsidiaries including Mead Johnson
IFRS	International Financial Reporting Standards as adopted by the European Union

Indivior	Indivior PLC
infant and children's nutrition	milk formula and related products
Issuer	Reckitt Benckiser Treasury Services plc
KCDC	Korean Centre for Disease Control
KRW	South Korean Won
LTIP	the Reckitt Benckiser Group plc 2007 Long-Term Incentive Plan and the Reckitt Benckiser Group 2015 Long Term Incentive Plan
Mead Johnson	Mead Johnson Nutrition Company, a Delaware corporation
Mead Johnson Group	Mead Johnson and its consolidated subsidiaries
Merger Agreement	the merger agreement between the Company, Mead Johnson and Marigold Merger Sub, Inc., a wholly-owned subsidiary of Reckitt Benckiser incorporated in Delaware, dated 10 February 2017, which sets out the terms for the Acquisition of Mead Johnson by Reckitt Benckiser
Non-GAAP	financial measures which are not within the scope of IFRS or U.S. GAAP
operating margin	EBIT divided by net sales
Oxy RB	Oxy Reckitt Benckiser LLC
R&D	research and development
SEC	U.S. Securities and Exchange Commission
Signing Date	the date the merger agreement related to the Acquisition was signed, 10 February 2017
SQC	safety, quality and compliance
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland
UK GAAP	generally accepted accounting principles in the United Kingdom
U.S. or United States or United States of America	the United States of America (including the states of the United States and the District of Columbia), its possessions and territories and all areas subject to its jurisdiction
USDA	United States Department of Agriculture
U.S. GAAP	generally accepted accounting principles in the United States
WHO	World Health Organization
WIC	the Special Supplemental Nutrition Program for Women, Infants and Children, a USDA program

All times referred to are London times unless otherwise stated.

All references to legislation in this document are to the legislation of England and Wales unless otherwise stated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

(This page has intentionally been left blank)

INDEX TO FINANCIAL STATEMENTS

	Page
RECKITT BENCKISER GROUP PLC	
Audited Consolidated Financial Statements as of and for the year ended 31 December 2016	
Independent Auditors' Report to the members of Reckitt Benckiser Group plc	F-2
Group Income Statement	F-9
Group Statement of Comprehensive Income	F-10
Group Balance Sheet	F-11
Group Statement of Changes in Equity	F-12
Group Cash Flow Statement	F-13
Notes to the Financial Statements	F-14
Audited Consolidated Financial Statements as of and for the year ended 31 December 2015	
Independent Auditors' Report to the members of Reckitt Benckiser Group plc	F-56
Group Income Statement	F-63
Group Statement of Comprehensive Income	F-64
Group Balance Sheet	F-65
Group Statement of Changes in Equity	F-66
Group Cash Flow Statement	F-67
Notes to the Financial Statements	F-68
Audited Consolidated Financial Statements as of and for the year ended 31 December 2014	
Independent Auditors' Report to the members of Reckitt Benckiser Group plc	F-104
Group Income Statement	F-110
Group Statement of Comprehensive Income	F-111
Group Balance Sheet	F-112
Group Statement of Changes in Equity	F-113
Group Cash Flow Statement	F-114
Notes to the Financial Statements	F-115
RECKITT BENCKISER TREASURY SERVICES PLC	
Audited Financial Statements as of and for the year ended 31 December 2016	
Independent Auditors' Report to the members of Reckitt Benckiser Treasury Services plc.	F-155
Statement of Comprehensive Income	F-157
Balance Sheet	F-158
Statement of Changes in Equity	F-159
Notes to the Financial Statements	F-160
Audited Financial Statements as of and for the year ended 31 December 2015	
Independent Auditors' Report to the members of Reckitt Benckiser Treasury Services plc	F-186
Statement of Comprehensive Income	F-187
Balance Sheet	F-188
Statement of Changes in Equity	F-189
Notes to the Financial Statements	F-190

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

Report on the Group Financial Statements

Our opinion

In our opinion, Reckitt Benckiser Group plc's Group Financial Statements (the "Financial Statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

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

In our opinion, the Financial Statements comply with IFRSs as issued by the IASB.

What we have audited

The Financial Statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Group Balance Sheet as at 31 December 2016;
- the Group Income Statement and the Group Statement of Comprehensive Income for the year then ended;
- the Group Cash Flow Statement for the year then ended;
- the Group Statement of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Our audit approach

Overview

Materiality	• Overall Group materiality: £138 million which represents 5% of profit before income tax, adjusted for non-recurring exceptional items.
Audit scope	• We conducted audit work in 18 countries in which the Group has significant operations. • The reporting units where we performed an audit of their complete financial information accounted for 77% of Group revenue and 77% of Group profit before income tax, adjusted for non-recurring exceptional items. • The Group engagement team visited 16 of the 18 component audit teams to attend audit clearance meetings and discuss the audit approach and findings with those local teams. • For those countries not visited we maintained regular contact with the local team and evaluated the outcome of their audit work.
Areas of focus	• Accounting for customer trade spend. • Provision for uncertain tax exposures. • Accounting for provisions and impairments resulting from the RB Oxy Humidifiers issue. • Valuation of provisions for liabilities arising from legal investigations. • The classification of exceptional items. • Goodwill and intangible asset impairment assessment.

The scope of our audit and our areas of focus

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

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

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

Area of focus	How our audit addressed the area of focus
Accounting for customer trade spend Refer to page 72 (Audit Committee review of areas of significant judgement) and page 114 (accounting policies). As is industry practice, in each country in which the Group operates there are numerous types of complex commercial arrangements with retailers and other customers that have a range of terms (for example promotions, rebates and discounts). Trade spend arrangements have varying terms, some of which are supported by annual contracts or joint business plans, whilst others are based on shorter term agreements entered into during the year. In addition, the level and timing of promotions for individual products or ranges varies from period to period, and activity can span over a year end. These judgements impact the reported results of the country, segment and the Group and in particular influence the calculation of net revenue and country operating profit, both of which are key performance indicators for management incentive schemes. We consider there to be a specific risk associated with the accuracy of the trade spend that has been incurred in the year as this is material and can be complex and judgemental. In particular we focused on the approval of the arrangements, the period to which the spend relates and whether balances had been settled. In addition, we focused on estimates of the obligations at the reporting date in respect of all trade spend arrangements ("trade spend accruals"). We focused on this area due to the complexity and level of judgement required in making the key assumptions underpinning the estimates. For example: • The date of shipment to the retailer and the period over which the promotion will run may differ; • Details of the retailers' EPOS data may be required to determine the accuracy of trade spend committed at the reporting date: and • Promotions may span over the year end and therefore estimation of the future volume or margin levels of the retailer must be forecast to determine the level of the accrual required. Therefore, our areas of focus included whether the accruals were understated and appropriately valued, whether trade spend was recorded in the correct period and whether the significant one-off transactions had been accurately recorded in the Income Statement.	Our audit procedures included understanding and evaluating the controls and systems related to the trade spend process, and where appropriate obtaining audit evidence through testing operating effectiveness of relevant controls together with substantive audit procedures. Testing of controls included examining appropriate authorisation for trade spend agreements and contracts, considering segregation of duties over the creation and approval of the accruals and testing the resolution of variations between actual and expected trade spend. The substantive audit procedures performed for each individual component varied depending upon the component team and the nature of the trade spend and type of agreement but included the following tests, on a sample basis: • Agreeing costs incurred during the year to invoices and other correspondence from the customers and subsequent settlement; • Agreeing key elements of the estimates to supporting documentation such as joint business plans, contracts and EPOS data; • Circularising external confirmations to the customers to confirm the existence of specific promotions and the underlying key assumptions of the accrual calculation; • Recalculating management's estimates; • Evaluating the accuracy of the prior year trade spend balance by comparing the historic accruals to actual spend incurred; and • Testing trade spend transactions around the year end to determine whether they had been recognised in the appropriate period. As the Group engagement team, we were specifically involved in determining and assessing the appropriateness of the audit approach for each component in this area. This satisfied us that sufficient focus was placed on the more judgemental areas and that, whilst complex, the area was well understood and sufficient focus was placed on the risk area.
Provision for uncertain tax exposures Refer to page 52 (Principal risks) and page 71 (Audit Committee review of areas of significant judgement) and Note 7 (Income Tax Expense). Due to the Group operating across a number of different tax jurisdictions it is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business. These challenges include transaction related tax matters, financing and transfer pricing arrangements arising from centralised functions that drive value across a number of different countries. Where the amount of tax payable is uncertain, the Group establishes provisions based on management's judgement of the probable amount of the liability. We focused on the judgements made by management in assessing the quantification and likelihood of certain potential exposures and therefore the level of provision required for specific cases. We also considered the impact of changes in country tax environments across the Group, which could materially impact the amounts recorded in the Financial Statements.	We updated our detailed understanding of the Group's tax strategy and Group transfer pricing policy, particularly in relation to any changes implemented during 2016, we assessed key technical tax issues and risks related to business and legislative developments using, where applicable, our local and international tax specialists. We obtained explanations from management and corroborative evidence including, communication with local tax authorities, details of progress with Advanced Pricing Agreements and copies of external tax advice reports relating to tax treatments applied and the corresponding provisions recorded. We challenged management's key assumptions, in particular on cases where there had been significant developments with local tax authorities, noting no significant deviations from our expectations. We also evaluated whether the liabilities and potential exposures were appropriately disclosed in the Financial Statements.

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

Area of focus	How our audit addressed the area of focus
Accounting for provisions and impairments resulting from the RB Oxy Humidifiers issue Refer to pages 14 to 15, Note 17 (Provisions for liabilities and charges) and Note 3 (analysis of net operating expenses). In 2001, RB acquired Oxy, a South Korean company which manufactured and sold Humidifier Sanitiser (HS) products. The product was subsequently withdrawn following an epidemiology study that concluded that certain HS products may be the cause of reported lung and respiratory injuries and deaths. In 2016 management publicly apologised for its role and committed to set up a compensation fund for the victims. Management recorded a total exceptional charge of £300 million in the year, principally associated with the provision for the compensation fund and associated costs and the write off of certain local brands following the significant decline in trading. There is significant complexity and a high level of management judgement associated with determining the likelihood and magnitude of the required provision, in particular due to the number of people who meet the criteria to be compensated by the RB scheme and the severity of their injuries. There is a risk that the provisions are not held at the correct value and that there may be associated assets which should be impaired. Finally, there is a risk that management includes insufficient disclosure within the Financial Statements.	Our audit procedures focused on understanding the basis for management's provisions and impairments and in particular the assumptions and judgements made by management. In respect of the asset impairments we obtained detailed trading analysis for the year and an understanding of future plans for the local South Korean brands to determine whether there was any recoverable value to the brands. In respect of the provision we substantively tested management's model, including performing the following procedures: • Discussed and corroborated the key facts of the situation and key assumptions within the provision with external legal counsel. • Obtained confirmations from external legal counsel and compared their assessment of the facts and circumstances of the case with management's. • Verified assumptions associated with the number of people eligible for compensation to official South Korean Government body press releases. • Confirmed the settlements agreed to date to signed agreements and verified that the basis of the provision is consistent with these settlements. • Assessed the work of management's experts used to estimate the future medical costs. • Checked the mathematical accuracy of the model. • Performed our own sensitivities to assess the appropriateness of management's assumptions. We have also assessed the completeness of the contingent liability disclosures in respect of other potential exposures which cannot currently be reliably estimated. Based upon the procedures performed we considered management's provisions, impairments and disclosures to be appropriate.
Valuation of provisions for liabilities arising from legal investigations Refer to page 51 (Principal risks), Note 17 (Provisions for liabilities and charges) and Note 19 (Contingent liabilities and assets). The Group has been subject to a number of legal investigations, for example in respect of violations of antitrust and competition laws, and has recorded a provision on its Balance Sheet of £329 million, including the provision held for the RB Oxy Humidifiers issue referenced above. In addition, the Group is currently involved in ongoing investigations by the US Department of Justice, which has been disclosed as a contingent liability. There is a high level of management judgement associated with determining the need for, and the magnitude of, provisions for any liabilities arising from these investigations. Therefore, we consider there to be a risk that the provisions may be held at the incorrect value on the Balance Sheet and that disclosure within the Annual Report in respect of these cases and their potential impact on the Financial Statements may not be sufficient.	Our audit procedures focused on the assumptions and judgements made by management in determining the recognition and valuation of associated provisions and contingent liabilities. We confirmed that, where applicable, discussions took place with in-country legal teams and audit evidence was sought in that location, such as obtaining external confirmations. This was corroborated with the Group legal team to understand the status of any significant investigations or litigation, the associated risks and the basis for any provision recorded. We obtained and read relevant legal documents that confirmed the existence of each case and quantified expected liabilities. We obtained confirmations from the Group's external legal counsel, and where considered necessary held calls with external counsel, and compared their description and assessment of the facts and circumstances of the cases and, where applicable the potential outcome against management's and the internal legal team's assessment. We did not identify any significant inconsistencies.

Area of focus	How our audit addressed the area of focus
The classification of exceptional items Refer to page 111 (accounting policies) and Note 3 (Analysis of net operating expenses). In the past few years the Group has had significant levels of 'exceptional items' which are disclosed separately within the Income Statement and are excluded from management's reporting of the underlying results of the business. The nature of these 'exceptional items' are explained within the Group accounting policy and includes restructuring costs, gains or losses arising on acquisitions or disposals and costs resulting from non-recurring legal or regulatory matters. This year the Group has identified £367 million of net exceptional items which relate primarily to the South Korea issue discussed above and the 'Group-led' restructuring programme associated with Project Supercharge. Our specific area of focus was to assess whether the items identified by management met the definition within the Group's accounting policy and have been treated consistently, as the identification of such items required judgement by management. Consistency in the identification and presentation of these items is important to ensure comparability of year-on-year reporting within the Annual Report and Financial Statements.	We obtained corroborative evidence for the items presented within 'exceptional items'. We challenged management's rationale for the designation of certain items as 'exceptional' and assessed such items against the Group's accounting policy and the consistency of treatment with prior periods. We also considered whether there were items that were recorded within underlying profit that we determined to be 'exceptional' in nature and should have been included within 'exceptional items'. No such items were identified.
Goodwill and intangible asset impairment assessment Refer to page 71 (Audit Committee review of areas of significant judgement) and Note 9 (Goodwill and other intangible assets) The Group has goodwill of £3,920 million and other indefinite lived intangible assets of £9,428 million as at 31 December 2016 which are required to be tested for impairment on an annual basis. Management has allocated these assets to individual cash generating units (CGUs) and groups of CGUs (GCGUs) and there is judgement around how these are determined, specifically in respect of changes in the year. In 2016 the Group exercised its option to acquire the legal title to intellectual property associated with the collaboration agreement with Bristol Myers Squibb (BMS) and as a result created a new CGU. There is further judgement around the determination of the recoverable amount, being the higher of value in use and fair value less costs of disposal. Recoverable amounts are based on management's view of the future results and prospects of the business, the appropriate discount rates to be applied and specific risk factors applied to the GCGUs and CGUs. Due to VMS, BMS and Oriental Pharma being recent acquisitions, the brands remain relatively more sensitive to impairment. These three indefinite life CGUs are primarily concentrated in single markets, the US, Brazil and Mexico and China respectively, although the VMS brand continues to be rolled out across Europe and Asia. The key judgements in determining the recoverable amount of these GCGUs are in respect of the forecast cash flows within these primary markets, the use of appropriate discount rates and the long-term growth rates applied.	We evaluated the process by which management prepared its cash flow forecasts and compared them against the latest Board approved plans and management approved forecasts. We evaluated the historical accuracy of the plans and forecasts, for example by comparing the forecasts used in the prior year model to the actual performance of the business in the current year. These procedures enabled us to determine the accuracy of the forecasting process and apply appropriate sensitivities to the cash flows. We assessed the appropriateness of management's discount rates, future cash flows and long-term growth rates, specifically focusing on the CGUs identified opposite. We benchmarked assumptions against industry and peer group comparators and metrics such as country inflation rates. Based upon our assessments described above, we challenged management on the appropriateness of its sensitivity calculations by applying our own sensitivity analysis to the forecast cash flows, long-term growth rates and discount rates to ascertain the extent to which reasonable adverse changes would, either individually or in aggregate, require an impairment of either the goodwill or indefinite life assets. Following these assessments we concluded that sensitivity disclosures were only required for the BMS and Oriental Pharma CGUs. We determined that no impairment charges were required, based on the results of our work. Management has described the key sensitivities applied in the 'Goodwill and other intangible assets' note to the Financial Statements.

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

How we tailored the audit scope

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

The Group is organised into two geographical regions being DvM (Developing Markets including North Africa, Middle East (excluding Israel), North Africa and Turkey, Africa, South Asia, North Asia, Latin America and ASEAN) and ENA (Europe (including Russia and Israel), North America and Australia and New Zealand). There is also a separate segment for the Food business.

Each country within the aforementioned geographical regions and Food business consists of a number of management reporting entities which are consolidated by Group management. The Group Financial Statements are a consolidation of 715 reporting units representing the operating businesses within these geographical-based divisions and the centralised functions.

The reporting units vary in size and we identified 56 reporting units from across the two geographic regions and Food business that required an audit of their complete financial information due to their individual size or risk characteristics. The reporting units where we performed an audit of their complete financial information accounted for 77% of the Group's profit before income tax, adjusted for non-recurring exceptional items and 77% of the Group's revenue. Included within these 56 reporting units were three reporting units that were audited by the Group engagement team, including the Group's treasury company and the parent company.

Audits of the revenue financial statement line item were performed in a further two reporting units.

The 53 reporting units, excluding those audited by the Group engagement team, are audited by 18 component auditor teams. The Group engagement team visited 16 of the 18 local component teams to meet with local management, attend audit clearance meetings and discuss the audit approach and findings with the local audit teams. For those countries not visited we had regular communication with the local teams, both before and after their audit. Our attendance at the clearance meetings, review and discussion of the audit results at overseas locations, together with the additional procedures performed at a Group level described below, gave us the evidence we needed for our opinion on the Group Financial Statements as a whole.

Our audit procedures at the Group level included the audit of the consolidation, the UK pension schemes (due to their size) and certain tax procedures.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the Financial Statements as a whole.

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

Overall Group materiality	£138 million (2015: £117 million).
How we determined it	5% of profit before income tax, adjusted for non-recurring exceptional items.
Rationale for benchmark applied	Profit before income tax, adjusted for the impact of all non-recurring exceptional items, provides us with a consistent year-on-year basis for determining materiality and is, we believe, the metric most commonly used by the Shareholders as a body in assessing the Group's performance.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £8 million and £72 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6 million (2015: £6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' Statement, set out on page 96, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' Statement about whether they considered it appropriate to adopt the going concern basis in preparing the Financial Statements. We have nothing material to add or to draw attention to.

As noted in the Directors' Statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the Financial Statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these Statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• 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.
• the statement given by the Directors on page 96, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 70 and 71, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on page 67 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 46 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' Statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' Statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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

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

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

Corporate Governance Statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the Financial Statements and the audit
Our responsibilities and those of the Directors
As explained more fully in the Directors' Statement of Responsibilities set out on page 96, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

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

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

What an audit of Financial Statements involves
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:
- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter
We have reported separately on the parent company Financial Statements of Reckitt Benckiser Group plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Gill (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 March 2017

Group Income Statement

For the year ended 31 December	Note	2016 £m	2015 £m
Net Revenue	2	**9,891**	8,874
Cost of sales		**(3,865)**	(3,628)
Gross profit		**6,026**	5,246
Net operating expenses	3	**(3,616)**	(3,005)
Operating profit	2	**2,410**	2,241
Adjusted operating profit		**2,777**	2,374
Exceptional items	3	**(367)**	(133)
Operating profit		**2,410**	2,241
Finance income	6	**42**	21
Finance expense	6	**(58)**	(54)
Net finance expense		**(16)**	(33)
Profit before income tax		**2,394**	2,208
Income tax expense	7	**(558)**	(463)
Net income		**1,836**	1,745
Attributable to non-controlling interests		**4**	2
Attributable to owners of the parent		**1,832**	1,743
Net income		**1,836**	1,745
Basic earnings per ordinary share (pence)	8	**260.2**	244.4
Diluted earnings per ordinary share (pence)	8	**256.5**	240.9

Group Statement of Comprehensive Income

For the year ended 31 December	Note	2016 £m	2015 £m
Net income		**1,836**	1,745
Other comprehensive income/(expense)			
Items that may be reclassified to profit or loss in subsequent years			
Net exchange gains/(losses) on foreign currency translation, net of tax	7	**1,618**	(124)
Losses on net investment hedges, net of tax	7	**(128)**	(49)
(Losses)/gains on cash flow hedges, net of tax	7	**(22)**	14
Reclassification of foreign currency translation reserves on disposal of foreign operations, net of tax	7	**–**	33
		1,468	(126)
Items that will not be reclassified to profit or loss in subsequent years			
Revaluation of available for sale financial assets	7	**(2)**	–
Remeasurements of defined benefit pension plans, net of tax	7	**(138)**	46
		(140)	46
Other comprehensive income/(expense), net of tax		**1,328**	(80)
Total comprehensive income		**3,164**	1,665
Attributable to non-controlling interests		**4**	2
Attributable to owners of the parent		**3,160**	1,663
Total comprehensive income		**3,164**	1,665

Group Balance Sheet

As at 31 December	Note	2016 £m	2015 £m
ASSETS			
Non-current assets			
Goodwill and other intangible assets	9	**13,454**	11,296
Property, plant and equipment	10	**878**	730
Available for sale financial assets	14	**39**	–
Deferred tax assets	11	**81**	57
Retirement benefit surplus	22	**36**	63
Other non-current receivables	13	**81**	240
		14,569	12,386
Current assets			
Inventories	12	**770**	681
Trade and other receivables	13	**1,623**	1,331
Derivative financial instruments	14	**158**	121
Current tax recoverable		**14**	9
Short-term investments	14	**3**	–
Cash and cash equivalents	15	**882**	740
		3,450	2,882
Total assets		**18,019**	15,268
LIABILITIES			
Current liabilities			
Short-term borrowings	16	**(1,585)**	(1,749)
Provisions for liabilities and charges	17	**(251)**	(229)
Trade and other payables	20	**(3,495)**	(2,948)
Derivative financial instruments	14	**(58)**	(22)
Current tax liabilities	21	**(12)**	(91)
		(5,401)	(5,039)
Non-current liabilities			
Long-term borrowings	16	**(804)**	(671)
Deferred tax liabilities	11	**(1,983)**	(1,692)
Retirement benefit obligations	22	**(361)**	(257)
Other provisions	17	**(174)**	(115)
Non-current tax liabilities	21	**(740)**	(559)
Other non-current liabilities	20	**(130)**	(29)
		(4,192)	(3,323)
Total liabilities		**(9,593)**	(8,362)
Net assets		**8,426**	6,906
EQUITY			
Capital and reserves			
Share capital	23	**74**	74
Share premium		**243**	243
Merger reserve		**(14,229)**	(14,229)
Hedging reserve	25	**(4)**	18
Foreign currency translation reserve	25	**526**	(964)
Retained earnings		**21,811**	21,762
Attributable to owners of the parent		**8,421**	6,904
Attributable to non-controlling interests		**5**	2
Total equity		**8,426**	6,906

The Financial Statements on pages 105 to 151 were approved by the Board of Directors and signed on its behalf on 20 March 2017 by:

ADRIAN BELLAMY
Director

RAKESH KAPOOR
Director

Group Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2015		74	243	(14,229)	(820)	21,564	6,832	2	6,834
Comprehensive income									
Net income		–	–	–	–	1,743	1,743	2	1,745
Other comprehensive (expense)/income		–	–	–	(126)	46	(80)	–	(80)
Total comprehensive (expense)/income		**–**	**–**	**–**	**(126)**	**1,789**	**1,663**	**2**	**1,665**
Transactions with owners									
Treasury shares re-issued	23	–	–	–	–	74	74	–	74
Share-based payments	24	–	–	–	–	50	50	–	50
Current tax on share awards	7	–	–	–	–	5	5	–	5
Deferred tax on share awards	7	–	–	–	–	8	8	–	8
Shares repurchased and held in Treasury	17,23	–	–	–	–	(804)	(804)	–	(804)
Cash dividends	28	–	–	–	–	(924)	(924)	(2)	(926)
Total transactions with owners		**–**	**–**	**–**	**–**	**(1,591)**	**(1,591)**	**(2)**	**(1,593)**
Balance at 31 December 2015		**74**	**243**	**(14,229)**	**(946)**	**21,762**	**6,904**	**2**	**6,906**
Comprehensive income									
Net income		–	–	–	–	1,832	1,832	4	1,836
Other comprehensive income/(expense)		–	–	–	1,468	(140)	1,328	–	1,328
Total comprehensive income		**–**	**–**	**–**	**1,468**	**1,692**	**3,160**	**4**	**3,164**
Transactions with owners									
Treasury shares re-issued	23	–	–	–	–	79	79	–	79
Share-based payments	24	–	–	–	–	66	66	–	66
Current tax on share awards	7	–	–	–	–	14	14	–	14
Deferred tax on share awards	7	–	–	–	–	(4)	(4)	–	(4)
Shares repurchased and held in Treasury	17,23	–	–	–	–	(702)	(702)	–	(702)
Cash dividends	28	–	–	–	–	(1,035)	(1,035)	(1)	(1,036)
Transactions with non-controlling interests		–	–	–	–	(61)	(61)	–	(61)
Total transactions with owners		**–**	**–**	**–**	**–**	**(1,643)**	**(1,643)**	**(1)**	**(1,644)**
Balance at 31 December 2016		**74**	**243**	**(14,229)**	**522**	**21,811**	**8,421**	**5**	**8,426**

The merger reserve relates to the 1999 combination of Reckitt & Colman plc and Benckiser N.V. and a Group reconstruction in 2007 treated as a merger under Part 27 of the Companies Act 2006.

Refer to Note 25 for an explanation of other reserves.

Group Cash Flow Statement

For the year ended 31 December	Note	2016 £m	2015 £m
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		**2,410**	2,241
Depreciation, amortisation and impairment		**183**	171
Other non-cash gains		**–**	(33)
Decrease in inventories		**14**	22
Increase in trade and other receivables		**(39)**	(218)
Decrease in payables and provisions		**(1)**	(23)
Non-cash exceptional items		**318**	85
Share-based payments		**66**	50
Cash generated from operations		**2,951**	2,295
Interest paid		**(56)**	(54)
Interest received		**40**	23
Tax paid		**(513)**	(480)
Net cash generated from operating activities		**2,422**	1,784
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(179)**	(154)
Purchase of intangible assets		**(214)**	(25)
Proceeds from the sale of property, plant and equipment		**7**	51
Acquisition of businesses, net of cash acquired		**(158)**	(10)
Purchase of available for sale financial assets		**(36)**	–
Purchase of short-term investments		**(3)**	–
Maturity of short-term investments		**–**	3
Proceeds on disposal of subsidiaries		**–**	1
Net cash used in investing activities		**(583)**	(134)
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares repurchased and held in Treasury	23	**(802)**	(804)
Treasury shares re-issued	23	**79**	74
Proceeds from borrowings		**469**	23
Repayment of borrowings		**(695)**	(165)
Dividends paid to owners of the parent	28	**(1,035)**	(924)
Dividends paid to non-controlling interests		**(1)**	(2)
Other financing activities		**219**	–
Net cash used in financing activities		**(1,766)**	(1,798)
Net increase/(decrease) in cash and cash equivalents		**73**	(148)
Cash and cash equivalents at beginning of the year		**737**	913
Exchange gains/(losses)		**63**	(28)
Cash and cash equivalents at end of the year		**873**	737
Cash and cash equivalents comprise:			
Cash and cash equivalents	15	**882**	740
Overdrafts	16	**(9)**	(3)
		873	737
RECONCILIATION OF NET CASH FLOWS FROM OPERATIONS			
Net cash generated from operating activities		**2,422**	1,784
Net purchases of property, plant and equipment		**(172)**	(103)
Net cash flow from operations		**2,250**	1,681

Notes to the Financial Statements

1 Accounting Policies

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

Basis of Preparation

These Financial Statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRSs), IFRS Interpretations Committee (IFRS IC) interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements are also in compliance with IFRSs as issued by the International Accounting Standards Board.

These Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit or loss. A summary of the Group's more important accounting policies is set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

Adoption of New and Revised Standards

There are no new standards, amendments or interpretations which have been adopted for the first time and have a significant impact on the accounting policies applied in preparing the annual consolidated Financial Statements of the Group.

In these Financial Statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 15: *Revenue from Contracts with Customers* which will be effective for annual periods beginning on or after 1 January 2018;
- IFRS 9: *Financial Instruments* which will be effective for annual periods beginning on or after 1 January 2018; and
- IFRS 16: *Leases* which will be effective for annual periods beginning on or after 1 January 2019.

The Group is in the process of evaluating the impact of each of these new standards, focusing on IFRS 9 and IFRS 15, given their application dates. IFRS 9 is likely to impact the measurement and disclosure of financial instruments and IFRS 15 may have an impact on revenue recognition. IFRS 16 will impact the treatment of the Group's operating leases. It is not practicable to provide an impact of these new standards until this evaluation has been completed.

A number of other new standards, amendments and interpretations are effective for annual periods beginning on or after 1 January 2017 and have not yet been applied in preparing these Financial Statements. None of these are expected to have a significant effect on the Financial Statements of the Group.

Going Concern

Having assessed the principal risks and other matters discussed in connection with the Viability Statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the consolidated Financial Statements. Further detail is contained in the Strategic Report on pages 46 to 53.

Basis of Consolidation

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

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

Foreign Currency Translation

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

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

The Financial Statements of overseas subsidiary undertakings are translated into Sterling on the following basis:

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

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

Business Combinations

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

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

1 Accounting Policies continued

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

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

Acquisition related costs are expensed as incurred.

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

Disposal of Subsidiaries

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

Non-Controlling Interests

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

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

Revenue

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

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

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

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

Value added tax and other sales taxes are excluded from Net Revenue.

Operating Segments

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

Exceptional Items

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

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

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

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

Research and Development

Research expenditure is expensed in the year in which it is incurred.

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

Income Tax

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

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

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

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

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

Notes to the Financial Statements continued

1 Accounting Policies continued

Goodwill and Other Intangible Assets

(i) Goodwill
Goodwill is allocated to the cash generating unit (CGU), or group of CGUs, to which it relates and is tested annually for impairment. Goodwill is carried at cost less accumulated impairment losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 Accounting Policies continued

Cash and Cash Equivalents

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

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

Bank overdrafts are included within short-term borrowings in the Balance Sheet.

Borrowings

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

Derivative Financial Instruments and Hedging Activity

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

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

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 recycled to the Income Statement when the foreign operation is disposed of.

Employee Share Schemes

Incentives in the form of shares are provided to employees under share option and restricted share schemes vested in accordance with non-market conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each Balance Sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Additional employer costs in respect of options and awards are charged, including social security taxes, to the Income Statement over the same period with a corresponding liability recognised.

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

Pension Commitments

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

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

The deficit or surplus recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance Sheet date, less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows by the yield on high quality corporate bonds denominated in the currency in which the benefits will be paid, and that have a maturity approximating to the terms of the pension obligations. The costs of providing these defined benefit plans are accrued over the period of employment. Actuarial gains and losses are recognised immediately in other comprehensive income.

Past-service costs are recognised immediately in profit or loss.

The net interest amount is calculated by applying the discounted rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset.

The net pension plan interest is presented as finance income/expense.

Post-Retirement Benefits Other than Pensions

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

Provisions

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

Notes to the Financial Statements continued

1 Accounting Policies continued

Share Capital Transactions

When the Group purchases equity share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Purchased shares are either held in Treasury, in order to satisfy employee options, or cancelled and, in order to maintain capital, an equivalent amount to the nominal value of the shares cancelled would be transferred from retained earnings to the capital redemption reserve.

Dividend Distribution

Dividends to owners of the parent are recognised as a liability in the period in which the dividends are approved by the Company's Shareholders. Interim dividends are recorded in the period in which they are approved and paid.

Dividend payments are recorded at fair value. Where non-cash dividend payments are made, gains arising as a result of fair value remeasurements, are recognised in profit or loss in the same period.

Accounting Estimates and Judgements

In the application of the Group's accounting policies the Directors are required to make a number of estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, that the Directors have made in the process of applying the Group's accounting policies, that have the most significant effect on the amounts recognised in the Group's Financial Statements.

- The Group recognises legal and regulatory provisions in line with the Group's provisions policy. The level of provisioning for regulatory civil and/or criminal investigation is an issue where management and legal judgement is important (Note 17). These are valued based on the Directors' best estimates taking into account all available information, external advice and historical experience.
- The Group has identified matters which may incur liabilities in the future, but do not recognise these where it is too early to determine the likely outcome or make a reliable estimate (Note 19).
- The continuing enduring nature of the Group's brands supports the indefinite life assumption of these assets (Note 9).
- The actual tax paid on profits is determined based on tax laws and regulations that differ across the numerous jurisdictions in which the Group operates. Assumptions are made in applying these laws to the taxable profits in any given period in order to calculate the tax charge for that period. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the Income Statement in the period in which it is determined (Note 7).
- Assumptions are made as to the recoverability of tax assets especially as to whether there will be sufficient future taxable profits in the same jurisdictions to fully utilise losses in future years (Note 11).
- The Group is subject to tax audits and uncertainties in a number of jurisdictions. The issues involved can be complex and disputes may take a number of years to resolve. Each uncertainty is separately assessed and the provision recognised depends on the specific context of each case. The accounting estimates and judgements considered include:
  - Status of the unresolved matter;
  - Strength of technical argument and clarity of legislation;
  - External advice;
  - Resolution process, past experience and precedents set with the particular taxing authority;
  - Agreements previously reached in other jurisdictions on comparable issues; and
  - Statute of limitations.

Management is of the opinion that the carrying values of the provisions made in respect of these matters represent the most accurate measurement once all facts and circumstances have been taken into account. Nevertheless, the final amounts paid to discharge the liabilities arising (either through negotiated settlement or litigation) will in all likelihood be different from the provision recognised. The net liabilities are included in amounts disclosed in Note 21.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the Balance Sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Estimates of future business performance and cash generation, discount rates and long-term growth rates supporting the net book amount of indefinite life intangible assets at the Balance Sheet date (Note 9). If the actual results should differ, or changes in expectations arise, impairment charges may be required which would adversely impact operating results.
- Measurement of intangible assets both in business combinations and other asset acquisitions requires the Group to identify such assets. Assumptions and estimates are made about future cash flows and appropriate discount rates to value identified intangible assets (Note 27).
- The Group provides for amounts payable to our trade customers for promotional activity. Where a promotional activity spans across the year end, an accrual is reflected in the consolidated Financial Statements based on our estimation of customer and consumer uptake during the promotional period and the extent to which temporary promotional activity has occurred. Details of trade spend accrued as at year end are provided in Note 20.
- The value of the Group's defined benefit pension plan obligations are dependent on a number of key assumptions. These include assumptions over the rate of increase in pensionable salaries, the discount rate to be applied, the level of inflation and the life expectancy of the schemes members. Details of the key assumptions and the sensitivity of the principal schemes carrying value to changes in the assumptions are set out in Note 22.

2 Operating Segments

The Executive Committee is the Group's Chief Operating Decision Maker (CODM). Management has determined the operating segments based on the reports reviewed by the Executive Committee for the purposes of making strategic decisions and assessing performance. The Executive Committee considers the business principally from a geographical perspective, but with Food being managed separately given the significantly different nature of this business and the associated risks and rewards.

The Group's geographical segments comprise ENA and DvM. ENA comprises Europe, Russia/CIS, Israel, North America, Australia and New Zealand. DvM principally comprises North Africa, Middle East (excluding Israel) and Turkey, Africa, South Asia, North Asia, Latin America, Japan, South Korea and ASEAN.

The geographical segments derive their revenue primarily from the sale of branded products in the Health, Hygiene and Home categories. Food derives its revenue from food products primarily sold in ENA countries.

The Executive Committee assesses the performance of the operating segments based on Net Revenue from external customers and Adjusted Operating Profit. Intercompany transactions between operating segments are eliminated. Finance income and expense are not allocated to segments, as they are managed on a central Group basis.

The segment information provided to the Executive Committee for the operating segments for the year ended 31 December is as follows:

Year ended 31 December 2016	**ENA £m**	**DvM £m**	**Food £m**	**Total £m**
Net Revenue	**6,410**	**3,070**	**411**	**9,891**
Depreciation, amortisation and impairment	**117**	**60**	**6**	**183**
Adjusted operating profit	**1,978**	**681**	**118**	**2,777**
Exceptional items				**(367)**
Operating profit				**2,410**
Net finance expense				**(16)**
Profit before income tax				**2,394**

Year ended 31 December 2015	ENA £m	DvM £m	Food £m	Total £m
Net Revenue	5,830	2,695	349	8,874
Depreciation, amortisation and impairment	104	62	5	171
Adjusted operating profit	1,744	528	102	2,374
Exceptional items				(133)
Operating profit				2,241
Net finance expense				(33)
Profit before income tax				2,208

The Executive Committee reviews Net Working Capital by segment and other assets and liabilities on a Group basis. The split of assets and liabilities by segment provided to the Executive Committee is shown below. Assets and liabilities not presented to the Executive Committee are shown below as a reconciling item.

2016	**ENA £m**	**DvM £m**	**Food £m**	**Total £m**
Inventories	**516**	**272**	**24**	**812**
Trade and other receivables	**930**	**624**	**48**	**1,602**
Total segment assets	**1,446**	**896**	**72**	**2,414**
Trade and other payables	**(2,050)**	**(1,118)**	**(78)**	**(3,246)**

Notes to the Financial Statements continued

2 Operating Segments (continued)

2015	ENA £m	DvM £m	Food £m	Total £m
Inventories	491	208	22	721
Trade and other receivables	785	474	29	1,288
Total segment assets	1,276	682	51	2,009
Trade and other payables	(1,745)	(912)	(58)	(2,715)

The assets and liabilities are reported based upon the operations of the segment and the physical location of the asset or liability. There are a number of Group assets and liabilities that are not specifically attributable to one segment. Reconciliation of these assets and liabilities to total assets or liabilities in the Balance Sheet is shown below:

	2016 £m	2015 £m
Inventories for operating segments	**812**	721
Unallocated:		
Group adjustments	**(42)**	(40)
Total inventories per the Balance Sheet	**770**	681
Trade and other receivables for operating segments	**1,602**	1,288
Unallocated:		
Group items	**21**	43
Total trade and other receivables per the Balance Sheet	**1,623**	1,331
Total inventories and trade and other receivables per the Balance Sheet	**2,393**	2,012
Other unallocated assets	**15,626**	13,256
Total assets per the Balance Sheet	**18,019**	15,268
Trade and other payables for operating segments	**(3,246)**	(2,715)
Unallocated:		
Group items	**(249)**	(233)
Total trade and other payables per the Balance Sheet	**(3,495)**	(2,948)
Other unallocated liabilities	**(6,098)**	(5,414)
Total liabilities per the Balance Sheet	**(9,593)**	(8,362)

Group adjustments to inventory relate to the elimination of intercompany profit in inventory.

Unallocated assets include goodwill and intangible assets, property, plant and equipment, deferred and current tax, available for sale assets, retirement benefit surplus, other receivables, derivative financial assets, and cash and cash equivalents. Unallocated liabilities include borrowings, provisions for liabilities and charges, current and deferred tax liabilities, other liabilities and retirement benefit obligations.

The Company is domiciled in the UK. The split of Net Revenue from external customers and Non-Current Assets (other than available for sale financial assets, deferred tax assets and retirement benefit surplus assets) between the UK, the US (being the single biggest country outside the country of domicile) and that from all other countries is:

2016	**UK £m**	**US £m**	**All other countries £m**	**Total £m**
Net Revenue	**747**	**2,648**	**6,496**	**9,891**
Goodwill and other intangible assets	**1,927**	**5,624**	**5,903**	**13,454**
Property, plant and equipment	**154**	**183**	**541**	**878**
Other non-current receivables	**12**	**53**	**16**	**81**

2015	UK £m	US £m	All other countries £m	Total £m
Net Revenue	729	2,338	5,807	8,874
Goodwill and other intangible assets	1,916	4,710	4,670	11,296
Property, plant and equipment	143	153	434	730
Other non-current receivables	12	38	190	240

2 Operating Segments (continued)

The Net Revenue from external customers reported on a geographical basis above is measured consistently with that in the operating segments. Major customers are typically large grocery chains, mass markets and multiple retailers. The Group's customer base is diverse with no single external customer accounting for more than 10% of Net Revenue.

Analysis of Categories

The primary analysis within the information provided to the Executive Committee is based on the geographical areas above. An analysis of Net Revenue by category is given below.

	Net Revenue	
	2016 £m	2015 £m
Health	**3,332**	2,942
Hygiene	**4,066**	3,589
Home	**1,828**	1,715
Portfolio Brands (including Food)	**665**	628
	9,891	8,874

Health, Hygiene, Home and Portfolio Brands categories are all split across the two geographical segments of ENA and DvM. Food is sold primarily in ENA but is recognised within a separate operating segment.

3 Analysis of Net Operating Expenses

	2016 £m	2015 £m
Distribution costs	**(2,457)**	(2,165)
Administrative expenses:		
Research and development	**(149)**	(140)
Other	**(648)**	(575)
Total administrative expenses	**(797)**	(715)
Other net operating income	**5**	8
Exceptional items	**(367)**	(133)
Net operating expenses	**(3,616)**	(3,005)

Net foreign exchange gains of £9 million (2015: £7 million loss) have been recognised through the Income Statement. These amounts exclude foreign exchange gains and losses recognised directly in the foreign currency translation reserve.

Exceptional Items

	2016 £m	2015 £m
South Korea 'HS' issue	**300**	–
Acquisition, integration and restructuring costs	**67**	76
Loss on disposal of Russian hospital business	**–**	57
Total exceptional items	**367**	133

Exceptional items totalling £367 million (2015: £133 million) have been recognised during the year.

These relate primarily to the HS issue in South Korea. A background to this issue is set out in the South Korea HS section of the Strategic Report. Details of the exceptional costs recognised in 2016, mainly in respect of the Compensation Plan, are set out in this Note.

The Compensation Plan was established by Oxy RB to provide fair compensation to Oxy HS product users categorised by the South Korean government in Rounds 1 and 2 of the South Korean Government's categorisation process as suffering, or having suffered, lung damage which was "almost certainly" (Category I) or had a "high possibility" (Category II) of being a result of their use of Oxy RB's HS product. It was designed in consultation with these victims and their families, informed by four overarching values of Fairness, Transparency, Respect and Speed and is aimed at addressing each person according to their own individual circumstances, including those who have previously entered into settlement agreements with us.

Notes to the Financial Statements continued

3 Analysis of Net Operating Expenses (continued)

Compensation for Category I and II Oxy HS victims categorised in Rounds 1 and 2 comprises two elements:
- A payment to reflect mental distress/pain and suffering, lost income (past and future), past medical, certain legal and other expenses plus interest. This payment for a victim could be up to approximately KRW 1 billion (c.£700k) for death or severe disability.
- Compensation proposals for victims living with the ongoing effects of the Oxy HS product, include a commitment to cover their future medical costs and care needs which are incurred as a reasonably foreseeable consequence of their HS-related lung condition.

In 2014, Oxy RB announced the creation of a Humanitarian Fund of KRW 5 billion (£3 million) for HS-affected individuals to be administered in cooperation with two governmental organisations in South Korea. In April 2016, Oxy RB announced its intention to add another KRW 5 billion (£3 million) to the fund.

We expect to incur a number of other non-recurring costs in relation to the HS issue. These include advisers' fees, costs in administering the Compensation Plan and costs associated with operation of the local business.

We have classified the expected costs as follows:
- where we consider the costs to be probable and we are currently able to estimate the quantum of costs, we have provided for them; and
- where we do not consider the costs to be probable or are currently unable to estimate the quantum or likely outcome of potential future costs, we have disclosed them as a contingent liability.

Exceptional costs recognised in 2016

During 2016, we have charged £300 million to exceptional costs in relation to this issue, comprising of both cash and non-cash items. These include:
- Expected compensation payments, including the value of expected future medical costs, to be paid on an "as incurred" basis where borne by the Group, to Oxy HS Round 1 and 2 victims categorised as Category I or II (a total of 183 victims, four of whom have already received settlements from another manufacturer). 97% of these victims have registered for the Compensation Plan.
- An estimate of compensation payments and future medical costs for victims who could be categorised as Category I and II Round 3 applicants. As of 25 January 2017, 353 (47% of the total 752 applicants) Round 3 cases have been reviewed. Of them, 53 (15%) have been recognised as Category I or II HS victims, 49 of whom indicated that they used the Oxy HS product either on its own or in conjunction with another HS product. The South Korean government has stated its intention to complete categorisation of the remaining Round 3 applicants by the end of 2017.
- Legal and other associated costs directly linked to the HS issue including civil and criminal proceedings – including both legal fees and potential fines. On 6 January 2017, the South Korean criminal court found Oxy RB guilty of false labelling under South Korea's Fair Labelling & Advertising Act, a charge which the company did not contest, and fined Oxy RB KRW 150 million (£0.1 million). Two current Oxy RB employees were sentenced to five and seven years' imprisonment respectively for occupational negligence and false labelling. Oxy RB's former General Manager and former Head of R&D were each sentenced to seven years' imprisonment for the same offences. All four individuals were employees of Oxy at the time it was acquired by the Group in 2001. Some of the conduct that was the object of the criminal prosecution took place prior to the acquisition. A former General Manager was acquitted of all charges. These sentences were generally less than the prosecutor had requested. The current and former employees who were convicted have appealed. The Prosecutor's Office has appealed against (i) the acquittal of four of the current and former employees of charges of criminal fraud, (ii) the acquittal of the former General Manager of all charges; and (iii) the sentences of all those convicted (except Oxy RB because the maximum fine was imposed).
- Costs associated with the set-up and operation of the Compensation Plan infrastructure.
- A provision for the additional amount committed to the Humanitarian Fund in April 2016.
- An impairment charge against the carrying value of a number of Oxy RB local brands (c. £44 million).
- Other directly connected costs of the local business.

The provision does not include any costs associated with the reported 4,059 Round 4 applicants who registered for categorisation between April and December 2016, nor any contributions to a Special Relief Account contemplated by the HS Damage Relief Act passed by the South Korean National Assembly on 20 January 2017. These are disclosed as a contingent liability, in Note 19.

The remaining £67 million (2015: £76 million) of exceptional items relate to the restructuring of the Group's operations, and the integration of acquisitions. Costs incurred consist primarily of legal and other professional fees, redundancy and business integration costs which have been included within net operating expenses.

In the prior year, a loss of £57 million was recognised on the disposal of Medcom-MP, the entity owning the Russian hospital business. This included a loss of £33 million arising from the recycling, from equity, of previous exchange losses arising on the consolidation of the legal entity sold.

4 Auditor's Remuneration

During the year, the Group (including its overseas subsidiaries) obtained the following services from the Company's Auditor and its associates.

	2016 £m	2015 £m
Audit services pursuant to legislation		
Audit of the Group's Annual Report and Financial Statements	**2.0**	2.0
Audit of the Financial Statements of the Group's subsidiaries	**3.9**	3.6
Audit related assurance services	**0.2**	0.2
Total audit and audit-related services	**6.1**	5.8
Fees payable to the Company's Auditor and its associates for other services:		
Taxation compliance services	**0.2**	0.1
Taxation advisory services	**1.0**	1.2
Other assurance services	**0.1**	0.1
All other non-audit services	**–**	–
Total non-audit services	**1.3**	1.4
	7.4	7.2

Included within Audit of the Financial Statements of the Group's subsidiaries is £nil (2015: £0.2 million) in relation to the audit of the Financial Statements of associated pension plans of the Group.

5 Employees

Staff Costs

	Note	2016 £m	2015 £m
The total employment costs, including Directors, were:			
Wages and salaries		**969**	923
Social security costs		**179**	158
Other pension costs	22	**8**	27
Share-based payments	24	**66**	50
		1,222	1,158

Executive Directors aggregate emoluments were £2,356,574 (2015: £7,625,435).

Compensation awarded to key management (the Executive Committee) was:

	2016 £m	2015 £m
Short-term employee benefits	**7**	17
Post-employment benefits	**1**	1
Share-based payments	**29**	22
Termination benefits	**–**	–
	37	40

Termination benefits and share-based payments include contractual commitments made to key management in 2016, comprising cash payments and share awards.

Staff Numbers

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

	2016 '000	2015 '000
ENA	**14.2**	15.5
DvM	**18.8**	18.0
Other	**1.7**	1.2
	34.7	34.7

Notes to the Financial Statements continued

6 Net Finance Expense

	2016 £m	2015 £m
Finance income		
Interest income on cash and cash equivalents	**42**	21
Total finance income	**42**	21
Finance expense		
Interest payable on borrowings	**(47)**	(36)
Net pension plan interest	**(6)**	(8)
Amortisation of issue costs of bank loans	**(4)**	(5)
Other finance expense	**(1)**	(5)
Total finance expense	**(58)**	(54)
Net finance expense	**(16)**	(33)

7 Income Tax Expense

	2016 £m	2015 £m
Current tax	**530**	483
Adjustment in respect of prior periods	**16**	92
Total current tax	**546**	575
Origination and reversal of temporary differences	**48**	(48)
Impact of changes in tax rates	**(36)**	(64)
Total deferred tax (Note 11)	**12**	(112)
Income tax expense	**558**	463

Current tax includes tax incurred by UK entities of £81 million (2015: £75 million). This is comprised of UK corporation tax of £61 million (2015: £53 million) and overseas tax suffered of £20 million (2015: £22 million). UK current tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year, net of relief for overseas taxes where available. Taxation in other jurisdictions is calculated at the rates prevailing in those jurisdictions.

The deferred tax impact of changes in tax rates of £36 million (2015: £64 million) primarily relates to the enactment of reductions in the future UK corporation tax rate from 18% to 17%. This results in a reduction in closing deferred tax assets and liabilities.

Origination and reversal of temporary differences includes adjustment in respect of prior periods of £12 million (2015: £14 million).

The total tax charge on the Group's profits for the year can be reconciled to the notional tax charge calculated at the UK tax rate as follows:

	2016 £m	2015 £m
Profit before income tax	**2,394**	2,208
Tax at the notional UK corporation tax rate of 20% (2015: 20.25%)	**479**	447
Effect of:		
Overseas tax rates	**(45)**	(145)
Movement in provision related to uncertain tax positions	**35**	51
Unrecognised tax losses	**54**	5
Withholding and local taxes	**22**	13
Reassessment of prior year estimates	**28**	106
Impact of changes in tax rates	**(36)**	(64)
Exceptional items	**9**	19
Other permanent differences	**12**	31
Income tax expense	**558**	463

The effect of overseas tax rates represents the impact of profits arising outside the UK that are taxed at different rates to the UK rate.

Amounts recognised in the Income Statement in respect of tax contingencies (Note 21) are shown in the movement in provision related to uncertain tax positions.

7 Income Tax Expense continued

The unrecognised tax loss arising in 2016 predominantly relates to the tax value of losses arising in South Korea from the HS issue, for which recovery is not anticipated in the foreseeable future.

Reassessment of prior year estimates arose as a result of revised tax filings and differences between final tax return submissions and liabilities accrued in these Financial Statements. Other permanent differences relate to non-tax deductible expenditure.

The Group's future effective tax rate will continue to be sensitive to the levels of profit arising in those jurisdictions where the applicable tax rate is materially higher or lower than the Group's underlying rate.

Changes in tax legislation and other circumstances that affect tax calculations could adversely affect our financial condition and results of operations. We conduct business operations in a number of countries, and are therefore subject to tax and intercompany pricing laws in multiple jurisdictions, including those relating to the flow of funds between RB and its subsidiaries. Our effective tax rate in any given financial year reflects a variety of factors that may not be present in succeeding financial years, and may be affected by changes in the tax laws of the jurisdictions in which we operate, or the interpretation of such tax laws. Certain tax positions taken by us are based on industry practice, tax advice and drawing similarities from our facts and circumstances to those in case law. In particular, international transfer pricing is an area of taxation that depends heavily on the underlying facts and circumstances and generally involves a significant degree of judgement.

Changes in tax laws, regulations and related interpretations (including those arising as a result of the OECD's base erosion and profit shifting project and from the EU's investigations into potential breach of State Aid rules in respect of tax rulings) and increased enforcement actions and penalties may alter the environment in which we do business, and tax planning arrangements are frequently scrutinised by tax authorities worldwide. We have in the past faced, and may in the future face, audits and challenges brought by tax authorities, and we are involved in ongoing tax investigations in a number of jurisdictions around the world. If material challenges were to be successful, our effective tax rate may increase, we may be required to modify structures at significant costs to us, we may also be subject to interest and penalty charges and we may incur costs in defending litigation or reaching a settlement. Any of the foregoing could materially and adversely affect our business, financial condition and results of operations.

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	2016			2015		
	Before tax £m	**Tax credit/ (charge) £m**	**After tax £m**	Before tax £m	Tax credit/ (charge) £m	After tax £m
Net exchange gains/(losses) on foreign currency translation	**1,618**	**–**	**1,618**	(124)	–	(124)
Losses on cash flow and net investment hedges	**(158)**	**8**	**(150)**	(34)	(1)	(35)
Reclassification of foreign currency translation reserves on disposal of foreign operations	**–**	**–**	**–**	33	–	33
Remeasurement of defined benefit pension plans (Note 22)	**(176)**	**38**	**(138)**	63	(17)	46
Revaluation of available for sale financial assets	**(2)**	**–**	**(2)**	–	–	–
Other comprehensive income	**1,282**	**46**	**1,328**	(62)	(18)	(80)
Current tax		**10**			4	
Deferred tax (Note 11)		**36**			(22)	
		46			(18)	

The tax credited/(charged) directly to the Statement of Changes in Equity during the year is as follows:

	2016 £m	2015 £m
Current tax	**14**	5
Deferred tax (Note 11)	**(4)**	8
	10	13

Notes to the Financial Statements continued

8 Earnings per Share

	2016 pence	2015 pence
Basic earnings per share	**260.2**	244.4
Diluted earnings per share	**256.5**	240.9
Adjusted basic earnings per share	**306.3**	262.4
Adjusted diluted earnings per share	**302.0**	258.6

Basic
Basic earnings per share is calculated by dividing the net income attributable to owners of the parent (2016: £1,832 million; 2015: £1,743 million) by the weighted average number of ordinary shares in issue during the year (2016: 704,164,106; 2015: 713,063,230).

Diluted
Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company has the following categories of potentially dilutive ordinary shares: Executive Share Awards (including Executive Share Options and Executive Restricted Share Scheme Awards) and Employee Sharesave Scheme Options. The options only dilute earnings when they result in the issue of shares at a value below the market price of the share and when all performance criteria (if applicable) have been met. As at 31 December 2016 there were nil (2015: 4 million) Executive Share Awards excluded from the dilution because the exercise price for the options was greater than the average share price for the year.

	2016 Average number of shares	2015 Average number of shares
On a basic basis	**704,164,106**	713,063,230
Dilution for Executive Share Awards	**9,405,777**	9,680,716
Dilution for Employee Sharesave Scheme Options outstanding	**730,750**	802,516
On a diluted basis	**714,300,633**	723,546,462

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

	2016 £m	2015 £m
Net income attributable to owners of the parent	**1,832**	1,743
Exceptional items	**367**	133
Tax effect of exceptional items	**(42)**	(5)
Adjusted net income attributable to owners of the parent	**2,157**	1,871

9 Goodwill and Other Intangible Assets

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
Cost					
At 1 January 2015	7,938	3,282	97	115	11,432
Additions	–	–	25	–	25
Arising on business combinations	–	6	–	–	6
Disposals	–	–	(1)	–	(1)
Exchange adjustments	31	15	–	(8)	38
At 31 December 2015	**7,969**	**3,303**	**121**	**107**	**11,500**
Additions	359	–	25	–	384
Arising on business combinations	24	148	–	–	172
Disposals	–	–	(12)	(44)	(56)
Exchange adjustments	1,197	491	3	2	1,693
At 31 December 2016	**9,549**	**3,942**	**137**	**65**	**13,693**
Accumulated amortisation and impairment					
At 1 January 2015	89	24	23	44	180
Amortisation and impairment charge	3	–	15	15	33
Disposals	–	–	(1)	–	(1)
Exchange adjustments	–	(3)	–	(5)	(8)
At 31 December 2015	**92**	**21**	**37**	**54**	**204**
Amortisation and impairment charge	59	–	14	6	79
Disposals	–	–	(12)	(41)	(53)
Exchange adjustments	5	1	2	1	9
At 31 December 2016	**156**	**22**	**41**	**20**	**239**
Net book value					
At 31 December 2015	**7,877**	**3,282**	**84**	**53**	**11,296**
At 31 December 2016	**9,393**	**3,920**	**96**	**45**	**13,454**

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

Software includes intangible assets under construction of £26 million (2015: £14 million).

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

During the year, the Group exercised its option to acquire the legal title to intellectual property associated with the collaboration agreement with Bristol Myers Squibb (BMS), as described in the Annual Report and Financial Statements 2013. The amount capitalised reflects a cash payment of £189 million and a prepayment made in 2013 of £170 million (at 2016 exchange rates).

Goodwill arising on business combinations during the year primarily relates to the Hypermarcas acquisition discussed in Note 27.

Notes to the Financial Statements continued

9 Goodwill and Other Intangible Assets continued

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

Net book amount	2016 £m	2015 £m
Indefinite life assets:		
Brands	**9,383**	7,857
Goodwill	**3,920**	3,282
Other	**45**	40
Total indefinite life assets	**13,348**	11,179
Finite life assets:		
Brands	**10**	20
Software	**96**	84
Other	**–**	13
Total finite life assets	**106**	117
Total net book amount of intangible assets	**13,454**	11,296

Goodwill and other intangible assets with indefinite lives are allocated to either individual cash generating units (CGUs), or groups of cash generating units (together 'GCGU's). The goodwill and intangible assets with indefinite lives are tested for impairment at the level at which identifiable cash inflows are largely independent. Generally this is at a GCGU level, but for certain intangible assets this is at a CGU level.

Cash Generating Units

After considering all the evidence available, including how brand and production assets generate cash inflows and how management monitors the business, the Directors have concluded that for the purpose of impairment testing of goodwill and intangible assets, the Group's GCGUs are as follows: Health, Hygiene, Home, and Food.

An analysis of the net book value of indefinite life assets and goodwill by GCGU is shown below:

		2016			2015		
GCGU	Powerbrands	Indefinite life assets £m	Goodwill £m	Total £m	Indefinite life assets £m	Goodwill £m	Total £m
Health[1]	Durex, Gaviscon, Mucinex, Nurofen, Scholl, Strepsils	**7,182**	**3,713**	**10,895**	5,937	3,091	9,028
Hygiene	Bang, Clearasil, Dettol, Finish, Harpic, Lysol, Mortein, Veet	**1,371**	**162**	**1,533**	1,175	146	1,321
Home[2]	Air Wick, Calgon, Vanish, Woolite	**835**	**45**	**880**	751	45	796
Food	French's	**40**	**–**	**40**	34	–	34
		9,428	**3,920**	**13,348**	7,897	3,282	11,179

1 Within the Health GCGU, the cash flows in relation to certain groups of brands are separately identifiable. As a result, the carrying value of these brand-related intangible assets, in conjunction with associated property, plant and equipment, have been tested for impairment as CGUs. This is in addition to the impairment testing over goodwill and indefinite life assets for the wider GCGU. The CGUs tested separately are shown below, all of which fall under the Health GCGU in the above table.
2 Includes Portfolio Brands other than Food.

Carrying Value of CGU	2016 £m	2015 £m
Sexual Wellbeing	**2,124**	2,041
Oriental Pharma	**127**	118
BMS	**355**	–
VMS	**914**	892

Indefinite life assets relating to the Food GCGU are not considered significant relative to the Group's total indefinite life assets. As such the disclosures below do not include discussion on the assumptions specific to Food.

9 Goodwill and Other Intangible Assets continued

Annual Impairment Review

The annual impairment review of goodwill and indefinite life assets is based on an assessment of each GCGU's or CGU's value in use. Value in use is calculated from cash flow projections, based on historical operating results, short-term budgets, and medium-term business plans, which have each been approved by management and covers a five-year period. These projections exclude any estimated future cash inflows or outflows expected to arise from restructuring not yet implemented.

The value in use calculation is based on the following key assumptions used in the cash flow projections:

- Net Revenue growth based upon forecast future sales volumes and prices, which take account of the expected impact from committed new product initiatives, geographical expansion and the maturity of the markets in which each GCGU or CGU operates;
- Gross Margin based on historical experience adjusted for the impact of forecast production costs, cost optimisation initiatives and changes in product mix; and
- Marketing and other expenditure, reflecting historical experience, expected levels of cost inflation, committed cost saving initiatives and future levels of marketing support required to sustain, grow and further innovate brands.

Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rates stated below. The long-term growth rates applied do not exceed the long-term average growth rate for the products and markets in which the GCGU or CGU operates.

Management has assessed the appropriate discount rate for each individual GCGU and CGU. This has been done using a Weighted Average Cost of Capital (WACC) for comparable companies operating in similar markets and geographies as the Group, adjusted for risks specific to each GCGU and CGU.

Due to the wide geographic and product diversification of their respective markets, and the diverse risks associated with a number of GCGUs and CGUs, a pre-tax discount rate of 10% was determined for each of the Health, Hygiene and Home GCGUs as well as the Sexual Wellbeing CGU (2015: 10%).

The VMS and Oriental Pharma CGUs are predominantly concentrated in single markets, being the US and China respectively. BMS is predominantly concentrated in the Mexican and Brazilian markets. A pre-tax discount rate of 13% (2015: 13%) was therefore applied to VMS, 12% (2015: 12%) was applied to Oriental Pharma and 13% was applied to BMS, to reflect the risks specific to these businesses.

	2016		2015	
GCGU/CGU	Terminal growth rate %	Pre-tax discount rate %	Terminal growth rate %	Pre-tax discount rate %
Health	4	10	4	10
Hygiene	2	10	2	10
Home	1	10	1	10
Oriental Pharma	4	12	4	12
Sexual Wellbeing	4	10	4	10
BMS	4	13	–	–
VMS	2	13	3	13

Following the Group's annual impairment review, no impairments have been identified.

Any reasonably possible change in the key assumptions on which the recoverable amounts of the Health, Hygiene and Home GCGUs, and the Sexual Wellbeing and VMS CGU, are based would not imply possible impairments.

With a value in use exceeding its carrying value by £100 million (28%), the BMS CGU is sensitive to reasonably possible changes in key assumptions. The sensitivity of the recoverable amount has been assessed to identify the impact of reasonably possible changes in assumptions. If all other assumptions were held constant, a reduction in assumed growth rates in the first five years by 20% of those forecast would lead to a reduction in the value in use of this CGU of £54 million. In addition, a further reduction of 100 bps in the terminal growth rate would result in an additional reduction in the value in use of £35 million. Applying these sensitivities together would result in the value in use of this CGU exceeding its carrying value by £16 million.

The value in use of the Oriental Pharma CGU exceeds its carrying value by £55 million (43%) (2015 equal to carrying value), and as such is also sensitive to changes in key assumptions. If all other assumptions were held constant, a reduction in assumed growth rates in the first five years by 20% of that forecast would lead to a reduction in the value in use of this CGU of £24 million. In addition, a further reduction of 100 bps in the terminal growth rate would result in an additional reduction in the value in use of £17 million. Applying these sensitivities together would result in the value in use of this CGU exceeding its carrying value by £17 million.

Notes to the Financial Statements continued

10 Property, Plant and Equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 January 2015	531	1,190	1,721
Additions	15	139	154
Disposals	(10)	(60)	(70)
Reclassifications	39	(39)	–
Exchange adjustments	(17)	(64)	(81)
At 31 December 2015	**558**	**1,166**	**1,724**
Additions	6	173	179
Acquisitions	30	8	38
Disposals	(14)	(50)	(64)
Reclassifications	16	(16)	–
Exchange adjustments	80	154	234
At 31 December 2016	**676**	**1,435**	**2,111**
Accumulated depreciation and impairment			
At 1 January 2015	191	773	964
Charge for the year	30	107	137
Disposals	(8)	(50)	(58)
Impairment losses	5	5	10
Exchange adjustments	(8)	(51)	(59)
At 31 December 2015	**210**	**784**	**994**
Charge for the year	32	116	148
Disposals	(12)	(47)	(59)
Impairment losses	11	10	21
Exchange adjustments	29	100	129
At 31 December 2016	**270**	**963**	**1,233**
Net book value			
As at 31 December 2015	**348**	**382**	**730**
As at 31 December 2016	**406**	**472**	**878**

The net book amount of assets under construction is £109 million (2015: £57 million). Assets under construction are included within plant and equipment and are not depreciated.

The reclassification from plant and equipment to land and buildings of £16 million (2015: £39 million) shows the transfer of completed assets.

Impairment losses of £9 million (2015: £10 million) have been charged to exceptional items (Note 3).

Capital expenditure which was contracted but not capitalised at 31 December 2016 was £103 million (2015: £44 million).

11 Deferred Tax

Deferred tax assets	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
At 1 January 2016	7	(20)	59	–	11	57
Credited/(charged) to the Income Statement	1	(1)	17	–	–	17
(Charged)/credited to other comprehensive income	–	–	(1)	–	3	2
Arising on acquisition	–	(7)	1	–	–	(6)
Exchange differences	1	(4)	12	–	2	11
At 31 December 2016	**9**	**(32)**	**88**	**–**	**16**	**81**

Deferred tax liabilities	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
At 1 January 2016	14	2,017	(284)	(11)	(44)	1,692
(Credited)/charged to the Income Statement	(3)	(47)	63	5	11	29
(Credited)/charged to other comprehensive income	–	–	(9)	–	(25)	(34)
Charged directly to equity	–	–	4	–	–	4
Exchange differences	3	333	(35)	(2)	(7)	292
At 31 December 2016	**14**	**2,303**	**(261)**	**(8)**	**(65)**	**1,983**

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

Certain deferred tax assets in respect of corporation tax losses and other temporary differences totalling £326 million (2015: £98 million) have not been recognised at 31 December 2016 as the likelihood of future economic benefit is not sufficiently assured. These assets will be recognised if utilisation of the losses and other temporary differences becomes sufficiently probable.

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

12 Inventories

	2016 £m	2015 £m
Raw materials and consumables	**168**	144
Work in progress	**29**	23
Finished goods and goods held for resale	**573**	514
Total inventories	**770**	681

The total cost of inventories recognised as an expense and included in cost of sales amounted to £3,667 million (2015: £3,431 million). This includes inventory write-offs and losses of £93 million (2015: £51 million).

The Group inventory provision at 31 December 2016 was £84 million (2015: £63 million).

13 Trade and Other Receivables

Amounts falling due within one year	2016 £m	2015 £m
Trade receivables	**1,501**	1,190
Less: Provision for impairment of receivables	**(45)**	(26)
Trade receivables – net	**1,456**	1,164
Other receivables	**127**	129
Prepayments and accrued income	**40**	38
	1,623	1,331

Notes to the Financial Statements continued

13 Trade and Other Receivables continued

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

	2016 £m	2015 £m
US dollar	**442**	359
Euro	**287**	248
Brazil real	**141**	89
Sterling	**97**	109
Other currencies	**656**	526
	1,623	1,331

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

a Trade Receivables

Trade receivables consist of amounts due from customers. The Group's customer base is large and diverse and therefore there is limited concentrations of credit risk. Credit risk is assessed at a subsidiary and Group level, taking into account their financial positions, past experiences and other relevant factors. Individual credit limits are imposed based on those factors. Balances are considered for impairment on an individual basis in addition by reference to the extent that they become overdue.

As at 31 December 2016, trade receivables of £160 million (2015: £126 million) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

Amounts past due but not impaired	2016 £m	2015 £m
Up to 3 months	**160**	126

At 31 December 2016, a provision for impairment of £45 million (2015: £26 million) was recorded against certain trade receivables. The total amount of receivables against which this provision was recorded is included in the table below. The total amount of these receivables was not impaired because having given consideration to the nature of the receivables and their historical collection, recovery of the unprovided amount is expected in due course. The ageing analysis of these receivables is as follows:

Ageing analysis	2016 £m	2015 £m
Up to 3 months	**26**	34
Over 3 months	**31**	21
	57	55

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

b Other Receivables

Other Receivables include recoverable sales tax of £74 million (2015: £59 million). This contains £5 million (2015: £5 million) of impaired assets all aged over three months from a broad range of countries within the Group.

Other non-current receivables

Non-current other receivables at 31 December 2016 were £81 million (2015: £240 million).

During the year, the Group exercised its option to acquire the legal title to intellectual property associated with the collaboration agreement with Bristol Myers Squibb (BMS), as described in the Annual Report and Financial Statements 2013. As part of the transaction, a prepayment made in 2013 of £170 million (at 2016 exchange rates) was capitalised to intangible assets.

In the prior year, the balance included an insurance receivable of £36 million, which was settled during 2016.

14 Financial Instruments and Financial Risk Management

Financial Instruments by Category

At 31 December 2016	Loans and receivables £m	Derivatives used for hedging £m	Fair value through the P&L £m	Available for sale £m	Carrying value total £m
Assets as per the Balance Sheet					
Short-term deposits[1]	3	–	–	–	3
Trade and other receivables[2]	1,627	–	–	–	1,627
Derivative financial instruments – FX forward exchange contracts	–	36	125	–	161
Available for sale financial assets[8]	–	–	–	39	39
Cash and cash equivalents	882	–	–	–	882

	Derivatives used for hedging £m	Fair value through the P&L £m	Other financial liabilities at amortised cost £m	Carrying value total £m
Liabilities as per the Balance Sheet				
Borrowings (excluding finance lease obligations and bond)[3]	–	–	,584	11,584
US$1bn bond (two tranches of US$500m at 2.125% and 3.625% respectively)[4]	–	–	804	804
Finance lease obligations[3]	–	–	1	1
Derivative financial instruments – FX forward exchange contracts	47	11	–	58
Trade and other payables[5,6]	–	–	3,317	3,317
Other non-current liabilities[5,7]	–	–	97	97

At 31 December 2015	Loans and receivables £m	Derivatives used for hedging £m	Fair value through the P&L £m	Available for sale £m	Carrying value total £m
Assets as per the Balance Sheet					
Short-term deposits[1]	–	–	–	–	–
Trade and other receivables[2]	1,328	–	–	–	1,328
Derivative financial instruments – FX forward exchange contracts	–	38	83	–	121
Cash and cash equivalents	740	–	–	–	740

	Derivatives used for hedging £m	Fair value through the P&L £m	Other financial liabilities at amortised cost £m	Carrying value total £m
Liabilities as per the Balance Sheet				
Borrowings (excluding finance lease obligations and bond)[3]	–	–	1,748	1,748
US$1bn bond (two tranches of US$ 500m at 2.125% and 3.625% respectively)[4]	–	–	671	671
Finance lease obligations[3]	–	–	1	1
Derivative financial instruments – FX forward exchange contracts	19	3	–	22
Trade and other payables[5,6]	–	–	2,801	2,801
Other non-current liabilities[5]	–	–	2	2

1 These short-term deposits do not meet the requirements to be classified as cash equivalents as they have maturities greater than three months. They are however highly liquid assets.
2 Prepayments and employee benefit assets are excluded from the trade and other receivables balance as they are out of scope of IFRS 7.
3 The categories in this disclosure are determined by IAS 39. Borrowings largely relate to Commercial Paper. As at 31 December 2016, the Group had Commercial Paper in issue amounting to US$1,412 million (nominal values) at rates of between 0.95% and 1.38% with maturities ranging from 4 January 2017 to 15 September 2017, and €500 million (nominal values) at the rate of negative 0.26% with maturities ranging from 21 February 2017 to 23 February 2017. Finance leases are outside the scope of IAS 39, but they remain within the scope of IFRS 7. Therefore finance leases have been shown separately.
4 The fair value of bonds at 31 December 2016 is a liability of £821 million (2015: £683 million). This value is derived using a quoted market rate in an active market (level 1 classification).
5 Social security liabilities and other employee benefit liabilities are excluded as they are out of scope of IFRS 7.
6 Included in trade and other payables is £nil (2015: £25 million) relating to the acquisition of the remaining shareholding of RB & Manon Business Co. Ltd.
7 Other non-current liabilities principally comprise a new written put-option, related to item 6, over the non-controlling interests of certain Group subsidiaries in China of £94 million (2015: £nil).
8 Available for sale financial assets relates to an investment of less than 1% of the shares in issue of China Resources Pharmaceutical Group Limited (CRP).

Notes to the Financial Statements continued

14 Financial Instruments and Financial Risk Management continued

Except for the US$1,000 million bond, the fair values of other financial assets and liabilities at amortised cost approximate their carrying values.

Within the IFRS 13 fair value hierarchy, the bond and available for sale financial assets are classified as level 1, and the derivative financial instruments are classified as level 2. Fair value for financial instruments held at amortised cost has been estimated by discounting cash flows at prevailing interest rates and by applying year end exchange rates. The fair value measurement hierarchy levels have been defined as follows:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
3. Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

The fair value of forward foreign exchange contracts at 31 December 2016 is a liability of £58 million (2015: £22 million) and an asset of £161 million (2015: £121 million). This value is determined using forward exchange rates derived from market sourced data at the Balance Sheet date, with the resulting value discounted back to present value (level 2 classification).

There have been no movements of financial instruments between levels (2015: nil).

Offsetting financial assets and financial liabilities

The Group has forward foreign exchange contracts and cash that are subject to enforceable master netting arrangements.

(a) Financial assets

As at 31 December 2016	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
Forward foreign exchange contracts	**161**	**–**	**161**	**(58)**	**103**
Cash and cash equivalents	**882**	**–**	**882**	**–**	**882**
	1,043	**–**	**1,043**	**(58)**	**985**

As at 31 December 2015	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
Forward foreign exchange contracts	121	–	121	(22)	99
Cash and cash equivalents	740	–	740	–	740
	861	–	861	(22)	839

(b) Financial liabilities

As at 31 December 2016	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
Forward foreign exchange contracts	**(58)**	**–**	**(58)**	**58**	**–**
Bank overdrafts	**(9)**	**–**	**(9)**	**–**	**(9)**
	(67)	**–**	**(67)**	**58**	**(9)**

14 Financial Instruments and Financial Risk Management continued

As at 31 December 2015	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
Forward foreign exchange contracts	(22)	–	(22)	22	–
Bank overdrafts	(3)	–	(3)	–	(3)
	(25)	–	(25)	22	(3)

Financial Risk Management

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

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

The Board of Directors review and agree policies, guidelines and authority levels for all areas of Treasury activity and individually approves significant activities. GT operates under the close control of the CFO and is subject to periodic independent reviews and audits, both internal and external.

1. Market Risk

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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

It is the Group's policy to monitor and, only where appropriate, hedge its foreign currency transaction exposure. These transaction exposures arise mainly from foreign currency receipts and payments for goods and services and from the remittances of foreign currency dividends and loans.

The local business units enter into forward foreign exchange contracts with GT to manage these exposures where practical and allowed by local regulations. GT matches the Group exposures, and hedges the position where possible, using spot and forward foreign currency exchange contracts.

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2016 was £4,614 million payable (2015: £5,606 million payable).

As at 31 December 2016, the Group designated bonds totalling US$1,000 million as the hedging instrument in a net investment hedge relationship. The hedged risk is the foreign exchange currency risk on the value of the Group's net investment in assets and liabilities denominated in US dollars. On 21 November 2016, the Group designated commercial paper totalling €500 million as the hedging instrument in a net investment hedge relationship. This is to hedge the risk of loss in value of the Group's Euro denominated intangible brand assets (Durex and Nurofen) due to exchange rate fluctuations. The net gain or loss under these arrangements is recognised in other comprehensive income. The net effect on other comprehensive income for the year ended 31 December 2016 was a £128 million loss (2015: £49 million loss). If Sterling strengthens/weakens by 5% against the US dollar and Euro, the maximum impact on Shareholders' equity due to net investment hedging by US dollar bond and Euro commercial paper would be £43 million and £22 million respectively.

Notes to the Financial Statements continued

14 Financial Instruments and Financial Risk Management continued

The Group's strategy is to minimise Income Statement volatility by monitoring foreign currency balances, external financing, and external hedging arrangements. The Group's hedging profile is regularly reviewed to ensure it is appropriate and to mitigate these risks as far as possible. The Group held forward foreign exchange contracts denominated as cash flow hedges primarily in Euro, US dollars, Sterling, Australian dollars, Canadian dollars and Brazilian real. Notional value of the payable leg resulting from these financial instruments was as follows:

Cash Flow Hedge Profile	2016 £m	2015 £m
Euro	**368**	597
US dollars	**260**	396
Sterling	**259**	163
Australian dollars	**87**	118
Brazilian real	**86**	70
Canadian dollars	**70**	74
Other	**311**	405
	1,441	1,823

These forward foreign exchange contracts are expected to mature over the period January 2017 to December 2020 (2015: January 2016 to March 2017).

The ineffective portion recognised in the Income Statement arising from cash flow hedges is immaterial (2015: immaterial).

Gains and losses recognised in the hedging reserve in other comprehensive income on forward exchange contracts in 2016 of £29 million loss (2015: £14 million gain) are recognised in the Income Statement in the year or years during which the hedged forecast transaction affects the Income Statement, which is generally within 48 months from the Balance Sheet date.

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

In the case of cash flow hedges, these are denominated in a diverse range of currencies, where a fluctuation in one individual currency relationship, with all others held constant, does not have a significant effect on the Income Statement or Shareholders' equity. A fluctuation analysis has been performed for all currencies. The four largest currency pairs and their potential fluctuations are as Euro/Polish zloty, Euro/US dollar, US dollar/Sterling, and Euro/Sterling. If the Euro had strengthened/weakened by 5% against any of the stated currencies, with all other variables held constant, the impact on Shareholders' equity by currency pair would have been maximum £33 million, which is in Euro/Polish zloty currency pair hedges (2015: £31 million). As at 31 December 2016, if all other currencies had strengthened/weakened by 5% against Sterling with all other variables held constant, this would have had an immaterial effect on the Income Statement or Shareholders' equity (2015: immaterial).

The remaining major monetary financial instruments (liquid assets, receivables, interest and non-interest bearing liabilities) are directly denominated in the functional currency of the Group or are transferred to the functional currency of the local entity through the use of derivatives.

The gains and losses from fair value movements on derivatives held at fair value through the profit or loss, recognised in the Income Statement in 2016 was a £537 million gain (2015: £75 million gain).

(b) Price risk

Due to the nature of its business the Group is exposed to commodity price risk related to the production or packaging of finished goods, such as oil-related, and a diverse range of other raw materials. This risk is, however, managed primarily through medium-term contracts with certain key suppliers and is not therefore viewed as being a material risk.

(c) Cash flow and fair value interest rate risk

The Group has both interest-bearing and non interest-bearing assets and liabilities. The Group monitors its interest income and expense rate exposure on a regular basis. The Group manages its interest income rate exposure on its gross financial assets by using a combination of fixed rate term deposits.

Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on the Income Statement of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies, calculated on a full year and pre-tax basis.

The scenarios are only run for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on the Income Statement of a 50 basis-point shift in interest rates would be a maximum increase of £7 million (2015: £5 million) or decrease of £7 million (2015: £5 million), respectively for the liabilities covered. The simulation is done on a periodic basis to verify that the maximum loss simulated is within the limit given by management.

14 Financial Instruments and Financial Risk Management continued

2. Credit Risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers. The credit quality of trade and other receivables is detailed in Note 13. Financial institution counterparties are subject to approval under the Group's counterparty risk policy and such approval is limited to financial institutions with a BBB rating or above. The Group uses BBB and higher rated counterparties to manage risk, and operationally only uses sub BBB rated counterparties by exception. The amount of exposure to any individual counterparty is subject to a limit defined within the counterparty risk policy, which is reassessed annually by the Board of Directors. Derivative financial instruments are only traded with counterparties approved in accordance with the approved policy. Derivative risk is measured using a risk weighting method.

The Group has counterparty risk from asset positions held with financial institutions. This is comprised of short-term investments, cash and cash equivalents and derivatives positions as stated on the face of the Balance Sheet. For risk management purposes the Group assesses the exposure to major financial institutions by looking at the deposits, cash and cash equivalents and 5% of derivative notional position. The table below summarises the Group's assessment of its exposure:

	2016			2015		
Counterparty	Credit rating	Limit £m	Exposure £m	Credit rating	Limit £m	Exposure £m
Bank A	**AA–**	**200**	**191**	AA–	200	150
Bank B	**AAA**	**300**	**150**	AAA	300	133
Bank C	**A+**	**150**	**127**	A+	150	117
Bank D	**A–**	**75**	**92**	A	125	118
Bank E	**A**	**125**	**90**	A-	75	93
Bank F	**A**	**125**	**90**	A	125	93
Bank G	**A**	**125**	**71**	A-	75	58
Bank H	**A–**	**75**	**53**	A+	150	44
Bank I	**AAA**	**300**	**50**	BBB+	50	36
Bank J	**AAA**	**300**	**47**	A	125	24

3. Liquidity Risk

Cash flow forecasting is performed by the local business units and on an aggregated basis by GT. GT monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities. Funds over and above those required for short-term working capital purposes by the local businesses are generally remitted to GT. The Group uses the remittances to settle obligations, repay borrowings, or, in the event of a surplus, invest in short-term instruments issued by institutions with a BBB rating or better.

The Group has various borrowing facilities available to it. The Group has bilateral credit facilities with high quality international banks. All of these facilities have similar or equivalent terms and conditions, and have a financial covenant, which is not expected to restrict the Group's future operations.

At the end of 2016, the Group had, in addition to its long-term debt of £804 million (2015: £671 million), committed borrowing facilities totalling £3,500 million (2015: £3,500 million), of which £3,500 million exceeded 12 months' maturity (2015: £3,500 million). Of the total facilities at the year end, £nil (2015: £nil) was utilised. The committed borrowing facilities, together with available uncommitted facilities and central cash and investments, are considered sufficient to meet the Group's projected cash requirements.

The undrawn committed facilities available, in respect of which all conditions precedent have been met at the Balance Sheet date, were as follows:

	2016 £m	2015 £m
Undrawn committed borrowing facilities:		
Expiring within one year	**–**	–
Expiring between one and two years	**–**	–
Expiring after more than two years	**3,500**	3,500
	3,500	3,500

All borrowing facilities are at floating rates of interest.

The facilities have been arranged to cover general corporate purposes including support for commercial paper issuance. All facilities incur commitment fees at market rates.

Notes to the Financial Statements continued

14 Financial Instruments and Financial Risk Management continued

Headroom between net debt and available facilities at 31 December 2016 was £2,109 million (2015: £1,880 million).

The Group's borrowing limit at 31 December 2016 calculated in accordance with the Articles of Association was £67,949 million (2015: £63,399 million).

The table below analyses the Group's financial liabilities and the derivatives which will be settled on a net basis into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which have been calculated using spot rates at the relevant Balance Sheet date, including interest to be paid.

At 31 December 2016	Total £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Commercial paper	**(1,570)**	**(1,570)**	–	–	–
Bonds	**(930)**	**(23)**	**(428)**	**(44)**	**(435)**
Other borrowings	**(25)**	**(25)**	–	–	–
Trade payables	**(1,243)**	**(1,243)**	–	–	–
Other payables	**(2,170)**	**(2,073)**	**(97)**	–	–

At 31 December 2015	Total £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Commercial paper	(1,712)	(1,712)	–	–	–
Bonds	(799)	(20)	(20)	(383)	(376)
Other borrowings	(43)	(43)	–	–	–
Trade payables	(981)	(981)	–	–	–
Other payables	(1,822)	(1,820)	(2)	–	–

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period between the Balance Sheet and the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which have been calculated using spot rates at the relevant Balance Sheet date.

At 31 December 2016	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Forward exchange contracts				
Outflow	**(4,598)**	**(6)**	**(10)**	–
Inflow	**4,690**	**8**	**14**	–

At 31 December 2015	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Forward exchange contracts				
Outflow	(5,602)	(4)	–	–
Inflow	5,693	4	–	–

4. Capital Management

The Group considers capital to be net debt plus total equity. Net debt is calculated as total borrowings less cash and cash equivalents, short-term available for sale financial assets and financing derivative financial instruments (Note 16). Total equity includes share capital, reserves and retained earnings as shown in the Group Balance Sheet.

	2016 £m	2015 £m
Net debt (Note 16)	**1,391**	1,620
Total equity	**8,426**	6,906
	9,817	8,526

14 Financial Instruments and Financial Risk Management continued

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

In maintaining an appropriate capital structure and providing returns for Shareholders, the Company provided returns to Shareholders in 2016 in the form of dividends and the buyback of shares – refer to Notes 28 and 23 respectively.

The Group monitors net debt and at year end the Group had net debt of £1,391 million (2015: £1,620 million). The Group seeks to pay down net debt using cash generated by the business to maintain an appropriate level of financial flexibility.

15 Cash and Cash Equivalents

	2016 £m	2015 £m
Cash at bank and in hand	**316**	334
Short-term bank deposits	**566**	406
Cash and cash equivalents	**882**	740

The Group operates in a number of territories where there are either foreign currency exchange restrictions, or where it is difficult for the Group to extract cash readily and easily in the short-term. As a result, £120 million (2015: £65 million) of cash included in cash and cash equivalents is restricted for use by the Group, yet available for use in the relevant subsidiary's day-to-day operations.

16 Financial Liabilities – Borrowings

Current	2016 £m	2015 £m
Bank loans and overdrafts[1]	**25**	42
Commercial paper[2]	**1,559**	1,706
Finance lease obligations	**1**	1
	1,585	1,749

Non-current	2016 £m	2015 £m
Bonds	**804**	671

1. Bank loans are denominated in a number of currencies: all are unsecured and bear interest based on the relevant LIBOR equivalent.
2. Commercial paper was issued in US dollars and Euros, is unsecured and bears interest based on the relevant LIBOR equivalent.

Maturity of debt	2016 £m	2015 £m
Bank loans and overdrafts repayable:		
Within one year or on demand	**25**	42
Other borrowings repayable:		
Within one year:		
Commercial paper	**1,559**	1,706
Finance leases	**1**	1
Between two and five years:		
Bonds	**402**	337
Over five years:		
Bonds	**402**	334
	2,364	2,378
Gross borrowings (unsecured)	**2,389**	2,420

Notes to the Financial Statements continued

16 Financial Liabilities – Borrowings continued

Analysis of net debt	2016 £m	2015 £m
Cash and cash equivalents	**882**	740
Overdrafts	**(9)**	(3)
Borrowings (excluding overdrafts)	**(2,380)**	(2,417)
Short-term investments	**3**	–
Derivative financial instruments	**113**	60
Net debt at end of year	**(1,391)**	(1,620)

Reconciliation of net debt	2016 £m	2015 £m
Net debt at beginning of year	**(1,620)**	(1,543)
Net increase/(decrease) in cash and cash equivalents	**73**	(148)
Proceeds from borrowings	**(469)**	(23)
Repayment of borrowings	**695**	165
Purchase of short-term investments	**3**	–
Exchange and other movements	**(73)**	(71)
Net debt at end of year	**(1,391)**	(1,620)

17 Provisions for Liabilities and Charges

	Legal provisions £m	Restructuring provisions £m	Other provisions £m	Total provisions £m
At 1 January 2015	201	13	176	390
Charged to the Income Statement	18	33	24	75
Charged to equity	–	–	800	800
Separate recognition of related insurance receivable	36	–	–	36
Utilised during the year	(95)	(13)	(815)	(923)
Released to the Income Statement	(18)	–	(16)	(34)
Exchange adjustments	(1)	–	1	–
At 31 December 2015	**141**	**33**	**170**	**344**
Charged to the Income Statement	**264**	**23**	**12**	**299**
Charged to equity	**–**	**–**	**702**	**702**
Utilised during the year	**(90)**	**(33)**	**(806)**	**(929)**
Released to the Income Statement	**–**	**(2)**	**(8)**	**(10)**
Exchange adjustments	**14**	**1**	**4**	**19**
At 31 December 2016	**329**	**22**	**74**	**425**

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

	2016 £m	2015 £m
Current	**251**	229
Non-current	**174**	115
	425	344

Provisions are recognised when the Group has a present or constructive obligation as a result of past events, it is more likely than not that there will be an outflow of resources to settle that obligation, and the amount can be reliably estimated.

Legal provisions of £329 million (2015: £141 million) include exceptional legal provisions of £277 million (2015: £116 million) in relation to a number of historic regulatory matters in a number of markets, predominantly the HS issue in South Korea (Note 3).

The restructuring provision relates principally to business integration costs, the majority of which is expected to be utilised within one year.

Other provisions include obligations of the Group to acquire its own equity ordinary shares of £nil (2015: £100 million) within one year, and environmental and other obligations throughout the Group, the majority of which are expected to be used within five years. Provisions to acquire equity ordinary shares are charged to equity.

18 Operating Lease Commitments

Future minimum lease payments under non-cancellable operating leases due	2016 £m	2015 £m
Within one year	**48**	49
Later than one and less than five years	**124**	95
After five years	**29**	9
	201	153

Operating lease rentals charged to the Income Statement in 2016 were £64 million (2015: £60 million).

As at 31 December 2016, total amounts expected to be received under non-cancellable sub-lease arrangements were £nil (2015: £1 million).

Amounts credited to the Income Statement in respect of sub-lease arrangements were £1 million (2015: £1 million).

19 Contingent Liabilities and Assets

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

We noted in our 2015 Annual Report and 2016 interim announcements that the Group was involved in ongoing investigations by the US Department of Justice (DOJ) and the US Federal Trade Commission and related litigation proceedings arising from certain matters relating to the RB Pharmaceuticals business prior to its demerger in December 2014 to form Indivior PLC and may incur liabilities in relation to such matters. These investigations and related proceedings are continuing and we are in active discussions with the DOJ. The Group is cooperating with the relevant agencies and remains committed to ensuring that these investigations and related proceedings are concluded or resolved satisfactorily. The outcome for the Group in relation to ultimate resolution and/or cost at this stage remains uncertain.

From time to time, the Group is involved in discussions in relation to ongoing tax matters in a number of jurisdictions around the world. Where appropriate, the Directors make provisions based on their assessment of each case.

HS South Korea

As set out in Note 3 on exceptional items, provision has been made for certain costs arising as a result of the HS issue, including costs arising from compensating Oxy HS category I and II victims classified within Rounds 1, 2 and 3 of the Korean Centre for Disease Control (KCDC) classification process.

There are, in addition, a number of further costs/income relating to the HS issue that are either not able to be estimated or quantified or are considered not probable at the current time.

1. Round 4 applicants: The South Korean government opened Round 4 to new applicants on 22 April 2016 for an indefinite period. As of 13 January 2017, the Ministry of Environment (MoE) reported it had received 4,059 applications to participate in Round 4. Because no categorisation has been published, we are currently unable to determine how many applicants may be eligible for compensation through the Compensation Plan. The MoE has stated its intention to complete and announce the results of the review by the end of 2017. We note that the recognition of HS victims as Category I or II has steadily declined, from 48% in Round 1 to 30% for Round 2, and to date, 15% for the two tranches of categorisations released in respect of Round 3.
2. Costs associated with the wider HS issue: We are considering how best to contribute to addressing the wider HS issue including contributions to a Special Relief Account contemplated by the HS Damage Relief Act (the "Act") passed on 20 January 2017. The Act, among other things, requires South Korean Government Agencies to establish and operate a Special Relief Account for the benefit of certain HS victims, funded through contributions by HS manufacturers and ingredient suppliers (the "Account"). The size of the contributions will be determined through the application of a formula, the full details of which are still to be determined through secondary legislation that has not yet been published. The Act contemplates an initial Account of KRW 125 billion (£84 million) towards which HS manufacturers will be required to contribute collectively KRW 100 billion (£67 million). The Act provides that the maximum size of the Account will be KRW 200 billion (£134 million).
3. Potential recoveries from other HS manufacturers: Oxy RB has committed to compensating Category I and II Oxy HS victims from Rounds 1 and 2 in full under the terms of our Compensation Plan, even if they used other manufacturers' HS products in conjunction with that of Oxy, taking into account the delay that had occurred. Of the 183 Oxy RB Round 1 and 2, Category I and II victims, approximately 50 used both Oxy; and at least one other PHMG HS manufacturer's product. For these "multi-user" cases we are seeking to recover an element of compensation costs from the relevant other HS manufacturer. Oxy RB has yet to agree a fair recovery mechanism with the other HS manufacturers and have therefore not recognised any potential receivable.
4. We continue to assess and, where appropriate, pursue rights which Oxy RB may have to recover sums from other involved parties.
5. Given the high profile and complex nature of this issue, rules and regulations to be determined under the Act and other legal or governmental proposals or developments in South Korea may give rise to further financial liability for RB.

Notes to the Financial Statements continued

19 Contingent Liabilities and Assets continued

Reports by the United Nations ("Report of the Special Rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and waste" and "Report of the Special Rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and wastes on its mission to the Republic of Korea") and by a special committee of the South Korean National Assembly ("Report on the Results of the National Assembly Investigation for Fact, Finding, Injury Relief and Reoccurrence Prevention Regarding the Humidifier Sanitizer Incident") have identified multiple causes of this tragedy. Both reports identify the role of government, of ingredient manufacturers, and private label suppliers as contributing to the tragedy.

In addition, given the elapse of time since relevant HS products were used by consumers (from seventeen to six years ago), it is difficult to demonstrate which products contributed to harm caused to victims.

We also believe that victims should be provided with a single, consistent and readily accessible source of compensation which also covers uncertain long-term medical needs, regardless of which products they used, and whether they can demonstrate this.

We believe this requires a single, industry-wide approach to compensation, funded fairly by all the contributors to this tragedy. We are working hard to try to find such an approach to compensating Category I and II victims for Round 4 with the South Korean government, other manufacturers and other relevant stakeholders.

20 Trade and Other Payables

	2016 £m	2015 £m
Trade payables	**1,243**	981
Other payables	**128**	159
Other tax and social security payable	**121**	97
Accruals	**2,003**	1,711
	3,495	2,948

Included within accruals is £624 million (2015: £526 million) in respect of amounts payable to our trade customers for trade spend.

In addition to US employee related payables of £33 million (2015: £25 million), within other non-current liabilities is a financial liability of £94 million. This liability is in respect of the present value of the expected redemption amount of a written put option granted to the non-controlling interest of certain Group subsidiaries in China (Note 26). The amortised cost of the liability is subject to estimation of the future performance of certain Group products. Future changes in estimation would result in the remeasurement of the liability through the income statement.

21 Current and Non-current Tax Liabilities

	2016 £m	2015 £m
Current tax liabilities	**(12)**	(91)
Non-current tax liabilities	**(740)**	(559)
Total current and non-current tax liabilities	**(752)**	(650)

Included in Total current and non-current tax liabilities is an amount of £756 million (2015: £619 million) relating to tax contingencies primarily arising in relation to transfer pricing and financing. These balances are subject to significant management judgement. Tax assets and liabilities are offset where there is a legally enforceable right to do so.

The Accounting Estimates and Judgements on page 114 describe the significant judgements made in estimating the impact of uncertain tax provisions.

22 Pension and Post-Retirement Commitments

Plan Details

The Group operates a number of defined benefit and defined contribution pension plans around the world covering many of its employees, which are principally funded. The Group's most significant defined benefit pension plan (UK) is a final salary plan, which closed to new entrants in 2005. Trustees of the plan are appointed by the Group, active members and pensioner membership, and are responsible for the governance of the plan, including paying all administrative costs and compliance with regulations. The plan is funded by the payment of contributions to the plan's Trust, which is a separate entity from the rest of the Group.

The Group also operates a number of other post-retirement plans in certain countries. The major plan is in the US (US Retiree Health Care Plan), where salaried participants become eligible for retiree health care benefits after they reach a combined 'age and years of service rendered' figure of 70, although the age must be a minimum of 55. This plan closed to new members in 2009. A Benefits Committee of the plan is appointed by the Group, and is responsible for the governance of the plan, including paying all administrative costs and compliance with regulations. This plan is unfunded.

The following table provides details of membership for all plans in the two principal territories:

Plan details at last valuation date	UK	US
Active Participants:		
Number of members	250	1,685
Proportion of funding liability	12%	28%
Total pensionable salary roll	£10.9m	£48.1m
Participants with deferred benefits:		
Number of members	5,115	2,746
Proportion of funding liability	37%	29%
Total deferred pensions (at date of leaving plan)	£17.9m	£3.0m
Participants receiving benefits:		
Number of members	6,807	4,143
Proportion of funding liability	51%	43%
Total pensions in payment	£44.2m	£8.8m

For the principal UK plan, a full independent actuarial valuation is carried out on a triennial basis. The most recent valuation was carried out at 5 April 2016. The Group has agreed that it will aim to eliminate the pension plan Technical Provisions deficit in the UK and Ireland by the end of 2020. Funding levels are monitored on an annual basis and the current agreed ongoing contribution rate is 75.5% of pensionable salaries in the UK along with annual deficit reduction contributions of £25 million. It is expected that contributions in 2017 will be £33 million to the UK defined benefit plan. The funding agreement has given rise to an additional liability on the Balance Sheet of £36 million (the other UK schemes operate under a similar framework and there has been a similar reduction in Net Assets totalling £27 million, giving an overall £63 million for all UK schemes). This additional liability has been recognised after considering the Pension Scheme Trust Deed and Rules and the requirements of IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction". The Group considers that the contribution rates set, and any future further contributions in excess of the contribution rate, will be sufficient to eliminate the deficit over the agreed period.

For the US Retiree Health Care Plan, a full independent actuarial valuation is carried out at on an annual basis. The most recent valuation was carried out at 1 January 2016. Funding levels are monitored on an annual basis with contributions made equal to the claims made each year. It is expected that contributions in 2017 will be £7 million to the Plan.

For the purpose of IAS19 the projected unit valuation method was used for the UK and US plans, as per the principal UK plan triennial valuation results (at 5 April 2016) and the 1 January 2016 US plan valuation to 31 December 2016. The UK plans have a weighted average duration of the deferred benefit obligation of 18.6 years (2015: 17.6 years).

Significant Actuarial Assumptions

The significant actuarial assumptions used in determining the Group's net liability for the two major plans as at 31 December were:

	2016		2015	
	UK %	**US (Medical) %**	UK %	US (Medical) %
Rate of increase in pensionable salaries	**5.6**	**–**	3.3	–
Rate of increase in deferred pensions during deferment	**3.4**	**–**	3.1	–
Rate of increase in pension payments	**3.2**	**–**	2.9	–
Discount rate	**2.6**	**4.0**	3.8	4.2
Inflation assumption – RPI	**3.6**	**–**	3.3	–
Annual medical cost inflation	**–**	**5.0–8.5**	–	5.0–8.5

Notes to the Financial Statements continued

22 Pension and Post-Retirement Commitments continued

Assumptions regarding future mortality experience are set in accordance with published statistics and experience in each territory. The expected lifetime of a participant aged 60 and the expected lifetime of a participant who will be age 60 in 15 years (20 years in the US) are detailed below:

	2016		2015	
	UK years	US years	UK years	US years
Number of years a current pensioner is expected to live beyond 60:				
Male	**29.0**	**25.2**	28.6	25.7
Female	**29.9**	**27.4**	30.6	27.9
Number of years a future pensioner is expected to live beyond 60:				
Male	**30.7**	**27.0**	30.4	27.5
Female	**31.6**	**29.2**	32.4	29.7

For the principal UK plan, the mortality assumptions were based on the standard SAPS mortality table 2NMA for males (scaled by 85%) and table 2NFA for females (scaled by 100%). Allowance for future improvements is made by adopting the 2015 edition of the CMI series with a long-term trend of 1.5% per annum. For the US plan the mortality assumptions were determined using the RP-2014 Total Employee and Health Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2016.

Amounts Recognised on the Balance Sheet

The amounts recognised on the Balance Sheet are as follows:

	2016 £m	2015 £m
Balance Sheet obligations for:		
UK	**(84)**	–
US (Medical)	**(108)**	(122)
Other	**(169)**	(135)
Liability on Balance Sheet	**(361)**	(257)
Balance Sheet assets for:		
UK	**–**	33
Other	**36**	30
Asset on Balance Sheet	**36**	63
Net pension liability	**(325)**	(194)

The funded and unfunded amounts recognised on the Balance Sheet are determined as follows:

	2016				2015			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
Present value of funded obligations	**(1,642)**	**–**	**(373)**	**(2,015)**	(1,322)	–	(302)	(1,624)
Fair value of plan assets	**1,621**	**–**	**381**	**2,002**	1,355	–	321	1,676
Surplus/(deficit) of funded plans	**(21)**	**–**	**8**	**(13)**	33	–	19	52
Present value of unfunded obligations	**–**	**(108)**	**(141)**	**(249)**	–	(122)	(124)	(246)
Irrecoverable surplus	**(63)**	**–**	**–**	**(63)**	–	–	–	–
Net pension asset/(liability)	**(84)**	**(108)**	**(133)**	**(325)**	33	(122)	(105)	(194)

22 Pension and Post-Retirement Commitments continued

Group plan assets are comprised as follows:

	2016				2015			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
Equities – quoted	**382**	**–**	**217**	**599**	407	–	166	573
Government bonds	**772**	**–**	**77**	**849**	521	–	21	542
Corporate bonds	**316**	**–**	**61**	**377**	266	–	57	323
Real Estate/property – unquoted	**141**	**–**	**16**	**157**	150	–	1	151
Other assets – unquoted	**10**	**–**	**10**	**20**	11	–	76	87
Fair value of plan assets	**1,621**	**–**	**381**	**2,002**	1,355	–	321	1,676

The movement in the Group's net deficit is as follows:

	Present value of obligation				Fair value of plan assets			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
At 1 January 2015	1,400	145	417	1,962	(1,339)	–	(311)	(1,650)
Current service ost c	8	2	12	22	–	–	–	–
Curtailment gains	–	(19)	–	(19)	–	–	–	–
Interest expense/(income)	48	6	10	64	(46)	–	(10)	(56)
	56	(11)	22	67	(46)	–	(10)	(56)
Remeasurements:								
Return on plan assets, excluding amounts included in interest income	–	–	–	–	35	–	(6)	29
(Gain)/loss from changes in demographic assumptions	–	(9)	2	(7)	–	–	–	–
(Gain)/loss from change in financial assumptions	(75)	(5)	(1)	(81)	–	–	–	–
Experience (gains)/losses	(5)	(1)	2	(4)	–	–	–	–
	(80)	(15)	3	(92)	35	–	(6)	29
Exchange differences	–	10	2	12	–	–	(8)	(8)
Contributions mployeese	–	–	–	–	–	–	–	–
Contributions – employers	–	–	–	–	(59)	(7)	(4)	(70)
Payments from plans:								
Benefit payments	(54)	(7)	(18)	(79)	54	7	18	79
At 31 December 2015	**1,322**	**122**	**426**	**1,870**	**(1,355)**	**–**	**(321)**	**(1,676)**
Current service cost	6	2	11	19	–	–	–	–
Curtailment gains	–	(37)	(1)	(38)	–	–	–	–
Interest expense/(income)	49	6	16	71	(51)	–	(14)	(65)
	55	(29)	26	52	(51)	–	(14)	(65)
Remeasurements:								
Return on plan assets, excluding amounts included in interest income	–	–	–	–	(226)	–	(9)	(235)
(Gain)/loss from changes in demographic assumptions	(3)	(2)	7	2	–	–	–	–
(Gain)/loss from change in financial assumptions	384	1	5	390	–	–	–	–
Experience (gains)/losses	(53)	3	6	(44)	–	–	–	–
	328	2	18	348	(226)	–	(9)	(235)
Exchange differences	–	20	62	82	–	–	(51)	(51)
Contributions mployeese	–	–	–	–	–	–	–	–
Contributions – employers	–	–	–	–	(52)	(7)	(4)	(63)
Payments from plans:								
Benefit payments	(63)	(7)	(18)	(88)	63	7	18	88
As at 31 December 2016	**1,642**	**108**	**514**	**2,264**	**(1,621)**	**–**	**(381)**	**(2,002)**

Notes to the Financial Statements continued

22 Pension and Post-Retirement Commitments continued

Amounts Recognised in the Income Statement

The charge for the year ended 31 December is shown below:

Income Statement charge/(credit) included in operating profit for[1]:	2016 £m	2015 £m
Defined contribution plans	**27**	24
Defined benefit plans (net charge/(credit) excluding interest)		
UK	**6**	8
US (Medical)	**(35)**	(17)
Other	**10**	12
Total pension costs recognised in operating profit (Note 5)	**8**	27
Income Statement charge included in finance expense (Note 6)	**6**	8
Income Statement charge included in profit before income tax	**14**	35

Remeasurement losses/(gains) for[2]:	2016 £m	2015 £m
UK	**102**	(45)
US (Medical)	**2**	(15)
Other	**9**	(3)
	113	(63)

1 The Income Statement charge included within operating profit includes current service cost, past service costs and gains and losses on settlement and curtailment
2 Remeasurement losses/(gains) exclude £63 million recognised in OCI for irrecoverable surplus.

Sensitivity of Significant Actuarial Assumptions

The sensitivity of the UK defined benefit obligation to changes in the principal assumptions is shown below:

2016	Change in assumption	Change in defined benefit obligation
Discount rate	**Increase 0.1%**	**Decrease by 1.9%**
RPI increase	**Increase 0.1%**	**Increase by 0.5%**
Life expectancy	**Members younger by 1 year**	**Increase by 4.5%**

2015	Change in assumption	Change in defined benefit obligation
Discount rate	Increase 0.1%	Decrease by 1.8%
RPI increase	Increase 0.1%	Increase by 1.4%
Life expectancy	Members younger by 1 year	Increase by 2.3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

Impact of Medical Cost Trend Rates

A one percent change in the assumed health care cost trend rates would have the following effects:

	Impact on defined benefit obligation			
	2016		2015	
	+1% £m	**–1% £m**	+1% £m	–1% £m
Effect on service cost and interest cost	–	–	1	(1)
Effect on post-retirement benefit obligation	–	–	19	(15)

Risk and Risk Management

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset Volatility: The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets underperform this yield, this will create a deficit. Both the UK and US plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. As the plans mature, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. All the UK plans have agreed with the company a plan to de-risk the investment strategy of the plans at a pace that is commensurate with a planned return to full funding over a reasonable timescale.

22 Pension and Post-Retirement Commitments continued

The de-risking plan provides for a proportion of the investment portfolio to move from equity holdings to government and corporate bonds over time. The corporate bonds are global securities with an emphasis on the UK and US. However, the Group believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the Group's long-term strategy to manage the plans efficiently.

Changes in Bond Yields: A decrease in government and corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

Inflation Risk: Some of the Group's pension obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit. In the US plans, the pensions in payment are not linked to inflation, so this is a less material risk.

Life Expectancy: The majority of the plans' obligations are to provide benefits for the life of the member. Whilst the plans allow for an increase in life expectancy, increases above this assumption will result in an increase in the plans' liabilities. This is particularly significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

Change in Regulations: The Group is aware that future changes to the regulatory framework may impact the funding basis of the various plans in the future. The Group's pensions department monitors the changes in legislation and analyses the risks as and when they occur.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets consists of quoted equities and quoted bonds, although the Group also invests in property, and cash. The Group believes that quoted equities offer the best returns over the long-term with an acceptable level of risk. The Trustees of all the UK funds have moved the overwhelming majority of their assets to low cost investment funds in consultation with the Company whilst maintaining a prudent diversification.

23 Share Capital

Issued and fully paid	Equity ordinary shares number	Nominal value £m
At 1 January 2015	736,535,179	74
At 31 December 2015	**736,535,179**	**74**
At 1 January 2016	736,535,179	74
At 31 December 2016	**736,535,179**	**74**

The holders of ordinary shares (par value 10p) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Parent Company.

Allotment of Ordinary Shares and Release of Treasury Shares

During the year nil ordinary shares (2015: nil ordinary shares) were allotted and 3,662,122 ordinary shares were released from Treasury (2015: 3,111,173) to satisfy vestings/exercises under the Group's various share schemes as follows:

	2016		2015	
Ordinary shares of 10p	**Number of shares**	**Consideration £m**	Number of shares	Consideration £m
Executive Share Options – exercises	**2,139,330**	**72**	1,532,150	45
Restricted Shares Awards – vesting	**1,261,616**	**–**	530,992	–
Total under Executive Share Option and Restricted Share Schemes	**3,400,946**	**72**	2,063,142	45
Senior Executives Share Ownership Policy Plan – vesting	**9,216**	**–**	23,270	–
Savings-Related Share Option Schemes – exercises	**251,960**	**7**	1,024,761	29
Total	**3,662,122**	**79**	3,111,173	74

Market Purchases of Shares

During 2016 the Company purchased 11,658,939 equity ordinary shares in accordance with its share buyback programme (2015: 13,615,832), all of which are held as Treasury shares. The total amount paid to acquire the shares was £798 million (£802 million including stamp duty), which has been deducted from Shareholders' equity (2015: £804 million including stamp duty).

3,662,122 Treasury shares were released in 2016 (2015: 3,111,173), leaving a balance held at 31 December 2016 of 36,458,967 (2015: 28,462,150). Proceeds received from the reissuance of Treasury shares to exercise share options were £79 million (2015: £74 million).

Notes to the Financial Statements continued

24 Share-Based Payments

The Group operates a number of incentive schemes, including a share option scheme, a restricted share scheme, and other share award schemes. All schemes are equity settled. The charge for share-based payments for the year was £66 million (2015: £50 million).

Executive Share Awards

Executive share awards, comprising both Executive Share Options and Restricted Share Awards, are awarded to the Top400 Management Group. Executive Share Options are awarded at an exercise price determined on grant date and become payable on exercise – following satisfaction of performance criteria. Restricted Share Awards entitle the recipient to receive shares at no cost following satisfaction of the following performance criteria.

For awards granted before December 2012:

Adjusted earnings per share growth over three years (%)	<6%	6%	7%	8%	≥9
Proportion of awards vesting (%)	Nil	40%	60%	80%	100%

For awards granted in December 2013 and thereafter:

Adjusted earnings per share growth over three years (%)	<6%	6%	Between 6% and 10%	≥10%
Proportion of awards vesting (%)	Nil	20%	Straight–line vesting between 20% and 100%	100%

The cost is spread over the three years of the performance period. For Executive Committee and "Top40" members, vesting conditions must be met over the three-year period and are not retested. For remaining Top400 members the targets can be retested after four or five years. If any target has not been met any remaining shares or options which have not vested will lapse.

Other Share Awards

Other share awards represent SAYE Schemes (offered to all staff within the relevant geographic area) and a number of Senior Executive Share Ownership Policy Plan (SOPP) awards. Other share awards have contractual lives of between three and eight years and are generally not subject to any vesting criteria other than the employee's continued employment.

Individual tranches of these other share awards are not material for detailed disclosure and therefore have been aggregated in the tables below.

Modifications to Share Awards

The Remuneration Committee approved modifications to all unexercised share schemes in December 2014 following the demerger of RB Pharmaceuticals to compensate for the loss of scheme value. For SAYE schemes this was in the form of a one-off payment. For executive share awards this included an adjustment to shares under the amount of each grant, and the lowering of exercise price, where applicable. There is no change to the IFRS fair value charge as a result of these modifications.

Summary of Shares Outstanding

All outstanding Executive and Other share awards as at 31 December 2016 and 31 December 2015 are included in the tables below which analyse the charge for 2016 and 2015. The Group has used the Black-Scholes model to calculate the fair value of one award on the date of the grant of the award.

24 Share-Based Payments continued

Table 1: Fair value

The most significant awards are share options and restricted shares, details of which have been provided below.

		Black-Scholes model assumptions								
Award	Grant date	Exercise price at grant £	Modified exercise price £	Performance period	Share price on grant date £	Volatility %	Dividend yield %	Life years	Risk-free interest rate %	Fair value of one award £
Share options										
2007	08 December 2006	22.57	21.95	2007–09	23.00	20	2.2	4	4.65	4.23
2008	11 December 2007	29.44	28.63	2008–10	29.72	20	1.8	4	5.53	5.99
2009	08 December 2008	27.29	26.54	2009–11	27.80	25	3.1	4	2.78	4.69
2010	07 December 2009	31.65	30.78	2010–12	31.80	26	3.5	4	1.69	4.70
2011	01 December 2010	34.64	33.68	2011–13	34.08	26	4.3	4	2.16	4.49
2012	05 December 2011	32.09	31.20	2012–14	32.19	25	5.4	4	1.00	3.18
2013	03 December 2012	39.14	38.06	2013–15	39.66	20	4.3	4	0.61	3.29
2014	11 December 2013	47.83	46.51	2014–16	46.69	19	3.7	4	0.76	3.85
2015	01 December 2014	50.57	50.57	2015–17	52.40	17	4.0	4	1.03	4.34
2016	02 December 2015	63.25	63.25	2016–18	64.15	18	2.9	4	1.07	6.75
2017	01 December 2016	67.68	67.68	2017–19	66.28	18	3.0	4	0.46	5.54
Restricted shares										
2009	08 December 2008	–	–	2009–11	27.80	25	3.1	4	2.78	24.31
2010	07 December 2009	–	–	2010–12	31.80	26	3.5	4	1.69	27.23
2011	01 December 2010	–	–	2011–13	34.08	26	4.3	4	2.16	28.22
2012	05 December 2011	–	–	2012–14	32.19	25	5.4	4	1.00	25.30
2013	03 December 2012	–	–	2013–15	39.66	20	4.3	4	0.61	32.76
2014	11 December 2013	–	–	2014–16	46.69	19	3.7	4	0.76	39.80
2015	01 December 2014	–	–	2015–17	52.40	17	4.0	4	1.03	43.93
2016	02 December 2015	–	–	2016–18	64.15	18	2.9	4	1.07	57.13
2017	01 December 2016	–	–	2017–19	66.28	18	3.0	4	0.46	58.85

Notes to the Financial Statements continued

24 Share-Based Payments continued

Table 2: Share awards movements 2016

Award	Options outstanding at 1 Jan 2016 number	Movement in number of options: Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2016 number
Share options[1]					
2007	113,346	–	(2,544)	(110,802)	–
2008	282,213	–	(4,114)	(140,187)	137,912
2009	319,343	–	(4,114)	(143,956)	171,273
2010	537,644	–	(7,254)	(284,880)	245,510
2011	831,561	–	(194,817)	(306,407)	330,337
2012	1,363,209	–	(71,179)	(368,135)	923,895
2013	2,753,968	–	(360,057)	(692,681)	1,701,230
2014	2,899,975	883	(197,898)	(85,061)	2,617,899
2015	2,893,271	–	(153,070)	(7,221)	2,732,980
2016	4,020,400	–	(992,814)	–	3,027,586
2017	–	3,200,000	–	–	3,200,000
Restricted shares[1]					
2011	75,836	–	(75,836)	–	–
2012	259,471	–	(21,926)	(163,144)	74,401
2013	1,270,172	–	(161,594)	(1,016,812)	91,766
2014	1,389,865	–	(96,648)	(67,329)	1,225,888
2015	1,386,771	–	(72,031)	(14,331)	1,300,409
2016	1,985,200	23,150	(612,154)	–	1,396,196
2017	–	1,600,000	–	–	1,600,000
Other share awards					
UK SAYE	687,953	178,122	(66,981)	(111,459)	687,635
US SAYE	382,185	94,583	(45,486)	(107,787)	323,495
Overseas SAYE	1,058,195	2,461	(83,008)	(32,714)	944,934
SOPP	166,000	24,000	(10,784)	(9,216)	170,000
Weighted average exercise price (share options)	**£46.61**	**£67.67**	**£51.68**	**£33.43**	**£52.28**

1 Grant date and exercise price for each of the awards are shown in Table 1.

24 Share-Based Payments continued

Table 3: Share awards movements 2015

Award	Options outstanding at 1 Jan 2015 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2015 number
	Movement in number of options				
Share options[1]					
2006	106,919	–	–	(106,919)	–
2007	197,892	–	(690)	(83,856)	113,346
2008	446,292	–	–	(164,079)	282,213
2009	495,785	–	–	(176,442)	319,343
2010	843,484	–	–	(305,840)	537,644
2011	1,248,852	41,934	(94,797)	(364,428)	831,561
2012	2,625,715	–	(970,843)	(291,663)	1,363,209
2013	3,050,227	–	(261,506)	(34,753)	2,753,968
2014	3,269,887	823	(369,912)	(823)	2,899,975
2015	4,020,400	6,157	(1,133,286)	–	2,893,271
2016	–	4,020,400	–	–	4,020,400
Restricted shares[1]					
2011	99,788	–	(23,952)	–	75,836
2012	1,217,369	–	(470,892)	(487,006)	259,471
2013	1,433,769	–	(136,062)	(27,535)	1,270,172
2014	1,577,388	–	(171,072)	(16,451)	1,389,865
2015	1,985,200	42,258	(640,687)	–	1,386,771
2016	–	1,985,200	–	–	1,985,200
Other share awards					
UK SAYE	722,696	175,344	(73,642)	(136,445)	687,953
US SAYE	565,286	110,724	(118,170)	(175,655)	382,185
Overseas SAYE	1,897,407	4,782	(131,371)	(712,623)	1,058,195
SOPP	160,000	46,000	(10,000)	(30,000)	166,000
Weighted average exercise price (share options)	**£40.08**	**£62.92**	**£42.27**	**£30.44**	**£46.61**

For options outstanding at the year end the weighted average remaining contractual life is 6.53 years (2015: 6.54 years). Options outstanding at 31 December 2016 that could have been exercised at that date were 3,727,376 (2015: 3,826,583) with a weighted average exercise price of £32.49 (2015: £27.92).

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

Under the terms of the schemes, early exercise may only be granted in exceptional circumstances and therefore the effect of early exercise is not incorporated into the calculation.

The calculation also assumes that there will be no leavers in the following year. No material modifications have been made to these calculations in 2016 or 2015 for the purposes of the valuation.

An estimate of future volatility is made with reference to historical volatility over a similar time period to the performance period or the contractual life as appropriate. Historical volatility is calculated based on the annualised standard deviation of the Group's daily share price movement, being an approximation to the continuously compounded rate of return on the share.

National Insurance contributions are payable in respect of certain share-based payment transactions and are treated as cash-settled transactions. The contribution in 2016 was £51 million (2015: £51 million).

The weighted average share price for the year was £68.77 (2015: £58.81).

Notes to the Financial Statements continued

24 Share-Based Payments continued

Options and Restricted Shares Granted During the Year

Options and restricted shares granted during the year which may vest or become exercisable at various dates between 2017 and 2022 are as follows:

Executive share option and restricted share schemes	Price to be paid £	Number of shares under option
Reckitt Benckiser 2015 Long-term Incentive Plan – share options	67.68	3,200,000
Reckitt Benckiser Long-term Incentive Plan – restricted shares	–	1,623,150
Reckitt Benckiser Group Senior Executive 2007 Share Ownership Policy Plan	–	24,000
Total		**4,847,150**

Savings-related share option schemes		
UK Scheme	58.86	178,122
US Scheme	58.86	94,583
Overseas Scheme	41.88	2,461
Total		**275,166**

Options and Restricted Shares Outstanding at 31 December 2016

Options and restricted shares which have vested or may vest at various dates between 2017 and 2021 are as follows:

	Price to be paid £		Number of shares under option	
Executive share option and restricted share schemes	From	To	2016	2015
Reckitt Benckiser Long-term Incentive Plan 2006 – Annual Grant – options	21.95	22.57	–	113,346
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – options	26.54	67.68	15,088,622	15,901,584
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – restricted shares	–	–	5,688,660	6,369,315
Reckitt Benckiser Senior Executives Share Ownership Policy Plan	–	–	170,000	166,000
			20,947,282	22,550,245

	Price to be paid £		Number of shares under option	
Savings-related share option schemes	From	To	2016	2015
UK Scheme	16.90	58.86	687,635	687,953
US Scheme	22.88	58.86	323,495	382,185
Overseas Scheme	21.95	41.88	944,934	1,058,195
Total			**1,956,064**	2,128,333

25 Other Reserves

	Hedging reserve £m	Foreign currency translation reserve £m	Total other reserves £m
Balance at 1 January 2015	4	(824)	(820)
Other comprehensive income/(expense)			
Gains on cash flow hedges, net of tax	14	–	14
Net exchange losses on foreign currency translation, net of tax	–	(124)	(124)
Losses on net investment hedges	–	(49)	(49)
Reclassification of foreign currency translation reserves on demerger of subsidiary	–	33	33
Total other comprehensive income/(expense) for the year	**14**	**(140)**	**(126)**
Balance at 31 December 2015	**18**	**(964)**	**(946)**
Other comprehensive (expense)/income			
Losses on cash flow hedges, net of tax	(22)	–	(22)
Net exchange gains on foreign currency translation, net of tax	–	1,618	1,618
Losses on net investment hedges	–	(128)	(128)
Total other comprehensive (expense)/income for the year	**(22)**	**1,490**	**1,468**
Balance at 31 December 2016	**(4)**	**526**	**522**

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

The foreign currency translation reserve contains the accumulated foreign exchange differences from the translation of the Financial Statements of the Group's foreign operations arising when the Group's entities are consolidated. The reserve also contains the translation of liabilities that hedge the Group's net exposure in a foreign currency.

26 Related Party Transactions

RB & Manon Business Co. Ltd (Manon)

The Group completed new arrangements with the non-controlling Shareholders of Manon, agreeing to terminate the existing arrangement in line with the forward contract entered into in 2011. RB paid consideration totalling £27 million to the non-controlling Shareholders. An additional settlement amount of £12 million was also paid to the non-controlling Shareholders in 2015, of which £4 million was included within profit and loss in the current year, and £8 million in the prior year.

Under the terms of the new arrangements, the non-controlling Shareholders agreed to invest in two entities, RB (China Trading) Ltd and RB & Manon Business Ltd, thereby acquiring from RB 20% and 25% stakes in these entities respectively, whilst retaining their 24.95% stake in Manon, for a combined consideration of £27 million.

As part of the new arrangements, the parties are subject to symmetrical put and call options over the non-controlling Shareholdings, exercisable together after a period of six years, with possible extensions available at the agreement of the parties. The present value of the put option at year end was a liability of £94 million.

Indivior PLC

Subsequent to the demerger of RB Pharmaceuticals on 23 December 2014, the Group continues to lease part of a building to, and provide operational services to, Indivior PLC. The transitional services between the Group and Indivior PLC are on an arm's length basis. The amount included in other operating income in respect of these services is £5 million (2015: £8 million). Certain outstanding balances, totalling £6 million, were settled with Indivior during the period. These related to adjustments in the final UK corporation tax liabilities settled on behalf of Indivior by Reckitt Benckiser Plc. Adrian Hennah, the Reckitt Benckiser Group plc CFO, also sat on the Board of Directors in Indivior PLC until his resignation in May 2016. Rupert Bondy, SVP General Counsel and Company Secretary of Reckitt Benckiser Group plc was also a director of Indivior PLC until he resigned from the Board on 30 September 2016. He joined RB in January 2017.

Other

The Group has related party relationships with its Directors and key management personnel (Note 5) and pension schemes (Note 22).

Notes to the Financial Statements continued

27 Acquisitions and Disposals

On 3 October 2016, the acquisition of 100% shareholding in Nances Holdings S.A completed with a purchase consideration of BRL 671 million. Hypermarcas is the leading Brazilian condom manufacturer, through its three brands – Jontex, Olla and Lovetex. These brands will sit alongside the RB Powerbrand Durex to create a unique portfolio of brands in the sexual wellbeing category. Their addition will immediately transform RB's sexual wellbeing category in Brazil. These brands will benefit from RB's strong innovation, brand equity investment and go-to-market capabilities. The transaction has been accounted for by the acquisition method.

All assets and liabilities were recognised at the following provisional fair values. The full consideration transferred was paid in cash in the period. The amount of consideration transferred over the net assets acquired is recognised as goodwill in the Group Financial Statements:

	Provisional fair value £m
Property, plant and equipment	4
Intangible assets	24
Deferred tax liabilities	(8)
Other liabilities	(3)
Net assets acquired	17
Goodwill	146
Total consideration transferred	**163**

	£m
Consideration paid on signing definitive agreement in January 2016	116
Impact of foreign exchange	47
Total consideration transferred	**163**

Acquisition-related costs have been expensed within exceptional items in the Income Statement.

The amount of revenue and profit on the business acquired since acquisition was not material in the context of the Group Income Statement. Had the business been acquired on 1 January 2016, the revenue and profit of the Group for the period would not have been materially different to that appearing on the Group Income Statement. Consideration paid in relation to this acquisition is included within 'Acquisition of business, net of cash acquired' in the Group Cash Flow Statement.

In October 2015, in line with RB's continued focus on its core business of Health, Hygiene and Home, the Group disposed of the Medcom business in Russia. The reported loss on sale of the entity was £57 million. This was included within exceptional items. It comprised a £24 million difference between the net sale proceeds and the net assets; and a recycling from reserves of previous exchange losses arising on consolidation of the legal entity sold. Due to the significant devaluation of the Russian rouble since acquisition, the non-cash exchange loss required to be recycled through the Income Statement was £33 million.

28 Dividends

	2016 £m	2015 £m
Cash dividends on equity ordinary shares:		
2015 Final paid: 88.7p (2014: Final 79.0p) per share	625	566
2016 Interim paid: 58.2p (2015: Interim 50.3p) per share	410	358
Total dividends for the year	1,035	924

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 95.0 pence per share which will absorb an estimated £665 million of Shareholders' funds. If approved by Shareholders it will be paid on 25 May 2017 to Shareholders who are on the register on 18 April 2017, with an ex-dividend date of 13 April 2017.

29 Post Balance Sheet Events

On 10 February, Reckitt Benckiser Group plc ("RB") announced it had signed a merger agreement with Mead Johnson Nutrition Company ("Mead Johnson") under which Mead Johnson shareholders will receive US$90 in cash for each share of common stock, valuing the total equity at US$16.6 billion.

Including Mead Johnson's net debt, the total value of the transaction is US$17.9 billion.

The transaction is subject to Shareholder and regulatory approvals. The Boards of RB and Mead Johnson have both unanimously approved the transaction and will recommend that their respective Shareholders vote in favour of the transaction. It is expected to be completed by the end of Q3 2017.

In anticipation of this transaction, the Group has completed syndication of certain debt facilities totalling $21.2 billion. These facilities will be available to draw down upon shareholder approval of the transaction.

Independent Auditors' Report to the Members of Reckitt Benckiser Group plc

Report on the Group Financial Statements

Our opinion

In our opinion, Reckitt Benckiser Group plc's Group Financial Statements (the "Financial Statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

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

In our opinion, the Financial Statements comply with IFRSs as issued by the IASB.

What we have audited

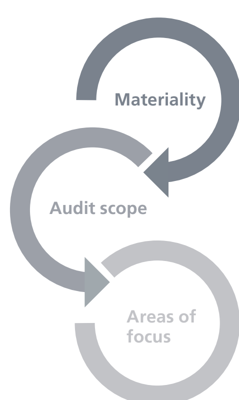
The Financial Statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Group Balance Sheet as at 31 December 2015;
- 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, 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

- Overall Group materiality was £117 million which represented 5% of Group profit before income tax, adjusted for non-recurring exceptional items.
- We conducted audit work in 18 countries in which the Group has significant operations.
- The reporting units where we performed an audit of their complete financial information accounted for 76% of Group revenue and 79% of Group profit before income tax, adjusted for non-recurring exceptional items.
- The Group engagement team visited 15 of the 18 component audit teams to attend audit clearance meetings and discuss the audit approach and findings with those local teams.
- For those countries not visited we maintained regular contact with the local team and evaluated the outcome of their audit work.
- Accounting for customer trade spend.
- Provisions for uncertain tax exposures.
- Valuation of provisions for liabilities arising from regulatory investigations.
- Goodwill and intangible assets impairment assessment.
- The classification of 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.

Area of focus	How our audit addressed the area of focus
Accounting for customer trade spend Refer to page 63 (Audit Committee review of areas of significant judgement) and page 106 (accounting policies). As is industry practice, in each country in which the Group operates there are numerous types of complex commercial arrangements with retailers and other customers that have a range of terms (for example promotions, rebates and discounts). Trade spend arrangements have varying terms, some of which are supported by annual contracts or joint business plans, whilst others are based on shorter term agreements entered into during the year. In addition, the level and timing of promotions for individual products or ranges varies from period to period, and activity can span over a year end. These judgements impact the reported results of the country, segment and the Group and in particular influence the calculation of net revenue and country operating profit, both of which are key performance indicators for management incentive schemes. We consider there to be a specific risk associated with the accuracy of the trade spend that has been incurred during the year as this is material and can be complex and judgemental. In particular we focused on the approval of the arrangements, the period to which the spend relates and whether balances had been settled. In addition, we focused on estimates of the obligations at the reporting date in respect of all trade spend arrangements ("trade spend accruals"). We focused on this area due to the complexity and level of judgement required in making the key assumptions underpinning the estimates. For example: • the date of shipment to the retailer and the period over which the promotion will run may differ; • details of the retailers' EPOS data may be required to determine the accuracy of trade spend committed at the reporting date; and • promotions may span over the year end and therefore estimation of the future volume or margin levels of the retailer must be forecast to determine the level of the accrual required. Therefore, our areas of focus included whether the accruals were understated and appropriately valued, whether trade spend was recorded in the correct period and whether the significant one-off transactions had been accurately recorded in the income statement.	Our audit procedures included understanding and evaluating the controls and systems related to the trade spend process, and where appropriate obtaining audit evidence through testing operating effectiveness of relevant controls together with substantive audit procedures. Testing of controls included examining appropriate authorisation for trade spend agreements and contracts, considering segregation of duties over the creation and approval of the accruals and testing the resolution of variations between actual and expected trade spend. The substantive audit procedures performed for each individual component varied depending upon the nature of the trade spend and type of agreement but included the following tests, on a sample basis: • Agreeing costs incurred during the year to invoices and other correspondence from the customers and subsequent settlement; • Agreeing key elements of the estimates to supporting documentation such as joint business plans, contracts and EPOS data; • Circularising external confirmations to the customers to confirm the existence of specific promotions and the underlying key assumptions of the accrual calculation; • Recalculating management's estimates; • Evaluating the accuracy of the prior year trade spend balance by comparing the historic accruals to actual spend incurred; and • Testing trade spend transactions around the year end to determine whether they had been recognised in the appropriate period. As the Group engagement team, we were specifically involved in determining and assessing the appropriateness of the audit approach for each component in this area. This satisfied us that sufficient focus was placed on the more judgemental areas and that, whilst complex, the area was well understood and sufficient focus was placed on this risk area.

Area of focus	How our audit addressed the area of focus
Provision for uncertain tax exposures Refer to page 44 (Strategic risks) and page 63 (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. These challenges include transaction related tax matters, financing and transfer pricing arrangements arising from centralised functions that drive value across a number of different countries. Where the amount of tax payable is uncertain, the Group establishes provisions based on management's judgement of the probable amount of the liability. We focused on the judgements made by management in assessing the quantification and likelihood of certain potential exposures and therefore the level of provision required for specific cases. In particular, we focused on the impact of changes in transfer pricing methodologies impacting tax returns in certain territories, which could materially impact the amounts recorded in the Financial Statements.	We updated our detailed understanding of the Group's tax strategy and Group transfer pricing policy, particularly in relation to any changes implemented during 2015, and assessed key technical tax issues and risks related to business and legislative developments using, where applicable, our local and international tax specialists. We obtained explanations from management and corroborative evidence including, communication with local tax authorities, details of progress with Advanced Pricing Agreements and copies of external tax advice reports relating to tax treatments applied and the corresponding provisions recorded. We challenged management's key assumptions, in particular on cases where there had been significant developments with local tax authorities, noting no significant deviations from our expectations. We also evaluated whether the liabilities and potential exposures were appropriately disclosed in the Financial Statements.
Valuation of provisions for liabilities arising from regulatory investigations Refer to page 44 (Strategic risks) and Note 17 on page 125 (Provisions for liabilities and charges). 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 amounting to £141 million. There is a high level of management judgement associated with determining the need for, and the magnitude of, provisions for any liabilities arising from these investigations. Therefore, we consider there to be a risk that the provisions may be held at the incorrect value on the balance sheet and that disclosure within the Annual Report in respect of the cases and their potential impact on the Financial Statements may not be sufficient.	Our audit procedures focused on the assumptions and judgements made by management in determining the recognition and valuation of associated provisions. We confirmed that, where applicable, discussions took place with in-country legal teams and sought audit evidence in that location, such as obtaining external confirmations. This evidence was also corroborated by the Group engagement team with the Head of Group Legal to understand the status of any investigations or litigation, the associated risks and the basis for any provisions recorded. We obtained and read notifications from the relevant regulatory bodies and examined relevant legal documents that confirmed the existence of each case and quantified expected liabilities. We obtained confirmations from the Group's external legal counsel and compared their description and assessment of the facts and circumstances of the cases and, where applicable, the potential outcome against management's and the internal legal team's assessment. We did not identify any significant inconsistencies.

Area of focus	How our audit addressed the area of focus
Goodwill and intangible assets impairment assessment Refer to page 63 (Audit Committee review of areas of significant judgement) and pages 114 to 116 (Goodwill and other intangible assets Note). The Group has goodwill of £3,282 million and other indefinite lived intangible assets of £7,897 million as at 31 December 2015 which are required to be tested for impairment on an annual basis. Management has allocated these assets to individual cash generating units (CGUs) and groups of CGUs (GCGUs) and there is judgement around how these are determined, specifically in respect of changes in the year. In 2015 management has brought the production of K-Y in-house and has aligned the 'go to market' strategy and operating functions with those of Sexual Wellbeing. This has resulted in the indefinite lived K-Y brand being assessed as part of the Sexual Wellbeing CGU. There is further judgement around the determination of the recoverable amount, being the higher of value-in-use and fair value less costs of disposal. Recoverable amounts are based on management's view of the future results and prospects of the business, the appropriate discount rates to be applied and specific risk factors applied to the GCGU's and CGU's. Due to VMS and Oriental Pharma being recent acquisitions, the brands remain sensitive to impairment. The VMS and Oriental Pharma indefinite life CGUs are primarily concentrated in single markets, the US and China respectively, although the launch of VMS brands within Europe and now Asia has continued during the year. The key judgements in determining the recoverable amount of these CGUs are in respect of the forecast cash flows within these primary markets and the penetration of VMS outside of the US, the use of appropriate discount rates and the long-term growth rates applied.	We considered management's integration of the K-Y CGU into the Sexual Wellbeing CGU and assessed this to be appropriate due to the alignment of production, strategy and marketing. We evaluated the process by which management prepared its cash flow forecasts and compared them against the latest Board approved plans and management approved forecasts. We evaluated the historical accuracy of the plans and forecasts, for example by comparing the forecasts used in the prior year model to the actual performance of the business in the current year. These procedures enabled us to determine the accuracy of the forecasting process and apply appropriate sensitivities to the cash flows. We assessed the appropriateness of management's discount rates, future cash flows and long-term growth rates, specifically focusing on the VMS and Oriental Pharma CGUs. We benchmarked assumptions against industry and peer group comparators and metrics such as country inflation rates. Based upon our assessments described above, we challenged management on the appropriateness of its sensitivity calculations by applying our own sensitivity analysis to the forecast cash flows, long-term growth rates and discount rates to ascertain the extent to which reasonable adverse changes would, either individually or in aggregate require an impairment of either the goodwill or indefinite life assets. We determined that no impairment charges were required, based on the results of our work. We identified 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.
The classification of exceptional items Refer to page 103 (accounting policies) and page 110 (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 of these 'exceptional items' are explained within the Group accounting policy and includes restructuring costs, gains or losses arising on acquisitions or disposals and costs resulting from non-recurring legal or regulatory matters. This year the Group has identified £133 million of net exceptional items which relate primarily to the loss recognised on the disposal of the Medcom medical business and 'Group-led' restructuring programmes associated with Project Supercharge. Our specific area of focus was to assess whether the items identified by management met the definition within the Group's accounting policy and have been treated consistently, as the identification of such items requires judgement by management. Consistency in the identification and presentation of these items is important to ensure comparability of year on year reporting within the Annual Report and Financial Statements.	We obtained corroborative evidence for the items presented within 'exceptional items'. We challenged management's rationale for the designation of certain items as 'exceptional' and assessed such items against the Group's accounting policy and the consistency of treatment with prior periods. We also considered whether there were items that were recorded within underlying profit that we determined to be 'exceptional' in nature and should have been included within 'exceptional items'. No such items were identified.

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

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

In 2015, the Group reorganised into two geographical regions being DvM (Developing Markets including North Africa, Middle East (excluding Israel), and Turkey, Africa, South Asia, North Asia, Latin America, Japan, Korea and ASEAN) and ENA (Europe, Russia/CIS, Israel, North America, Australia and New Zealand). There is also a separate segment for the Food business. Following the demerger of the RB Pharmaceuticals business in December 2014 there is no longer a separate segment for this business which was presented as a discontinued operation in the prior year.

Each country within the aforementioned geographical regions and food business consists of a number of management reporting entities which are consolidated by Group management. The Group Financial Statements are a consolidation of 696 reporting units representing the operating businesses within these geographical-based divisions and the centralised functions.

The reporting units vary in size and we identified 56 reporting units from across the two geographic regions and food business that required an audit of their complete financial information due to their individual size or risk characteristics. The reporting units where we performed an audit of their complete financial information accounted for 79% of the Group's profit before income tax, adjusted for non-recurring exceptional items and 76% of the Group's revenue. Included within these 56 reporting units were three reporting units that were audited by the Group engagement team, including the Group's treasury company and the Parent Company.

Audits of the revenue financial statement line item were performed in a further two reporting units and specified procedures were performed in respect of tax associated with the reduction of the geographic structure from three regions to two.

The 53 reporting units, excluding those audited by the Group engagement team, are audited by 18 component auditor teams. The Group engagement team visited 15 of the 18 local component teams to meet with local management, attend audit clearance meetings and discuss the audit approach and findings with the local audit teams. For those countries not visited we had regular communication with the local teams, both before and after their audit. Our attendance at the clearance meetings, review and discussion of the audit results at overseas locations, together with the additional procedures performed at a Group level described below, gave us the evidence we needed for our opinion on the Group Financial Statements as a whole.

Our audit procedures at the Group level included the audit of the consolidation, the UK and Group pension schemes (due to their size) and certain tax procedures.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the Financial Statements as a whole.

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

Overall Group materiality
£117 million (2014: £107 million).

How we determined it
5% of Group profit before income tax, adjusted for non-recurring exceptional items.

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

Component materiality
For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £6 million and £70 million. Certain components were audited to a local statutory audit materiality that was lower than the allocated amount.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £6 million (2014: £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 88, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the Financial Statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the Financial Statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

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.

- the statement given by the directors on page 88, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.

We have no exceptions to report.

- the section of the Annual Report on page 62, 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.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- the directors' confirmation on page 58 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

We have nothing material to add or to draw attention to.

- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

We have nothing material to add or to draw attention to.

- the directors' explanation on page 40 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

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

Directors' remuneration

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

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

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

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Statement of Responsibilities set out on page 88, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

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

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

What an audit of Financial Statements involves

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

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

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

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

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

Other matter

We have reported separately on the Parent Company Financial Statements of Reckitt Benckiser Group plc for the year ended 31 December 2015 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
22 March 2016

Group Income Statement

For the year ended 31 December	Note	2015 £m	2014 £m
CONTINUING OPERATIONS			
Net revenue	2	**8,874**	8,836
Cost of sales		**(3,628)**	(3,740)
Gross profit		**5,246**	5,096
Net operating expenses	3	**(3,005)**	(2,932)
Operating profit	2	**2,241**	2,164
Adjusted operating profit		**2,374**	2,185
Exceptional items	3	**(133)**	(21)
Operating profit		**2,241**	2,164
Finance income	6	**21**	27
Finance expense	6	**(54)**	(65)
Net finance expense		**(33)**	(38)
Profit before income tax		**2,208**	2,126
Income tax expense	7	**(463)**	(462)
Net income from continuing operations		**1,745**	1,664
DISCONTINUED OPERATIONS			
Net income from discontinued operations	28	**–**	278
Exceptional gain on non-cash dividend distributed	28	**–**	1,282
Net income from discontinued operations		**–**	1,560
Net income		**1,745**	3,224
Attributable to non-controlling interests		**2**	1
Attributable to owners of the parent		**1,743**	3,223
Net income		**1,745**	3,224
Basic earnings per ordinary share			
From continuing operations (pence)	8	**244.4**	230.7
From discontinued operations (pence)	8	**–**	216.4
Diluted earnings per ordinary share			
From continuing operations (pence)	8	**240.9**	227.6
From discontinued operations (pence)	8	**–**	213.5

Group Statement of Comprehensive Income

For the year ended 31 December	Note	**2015 £m**	2014 £m
Net income		**1,745**	3,224
Other comprehensive expense			
Items that may be reclassified to profit or loss in subsequent years			
Net exchange losses on foreign currency translation, net of tax	7	**(124)**	(191)
Losses on net investment hedges, net of tax	7	**(49)**	(137)
Gains/(losses) on cash flow hedges, net of tax	7	**14**	(11)
Reclassification of foreign currency translation reserves on disposal of foreign operations/demerger, net of tax	7	**33**	(3)
		(126)	(342)
Items that will not be reclassified to profit or loss in subsequent years			
Remeasurements of defined benefit pension plans, net of tax	7	**46**	(75)
		46	(75)
Other comprehensive expense, net of tax		**(80)**	(417)
Total comprehensive income		**1,665**	2,807
Attributable to non-controlling interests		**2**	–
Attributable to owners of the parent		**1,663**	2,807
Total comprehensive income		**1,665**	2,807

Total comprehensive income attributable to owners of the parent arising from:			
Continuing operations		**1,663**	1,247
Discontinued operations		**–**	1,560

Group Balance Sheet

As at 31 December	Note	2015 £m	2014 £m
ASSETS			
Non-current assets			
Goodwill and other intangible assets	9	**11,296**	11,252
Property, plant and equipment	10	**730**	757
Deferred tax assets	11	**57**	61
Retirement benefit surplus	22	**63**	26
Other non-current receivables	13	**240**	240
		12,386	12,336
Current assets			
Inventories	12	**681**	745
Trade and other receivables	13	**1,331**	1,307
Derivative financial instruments	14	**121**	130
Current tax recoverable		**9**	60
Available for sale financial assets	14	**–**	1
Cash and cash equivalents	15	**740**	917
		2,882	3,160
Total assets		**15,268**	15,496
LIABILITIES			
Current liabilities			
Short-term borrowings	16	**(1,749)**	(1,936)
Short-term provisions for liabilities and charges	17	**(229)**	(317)
Trade and other payables	20	**(2,948)**	(2,883)
Derivative financial instruments	14	**(22)**	(29)
Current tax liabilities	21	**(91)**	(124)
		(5,039)	(5,289)
Non-current liabilities			
Long-term borrowings	16	**(671)**	(636)
Deferred tax liabilities	11	**(1,692)**	(1,749)
Retirement benefit obligations	22	**(257)**	(338)
Other provisions	17	**(115)**	(73)
Non-current tax liabilities	21	**(559)**	(500)
Other non-current liabilities	20	**(29)**	(77)
		(3,323)	(3,373)
Total liabilities		**(8,362)**	(8,662)
Net assets		**6,906**	6,834
EQUITY			
Capital and reserves			
Share capital	23	**74**	74
Share premium		**243**	243
Merger reserve		**(14,229)**	(14,229)
Hedging reserve	25	**18**	4
Foreign currency translation reserve	25	**(964)**	(824)
Retained earnings		**21,762**	21,564
Attributable to owners of the parent		**6,904**	6,832
Attributable to non-controlling interests		**2**	2
Total equity		**6,906**	6,834

The Financial Statements on pages 97 to 137 were approved by the Board of Directors and signed on its behalf on 22 March 2016 by:

ADRIAN BELLAMY
Director

RAKESH KAPOOR
Director

Group Statement of Changes in Equity

	Notes	Share capital £m	Share premium £m	Merger reserves £m	Other reserves £m	Retained earnings £m	Total attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2014		74	243	(14,229)	(479)	20,725	6,334	2	6,336
Comprehensive income/(expense)									
Net income		–	–	–	–	3,223	3,223	1	3,224
Other comprehensive expense for the year		–	–	–	(341)	(75)	(416)	(1)	(417)
Total comprehensive income/(expense)		**–**	**–**	**–**	**(341)**	**3,148**	**2,807**	**–**	**2,807**
Transactions with owners									
Treasury shares reissued	23	–	–	–	–	112	112	–	112
Share-based payments	24	–	–	–	–	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, 23	–	–	–	–	(413)	(413)	–	(413)
Cash dividends	29	–	–	–	–	(988)	(988)	–	(988)
Non-cash dividends	29	–	–	–	–	(1,046)	(1,046)	–	(1,046)
Total transactions with owners		**–**	**–**	**–**	**–**	**(2,309)**	**(2,309)**	**–**	**(2,309)**
Balance at 31 December 2014		**74**	**243**	**(14,229)**	**(820)**	**21,564**	**6,832**	**2**	**6,834**
Comprehensive income									
Net income		–	–	–	–	1,743	1,743	2	1,745
Other comprehensive income/(expense) for the year		–	–	–	(126)	46	(80)	–	(80)
Total comprehensive income/(expense)		**–**	**–**	**–**	**(126)**	**1,789**	**1,663**	**2**	**1,665**
Transactions with owners									
Treasury shares reissued	23	–	–	–	–	74	74	–	74
Share-based payments	24	–	–	–	–	50	50	–	50
Current tax on share awards	7	–	–	–	–	5	5	–	5
Deferred tax on share awards	7	–	–	–	–	8	8	–	8
Shares repurchased and held in Treasury	17, 23	–	–	–	–	(804)	(804)	–	(804)
Cash dividends	29	–	–	–	–	(924)	(924)	(2)	(926)
Total transactions with owners		**–**	**–**	**–**	**–**	**(1,591)**	**(1,591)**	**(2)**	**(1,593)**
Balance at 31 December 2015		**74**	**243**	**(14,229)**	**(946)**	**21,762**	**6,904**	**2**	**6,906**

The merger reserve relates to the 1999 combination of Reckitt & Colman plc and Benckiser N.V. and a Group reconstruction in 2007 treated as a merger under Part 27 of the Companies Act 2006.

Refer to Note 25 for an explanation of other reserves.

Group Cash Flow Statement

For the year ended 31 December	Note	2015 £m	2014 £m
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit from continuing operations		**2,241**	2,164
Depreciation, amortisation and impairment		**171**	161
Fair value gains		**(33)**	(1)
Gain on sale of property, plant and equipment assets		**–**	(41)
Decrease/(increase) in inventories		**22**	(44)
Increase in trade and other receivables		**(218)**	(168)
(Decrease)/increase in payables and provisions		**(23)**	179
Non-cash exceptional items		**85**	21
Share-based payments		**50**	53
Cash generated from operations		**2,295**	2,324
Interest paid		**(54)**	(58)
Interest received		**23**	26
Tax paid		**(480)**	(416)
Net cash flows attributable to discontinued operations		**–**	223
Net cash generated from operating activities		**1,784**	2,099
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(154)**	(157)
Purchase of intangible assets		**(25)**	(27)
Proceeds from the sale of property, plant and equipment		**51**	19
Acquisition of businesses, net of cash acquired		**(10)**	(340)
Maturity of short-term investments		**3**	1
Net cash transferred on demerger of RBP		**–**	(195)
Proceeds on disposal of subsidiaries		**1**	–
Net cash flows attributable to discontinued operations		**–**	(16)
Net cash used in investing activities		**(134)**	(715)
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares repurchased and held in Treasury	23	**(804)**	(313)
Treasury shares reissued	23	**74**	112
Proceeds from borrowings		**23**	–
Repayment of borrowings		**(165)**	(485)
Dividends paid to owners of the parent	29	**(924)**	(988)
Dividends paid to non-controlling interests		**(2)**	(1)
Net cash flows attributable to discontinued operations		**–**	481
Net cash used in financing activities		**(1,798)**	(1,194)
Net (decrease)/increase in cash and cash equivalents		**(148)**	190
Cash and cash equivalents at beginning of the year		**913**	805
Exchange losses		**(28)**	(82)
Cash and cash equivalents at end of the year		**737**	913
Cash and cash equivalents comprise:			
Cash and cash equivalents	15	**740**	917
Overdrafts	16	**(3)**	(4)
		737	913
RECONCILIATION OF NET CASH FLOWS FROM OPERATIONS			
Net cash generated from operating activities		**1,784**	2,099
Net purchases of property, plant and equipment		**(103)**	(138)
Net cash flow from operations		**1,681**	1,961

Notes to the Financial Statements

1 Accounting Policies

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

Basis of Preparation

These Financial Statements have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRSs), IFRS Interpretations Committee (IFRS IC) interpretations, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements are also in compliance with IFRSs as issued by the International Accounting Standards Board.

These Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities (including derivative instruments) at fair value through profit and loss. A summary of the Group's key accounting policies is set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

Adoption of New and Revised Standards

There are no new standards, amendments or interpretations which have been adopted for the first time and have a significant impact on the accounting policies applied in preparing the annual Consolidated Financial Statements of the Group.

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 2018, IFRS 16 Leases which will be effective for annual periods beginning on or after 1 January 2019 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 2016 and have not yet been applied in preparing these Financial Statements. None of these are expected to have a significant effect on the Financial Statements of the Group.

Going Concern

Having assessed the principal risks and other matters discussed in connection with the Viability Statement, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements. Further detail is contained in the Strategic Report on pages 40 to 45.

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 consolidated Financial Statements from the acquisition date.

1 Accounting Policies continued

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 the Income Statement.

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 light of contractual and legal obligations, historical trends, past experience and projected market conditions.

Trade spend, which consists primarily of customer pricing allowances, placement/listing fees and promotional allowances, is 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 Consolidated 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.

1 Accounting Policies continued

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.

A review of the useful economic life of brands is performed 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 reacquired 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 ten years or less; motor vehicles and computer equipment over five years or less.

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

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

Leases

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

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

Impairment of Assets

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

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

Inventories

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

Trade Receivables

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

1 Accounting Policies continued

Cash and Cash Equivalents

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

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

Other bank overdrafts are included within short-term borrowings in the Balance Sheet.

Borrowings

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

Derivative Financial Instruments and Hedging Activity

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

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

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 which vest in accordance with non-market conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each Balance Sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Additional employer costs in respect of options and awards are charged, including social security taxes, to the Income Statement over the same period with a corresponding liability recognised.

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

Pension Commitments

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

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

The deficit or surplus recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the Balance Sheet date, less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows by the yield on high-quality corporate bonds denominated in the currency in which the benefits will be paid, and that have a maturity approximating to the terms of the pension obligations. The costs of providing these defined benefit plans are accrued over the period of employment. Actuarial gains and losses are recognised immediately in Other Comprehensive Income.

Where individual pension schemes have an IAS19 surplus this has been recognised as an asset based on an assessment of the likelihood of recovery of the pension asset.

Past-service costs are recognised immediately in profit or loss.

The net interest amount is calculated by applying the discounted rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset.

The net pension plan interest is presented as finance income/expense.

Post-Retirement Benefits Other than Pensions

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

Provisions

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

1 Accounting Policies continued

Share Capital Transactions

When the Group purchases equity share capital, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Purchased shares are either held in Treasury, in order to satisfy employee options, or cancelled and, in order to maintain capital, an equivalent amount to the nominal value of the shares cancelled would be transferred from retained earnings to the capital redemption reserve.

Dividend Distribution

Dividends to owners of the Parent Company 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 or losses arising as a result of fair value remeasurements are recognised in profit or loss in the same period.

Accounting Estimates and Judgements

In the application of the Group's accounting policies the Directors are required to make a number of judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where there are estimates and judgements disclosed together these have been included in the critical judgements section below.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, that the Directors have made in the process of applying the Group's accounting policies, that have the most significant effect on the amounts recognised in the Group's Financial Statements.

- The Group recognises legal and regulatory provisions in line with the Group's provisions policy. The level of provisioning for regulatory civil and/or criminal investigation is an issue where management and legal judgement is important (Note 17). These are valued based on the Directors' best estimates taking into account all available information, external advice and historical experience.
- The Group has identified matters which may incur liabilities in the future, but do not recognise these where it is too early to determine the likely outcome or make a reliable estimate.
- The continuing enduring nature of the Group's brands supports the indefinite life assumption of these assets (refer to Note 9).
- The actual tax paid on profits is determined based on tax laws and regulations that differ across the numerous jurisdictions in which the Group operates. Assumptions are made in applying these laws to the taxable profits in any given period in order to calculate the tax charge for that period. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the income statement in the period in which it is determined (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 is subject to tax audits and uncertainties in a number of jurisdictions. The issues involved can be complex and disputes may take a number of years to resolve. Each uncertainty is separately assessed and the provision recognised depends on the specific context of each case. The accounting estimates and judgements considered include:
  - Status of the unresolved matter;
  - Strength of technical argument and clarity of legislation;
  - External advice;
  - Resolution process, past experience and precedence set with the particular taxing authority;
  - Agreements previously reached in other jurisdictions on comparable issues; and
  - Statute of limitations.

Management is of the opinion that the carrying values of the liabilities recognised in respect of these matters represent the most accurate measurement once all facts and circumstances have been taken into account. The liabilities are included in amounts disclosed in Note 21.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

- Estimates of future business performance and cash generation, discount rates and long-term growth rates supporting the net book amount of indefinite life intangible assets at the balance sheet date (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.
- 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 27).
- The Group provides for amounts payable to our trade customers for promotional activity. Where a promotional activity spans across the year end, an accrual is reflected in the consolidated Financial Statements based on our estimation of customer and consumer uptake during the promotional period and the extent to which temporary promotional activity has occurred. Details of trade spend accrued as at year end are provided in Note 20.
- The value of the Group's defined benefit pension plan obligations are dependent on a number of key assumptions. These include assumptions over the rate of increase in pensionable salaries, the discount rate to be applied, the level of inflation and the life expectancy of the schemes members. Details of the key assumptions and the sensitivity of the principal schemes carrying value to changes in the assumptions are set out in Note 22.

2 Operating Segments

The Executive Committee is the Group's Chief Operating Decision Maker ('CODM'). Management has determined the operating segments based on the reports reviewed by the Executive Committee for the purposes of making strategic decisions and assessing performance. The Executive Committee considers the business principally from a geographical perspective, but with Food being managed separately given the significantly different nature of this business and the associated risks and rewards.

In February 2015, the Group announced the reorganisation of its geographical segments into a revised ENA and DvM. ENA comprises Europe, Russia/CIS, Israel, North America, Australia and New Zealand. DvM principally comprises North Africa, Middle East (excluding Israel) and Turkey, Africa, South Asia, North Asia, Latin America, Japan, Korea and ASEAN. Comparative information has been restated on a consistent basis.

The geographical segments derive their revenue primarily from the sale of branded products in the Health, Hygiene and Home categories. Food derives its revenue from food products primarily sold in ENA countries.

The Executive Committee assesses the performance of the operating segments based on Net Revenue from external customers and Adjusted operating profit. Intercompany transactions between operating segments are eliminated. Finance income and expense are not allocated to segments, as they are managed on a central Group basis.

The segment information provided to the Executive Committee for the operating segments for the year ended 31 December is as follows:

Year ended 31 December 2015	**ENA £m**	**DvM £m**	**Food £m**	**Total £m**
Net Revenue	**5,830**	**2,695**	**349**	**8,874**
Depreciation, amortisation and impairment	**104**	**62**	**5**	**171**
Adjusted operating profit	**1,744**	**528**	**102**	**2,374**
Exceptional items				**(133)**
Operating profit				**2,241**
Net finance expense				**(33)**
Profit before income tax				**2,208**

Year ended 31 December 2014[1]	ENA £m	DvM £m	Food £m	Total £m
Net Revenue	5,891	2,629	316	8,836
Depreciation, amortisation and impairment	96	61	4	161
Adjusted operating profit	1,640	460	85	2,185
Exceptional items				(21)
Operating profit				2,164
Net finance expense				(38)
Profit before income tax				2,126

1. As a result of the Group reorganisation, the Group has restated comparative information to reflect results under the new operating structure consistent with reporting to the Executive Committee.

The Executive Committee reviews net working capital by segment and other assets and liabilities on a Group basis. The split of assets and liabilities by segment provided to the Executive Committee is shown below. Assets and liabilities not presented to the Executive Committee are shown below as a reconciling item.

2015	**ENA £m**	**DvM £m**	**Food £m**	**Total £m**
Inventories	**491**	**208**	**22**	**721**
Trade and other receivables	**785**	**474**	**29**	**1,288**
Total segment assets	**1,276**	**682**	**51**	**2,009**
Trade and other payables	**(1,745)**	**(912)**	**(58)**	**(2,715)**

2014[1]	ENA £m	DvM £m	Food £m	Total £m
Inventories	494	252	20	766
Trade and other receivables	821	448	25	1,294
Total segment assets	1,315	700	45	2,060
Trade and other payables	(1,754)	(812)	(64)	(2,630)

1. As a result of the Group reorganisation, the Group has restated comparative information to reflect results under the new operating structure consistent with reporting to the Executive Committee.

2 Operating Segments continued

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:

	2015 £m	2014 £m
Inventories for operating segments	721	766
Unallocated:		
Group adjustments	(40)	(21)
Total inventories per the Balance Sheet	681	745
Trade and other receivables for operating segments	1,288	1,294
Unallocated:		
Group items	43	13
Total trade and other receivables per the Balance Sheet	1,331	1,307
Total inventories and trade and other receivables per the Balance Sheet	2,012	2,052
Other unallocated assets	13,256	13,444
Total assets per the Balance Sheet	15,268	15,496
Trade and other payables for operating segments	(2,715)	(2,630)
Unallocated:		
Group items	(233)	(253)
Total trade and other payables per the Balance Sheet	(2,948)	(2,883)
Other unallocated liabilities	(5,414)	(5,779)
Total liabilities per the Balance Sheet	(8,362)	(8,662)

Group adjustments to inventory relate to the elimination of intercompany profit on inventory.

Unallocated assets include goodwill and intangible assets, property, plant and equipment, deferred and current tax, available for sale assets, retirement benefit surplus, other receivables, derivative financial assets, and cash and cash equivalents. Unallocated liabilities include borrowings, provisions for liabilities and charges, current and deferred tax liabilities, other liabilities and retirement benefit obligations.

2 Operating Segments continued

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:

2015	**UK £m**	**US £m**	**All other countries £m**	**Total £m**
Net revenue from continuing operations	**729**	**2,338**	**5,807**	**8,874**
Goodwill and other intangible assets	**1,916**	**4,710**	**4,670**	**11,296**
Property, plant and equipment	**143**	**153**	**434**	**730**
Other non-current receivables	**12**	**38**	**190**	**240**

2014	UK £m	US £m	All other countries £m	Total £m
Net revenue from continuing operations	691	2,089	6,056	8,836
Goodwill and other intangible assets	1,823	4,455	4,974	11,252
Property, plant and equipment	140	147	470	757
Other non-current receivables	2	32	206	240

The Net Revenue from external customers reported on a geographical basis above is measured consistently with that in the operating segments. Major customers are typically large grocery chains, mass markets and multiple retailers. The Group's customer base is diverse with no single external customer accounting for more than 10% of Net Revenue.

Analysis of Categories

The primary analysis within the information provided to the Executive Committee is based on geographical areas above. An analysis of Net Revenue by category is given below.

	Net Revenue	
	2015 £m	2014 £m
Continuing Operations		
Health	**2,942**	2,701
Hygiene	**3,589**	3,627
Home	**1,715**	1,810
Portfolio Brands (including Food)	**628**	698
	8,874	8,836

Health, Hygiene, Home and Portfolio Brands categories are all split across the two geographical segments of ENA and DvM. Food is sold primarily in ENA but is recognised within a separate operating segment.

3 Analysis of Net Operating Expenses

	2015 £m	2014 £m
Distribution costs	**(2,165)**	(2,251)
Research and development	**(140)**	(146)
Other	**(575)**	(528)
Total administrative expenses	**(715)**	(674)
Other net operating income	**8**	14
Exceptional items	**(133)**	(21)
Net operating expenses	**(3,005)**	(2,932)

Net foreign exchange losses of £7 million (2014: £8 million) 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

	2015 £m	2014 £m
Acquisition, integration and restructuring costs	**76**	62
Loss on disposal of subsidiary	**57**	–
Gain on the sale of property, plant and equipment	**–**	(41)
Total exceptional items	**133**	21

During the year, the Group incurred an exceptional charge of £133 million (2014: £21 million) included within operating expenses, in respect of the following:

- £76 million (2014: £62 million) of costs in relation to the ongoing restructuring of the Group's operations, and the integration of recent acquisitions. Costs incurred in both the current and prior year consist primarily of redundancy, legal and professional fees and business integration costs.
- £57 million (2014: £nil) loss on disposal of Medcom-MP, the entity owning the Russian hospital business. This included a loss of £33 million arising from the recycling, from equity, of previous exchange losses arising on consolidation of the legal entity sold (Note 27).
- £nil (2014: £41 million) a 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.

	2015 £m	2014 £m
Audit services pursuant to legislation:		
Audit of the Group's Annual Report and Financial Statements	**2.0**	1.7
Audit of the Financial Statements of the Group's subsidiaries	**3.6**	4.1
Audit related assurance services	**0.2**	2.7
Total audit and audit related services	**5.8**	8.5
Fees payable to the Company's Auditor and its associates for other services:		
Taxation compliance services	**0.1**	0.2
Taxation advisory services	**1.2**	2.1
Other assurance services	**0.1**	–
All other non-audit services	**–**	–
Total non-audit services	**1.4**	2.3
	7.2	10.8

Included within Audit of the Financial Statements of the Group's subsidiaries is £0.2 million (2014: £0.2 million) in relation to the audit of the Financial Statements of associated pension plans of the Group. In 2014, £0.1 million related to the audit of RB Pharmaceuticals and a further £2.3 million audit-related assurance services for the demerger of RB Pharmaceuticals.

5 Employees
Staff Costs

	Note	2015 £m	2014 £m
The total employment costs, including Directors, were:			
Wages and salaries		**923**	966
Social security costs		**158**	178
Other pension costs	22	**27**	46
Share-based payments	24	**50**	55
		1,158	1,245

In 2014, included within staff costs is £86 million incurred in respect of the pharmaceutical business. This amount is 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 66 to 84, which forms part of the Annual Report and Financial Statements.

Compensation awarded to key management (the Executive Committee) was:

	2015 £m	2014 £m
Short-term employee benefits	**17**	12
Post-employment benefits	**1**	1
Share-based payments	**22**	20
Termination benefits	–	1
	40	34

Termination benefits and share-based payments include contractual commitments made to key management in 2015, comprising cash payments and share awards.

Staff Numbers

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

	2015 '000	2014[1] '000
Continuing operations		
ENA	**15.5**	17.6
DvM	**18.0**	17.7
Other	**1.2**	1.2
Discontinued operations		
RB Pharmaceuticals	–	0.7
	34.7	37.2

1 2014 restated for new operating segments.

6 Net Finance Expense

	2015 £m	2014 £m
Finance income		
Interest income on cash and cash equivalents	**21**	27
Total finance income	**21**	27
Finance expense		
Interest payable on borrowings	**(36)**	(38)
Net pension plan interest	**(8)**	(8)
Amortisation of issue costs of bank loans	**(5)**	(8)
Other finance expense	**(5)**	(11)
Total finance expense	**(54)**	(65)
Net finance expense	**(33)**	(38)

7 Income Tax Expense

	2015 £m	2014 £m
Current tax	**483**	549
Adjustment in respect of prior periods	**92**	(22)
Total current tax	**575**	527
Origination and reversal of temporary differences and adjustments in respect of prior periods	**(48)**	(65)
Impact of changes in tax rates	**(64)**	–
Total deferred tax (Note 11)	**(112)**	(65)
Income tax expense	**463**	462

Current tax includes tax incurred by UK entities of £75 million (2014: £73 million). This is comprised of UK corporation tax of £53 million (2014: £37 million) and overseas tax suffered of £22 million (2014: £36 million). UK current tax is calculated at 20.25% (2014: 21.5%) of the estimated assessable profit for the year, net of relief for overseas taxes where available. Taxation in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The deferred tax impact of changes in tax rates of £64 million primarily relates to the enactment of reductions in the future UK corporation rate from 20% to 18%. This results in a reduction in closing deferred tax liabilities.

Origination and reversal of temporary differences and adjustments in respect of prior periods includes adjustments in respect of prior periods of £14 million (2014: £29 million).

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

	2015 £m	2014 £m
Profit before income tax	**2,208**	2,126
Tax at the notional UK corporation tax rate of 20.25% (2014: 21.5%)	**447**	457
Effects of:		
Tax at rates other than the UK corporation tax rate	**(145)**	(177)
Adjustments to amounts carried in respect of unresolved tax matters	**51**	126
Incurrence of tax losses	**5**	1
Withholding and local taxes	**13**	22
Adjustment in respect of prior periods	**106**	7
Impact of changes in tax rates	**(64)**	–
Exceptional items	**19**	(3)
Other permanent differences	**31**	29
Income tax expense	**463**	462

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Group's profits for the year ended 31 December 2015 are reconciled to an effective UK rate of 20.25% (2014: 21.5%).

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 (expense)/income is as follows:

		2015			2014	
	Before tax £m	**Tax credit/ (charge) £m**	**After tax £m**	Before tax £m	Tax credit £m	After tax £m
Net exchange losses on foreign currency translation	**(124)**	**–**	**(124)**	(191)	–	(191)
Gains/(losses) on cash flow and net investment hedges	**(34)**	**(1)**	**(35)**	(148)	–	(148)
Reclassification of foreign currency translation reserves on demerger or disposal of foreign operations (Note 3)	**33**	**–**	**33**	(3)	–	(3)
Remeasurement of defined benefit pension plans (Note 22)	**63**	**(17)**	**46**	(105)	30	(75)
Other comprehensive (expense)/income	**(62)**	**(18)**	**(80)**	(447)	30	(417)
Current tax		**4**			–	
Deferred tax (Note 11)		**(22)**			30	
		(18)			30	

The tax related to share-based payments credited/(charged) directly to the Statement of Changes in Equity during the year is as follows:

	2015 £m	2014 £m
Current tax	**5**	14
Deferred tax (Note 11)	**8**	(43)
	13	(29)

8 Earnings per Share

	2015 pence	2014 pence
Basic earnings per share		
From continuing operations	**244.4**	230.7
From discontinued operations	–	216.4
Total basic earnings per share	**244.4**	447.1
Diluted earnings per share		
From continuing operations	**240.9**	227.6
From discontinued operations	–	213.5
Total diluted earnings per share	**240.9**	441.1
Adjusted basic earnings per share		
From continuing operations	**262.4**	233.6
From discontinued operations	–	38.6
Total adjusted basic earnings per share	**262.4**	272.2
Adjusted diluted earnings per share		
From continuing operations	**258.6**	230.5
From discontinued operations	–	38.0
Total adjusted diluted earnings per share	**258.6**	268.5

Basic

Basic earnings per share is calculated by dividing the net income attributable to owners of the parent from continuing operations (2015: £1,743 million; 2014: £1,663 million) and discontinued operations (2015: £nil; 2014: £1,560 million) by the weighted average number of ordinary shares in issue during the year (2015: 713,063,230; 2014: 720,823,744).

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 2015, there were 4 million (2014: 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.

	2015 Average number of shares	2014 Average number of shares
On a basic basis	**713,063,230**	720,823,744
Dilution for Executive Share Awards	**9,680,716**	9,035,862
Dilution for Employee Sharesave Scheme Options outstanding	**802,516**	880,704
On a diluted basis	**723,546,462**	730,740,310

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:

Continuing operations	2015 £m	2014 £m
Net income attributable to owners of the parent from continuing operations	**1,743**	1,663
Exceptional items	**133**	21
Tax effect of exceptional items	**(5)**	–
Adjusted net income attributable to owners of the parent from continuing operations	**1,871**	1,684

Discontinued operations	2015 £m	2014 £m
Net income attributable to owners of the parent from discontinued operations	–	1,560
Exceptional gain on non-cash dividend	–	(1,282)
Tax effect of exceptional items	–	–
Adjusted net income attributable to owners of the parent from discontinued operations	–	278

9 Goodwill and Other Intangible Assets

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
Cost					
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)
At 31 December 2014	**7,938**	**3,282**	**97**	**115**	**11,432**
Additions	–	–	25	–	25
Arising on business combinations	–	6	–	–	6
Disposals	–	–	(1)	–	(1)
Exchange adjustments	31	15	–	(8)	38
At 31 December 2015	**7,969**	**3,303**	**121**	**107**	**11,500**
Accumulated amortisation and impairment					
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)
At 31 December 2014	**89**	**24**	**23**	**44**	**180**
Amortisation and impairment charge	3	–	15	15	33
Disposals	–	–	(1)	–	(1)
Exchange adjustments	–	(3)	–	(5)	(8)
At 31 December 2015	**92**	**21**	**37**	**54**	**204**
Net book value					
At 31 December 2014	**7,849**	**3,258**	**74**	**71**	**11,252**
At 31 December 2015	**7,877**	**3,282**	**84**	**53**	**11,296**

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

Software includes intangible assets under construction of £14 million (2014: £7 million).

Included within the 2014 amortisation and impairment charge for the year is £15 million relating to the pharmaceutical business. These amounts are included within Net Income from discontinued operations in the Group Income Statement.

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:

Net book amount	**2015 £m**	2014 £m
Indefinite life assets:		
Brands	**7,857**	7,826
Goodwill	**3,282**	3,258
Other	**40**	40
Total indefinite life assets	**11,179**	11,124
Finite life assets:		
Brands	**20**	23
Software	**84**	74
Other	**13**	31
Total finite life assets	**117**	128
Total net book amount of intangible assets	**11,296**	11,252

Goodwill and other intangible assets with indefinite lives are allocated to either individual cash generating units ('CGUs'), or groups of cash generating units (together 'GCGUs'). 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.

9 Goodwill and Other Intangible Assets continued

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 K-Y into the Sexual Wellbeing CGU has largely been completed. As a result, K-Y is tested as part of this CGU. Separate impairment testing was performed immediately prior to integration, at which point it was demonstrated that each CGU held a value in use in excess of its carrying value.

An analysis of the net book value of indefinite life assets and goodwill by GCGU is shown below:

		2015			2014		
GCGU	Powerbrands	**Indefinite life assets £m**	**Goodwill £m**	**Total £m**	Indefinite life assets £m	Goodwill £m	Total £m
Health[1]	Durex, Gaviscon, Mucinex, Nurofen, Scholl, Strepsils	**5,937**	**3,091**	**9,028**	5,928	3,066	8,994
Hygiene	Bang, Clearasil, Dettol, Finish, Harpic, Lysol, Mortein, Veet	**1,175**	**146**	**1,321**	1,156	147	1,303
Home[2]	Air Wick, Calgon, Vanish, Woolite	**751**	**45**	**796**	750	45	795
Food	French's	**34**	**–**	**34**	32	–	32
		7,897	**3,282**	**11,179**	7,866	3,258	11,124

1. Within the Health GCGU, the cash flows in relation to certain groups of brands are separately identifiable. As a result, the carrying value of these brand-related intangible assets, in conjunction with associated property, plant and equipment, have been tested for impairment as CGUs. This is in addition to the impairment testing over goodwill and indefinite life assets for the wider GCGU. The CGUs tested separately are shown below, all of which fall under the Health GCGU in the above table.
2. Includes Portfolio Brands.

Carrying Value of CGU	**2015 £m**	2014 £m
Sexual Wellbeing	**2,041**	1,793
K–Y	**–**	304
Oriental Pharma	**118**	117
VMS	**892**	844

Indefinite life assets relating to the Food GCGU are not considered significant relative to the Group's total indefinite life assets. As such the disclosures below do not include discussion on the assumptions specific to Food.

Annual Impairment Review

The annual impairment review of goodwill and indefinite life assets is based on an assessment of each GCGU's or CGU's value in use. Value in use is calculated from cash flow projections, based on historical operating results, short-term budgets, and medium-term business plans, which have each been approved by management and covers a five-year period. These projections exclude any estimated future cash inflows or outflows expected to arise from restructuring not yet implemented.

The value in use calculation is based on the following key assumptions used in the cash flow projections:

- Net Revenue growth based upon forecast future sales volumes and prices, which take account of the expected impact from committed new product initiatives, geographical expansion and the maturity of the markets in which each GCGU or CGU operates;
- Gross Margin based on historical experience adjusted for the impact of forecast production costs, cost optimisation initiatives and changes in product mix; and
- Marketing and other expenditure, reflecting historical experience, expected levels of cost inflation, committed cost saving initiatives and future levels of marketing support required to sustain, grow and further innovate brands.

Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rates stated below. The long-term growth rates applied do not exceed the long-term average growth rate for the products and markets in which the GCGU or CGU operates.

Management has assessed the appropriate discount rate to apply to the cash flow projections for each individual GCGU and CGU. This has been done using a Weighted Average Cost of Capital (WACC) for comparable companies operating in similar markets and geographies as the Group, adjusted for risks specific to each GCGU and CGU.

Due to the wide geographic and product diversification of their respective markets, and the diverse risks associated with a number of GCGUs and CGUs, a pre-tax discount rate of 10% was determined for each of the Health, Hygiene and Home GCGUs as well as the Sexual Wellbeing CGU (2014: 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 13% (2014: 14%) was therefore applied to VMS and 12% (2014: 14%) was applied to Oriental Pharma, to reflect the risks specific to these businesses.

9 Goodwill and Other Intangible Assets continued

GCGU/CGU	2015 Terminal growth rate %	2015 Pre-tax discount rate %	2014 Terminal growth rate %	2014 Pre-tax discount rate %
Health	**1–4**	**10**	0–4	11
Hygiene	**0–4**	**10**	0–4	11
Home	**0–2**	**10**	0–2	11
Sexual Wellbeing	**4**	**10**	4	11
Oriental Pharma	**4**	**12**	4	14
VMS	**3**	**13**	3	14

Following the Group's annual impairment review, no impairments have been identified.

Any reasonably possible changes in the key assumptions on which the recoverable amounts of the Health, Hygiene and Home GCGUs, or the Sexual Wellbeing CGU, are based would not imply possible impairments.

With a value in use exceeding its carrying value by £106 million (12%) (2014: £116 million, 14%), the VMS CGU is sensitive to reasonably possible changes in key assumptions. The sensitivity of the recoverable amount has been assessed to identify the impact of reasonably possible changes in assumptions. If all other assumptions were held constant, a reduction in assumed growth rates in the first five years by 20% of those forecast would lead to a reduction in the value in use of this CGU of £61 million. In addition, a further reduction of 100 bps in the terminal growth rate would result in an additional reduction in the value in use of £67 million. Applying these sensitivities together would result in the carrying value of this CGU exceeding its value in use by £22 million.

The value in use of the Oriental Pharma CGU is equal to its carrying value, and as such is also sensitive to changes in key assumptions. If all other assumptions were held constant, a reduction in assumed growth rates in the first five years by 20% of that forecast would lead to a reduction in the value in use of this CGU of £19 million. In addition, a further reduction of 100 bps in the terminal growth rate would result in an additional reduction in the value in use of £9 million. Applying these sensitivities together would result in the carrying value of this CGU exceeding its value in use by £28 million.

10 Property, Plant and Equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
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)
At 31 December 2014	**531**	**1,190**	**1,721**
Additions	15	139	154
Disposals	(10)	(60)	(70)
Reclassifications	39	(39)	–
Exchange adjustments	(17)	(64)	(81)
At 31 December 2015	**558**	**1,166**	**1,724**
Accumulated depreciation and impairment			
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)
At 31 December 2014	**191**	**773**	**964**
Charge for the year	30	107	137
Disposals	(8)	(50)	(58)
Impairment losses	5	5	10
Exchange adjustments	(8)	(51)	(59)
At 31 December 2015	**210**	**784**	**994**
Net book value			
As at 31 December 2014	**340**	**417**	**757**
As at 31 December 2015	**348**	**382**	**730**

The net book amount of assets under construction is £57 million (2014: £78 million). Assets under construction are included within plant and equipment and are not depreciated.

10 Property, Plant and Equipment continued

The reclassification from plant and equipment to land and buildings of £39 million (2014: £22 million) shows the transfer of completed assets.

Impairment losses of £10 million (2014: £nil) have been charged to exceptional items as they relate to ongoing restructuring of the Group's operations.

Capital expenditure which was contracted but not capitalised at 31 December 2015 was £44 million (2014: £27 million).

11 Deferred Tax

Deferred tax assets	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
At 1 January 2014	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)
At 31 December 2014	7	(10)	52	–	12	61
(Charged)/credited to the Income Statement	–	(13)	22	–	–	9
Charged to Other Comprehensive Income	–	–	(6)	–	–	(6)
Exchange differences	–	3	(9)	–	(1)	(7)
At 31 December 2015	**7**	**(20)**	**59**	**–**	**11**	**57**

Deferred tax liabilities	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
At 1 January 2014	20	2,024	(276)	(10)	(56)	1,702
(Credited)/charged to the Income Statement	(6)	(1)	(55)	–	14	(48)
Credited to ther omprehOensiveCIncome	–	–	–	–	(26)	(26)
Charged directly o quity t e	–	–	43	–	–	43
Arising on demerger	–	(4)	54	–	–	50
Exchange differences	1	21	8	–	(2)	28
At 31 December 2014	15	2,040	(226)	(10)	(70)	1,749
(Credited)/charged to the Income Statement	(1)	(66)	(45)	(1)	10	(103)
(Credited)/charged to Other Comprehensive Income	–	–	(3)	–	19	16
Credited directly to equity	–	–	(8)	–	–	(8)
Arising on cquisition a	–	6	–	–	–	6
Exchange differences	–	37	(2)	–	(3)	32
At 31 December 2015	**14**	**2,017**	**(284)**	**(11)**	**(44)**	**1,692**

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

Certain deferred tax assets in respect of corporation tax losses and other temporary differences totalling £98 million (2014: £137 million) have not been recognised at 31 December 2015 as the likelihood of future economic benefit is not sufficiently assured. These assets will be recognised if utilisation of the losses and other temporary differences becomes sufficiently probable.

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

12 Inventories

	2015 £m	2014 £m
Raw materials and consumables	**144**	157
Work in progress	**23**	28
Finished goods and goods held for resale	**514**	560
Total inventories	**681**	745

The total cost of inventories recognised as an expense and included in cost of sales amounted to £3,431 million (2014: £3,526 million). This includes inventory write offs and losses of £51 million (2014: £58 million).

The Group inventory provision at 31 December 2015 was £63 million (2014: £81 million).

13 Trade and Other Receivables

Amounts falling due within one year	2015 £m	2014 £m
Trade receivables	**1,190**	1,069
Less: Provision for impairment of receivables	**(26)**	(33)
Trade receivables – net	**1,164**	1,036
Other receivables	**129**	233
Prepayments and accrued income	**38**	38
	1,331	1,307

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

	2015 £m	2014 £m
Sterling	**109**	167
Euro	**248**	261
US dollar	**359**	236
Brazil real	**89**	95
Other currencies	**526**	548
	1,331	1,307

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

a Trade Receivables

Trade receivables consist of 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 2015, trade receivables of £126 million (2014: £72 million) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

Amounts past due but not impaired	2015 £m	2014 £m
Up to 3 months	**126**	72

As at 31 December 2015, trade receivables of £55 million (2014: £70 million) were considered to be partially impaired. The amount of provision at 31 December 2015 was £26 million (2014: £33 million). 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:

Ageing analysis of amounts impaired	2015 £m	2014 £m
Up to 3 months	**34**	50
Over 3 months	**21**	20
	55	70

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

b Other Receivables

Other Receivables include recoverable sales tax of £59 million (2014: £121 million). This contains £5 million (2014: £6 million) of impaired assets all aged over three months from a broad range of countries within the Group.

Other Non-Current Receivables

Non-current other receivables at 31 December 2015 were £240 million (2014: £240 million). This includes a prepayment of £143 million (2014: £194 million) for an option to acquire legal title to intellectual property relating to our three 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 £311 million upfront payment paid in 2013.

In addition, the balance includes an insurance receivable of £36 million (2014: £nil) in respect of a legal provision held by the Group (Note 17). The remaining balance relates to other non-current prepayments, and receivables due after one year.

14 Financial Instruments and Financial Risk Management

Financial Instruments by Category

At 31 December 2015	**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**
Assets as per the Balance Sheet						
Short-term deposits[1]	**–**	**–**	**–**	**–**	**–**	**–**
Trade and other receivables[2]	**1,328**	**–**	**–**	**–**	**1,328**	**1,328**
Derivative financial instruments – FX forward exchange contracts	**–**	**38**	**83**	**–**	**121**	**121**
Cash and cash equivalents	**740**	**–**	**–**	**–**	**740**	**740**

	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**
Liabilities as per the Balance Sheet					
Borrowings (excluding finance lease obligations and bond)[3]	**–**	**–**	**1,748**	**1,748**	**1,748**
US$1 billion bond (two tranches of US$500 million at 2.125% and 3.625% respectively)[4]	**–**	**–**	**671**	**671**	**683**
Finance lease obligations[3]	**–**	**–**	**1**	**1**	**1**
Derivative financial instruments – FX forward exchange contracts	**19**	**3**	**–**	**22**	**22**
Trade and other payables[5,6]	**–**	**–**	**2,801**	**2,801**	**2,801**
Other non-current liabilities[5]	**–**	**–**	**2**	**2**	**2**

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
Assets as per the Balance Sheet						
Short-term deposits[1]	–	–	–	1	1	1
Trade and other receivables[2]	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
Liabilities as per the Balance Sheet					
Borrowings (excluding finance lease obligations and bond)[3]	–	–	1,934	1,934	1,934
US$1 billion bond (two tranches of US$500 million at 2.125% and 3.625% respectively)[4]	–	–	634	634	660
Finance lease obligations[3]	–	–	4	4	4
Derivative financial instruments – FX forward exchange contracts	11	18	–	29	29
Trade and other payables[5]	–	–	2,675	2,675	2,675
Other non-current liabilities[5, 6]	–	–	44	44	44

1. These short-term deposits do not meet the requirements to be classified as cash equivalents as they have maturities greater than three months. They are however highly liquid assets.
2. Prepayments and employee benefit assets are excluded from the trade and other receivables balance as 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 2015 the Group had Commercial Paper in issue amounting to US$2,522 million (nominal values) at rates of between 0.23% and 0.92% with maturities ranging from 11 January 2016 to 10 November 2016. 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 2015 is a liability of £683 million (2014: £660 million). This value is derived using a quoted market rate in an active market (level 1 classification).
5. Social security liabilities and other employee benefit liabilities are excluded as the analysis above is required only for financial instruments.
6. Included in trade and other payables is £25 million (2014: £28 million – other non-current liabilities) relating to the acquisition of the remaining shareholding of RB and Manon Business Co. Ltd.

All material 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. 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 2015 is a liability of £22 million (2014: £29 million) and an asset of £121 million (2014: £130 million). This value is determined using forward exchange rates derived from market sourced data at the balance sheet date, with the resulting value discounted back to present value (level 2 classification).

As the value of level 3 instruments at 31 December 2015 is not material (2014: not material), no further level 3 disclosures have been made. There have been no movements of financial instruments between levels (2014: nil).

14 Financial Instruments and Financial Risk Management continued

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

As at 31 December 2015	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
Forward foreign exchange contracts	**121**	**–**	**121**	**(22)**	**99**
Cash and cash equivalents	**740**	**–**	**740**	**–**	**740**
	861	**–**	**861**	**(22)**	**839**

As at 31 December 2014	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
Forward foreign exchange contracts	130	–	130	(24)	106
Cash and cash equivalents	917	–	917	–	917
	1,047	–	1,047	(24)	1,023

(b) Financial liabilities

As at 31 December 2015	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
Forward foreign exchange contracts	**(22)**	**–**	**(22)**	**22**	**–**
Bank overdrafts	**(3)**	**–**	**(3)**	**–**	**(3)**
	(25)	**–**	**(25)**	**22**	**(3)**

As at 31 December 2014	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
Forward foreign exchange contracts	(29)	–	(29)	24	(5)
Bank overdrafts	(4)	–	(4)	–	(4)
	(33)	–	(33)	24	(9)

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.

14 Financial Instruments and Financial Risk Management continued

1. Market Risk

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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

It is the Group's policy to monitor and only where appropriate hedge its foreign currency transaction exposure. These transaction exposures arise mainly from foreign currency receipts and payments for goods and services and from the remittances of foreign currency dividends and loans.

The local business units enter into forward foreign exchange contracts with GT to manage these exposures where practical and allowed by local regulations. GT matches the Group exposures, and hedges the position where possible, using spot and forward foreign currency exchange contracts.

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2015 was £5,606 million payable (2014: £4,337 million payable).

As at 31 December 2015, the Group designated bonds totalling US$1,000 million (£671 million) as the hedging instrument in a net investment hedge relationship. The hedged risk is the foreign exchange currency risk on the value of the Group's net investment in assets and liabilities denominated in US dollars. 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 2015 was a £49 million loss (2014: £137 million loss). If Sterling strengthens/weakens by 5% against the US dollar, the impact on Shareholders' equity due to net investment hedging would be £36 million. The Group's strategy is to minimise Income Statement volatility by monitoring foreign currency exposures arising on intercompany balances, external financing, and external hedging arrangements. The Group's hedging profile is regularly reviewed to ensure it is appropriate and to mitigate these risks as far as possible.

The Group held forward foreign exchange contracts denominated as cash flow hedges primarily in Euro, US dollars, Sterling, Australian dollars, Canadian dollars and Brazilian real. Notional value of the payable leg resulting from these financial instruments was as follows:

Cash Flow Hedge Profile	2015 £m	2014 £m
Euro	**597**	432
US dollars	**396**	154
Sterling	**163**	153
Australian dollars	**118**	73
Canadian dollars	**74**	15
Brazilian real	**70**	17
Other	**405**	511
	1,823	1,355

These forward foreign exchange contracts are expected to mature over the period January 2016 to March 2017 (2014: January 2015 to February 2016).

The ineffective portion recognised in the Income Statement arising from cash flow hedges is immaterial (2014: immaterial).

Gains and losses recognised in the hedging reserve in Other Comprehensive Income on forward exchange contracts in 2015 of £14 million gain (2014: £11 million loss) 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.

In the case of cash flow hedges, these are denominated in a diverse range of currencies, where a fluctuation in one individual currency relationship, with all others held constant, does not have a significant effect on the Income Statement or Shareholders' equity. A fluctuation analysis has been performed for all currencies. The four largest currency pairs and their potential fluctuations are as Euro/US dollar, Euro/Sterling, Euro/Polish zloty and Euro/Australian dollar. If the Euro had strengthened/weakened by 5% against any of the stated currencies, with all other variables held constant, the impact on Shareholders' equity would have been a maximum of £31 million (2014: £2 million). As at 31 December 2015 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 (2014: 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 and loss, recognised in the Income Statement was a £75 million gain (2014: £116 million gain).

(b) Price risk

Due to the nature of its business the Group is exposed to commodity price risk related to the production or packaging of finished goods, such as oil related, and a diverse range of other raw materials. This risk is, however, managed primarily through medium-term contracts with certain key suppliers and is not therefore viewed as being a material risk.

14 Financial Instruments and Financial Risk Management continued

(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 £5 million (2014: £7 million) or decrease of £5 million (2014: £7 million) respectively for the liabilities covered. The simulation is done on a periodic basis to verify that the maximum loss simulated is within the limit given by management.

2. Credit Risk

The Group has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers. The credit quality of trade and other receivables is detailed in Note 13. Financial institution counterparties are subject to approval under the Group's counterparty risk policy and such approval is limited to financial institutions with a BBB rating or above. The Group uses BBB and higher rated counterparties to manage risk, and operationally only uses sub BBB rated counterparties by exception. The amount of exposure to any individual counterparty is subject to a limit defined within the counterparty risk policy, which is reassessed annually by the Board of Directors. Derivative financial instruments are only traded with counterparties approved in accordance with the approved policy. Derivative risk is measured using a risk weighting method.

The 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.

			2015			2014
Counterparty	**Credit rating**	**Limit £m**	**Exposure £m**	Credit rating	Limit £m	Exposure £m
Bank A	**AA–**	**200**	**150**	AA–	200	139
Bank B	**AAA**	**300**	**133**	AAA	300	199
Bank C	**A+**	**150**	**117**	A+	150	77
Bank D	**A**	**125**	**118**	A	125	111
Bank E	**A–**	**75**	**93**	A–	75	43
Bank F	**A**	**125**	**93**	A+	150	102
Bank G	**A–**	**75**	**58**	A	125	55
Bank H	**A+**	**150**	**44**	A+	150	117
Bank I	**BBB+**	**50**	**36**	A–	75	10
Bank J	**A**	**125**	**24**	A+	150	32

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 2015, the Group had, in addition to its long-term debt of £671 million (2014: £636 million), committed borrowing facilities totalling £3,500 million (2014: £3,500 million), of which £3,500 million exceeded 12 months' maturity (2014: £3,500 million). Of the total facilities at the year end, £nil (2014: £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:

	2015 £m	2014 £m
Undrawn committed borrowing facilities:		
Expiring within one year	**–**	–
Expiring between one and two years	**–**	–
Expiring after more than two years	**3,500**	3,500
	3,500	3,500

All borrowing facilities are at floating rates of interest.

The facilities have been arranged to cover general corporate purposes including support for commercial paper issuance. All facilities incur commitment fees at market rates.

14 Financial Instruments and Financial Risk Management continued

Headroom between net debt and available facilities at 31 December 2015 was £1,880 million (2014: £1,957 million).

The Group's borrowing limit at 31 December 2015 calculated in accordance with the Articles of Association was £63,399 million (2014: £63,186 million).

The table below analyses the Group's financial liabilities and the derivatives which will be settled on a net basis into relevant maturity groupings based on the remaining period at the Balance Sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which have been calculated using spot rates at the relevant Balance Sheet date, including interest to be paid.

At 31 December 2015	**Total £m**	**Less than 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 5 years £m**	**Over 5 years £m**
Commercial paper	**(1,712)**	**(1,712)**	**–**	**–**	**–**
Bonds	**(799)**	**(20)**	**(20)**	**(383)**	**(376)**
Other borrowings	**(43)**	**(43)**	**–**	**–**	**–**
Trade payables	**(981)**	**(981)**	**–**	**–**	**–**
Other payables	**(1,822)**	**(1,820)**	**(2)**	**–**	**–**

At 31 December 2014	Total £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Commercial paper	(1,926)	(1,926)	–	–	–
Bonds	(774)	(18)	(18)	(370)	(368)
Other borrowings	(17)	(15)	–	(2)	–
Trade payables	(990)	(990)	–	–	–
Other payables	(1,735)	(1,685)	(50)	–	–

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.

At 31 December 2015	**Less than 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 5 years £m**	**Over 5 years £m**
Forward exchange contracts				
Outflow	**(5,602)**	**(4)**	**–**	**–**
Inflow	**5,693**	**4**	**–**	**–**

At 31 December 2014	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Forward exchange contracts				
Outflow	(4,328)	(9)	–	–
Inflow	4,424	9	–	–

4. Capital Management

The Group considers capital to be net debt plus total equity. Net debt is calculated as total borrowings less cash and cash equivalents, short-term available for sale financial assets and financing derivative financial instruments (Note 16). Total equity includes share capital, reserves and retained earnings as shown in the Group Balance Sheet.

	2015 £m	2014 £m
Net debt (Note 16)	**1,620**	1,543
Total equity	**6,906**	6,834
	8,526	8,377

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 2015 in the form of dividends and the buy back of shares. Refer to Notes 29 and 23 respectively.

The Group monitors net debt and at year end the Group had net debt of £1,620 million (2014: £1,543 million). The Group seeks to pay down net debt using cash generated by the business to maintain an appropriate level of financial flexibility.

15 Cash and Cash Equivalents

	2015 £m	2014 £m
Cash at bank and in hand	**334**	329
Short-term bank deposits	**406**	588
Cash and cash equivalents	**740**	917

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, £65 million (2014: £89 million) of cash included in cash and cash equivalents is restricted for use by the Group.

16 Financial Liabilities – Borrowings

Current	2015 £m	2014 £m
Bank loans and overdrafts[1]	**42**	13
Commercial paper[2]	**1,706**	1,921
Finance lease obligations	**1**	2
	1,749	1,936

Non-current	2015 £m	2014 £m
Bonds	**671**	634
Finance lease obligations	**–**	2
	671	636

1. Bank loans are denominated in a number of currencies: all are unsecured and bear interest based on the relevant LIBOR equivalent.
2. Commercial paper was issued in US dollars, is unsecured and bears interest based on the relevant LIBOR equivalent.

Maturity of debt	2015 £m	2014 £m
Bank loans and overdrafts repayable:		
Within one year or on demand	**42**	13
Other borrowings repayable:		
Within one year:		
Commercial paper	**1,706**	1,921
Finance leases	**1**	2
Between two and five years:		
Bonds	**337**	318
Finance leases (payable by instalments)	**–**	2
Over five years:		
Bonds	**334**	316
	2,378	2,559
Gross borrowings (unsecured)	**2,420**	2,572

Analysis of net debt	2015 £m	2014 £m
Cash and cash equivalents	**740**	917
Overdrafts	**(3)**	(4)
Borrowings (excluding overdrafts)	**(2,417)**	(2,568)
Current available for sale financial assets	**–**	1
Derivative financial instruments	**60**	111
Net debt at end of year	**(1,620)**	(1,543)

Reconciliation of net debt	2015 £m	2014 £m
Net debt at beginning of year	**(1,543)**	(2,096)
Net (decrease)/increase in cash and cash equivalents	**(148)**	190
Proceeds from borrowings	**(23)**	–
Repayment of borrowings	**165**	485
Proceeds from borrowings attributable to discontinued operations	**–**	(481)
Borrowings divested upon demerger	**–**	467
Exchange and other movements	**(71)**	(108)
Net debt at end of year	**(1,620)**	(1,543)

17 Provisions for Liabilities and Charges

	Legal provisions £m	Restructuring provisions £m	Other provisions £m	Total provisions £m
At 1 January 2014	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)
At 31 December 2014	201	13	176	390
Charged to the Income Statement	18	33	24	75
Charged to equity	–	–	800	800
Separate recognition of related insurance receivable	36	–	–	36
Utilised during the year	(95)	(13)	(815)	(923)
Released to the Income Statement	(18)	–	(16)	(34)
Exchange adjustments	(1)	–	1	–
At 31 December 2015	**141**	**33**	**170**	**344**

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

	2015 £m	2014 £m
Current	**229**	317
Non-current	**115**	73
	344	390

Provisions are recognised when the Group has a present or constructive obligation as a result of past events, it is more likely than not that there will be an outflow of resources to settle that obligation, and the amount can be reliably estimated.

Legal provisions of £141 million (2014: £201 million) include exceptional legal provisions of £116 million (2014: £158 million) in relation to a number of historic regulatory investigations, predominantly competition law inquiries, by various government authorities in a number of markets. Amounts utilised during the year primarily relate to cases that were settled with government authorities, subject to appeal.

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 £100 million (2014: £100 million) within one year, onerous lease provisions expiring between 2016 and 2018 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.

During the year the Group concluded it would be more appropriate to present the amount recoverable from insurers separately from the related obligation. Accordingly a non-current receivable of £36 million has been recognised (Note 13), with an equal increase in the related provision.

18 Operating Lease Commitments

Future minimum lease payments under non-cancellable operating leases due	**2015 £m**	2014 £m
Within one year	**49**	59
Later than one and less than five years	**95**	79
After five years	**9**	13
	153	151

Operating lease rentals charged to the Income Statement in 2015 were £60 million (2014: £69 million).

As at 31 December 2015, total amounts expected to be received under non-cancellable sub-lease arrangements were £1 million (2014: £2 million).

Amounts credited to the Income Statement in respect of sub-lease arrangements were £1 million (2014: £1 million).

19 Contingent Liabilities

The Group is involved in a number of civil and/or criminal investigations by government authorities as well as litigation proceedings and has made provisions for such matters where appropriate. Where it is too early to determine the likely outcome of such matters, or to make a reliable estimate, the Directors have made no provision for such potential liabilities. Matters in relation to which the Group may incur liabilities include ongoing investigations by the US Department of Justice and the US Federal Trade Commission and others in relation to certain matters relating to the RB Pharmaceuticals business prior to its demerger in December 2014 to form Indivior PLC.

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

	2015 £m	2014 £m
Trade payables	**981**	990
Other payables	**159**	121
Other tax and social security payable	**97**	164
Accruals	**1,711**	1,608
	2,948	2,883

Other payables include £39 million (2014:£nil) primarily relating to the acquisition of the remaining shareholding of RB and Manon Business Co. Ltd.

Included within accruals is £526 million (2014: £467 million) in respect of amounts payable to our trade customers for trade spend.

Other non-current liabilities relate primarily to US employee related payables of £25 million (2014: £32 million) and consideration for the acquisition of businesses of £nil (2014: £39 million).

21 Current and Non-Current Tax Liabilities

	2015 £m	2014 £m
Current tax liabilities	**(91)**	(124)
Non-current tax liabilities	**(559)**	(500)
Total current and non-current tax liabilities	**(650)**	(624)

Included in total current and non-current tax liabilities is an amount of £619 million (2014: £611 million) which relates to tax contingencies primarily arising in relation to transfer pricing and financing. These balances are subject to significant management judgement. The operating risk in relation to tax laws and regulations is discussed on pages 160 to 161.

The Accounting Estimates and Judgements on page 106 describe the significant judgements made in estimating the impact of uncertain tax positions.

22 Pension and Post-Retirement Commitments

Plan Details

The Group operates a number of defined benefit and defined contribution pension plans around the world covering many of its employees, which are principally funded. The Group's most significant defined benefit pension plan (the Reckitt Benckiser Pension Fund) 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
Active Participants:		
Number of members	365	1,878
Proportion of funding liability	13%	32%
Total pensionable salary roll	£15.3m	£50.5m
Participants with deferred benefits:		
Number of members	5,510	2,759
Proportion of funding liability	37%	24%
Total deferred pensions (at date of leaving plan)	£17.9m	£2.7m
Participants receiving benefits:		
Number of members	6,876	3,895
Proportion of funding liability	50%	44%
Total pensions in payment	£42.5m	£7.3m

22 Pension and Post-Retirement Commitments continued

For the principal UK plan, a full independent actuarial valuation is carried out on a triennial basis. The most recent valuation was carried out at 5 April 2013 and as a result of this the Group agreed that it would aim to eliminate the pension plan Technical Provisions deficit in the UK by the end of 2016. In between valuations, the funding levels are monitored on an annual basis. The current agreed contribution rate for future benefit build up in the principal UK Plan is 19.5% of pensionable salaries. It is expected that contributions in 2016 will be £27 million to the principal UK Plan. The Group will review expected contributions once the 5 April 2016 actuarial valuation is signed off by the Group and Trustees.

For the US Retiree Health Care Plan, a full independent actuarial valuation is carried out on an annual basis. The most recent valuation was carried out at 1 January 2015. Funding levels are monitored on an annual basis with contributions made equal to the claims made each year. It is expected that contributions in 2016 will be £6 million to the Plan.

For the purpose of IAS 19 the projected unit valuation method was used for the UK and US plans, rolling forward the UK plan triennial valuation results (at 5 April 2013) and the 1 January 2015 US plan valuation to 31 December 2015. The UK plans have a weighted average duration of the deferred benefit obligation of 17.6 years (2014: 17.9 years).

Significant Actuarial Assumptions

The significant actuarial assumptions used in determining the Group's net liability for the two major plans as at 31 December were:

	2015		2014	
	UK %	**US (Medical) %**	UK %	US (Medical) %
Rate of increase in pensionable salaries	**3.3**	**–**	3.3	–
Rate of increase in deferred pensions during deferment	**3.1**	**–**	3.1	–
Rate of increase in pension payments	**2.9**	**–**	2.9	–
Discount rate	**3.8**	**4.2**	3.5	3.9
Inflation assumption – RPI	**3.3**	**–**	3.3	–
Annual medical cost inflation	**–**	**5.0–8.5**	–	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:

	2015		2014	
	UK years	**US years**	UK years	US years
Number of years a current pensioner is expected to live beyond 60:				
Male	**28.6**	**25.7**	28.5	26.1
Female	**30.6**	**27.9**	30.5	28.6
Number of years a future pensioner is expected to live beyond 60:				
Male	**30.4**	**27.5**	30.3	27.9
Female	**32.4**	**29.7**	32.3	30.3

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 Employee and Health Annuitant Mortality Tables rolled back to 2006 and projected with Mortality Improvement Scale MP-2015.

22 Pension and Post-Retirement Commitments continued

Amounts Recognised on the Balance Sheet

The amounts recognised in the Balance Sheet are as follows:

	2015 £m	2014 £m
Balance Sheet obligations for:		
UK	–	(61)
US (Medical)	**(122)**	(145)
Other	**(135)**	(132)
Liability in Balance Sheet	**(257)**	(338)
Balance Sheet assets for:		
UK	**33**	–
Other	**30**	26
Asset in Balance Sheet	**63**	26
Net pension liability	**(194)**	(312)

Where individual pension schemes have an IAS 19 surplus this has been recognised as an asset based on an assessment of the likelihood of recovery of the pension asset.

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

	2015				2014			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
Present value of funded obligations	**(1,322)**	–	**(302)**	**(1,624)**	(1,400)	–	(293)	(1,693)
Fair value of plan assets	**1,355**	–	**321**	**1,676**	1,339	–	311	1,650
Surplus/(deficit) of funded plans	**33**	–	**19**	**52**	(61)	–	18	(43)
Present value of unfunded obligations	–	**(122)**	**(124)**	**(246)**	–	(145)	(124)	(269)
Net pension asset/(liability)	**33**	**(122)**	**(105)**	**(194)**	(61)	(145)	(106)	(312)

Group plan assets are comprised as follows:

	2015				2014			
	UK £m	US (Medical) £m	Other £m	Total £m	UK £m	US (Medical) £m	Other £m	Total £m
Equities – quoted	**407**	–	**166**	**573**	393	–	177	570
Government bonds	**521**	–	**21**	**542**	531	–	7	538
Corporate bonds	**266**	–	**57**	**323**	261	–	63	324
Real Estate/property – unquoted	**150**	–	**1**	**151**	138	–	10	148
Other assets – unquoted	**11**	–	**76**	**87**	16	–	54	70
Fair value of plan assets	**1,355**	–	**321**	**1,676**	1,339	–	311	1,650

22 Pension and 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
At 1 January 2014	1,223	117	369	1,709	(1,155)	–	(303)	(1,458)
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
At 1 January 2015	**1,400**	**145**	**417**	**1,962**	**(1,339)**	**–**	**(311)**	**(1,650)**
Current service cost	8	2	12	22	–	–	–	–
Curtailment (gains)/losses	–	(19)	–	(19)	–	–	–	–
Interest expense/(income)	48	6	10	64	(46)	–	(10)	(56)
	56	(11)	22	67	(46)	–	(10)	(56)
Remeasurements:								
Return on plan assets, excluding amounts included in interest income	–	–	–	–	35	–	(6)	29
(Gain)/loss from changes in demographic assumptions	–	(9)	2	(7)	–	–	–	–
(Gain)/loss from change in financial assumptions	(75)	(5)	(1)	(81)	–	–	–	–
Experience (gains)/losses	(5)	(1)	2	(4)	–	–	–	–
	(80)	(15)	3	(92)	35	–	(6)	29
Exchange differences	–	10	2	12	–	–	(8)	(8)
Contributions – employees	–	–	–	–	–	–	–	–
Contributions – employers	–	–	–	–	(59)	(7)	(4)	(70)
Payments from plans:								
Benefit payments	(54)	(7)	(18)	(79)	54	7	18	79
As at 31 December 2015	**1,322**	**122**	**426**	**1,870**	**(1,355)**	**–**	**(321)**	**(1,676)**

The curtailment gain arose on the Group making certain amendments during the year to the US Medical Plan.

22 Pension and Post-Retirement Commitments continued

Amounts Recognised in the Income Statement

The charge for the year ended 31 December is shown below:

Income statement charge/(credit) included in operating profit for[1]:	2015 £m	2014 £m
Defined contribution plans	**24**	28
Defined benefit plans (net charge/(credit) excluding interest)		
UK	**8**	9
US (Medical)	**(17)**	2
Other	**12**	7
Total pension costs recognised in operating profit (Note 5)	**27**	46
Income statement charge included in finance expense (Note 6)	**8**	8
Income statement charge included in profit before income tax	**35**	54
Remeasurement (gains)/losses for:		
UK	**(45)**	42
US (Medical)	**(15)**	22
Other	**(3)**	41
	(63)	105

1 The Income Statement charge included within operating profit includes current service cost, past service costs and gains and losses on settlement and curtailment.

Sensitivity of Significant Actuarial Assumptions

The sensitivity of the UK defined benefit obligation to changes in the principal assumptions is shown below:

2015	**Change in assumption**	**Change in defined benefit obligation**
Discount rate	**Increase 0.1%**	**Decrease by 1.8%**
RPI increase	**Increase 0.1%**	**Increase by 1.4%**
Life expectancy	**Members younger by 1 year**	**Increase by 2.3%**

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%

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 1% change in the assumed health care cost trend rates would have the following effects:

	Impact on defined benefit obligation			
	2015		2014	
	+1% £m	**–1% £m**	+1% £m	–1% £m
Effect on service cost and interest cost	**1**	**(1)**	2	(1)
Effect on post-retirement benefit obligation	**19**	**(15)**	25	(20)

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 obligations 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 obligations. 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 obligations 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 obligations, although this will be partially offset by an increase in the value of the plans' bond holdings.

22 Pension and Post-Retirement Commitments continued

Inflation Risk: Some of the Group's pension obligations are linked to inflation, and higher inflation will lead to higher obligations (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' obligations. This is particularly significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

Change in Regulations: The Group is aware that future changes to the regulatory framework may impact the funding basis of the various plans in the future. The Group's pensions department monitors the changes in legislation and analyses the risks as and when they occur.

Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets consists of quoted equities and quoted bonds, although the Group also invests in property, and cash. The Group believes that quoted equities offer the best returns over the long-term with an acceptable level of risk. The Trustees of all the UK funds have moved the overwhelming majority of their assets to low cost investment funds in consultation with the Company whilst maintaining a prudent diversification.

23 Share Capital

Issued and fully paid	Equity ordinary shares number	Nominal value £m	Subscriber ordinary shares number	Nominal value £m
At 1 January 2014	736,535,179	74	2	–
Cancelled	–	–	(2)	–
At 31 December 2014	**736,535,179**	**74**	**–**	**–**
At 1 January 2015	736,535,179	74	–	–
At 31 December 2015	**736,535,179**	**74**	**–**	**–**

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.

Allotment of Ordinary Shares and Release of Treasury Shares

During the year nil ordinary shares (2014: nil ordinary shares) were allotted and 3,111,173 ordinary shares were released from Treasury (2014: 4,775,359) to satisfy vestings/exercises under the Group's various share schemes as follows:

Ordinary shares of 10p	**2015** Number of shares	**2015** Consideration £m	2014 Number of shares	2014 Consideration £m
Executive Share Options – exercises	**1,532,150**	**45**	3,502,236	106
Restricted Shares Awards – vesting	**530,992**	**–**	1,000,381	–
Total under Executive Share Option and Restricted Share Schemes	**2,063,142**	**45**	4,502,617	106
Senior Executives Share Ownership Policy Plan – vesting	**23,270**	**–**	50,000	–
Savings-Related Share Option Schemes – exercises	**1,024,761**	**29**	222,742	6
Total	**3,111,173**	**74**	4,775,359	112

Market Purchases of Shares

During 2015 the Company purchased 13,615,832 equity ordinary shares in accordance with its share buyback programme (2014: 6,000,000), all of which are held as Treasury shares. The total amount paid to acquire the shares was £800 million (£804 million including stamp duty) which has been deducted from Shareholders' equity (2014: £314 million including stamp duty).

3,111,173 Treasury shares were released in 2015 (2014: 4,775,359), leaving a balance held at 31 December 2015 of 28,462,150 (2014: 17,957,491). Proceeds received from the reissuance of Treasury shares to exercise share options were £74 million (2014: £112 million). In addition, a provision for £100 million (2014: £100 million) was created for buyback amounts committed but not transacted at year end.

24 Share-Based Payments

The Group operates a number of incentive schemes, including a share option scheme, a restricted share scheme, and other share award schemes. All schemes are equity settled. The charge for share-based payments for the year was £50 million (2014: £55 million).

Executive Share Awards

Executive share awards, comprising both Executive Share Options and Restricted Share Awards, are awarded to the "Top400" management group. Executive Share Options are awarded at an exercise price determined on grant date and become payable on exercise – following satisfaction of performance criteria. Restricted Share Awards entitle the recipient to receive shares at no cost following satisfaction of the following performance criteria:

24 Share-Based Payments continued

For awards granted before December 2012:

Adjusted earnings per share growth over three years (%)	<6%	6%	7%	8%	≥9
Proportion of awards vesting (%)	Nil	40%	60%	80%	100%

For awards granted in December 2013 and thereafter:

Adjusted earnings per share growth over three years (%)	<6%	6%	Between 6% and 10%	≥10%
Proportion of awards vesting (%)	Nil	20%	Straight-line vesting between 20% and 100%	100%

The cost is spread over the three years of the performance period. For Executive Committee and "Top40" members vesting conditions must be met over the three-year period and are not retested. For remaining "Top400" members the targets can be retested after four or five years. If any target has not been met any remaining shares or options which have not vested will lapse.

Other Share Awards

Other share awards represent SAYE Schemes (offered to all staff within the relevant geographic area) and a number of Senior Executive Share Ownership Policy Plan (SOPP) awards. Other share awards have contractual lives of between three and eight years and are generally not subject to any vesting criteria other than the employee's continued employment.

Individual tranches of these other share awards are not material for detailed disclosure and therefore have been aggregated in the tables below.

Modifications to Share Awards

The Remuneration Committee approved modifications to all unexercised share schemes in December 2014 following the demerger of RB Pharmaceuticals to compensate for the loss of scheme value. For SAYE schemes this was in the form of a one-off cash payment. For executive share awards this included an adjustment to shares under the amount of each grant, and the lowering of exercise price, where applicable. There is no change to the IFRS fair value charge as a result of these modifications.

Summary of Shares Outstanding

All outstanding Executive and Other share awards as at 31 December 2015 and 31 December 2014 are included in the tables below which analyse the charge for 2015 and 2014. 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

The most significant awards are share options and restricted shares, details of which have been provided below.

					Black-Scholes model assumptions					
Award	Grant date	Exercise price at grant £	Modified exercise price £	Performance period	Share price on grant date £	Volatility %	Dividend yield %	Life years	Risk-free interest rate %	Fair value of one award £
Share options										
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
2016	02 December 2015	63.25	63.25	2016–18	64.15	18	2.9	4	1.07	6.75
Restricted shares										
2009	08 December 2008	–	–	2009–11	27.80	25	3.1	4	2.78	24.31
2010	07 December 2009	–	–	2010–12	31.80	26	3.5	4	1.69	27.23
2011	01 December 2010	–	–	2011–13	34.08	26	4.3	4	2.16	28.22
2012	05 December 2011	–	–	2012–14	32.19	25	5.4	4	1.00	25.30
2013	03 December 2012	–	–	2013–15	39.66	20	4.3	4	0.61	32.76
2014	11 December 2013	–	–	2014–16	46.69	19	3.7	4	0.76	39.80
2015	01 December 2014	–	–	2015–17	52.40	17	4.0	4	1.03	43.93
2016	02 December 2015	–	–	2016–18	64.15	18	2.9	4	1.07	57.13

24 Share-Based Payments continued

Table 2: Share awards movements 2015

Award	Options outstanding at 1 Jan 2015 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2015 number
	Movement in number of options				
Share options[1]					
2006	106,919	–	–	(106,919)	–
2007	197,892	–	(690)	(83,856)	113,346
2008	446,292	–	–	(164,079)	282,213
2009	495,785	–	–	(176,442)	319,343
2010	843,484	–	–	(305,840)	537,644
2011	1,248,852	41,934	(94,797)	(364,428)	831,561
2012	2,625,715	–	(970,843)	(291,663)	1,363,209
2013	3,050,227	–	(261,506)	(34,753)	2,753,968
2014	3,269,887	823	(369,912)	(823)	2,899,975
2015	4,020,400	6,157	(1,133,286)	–	2,893,271
2016	–	4,020,400	–	–	4,020,400
Restricted shares[1]					
2011	99,788	–	(23,952)	–	75,836
2012	1,217,369	–	(470,892)	(487,006)	259,471
2013	1,433,769	–	(136,062)	(27,535)	1,270,172
2014	1,577,388	–	(171,072)	(16,451)	1,389,865
2015	1,985,200	42,258	(640,687)	–	1,386,771
2016	–	1,985,200	–	–	1,985,200
Other share awards					
UK SAYE	722,696	175,344	(73,642)	(136,445)	687,953
US SAYE	565,286	110,724	(118,170)	(175,655)	382,185
Overseas SAYE	1,897,407	4,782	(131,371)	(712,623)	1,058,195
SOPP	160,000	46,000	(10,000)	(30,000)	166,000
Weighted average exercise price (share options)	**£40.08**	**£62.92**	**£42.27**	**£30.44**	**£46.61**

1 Grant date and exercise price for each of the awards are shown in Table 1.

Table 3: Share awards movements 2014

Award	Options outstanding at 1 Jan 2014 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2014 number
	Movement in number of options				
Share options					
2005	113,450	–	–	(113,450)	–
2006	228,300	2,919	–	(124,300)	106,919
2007	318,502	5,281	–	(125,891)	197,892
2008	806,193	12,103	–	(372,004)	446,292
2009	1,095,701	13,385	(100)	(613,201)	495,785
2010	1,798,385	22,778	–	(977,679)	843,484
2011	2,558,032	33,399	(356,038)	(986,541)	1,248,852
2012	2,920,395	71,121	(234,021)	(131,780)	2,625,715
2013	3,320,588	82,862	(295,833)	(57,390)	3,050,227
2014	4,020,400	134,203	(884,716)	–	3,269,887
2015	–	4,020,400	–	–	4,020,400
Restricted shares					
2011	1,113,496	2,858	(153,909)	(862,657)	99,788
2012	1,349,448	33,645	(103,322)	(62,402)	1,217,369
2013	1,617,645	39,617	(148,171)	(75,322)	1,433,769
2014	1,985,200	104,048	(511,860)	–	1,577,388
2015	–	1,985,200	–	–	1,985,200
Other share awards					
UK SAYE	605,988	286,128	(50,552)	(118,868)	722,696
US SAYE	564,477	153,351	(66,851)	(85,691)	565,286
Overseas SAYE	972,385	1,089,425	(146,220)	(18,183)	1,897,407
SOPP	180,000	50,000	(20,000)	(50,000)	160,000
Weighted average exercise price (share options)	£36.57	£49.48	£41.64	£30.30	£40.08

24 Share-Based Payments continued

For options outstanding at the year end the weighted average remaining contractual life is 6.54 years (2014: 5.80 years). Options outstanding at 31 December 2015 that could have been exercised at that date were 3,826,583 (2014: 3,449,012) with a weighted average exercise price of £27.92 (2014: £29.06).

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 2015 or 2014 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 2015 was £51 million (2014: £38 million).

The weighted average share price for the year was £58.81 (2014: £50.51).

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:

Executive share option and restricted share schemes	Price to be paid £	Number of shares under option
Reckitt Benckiser 2015 Long-term Incentive Plan – share options	63.25	4,026,400
Reckitt Benckiser Long-term Incentive Plan – restricted shares	–	2,027,400
Reckitt Benckiser Group Senior Executive 2007 Share Ownership Policy Plan	–	46,000
Total		**6,099,800**

Savings-related share option schemes		
UK Scheme	48.71	173,240
US Scheme	48.71	110,762
Overseas Scheme	41.88	–
Total		**284,002**

Options and Restricted Shares Outstanding at 31 December 2015

Options and restricted shares which have vested or may vest at various dates between 2016 and 2021 are as follows:

	Price to be paid £		Number of shares under option	
Executive share option and restricted share schemes	From	To	2015	2014
Reckitt Benckiser 1999 Share Option Plan – Annual Grant	17.60	18.10	**–**	106,919
Reckitt Benckiser Long-term Incentive Plan 2006 – Annual Grant – options	21.95	22.57	**113,346**	197,892
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – options	26.54	63.25	**15,901,584**	16,000,642
Reckitt Benckiser Long-term Incentive Plan 2007 – Annual Grant – restricted shares	–	–	**6,369,315**	6,313,514
Reckitt Benckiser Senior Executives Share Ownership Policy Plan	–	–	**166,000**	160,000
			22,550,245	22,778,967

	Price to be paid £		Number of shares under option	
Savings-related share option schemes	From	To	2015	2014
UK Scheme	16.90	48.71	**687,953**	722,696
US Scheme	22.88	48.71	**382,185**	565,286
Overseas Scheme	21.95	41.88	**1,058,195**	1,897,407
Total			**2,128,333**	3,185,389

25 Other Reserves

	Hedging reserve £m	Foreign currency translation reserve £m	Total other reserves £m
Balance at 1 January 2014	15	(494)	(479)
Other comprehensive income/(expense)			
Losses on cash flow hedges, net of tax	(11)	–	(11)
Net exchange losses on foreign currency translation, net of tax	–	(190)	(190)
Losses on net investment hedges	–	(137)	(137)
Reclassification of foreign currency translation reserves on demerger of subsidiary	–	(3)	(3)
Total other comprehensive income/(expense) for the year	**(11)**	**(330)**	**(341)**
Balance at 31 December 2014	**4**	**(824)**	**(820)**
Other comprehensive income/(expense)			
Gains on cash flow hedges, net of tax	14	–	14
Net exchange losses on foreign currency translation, net of tax	–	(124)	(124)
Losses on net investment hedges	–	(49)	(49)
Reclassification of foreign currency translation reserves on disposal of subsidiary	–	33	33
Total other comprehensive income/(expense) for the year	**14**	**(140)**	**(126)**
Balance at 31 December 2015	**18**	**(964)**	**(946)**

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 in place at year end.

The foreign currency translation reserve contains the accumulated foreign exchange differences from the translation of the Financial Statements of the Group's foreign operations arising when the Group's entities are consolidated. The reserve also contains the translation of liabilities that hedge the Group's net exposure in a foreign currency.

26 Related Party Transactions

RB & Manon Business

Related to the forward contract to acquire the share capital held by the non-controlling Shareholders of RB & Manon Business Co. Ltd ('Manon'), an additional settlement of £12 million was agreed during the 2015 calendar year which was conditional on completion of the new arrangements. Of this amount, £8 million was included within profit and loss in 2015, with the remainder deferred until 2016. See Note 30 for further details.

Indivior

Subsequent to the demerger of RB Pharmaceuticals on 23 December 2014, the Group continues to lease a building, and provide operational services to Indivior PLC. The transitional services between the Group and Indivior PLC are on an arm's length basis. The amount included in other operating income in respect of these services is £8 million (2014: £nil). Adrian Hennah, the Reckitt Benckiser Group plc CFO, also sits on the Board of Directors of Indivior PLC. It was announced on 11 March 2016 that he would step down from the Indivior Board with effect from 11 May 2016.

Other

Key management compensation is disclosed in Note 5. There are no further related party transactions.

27 Acquisitions and Disposals

In October 2015, in line with RB's continued focus on its core business of Health, Hygiene and Home, the Group disposed of the Medcom hospital business in Russia. The reported loss on sale of the entity was £57 million. This is included within exceptional items. It comprises a £24 million difference between the net sale proceeds and the net assets; and a recycling from reserves of previous exchange losses arising on consolidation of the legal entity sold. Due to the significant devaluation of the Russian rouble since acquisition, the non-cash exchange loss required to be recycled through the Income Statement was £33 million.

In 2014, the Group acquired the K-Y brand and related businesses. This transaction was accounted for under IFRS 3: Business Combinations. The fair values of the identifiable assets and liabilities at the date of acquisition were provisionally estimated and disclosed in the 2014 Annual Report and Financial Statements. In 2015, the provisional values have been finalised leading to a £6 million increase in deferred tax liabilities and a related £6 million increase in Goodwill, 2014 amounts have not been restated.

In 2014, the Group licensed out the Scholl brand for use within the Footwear market and disposed of certain associated operating assets.

28 Demerger of RB Pharmaceuticals

On 23 December 2014, the Group demerged the pharmaceutical business in the form of a dividend in specie. RB Pharmaceuticals was presented as a discontinued operation because it was no longer controlled by the Group.

The transaction was recognised and measured in accordance with IFRIC 17 Distribution of Non-Cash Assets to Owners. This treatment resulted in 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[1]	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

1 Included within the carrying amount of the net liabilities distributed is £195 million cash and £467 million 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.

Financial information relating to the operations of RB Pharmaceuticals for the period comparative 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.

For the year ended 31 December	2014 £m
Revenue	677
Expenses	(308)
Profit before income tax	369
Income tax expense	(91)
Net income from discontinued operations	278

The major classes of cash flows related to RB Pharmaceuticals are as follows:

For the year ended 31 December	2014 £m
Cash flows from operating activities	223
Cash flows from investing activities	(16)
Cash flows from financing activities	481
Net increase in cash and cash equivalents from discontinued operations	688

29 Dividends

	2015 £m	2014 £m
Cash dividends on equity ordinary shares:		
2014 Final paid: 75p (2013: Final 77p) per share	**566**	554
2015 Interim paid: 50.3p (2014: Interim 60p) per share	**358**	434
	924	988
Non-cash dividends on equity ordinary shares:		
Fair value of non-cash dividend	–	1,046
Total dividends for the year	**924**	2,034

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.

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2015 of 88.7p per share which will absorb an estimated £628 million of Shareholders' funds. If approved by Shareholders it will be paid on 26 May 2016 to Shareholders who are on the register on 15 April 2016, with an ex-dividend date of 14 April 2016.

30 Post Balance Sheet Events

Purchase of Hypermarcas' contraceptive unit

On 29 January 2016 the Group signed a definitive agreement, subject to regulatory approval, to acquire Hypermarcas' Brazilian condom and lubricants business. Hypermarcas is the leading Brazilian condom manufacturer, through its three brands – Jontex, Olla and Lovetex.

RB & Manon Business

Subsequent to the year end, on 2 March 2016, the Group completed new arrangements with the non-controlling Shareholders of Manon (the non-controlling Shareholders), agreeing to terminate the existing arrangement, in line with the forward contract entered into in 2011, with RB agreeing to pay consideration totalling approximately £25 million to the non-controlling Shareholders. An additional settlement amount of £12 million was also agreed with the non-controlling Shareholders during 2015 which was conditional on signing of the new arrangements. Of this amount, £8 million was included within profit and loss in 2015, with the remainder deferred until 2016.

Under the terms of the new agreements, the non-controlling Shareholders agreed to invest in two entities, RB (China Trading) Ltd and RB & Manon Business Ltd, thereby acquiring from RB 20% and 25% stakes in these entities respectively, whist retaining their 24.95% stake in Manon, for a combined consideration of approximately £25 million.

As part of the new arrangements, the parties are subject to symmetrical put and call options. Under the put option, the non-controlling Shareholders will have the option to require RB to purchase their shareholdings in each of Manon, RB (China Trading) Ltd and RB & Manon Business Ltd together, after a period of six years, with possible extensions beyond this period available at the agreement of both parties. Under the call option, RB will have the option to acquire each of these shareholdings together, under identical terms to the put option.

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

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

Group Statement of Comprehensive Income

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

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

Group Balance Sheet

As at 31 December	Notes	2014 £m	2013 £m
ASSETS			
Non-current assets			
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
		12,336	12,248
Current assets			
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
		3,160	2,901
Total assets		**15,496**	15,149
LIABILITIES			
Current liabilities			
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)
		(5,289)	(5,661)
Non-current liabilities			
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)
		(3,373)	(3,152)
Total liabilities		**(8,662)**	(8,813)
Net assets		**6,834**	6,336
EQUITY			
Capital and reserves			
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
		6,832	6,334
Non-controlling interests		**2**	2
Total equity		**6,834**	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
Balance at 1 January 2013		73	184	(14,229)	2	(131)	20,022	5,921	1	5,922
Comprehensive income										
Net ncome i		–	–	–	–	–	1,739	1,739	1	1,740
Other comprehensive income/(expense)										
Remeasurements f efined oendefit lanbs, et pf tax n o	7	–	–	–	–	–	41	41	–	41
Gains on ash ow edgefls, eh f ax n o t	7	–	–	–	13	–	–	13	–	13
Net exchange losses on foreign currency translation, net f tax o	7	–	–	–	–	(369)	–	(369)	–	(369)
Gains on et nvestmenti edges h	7	–	–	–	–	6	–	6	–	6
Total other comprehensive income/(expense)		–	–	–	13	(363)	41	(309)	–	(309)
Total comprehensive income/(expense)		**–**	**–**	**–**	**13**	**(363)**	**1,780**	**1,430**	**1**	**1,431**
Transactions with owners										
Proceeds rom ssuarfce fi rdinaryo hares s	22	1	59	–	–	–	–	60	–	60
Share-based ayments p	23	–	–	–	–	–	55	55	–	55
Current tax n hare woards a	7	–	–	–	–	–	16	16	–	16
Deferred ax n harte woards a	7	–	–	–	–	–	44	44	–	44
Shares repurchased nd eld na reahsuryi T	22	–	–	–	–	–	(279)	(279)	–	(279)
Treasury shares e-issued r		–	–	–	–	–	79	79	–	79
Dividends	28	–	–	–	–	–	(992)	(992)	–	(992)
Total transactions with owners		**1**	**59**	**–**	**–**	**–**	**(1,077)**	**(1,017)**	**–**	**(1,017)**
Balance at 31 December 2013		**74**	**243**	**(14,229)**	**15**	**(494)**	**20,725**	**6,334**	**2**	**6,336**
Comprehensive income										
Net ncome i		–	–	–	–	–	3,223	3,223	1	3,224
Other comprehensive income/(expense)										
Remeasurements f efined oendefit lanbs, et pf tax n o	7	–	–	–	–	–	(75)	(75)	–	(75)
Losses on ash ow edgefls, eh f ax n o t	7	–	–	–	(11)	–	–	(11)	–	(11)
Net exchange losses on foreign currency translation, net f tax o	7	–	–	–	–	(190)	–	(190)	(1)	(191)
Losses on et nvestmenti edges h	7	–	–	–	–	(137)	–	(137)	–	(137)
Reclassification of foreign currency translation reserves on emerger df oreign opefrations o	28	–	–	–	–	(3)	–	(3)	–	(3)
Total other comprehensive income/(expense)		–	–	–	(11)	(330)	(75)	(416)	(1)	(417)
Total comprehensive income/(expense)		**–**	**–**	**–**	**(11)**	**(330)**	**3,148**	**2,807**	**–**	**2,807**
Transactions with owners										
Treasury shares e-issued r	22	–	–	–	–	–	112	112	–	112
Share-based ayments p	23	–	–	–	–	–	55	55	–	55
Current tax n hare woards a	7	–	–	–	–	–	14	14	–	14
Deferred ax n harte woards a	7	–	–	–	–	–	(43)	(43)	–	(43)
Shares repurchased and held in Treasury	17, 22	–	–	–	–	–	(413)	(413)	–	(413)
Cash dividends	28	–	–	–	–	–	(988)	(988)	–	(988)
Non-cash ividends d	28	–	–	–	–	–	(1,046)	(1,046)	–	(1,046)
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**(2,309)**	**(2,309)**	**–**	**(2,309)**
Balance at 31 December 2014		**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)[1] £m
CASH FLOWS FROM OPERATING ACTIVITIES			
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
Cash generated from operations		**2,324**	2,167
Interest paid		**(58)**	(49)
Interest received		**26**	25
Tax paid		**(416)**	(468)
Net cash flows attributable to discontinued operations		**223**	446
Net cash generated from operating activities		**2,099**	2,121
CASH FLOWS FROM INVESTING ACTIVITIES			
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)
Net cash used in investing activities		**(715)**	(630)
CASH FLOWS FROM FINANCING ACTIVITIES			
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**	–
Net cash used in financing activities		**(1,194)**	(1,525)
Net increase/(decrease) in cash and cash equivalents		**190**	(34)
Cash and cash equivalents at beginning of the year		**805**	882
Exchange losses		**(82)**	(43)
Cash and cash equivalents at end of the year		**913**	805
Cash and cash equivalents comprise:			
Cash and cash equivalents	15	**917**	808
Overdrafts	16	**(4)**	(3)
		913	805
RECONCILIATION OF NET CASH FLOWS FROM OPERATIONS			
Net cash generated from operating activities		**2,099**	2,121
Net purchases of property, plant and equipment		**(138)**	(190)
Net cash flow from operations		**1,961**	1,931

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 distributers). 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:

Year ended 31 December 2014	**ENA £m**	**LAPAC £m**	**RUMEA £m**	**Food £m**	**Total operations £m**
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**

Year ended 31 December 2013	ENA £m	LAPAC £m	RUMEA £m	Food £m	Total operations £m
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)[1]	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**
Total segment assets	**1,049**	**678**	**288**	**45**	**–**	**2,060**
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
Total segment assets	1,001	613	307	6	241	2,168
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:

	2014 £m	2013 £m
Inventories for operating segments	**766**	894
Unallocated:		
Group adjustments	**(21)**	(148)
Total inventories per the balance sheet	**745**	746
Trade and other receivables for operating segments	**1,294**	1,274
Unallocated:		
Group items	**13**	32
Total trade and other receivables per the balance sheet	**1,307**	1,306
Total inventories and trade and other receivables per the balance sheet	**2,052**	2,052
Other unallocated assets	**13,444**	13,097
Total assets per the balance sheet	**15,496**	15,149
Trade and other payables for operating segments	**(2,630)**	(2,692)
Unallocated:		
Group items	**(253)**	(223)
Total trade and other payables per the balance sheet	**(2,883)**	(2,915)
Other unallocated liabilities	**(5,779)**	(5,898)
Total liabilities per the balance sheet	**(8,662)**	(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
Continuing Operations		
Health	**2,701**	2,633
Hygiene	**3,627**	3,835
Home	**1,810**	1,974
Portfolio brands	**382**	499
Food	**316**	325
	8,836	9,266
Discontinued Operations		
RB Pharmaceuticals	**677**	777
Total	**9,513**	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:

2014	**UK £m**	**US £m**	**All other countries £m**	**Total £m**
Net revenue from continuing operations	**691**	**2,089**	**6,056**	**8,836**
Goodwill and other intangible assets	**1,823**	**4,455**	**4,974**	**11,252**
Property, plant and equipment	**140**	**147**	**470**	**757**
Other non-current receivables	**2**	**32**	**206**	**240**

2013	UK £m	US £m	All other countries £m	Total £m
Net revenue from continuing operations (restated)[1]	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

1 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)[1] £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)
Net operating expenses	**(2,932)**	(3,371)

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)[1] £m
Regulatory and litigation matters	**–**	210
Acquisition, integration and restructuring costs	**62**	46
Gains on the sale of property, plant and equipment	**(41)**	–
Total exceptional items	**21**	256

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
Total audit and audit related services	**8.5**	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
Total non-audit services	**2.3**	2.8
	10.8	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
		1,245	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
	34	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
Continuing operations		
ENA	**12.5**	12.5
RUMEA	**7.2**	7.6
LAPAC	**15.6**	15.1
Other	**1.2**	1.2
Discontinued operations		
RB Pharmaceuticals	**0.7**	0.7
	37.2	37.1

6 Net Finance Expense

	2014 £m	2013 £m
Finance income		
Interest income on cash and cash equivalents	**27**	25
Total finance income	**27**	25
Finance expense		
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)
Net finance expense	**(38)**	(31)

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)[1] £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)
Income tax expense	**462**	453

1 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[1]): £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)[1] £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
Income tax expense	**462**	453

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)[1] pence
Basic earnings per share		
From continuing operations	**230.7**	195.2
From discontinued operations	**216.4**	46.9
Total basic earnings per share	**447.1**	242.1
Diluted earnings per share		
From continuing operations	**227.6**	192.3
From discontinued operations	**213.5**	46.2
Total diluted earnings per share	**441.1**	238.5
Adjusted basic earnings per share		
From continuing operations	**233.6**	225.4
From discontinued operations	**38.6**	48.4
Total adjusted basic earnings per share	**272.2**	273.8
Adjusted diluted earnings per share		
From continuing operations	**230.5**	222.1
From discontinued operations	**38.0**	47.7
Total adjusted diluted earnings per share	**268.5**	269.8

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
On a diluted basis	**730,740,310**	729,052,894

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:

Continuing operations	2014 £m	2013 (restated)[1] £m
Net income attributable to owners of the parent from continuing operations	**1,663**	1,402
Exceptional items	**21**	256
Tax effect of exceptional items	**–**	(39)
Adjusted net income attributable to owners of the parent from continuing operations	**1,684**	1,619

1 Restated for the impact of discontinued operations.

Discontinued operations	2014 £m	2013 £m
Net income attributable to owners of the parent from discontinued operations	**1,560**	337
Exceptional gain on non-cash dividend	**(1,282)**	–
Exceptional items	**–**	15
Tax effect of exceptional items	**–**	(4)
Adjusted net income attributable to owners of the parent from discontinued operations	**278**	348

Notes to the Financial Statements

9 Goodwill and Other Intangible Assets

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
Cost					
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)
At 31 December 2014	**7,938**	**3,282**	**97**	**115**	**11,432**
Accumulated amortisation and impairment					
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)
At 31 December 2014	**89**	**24**	**23**	**44**	**180**
Net book amount at 31 December 2014	**7,849**	**3,258**	**74**	**71**	**11,252**

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
Cost					
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)
At 31 December 2013	7,717	3,312	76	283	11,388
Accumulated amortisation and impairment					
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)
At 31 December 2013	86	27	20	114	247
Net book amount at 31 December 2013	7,631	3,285	56	169	11,141

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:

Net book amount	2014 £m	2013 £m
Indefinite life assets:		
Brands	**7,826**	7,606
Goodwill	**3,258**	3,285
Other	**40**	39
Total indefinite life assets	**11,124**	10,930
Finite life assets:		
Brands	**23**	25
Software	**74**	56
Other	**31**	130
Total finite life assets	**128**	211
Total net book amount of intangible assets	**11,252**	11,141

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:

		2014			2013		
GCGU	Key brands	Indefinite life assets £m	Goodwill £m	Total £m	Indefinite life assets £m	Goodwill £m	Total £m
Health[1]	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
		7,866	**3,258**	**11,124**	7,645	3,285	10,930

1 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.

Carrying Value of CGU	2014 £m	2013 £m
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
Cost			
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)
At 31 December 2014	**531**	**1,190**	**1,721**
Accumulated depreciation and impairment			
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)
At 31 December 2014	**191**	**773**	**964**
Net book amount at 31 December 2014	**340**	**417**	**757**

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
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
Accumulated depreciation and impairment			
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
Net book amount at 31 December 2013	352	409	761

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

Deferred tax assets	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
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)
At 31 December 2014	**7**	**(10)**	**52**	**–**	**12**	**61**

Deferred tax liabilities	Accelerated capital allowances £m	Intangible assets £m	Short-term temporary differences £m	Tax losses £m	Retirement benefit obligations £m	Total £m
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
At 31 December 2014	**15**	**2,040**	**(226)**	**(10)**	**(70)**	**1,749**

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
Total inventories	**745**	746

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

Amounts falling due within one year	2014 £m	2013 £m
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
	1,307	1,306

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:

Amounts past due but not impaired	2014 £m	2013 £m
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:

Ageing analysis of amounts impaired	2014 £m	2013 £m
Up to 3 months	**50**	33
Over 3 months	**20**	38
	70	71

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
	1,307	1,306

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**
Assets as per the balance sheet						
Short-term deposits[1]	–	–	–	**1**	**1**	**1**
Trade and other receivables[2]	**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**
Liabilities as per the balance sheet					
Borrowings (excluding finance lease obligations and bond)[3]	–	–	**1,934**	**1,934**	**1,934**
US$1bn bond (two tranches of US$500m at 2.125% and 3.625% respectively)[4]	–	–	**634**	**634**	**660**
Finance lease obligations[3]	–	–	**4**	**4**	**4**
Derivative financial instruments – FX forward exchange contracts	**11**	**18**	–	**29**	**29**
Trade and other payables[5]	–	–	**2,675**	**2,675**	**2,675**
Other non-current liabilities[5,6]	–	–	**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
Assets as per the balance sheet						
Short-term deposits[1]	–	–	–	2	2	2
Trade and other receivables[2]	1,275	–	–	–	1,275	1,275
Derivative financial instruments – FX forward exchange contracts	–	16	6	–	22	22
Cash and ash quivalents e	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
Liabilities as per the balance sheet					
Borrowings (excluding finance lease obligations and bond)[3]	–	–	2,167	2,167	2,167
US$ 1bn bond (two tranches of US$ 500m at 2.125% and 3.625% respectively)[4]	–	–	595	595	597
Finance lease obligations[3]	–	–	5	5	5
Derivative financial instruments – FX forward exchange contracts	–	159	–	159	159
Trade and other payables[5]	–	–	2,768	2,768	2,768
Other non-current liabilities[5,6]	–	–	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

As at 31 December 2014	**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**
Forward foreign exchange contracts	**130**	**–**	**130**	**(24)**	**106**
Cash and cash equivalents	**917**	**–**	**917**	**–**	**917**
	1,047	**–**	**1,047**	**(24)**	**1,023**

As at 31 December 2013	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
Forward foreign exchange contracts	22	–	22	(22)	–
Cash and cash equivalents	815	(7)	808	–	808
	837	(7)	830	(22)	808

(b) Financial liabilities

As at 31 December 2014	**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**
Forward foreign exchange contracts	**(29)**	**–**	**(29)**	**24**	**(5)**
Bank overdrafts	**(4)**	**–**	**(4)**	**–**	**(4)**
	(33)	**–**	**(33)**	**24**	**(9)**

As at 31 December 2013	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	Net amount £m
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:

Cash Flow Hedge Profile	2014 £m	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
	1,355	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.

	2014			2013		
Counterparty	**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	**3,500**	3,000
	3,500	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.

At 31 December 2014	**Total £m**	**Less than 1 year £m**	**Between 1 and 2 years £m**	**Between 2 and 5 years £m**	**Over 5 years £m**
Commercial paper	**(1,926)**	**(1,926)**	**–**	**–**	**–**
Bonds	**(774)**	**(18)**	**(18)**	**(370)**	**(368)**
Other borrowings	**(17)**	**(15)**	**–**	**(2)**	**–**
Trade payables	**(990)**	**(990)**	**–**	**–**	**–**
Other payables	**(1,735)**	**(1,685)**	**(50)**	**–**	**–**

At 31 December 2013	Total £m	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
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.

At 31 December 2014	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Forward exchange contracts				
Outflow	**(4,328)**	**(9)**	–	–
Inflow	**4,424**	**9**	–	–

At 31 December 2013	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
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
	8,377	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	**917**	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

Current	2014 £m	2013 £m
Bank loans and overdrafts[1]	13	18
Commercial paper[2]	1,921	2,149
Finance lease obligations	2	2
	1,936	2,169

Non-current	2014 £m	2013 £m
Bonds	634	595
Finance lease obligations	2	3
	636	598

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.

Maturity of debt	2014 £m	2013 £m
Bank loans and overdrafts repayable:		
Within one year or on demand	13	18
Other borrowings repayable:		
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
	2,559	2,749
Gross borrowings (unsecured)	2,572	2,767

Analysis of net debt	2014 £m	2013 £m
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)
Net debt at end of year	(1,543)	(2,096)

Reconciliation of net debt	2014 £m	2013 £m
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)
Net debt at end of year	(1,543)	(2,096)

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)
At 31 December 2014	**201**	**13**	**176**	**390**

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

	2014 £m	2013 £m
Current	**317**	215
Non-current	**73**	156
	390	371

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
	151	170

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
Active Participants:		
Number of members	365	2,232
Proportion of funding liability	13%	32%
Total pensionable salary roll	£15.3m	£57.2m
Participants with deferred benefits:		
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
Participants receiving benefits:		
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
Number of years a current pensioner is expected to live beyond 60:				
Male	**28.5**	**26.1**	28.4	25.1
Female	**30.5**	**28.6**	30.3	27.5
Number of years a future pensioner is expected to live beyond 60:				
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
Balance sheet obligations for:		
UK	**(61)**	(68)
US (Medical)	**(145)**	(117)
Other	**(132)**	(116)
Liability in balance sheet	**(338)**	(301)
Balance sheet assets for:		
Other	**26**	50
Asset in balance sheet	**26**	50
Net pension liability	**(312)**	(251)

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

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
At 1 January 2013	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
At 1 January 2014	**1,223**	**117**	**369**	**1,709**	**(1,155)**	**–**	**(303)**	**(1,458)**
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
As at 31 December 2014	**1,400**	**145**	**417**	**1,962**	**(1,339)**	**–**	**(311)**	**(1,650)**

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:

Income statement charge included in operating profit for[1]:	2014 £m	2013 £m
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)[2]	**46**	51
Income statement charge included in finance expense (note 6)	**8**	8
Income statement charge included in profit before income tax	**54**	59
Remeasurement losses/(gains) for:		
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%**

2013	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

Issued and fully paid	**Equity ordinary shares number**	**Nominal value £m**	**Subscriber ordinary shares number**	**Nominal value £m**
At 1 January 2014	736,535,179	74	2	–
Cancelled	–	–	(2)	–
At 31 December 2014	**736,535,179**	**74**	**–**	**–**

Issued and fully paid	Equity ordinary shares number	Nominal value £m	Subscriber ordinary shares number	Nominal value £m
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	
Ordinary shares of 10p	**Number of shares**	**Consideration £m**	Number of shares	Consideration £m
Executive Share Options – exercises	**3,502,236**	**106**	4,638,734	131
Restricted Shares Awards – vesting	**1,000,381**	**–**	1,571,035	–
Total under Executive Share Option and Restricted Share Schemes	**4,502,617**	**106**	6,209,769	131
Senior Executives Share Ownership Policy Plan – vesting	**50,000**	**–**	40,000	–
Savings-Related Share Option Schemes – exercises	**222,742**	**6**	333,446	7
Total	**4,775,359**	**112**	6,583,215	138

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:

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:

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

					Black-Scholes model assumptions					
Award	Grant date	Exercise price at grant £	Modified exercise price £	Performance period	Share price on grant date £	Volatility %	Dividend yield %	Life years	Risk-free interest rate %	Fair value of one award £
Share options										
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
Restricted shares										
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

			Movement in number of options				
Award	Grant date	Fair value of one award £	Options outstanding at 1 Jan 2014 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2014 number
Share options							
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
Restricted shares							
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
Other share awards							
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
Weighted average exercise price (share options)			**£36.57**	**£49.48**	**£41.64**	**£30.30**	**£40.08**

Notes to the Financial Statements

23 Share-Based Payments continued

Table 3: Share awards movements 2013

			Movement in number of options				
Award	Grant date	Fair value of one award £	Options outstanding at 1 Jan 2013 number	Granted/ adjustments number	Lapsed number	Exercised number	Options outstanding at 31 Dec 2013 number
Share options							
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
Restricted shares							
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
Other share awards							
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:

Executive share option and restricted share schemes	Price to be paid £	Number of shares under option
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
Total		**6,164,062**

Savings-related share option schemes		
UK Scheme	41.20	279,991
US Scheme	41.88	153,389
Overseas Scheme	41.88	1,086,412
Total		**1,519,792**

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:

	Price to be paid £		Number of shares under option	
Executive share option and restricted share schemes	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
			22,778,967	23,425,735

	Price to be paid £		Number of shares under option	
Savings-related share option schemes	From	To	2014	2013
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
Total			**3,185,389**	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
Total consideration transferred	**322**

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[1]	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

1 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.

For the year ended 31 December	2014 £m	2013 £m
Revenue	677	777
Expenses	(308)	(319)
Profit before income tax	369	458
Income tax expense	(91)	(121)
Net income from discontinued operations	278	337

The major classes of cash flows related to RB Pharmaceuticals are as follows:

For the year ended 31 December	2014 £m	2013 £m
Cash flows from operating activities	223	446
Cash flows from investing activities	(16)	(1)
Cash flows from financing activities	481	–
Net increase in cash and cash equivalents from discontinued operations	688	445

28 Dividends

	2014 £m	2013 £m
Cash dividends on equity ordinary shares:		
2013 Final paid: 77p (2012: Final 78p) per share	554	561
2014 Interim paid: 60p (2013: Interim 60p) per share	434	431
	988	992
Non-cash dividends on equity ordinary shares:		
Fair value of non-cash dividend	1,046	–
Total dividends for the year	2,034	992

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.

Reckitt Benckiser Treasury Services plc

Independent Auditor's Report to the Members of Reckitt Benckiser Treasury Services plc

---

Report on the Financial Statements

Our Opinion

In our opinion, Reckitt Benckiser Treasury Services plc's Financial Statements (the "Financial Statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The Financial Statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Statement of Comprehensive Income for the year then ended;
- the 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.

The financial reporting framework that has been applied in the preparation of the Financial Statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Director's Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent Auditor's Report to the Members of Reckitt Benckiser Treasury Services plc

---

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.

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibilities statement set out on page 3, 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 International Standards on Auditing (UK and Ireland) ("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

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 Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and the Directors' Report, we consider whether these reports include the disclosures required by applicable legal requirements.

Christopher J Richmond (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

7 June 2017

Reckitt Benckiser Treasury Services plc

Statement of Comprehensive Income
For the Year Ended 31 December 2016

	Note	2016 £000	2015 £000
Administrative expenses		**(5,179)**	(5,846)
Operating loss		**(5,179)**	(5,846)
Interest receivable and similar income	4	**329,966**	284,921
Interest payable and similar charges	5	**(167,878)**	(161,427)
Profit on ordinary activities before taxation		**156,909**	117,648
Tax on profit on ordinary activities	6	**(74,784)**	124,290
Profit for the financial year		**82,125**	241,938
Other comprehensive income			
Gains on cash flow hedges (net of tax)		**2,285**	-
Total comprehensive income		**84,410**	241,938

The notes on pages 11 to 36 form part of these Financial Statements.

All amounts in the current and prior year relate to continuing operations.

All amounts included in other comprehensive income may be reclassified to profit or loss in subsequent years.

Reckitt Benckiser Treasury Services plc

Registered number:05960843

Balance Sheet
As at 31 December 2016

	Note		2016 £000		2015 £000
Fixed Assets					
Investments	7		**3,610,237**		3,610,237
			3,610,237		3,610,237
Current Assets					
Debtors after more than one year	8,13	**1,264,389**		1,090,750	
Debtors due within one year	8,13	**30,484,283**		28,700,563	
Current asset investments	9,13	**253,292**		194,476	
Cash at bank and in hand	10,13	**31,242**		45,722	
		32,033,206		30,031,511	
Creditors due within one year	11,13	**(29,592,322)**		(27,781,150)	
Net Current Assets			**2,440,884**		2,250,361
Total Assets less Current Liabilities			**6,051,121**		5,860,598
Creditors after more than one year	12,13		**(1,260,639)**		(1,154,526)
Net Assets			**4,790,482**		4,706,072
Equity					
Share capital	14		**2,000**		2,000
Share premium			**3,975,335**		3,975,335
Other reserves			**2,285**		-
Retained earnings			**810,862**		728,737
Total Equity			**4,790,482**		4,706,072

The notes on pages 11 to 36 form part of these Financial Statements.

The Financial Statements on pages 8 to 36 were approved and authorised for issue by the Board and were signed on its behalf on 7 June 2017.

Simon Andrew Neville
Director

Reckitt Benckiser Treasury Services plc

Statement of Changes in Equity
For the Year Ended 31 December 2016

	Share capital	Share premium	Other reserves	Retained earnings	Total Equity
	£000	£000	£000	£000	£000
At 1 January 2016	**2,000**	**3,975,335**	**-**	**728,737**	**4,706,072**
Comprehensive income					
Profit for the financial year	**-**	**-**	**-**	**82,125**	**82,125**
Movements in hedging reserve (net of tax)	**-**	**-**	**2,285**	**-**	**2,285**
Other comprehensive income	**-**	**-**	**2,285**	**-**	**2,285**
Total comprehensive income	**-**	**-**	**2,285**	**82,125**	**84,410**
Balance at 31 December 2016	**2,000**	**3,975,335**	**2,285**	**810,862**	**4,790,482**

Included in other reserves are movements on cash flow hedges, net of tax.

Statement of Changes in Equity
For the Year Ended 31 December 2015

	Share capital	Share premium	Retained earnings	Total Equity
	£000	£000	£000	£000
At 1 January 2015	**2,000**	**3,975,335**	**486,799**	**4,464,134**
Comprehensive income				
Profit for the financial year	**-**	**-**	**241,938**	**241,938**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**241,938**	**241,938**
Total transactions with owners	**-**	**-**	**-**	**-**
Balance at 31 December 2015	**2,000**	**3,975,335**	**728,737**	**4,706,072**

The notes on pages 11 to 36 form part of these Financial Statements.

1. Accounting Policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

1.1 General Information

Reckitt Benckiser Treasury Services plc is a public limited company, limited by shares, incorporated in England and Wales. The address of the registered office is given on the Company Information page at the beginning of these statutory accounts. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

1.2 Statement of Compliance

The Financial Statements have been prepared on a going concern basis, under the historical costs convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101, Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

1.3 Basis of Preparation

The preparation of Financial Statements in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

1.4 Changes in accounting policy and disclosure

There are no new standards, amendments or interpretations which have been adopted for the first time and have a significant impact on the accounting policies applied in preparing the Company's Financial Statements.

1. Accounting Policies (continued)

1.5 Financial Reporting Standard 101 – Reduced Disclosure Exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these Financial Statements, as permitted by FRS 101 for qualifying entities:

- The requirements of IAS 7 Statement of Cash Flows;
- The requirements in IAS 24 Related Party Disclosures not to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- The following paragraphs of IAS 1, 'Presentation of Financial Statements':
  – 10(d), (statement of cash flows),
  – 16 (statement of compliance with all IFRS),
  – 38A (requirement for minimum of two primary statements, including cash flow statements),
  – 38B-D (additional comparative information),
  – 40A-D (requirements for a third statement of financial position)
  – 111 (cash flow statement information), and
  – 134-136 (capital management disclosures)
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting policies, Changes in Accounting Estimates and Errors;
- The requirements of paragraphs 130(f)(ii), 130(f)(iii),134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated Financial Statements of the Group in which the entity is consolidated.

The Company's results are included in the publicly available consolidated Financial Statements of Reckitt Benckiser Group plc and these Financial Statements may be obtained from 103-105 Bath Road, Slough, Berkshire, SL1 3UH.

1.6 Consolidation

The Financial Statements contain information about Reckitt Benckiser Treasury Services plc as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated Financial Statements as it and its subsidiary undertakings are included in the consolidated Financial Statements of its ultimate parent company, Reckitt Benckiser Group plc, a company registered in England and Wales.

1. Accounting Policies (continued)

1.7 Foreign Currency Balances

The Company's functional and presentational currency is Sterling, therefore foreign currency is determined to be any other currency than Sterling.

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange on the day the transaction occurs. Monetary assets and liabilities denominated in a foreign currency are translated into Sterling at the exchange rate ruling on the balance sheet date. Resultant foreign exchange gains and losses are recorded in profit for the financial year.

1.8 Pension Commitments

The Company contributes to a defined contribution scheme on behalf of its employees. Payments to the scheme are recognised as an employee benefit expense in the year they are incurred.

1.9 Interest

Interest payable is charged to comprehensive income or expense as incurred and interest receivable is credited as it falls due.

1.10 Fixed Asset Investments

Investments in subsidiaries are held at cost less accumulated impairment losses.

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.

1.11 Current Asset Investments

Current asset investments are included at amortised cost and include deposits with a maturity of less than three months.

1. Accounting Policies (continued)

1.12 Financial Instruments

Reckitt Benckiser Treasury Services plc may use derivatives to manage its exposures to fluctuating foreign exchange rates. The Company has adopted IAS 39 'Financial Instruments: Recognition and Measurement.' The derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value. Except for certain derivatives designated as cash flow hedges, all changes in fair value of derivative instruments are recognised immediately in profit or loss. The Company designates certain derivative financial instruments as cash flow hedges. The effective portion of changes in the fair value is initially recorded in other comprehensive income. Amounts recorded in other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect profit or loss. Any gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below.

(a) Financial Assets
The Group classifies its intercompany assets as loans and receivables at amortised cost and its derivative assets either as cash flow hedges or at fair value through profit or loss.

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of intra-Group funding. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

The Company's loans and receivable comprise amounts owed by Group undertakings.

(b) Financial Liabilities
The Group classifies its financial liabilities in the following categories: as financial liabilities at amortised cost or derivatives at fair value either as cash flow hedges or through profit or loss.

Financial liabilities at amortised cost include bank borrowings and intercompany loans which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method.

1. Accounting Policies (continued)

1.13 Cash at bank and in hand

Cash at bank and in hand comprise cash balances when deposited.

Bank overdrafts are included within creditors due within one year in the balance sheet.

1.14 Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in profit for the financial year, 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 the UK 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 Financial Statements. The deferred tax is not accounted for if it arises from the total 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 investment 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 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 balances on a net basis.

2. Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty

In preparing these Financial Statements, the Directors have had to make the following judgements:

- Determine whether there are indicators of impairment of the Company's fixed asset investments. Factors taken into account are the net assets for financing companies.

The Company's Directors are of the opinion that there are no further judgements and no key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying value of assets and liabilities for the Company within the next financial year.

3. Staff costs

Staff costs were as follows:

	2016 £000	2015 £000
Wages and salaries	**895**	761
Social security costs	**140**	99
Other pension costs	**76**	75
	1,111	935

The average monthly number of employees, including the Directors, during the year was as follows:

	2016 No.	2015 No.
Administration and support	**10**	9

4. Interest receivable and similar income

	2016 £000	2015 £000
Interest receivable from Group undertakings	**277,758**	277,231
Bank interest receivable	**9,451**	7,690
Net exchange gain	**42,757**	-
	329,966	284,921

5. Interest payable and similar charges

	2016 £000	2015 £000
Interest payable on third party borrowings	**45,968**	34,911
Interest payable to Group undertakings	**121,910**	122,298
Net exchange losses	**-**	4,218
	167,878	161,427

6. Taxation

	2016 £000	2015 £000
Corporation tax		
Current tax on profits for the financial year	**443**	(38,204)
Adjustments in respect of previous periods	**70,186**	(87,219)
Foreign tax		
Foreign tax relief/other relief	**(443)**	-
Foreign withholding tax charge	**2,042**	3,689
Total current tax	**72,228**	(121,734)
Deferred tax		
Adjustment in respect of previous periods	**2,556**	(2,875)
Effect of changes in tax rates	**-**	319
Total deferred tax	**2,556**	(2,556)
Taxation on profit on ordinary activities	**74,784**	(124,290)

Adjustments in respect of previous periods relates to the finalisation of tax filing in respect of worldwide debt cap adjustments and the consequential impact on group relief.

Reconciliation of tax charge/(credit)

The tax assessed for the year is higher than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20.25%). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before tax	**156,909**	117,648
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	**31,382**	23,820
Effects of:		
Transfer pricing adjustments	**(3,652)**	(4,436)
Net taxable worldwide debt cap income	**(27,287)**	(57,402)
Higher rate taxes on overseas earnings	**1,599**	3,503
Adjustments in respect of previous periods	**72,742**	(90,094)
Tax rate changes	**-**	319

6. Taxation (continued)

Factors that may affect future tax charges

The standard rate of Corporation tax in the UK is 20%.

Reductions to the tax rate, reducing it to 19% from 1 April 2017 and 17% from 1 April 2020 have been enacted. Future profits will be taxed at the appropriate rate.

Worldwide debt cap

Worldwide debt cap legislation provides for the exemption from tax of certain financing income of UK group companies where there has been a disallowance of interest expense in relevant UK group companies.

7. Fixed Asset Investments

	Investments in subsidiary undertakings £000
Cost	
At 1 January 2016	**3,610,237**
At 31 December 2016	**3,610,237**
Impairment	
At 1 January 2016	-
At 31 December 2016	-
Net book value	
At 31 December 2016	**3,610,237**
At 31 December 2015	3,610,237

7. Fixed Asset Investments (continued)

Subsidiaries

The following are subsidiaries of the Company:

Name	Class of shares	Holding	Registered office
Reckitt Benckiser Jersey (No.1) Limited	Ordinary	100 %	13 Castle Street, St. Helier, Jersey, JE4 5UT
Reckitt Benckiser Jersey (No.2) Limited	Ordinary	100 %	13 Castle Street, St. Helier, Jersey, JE4 5UT

The Directors believe that the carrying value of the investments is supported by their net assets.

8. Debtors

	2016 £000	2015 £000
Due after more than one year		
Amounts owed by Group undertakings	**1,261,092**	1,090,555
Derivative financial instruments - Intragroup	**-**	117
Derivative financial instruments - External	**3,297**	78
	1,264,389	1,090,750

	2016 £000	2015 £000
Due within one year		
Amounts owed by Group undertakings	**30,298,014**	28,569,670
Other debtors	**21**	80
Prepayments and accrued income	**157**	78
Derivative financial instruments - Intragroup	**29,660**	17,140
Deferred tax asset	**-**	2,556
Derivative financial instruments - External	**156,431**	111,039
	30,484,283	28,700,563

8. Debtors (continued)

The amounts owed by Group undertakings are unsecured and are either interest free, interest bearing at a fixed rate, interest bearing at LIBOR plus or minus a margin of various rates or interest bearing at other floating based rates (2015 - same). Further detail on the rates of interest receivable on amounts owed by Group undertakings is provided in note 13 to these Financial Statements.

The intragroup derivatives represent intragroup forward contracts which are fair valued, either through profit or loss or designated as cash flow hedges.

The external derivatives represent the forward contracts with third parties outside of the Group which are fair valued, either through profit or loss or designated as cash flow hedges.

The fair value of derivatives has been estimated by discounting cash flows at prevailing interest rates and by applying year end exchange rates.

9. Current Asset Investments

	2016 **£000**	**2015** **£000**
Short term deposits	**253,292**	194,476

Short term deposits are at a floating rate.

10. Cash at bank and in hand

	2016 **£000**	**2015** **£000**
Cash at bank	**31,242**	45,722

11. Creditors due within one year

	2016 £000	2015 £000
Bank loans and overdrafts	**913**	1
Derivative financial instruments - Intragroup	**28,761**	28,047
Commercial paper issued by the Company	**1,559,583**	1,705,600
Amount owed to Group undertakings	**27,947,810**	26,018,572
Deferred tax liabilities	**468**	-
Derivative financial instruments - External	**40,801**	19,793
Accruals and deferred income	**13,986**	9,137
	29,592,322	27,781,150

The amounts owed by Group undertakings are unsecured and are either interest free, interest bearing at a fixed rate, interest bearing at LIBOR plus or minus a margin of various rates or interest bearing at other floating based rates (2015 - same). Further detail on the rates of interest payable on amounts owed to Group undertakings is provided in note 13 to these Financial Statements.

Included in the amounts owed to Group undertakings are Eurobonds, quoted on The International Stock Exchange, of £44,571k (2015 - £37,324k) issued to subsidiary undertakings that mature on 10 August 2018 and have an early redemption option attached to them. The fair value of each bond is similar to the carrying value and therefore they are disclosed at their carrying value. They are interest bearing at a rate of 3M LIBOR plus 0.3%.

The Commercial Papers are unsecured short term debt instruments, taken out against short term funding. As at 31 December 2016 the Company had Commercial Paper in issue amounting to US$1,412,000k (nominal values) at rates of between 0.95% and 1.38% with maturities ranging from 4 January 2017 to 15 September 2017, and €500,000k (nominal values) at the rate of negative 0.26% with maturities ranging from 21 February 2017 to 23 February 2017. As at 31 December 2015 the Company had Commercial Paper in issue amounting to US$2,522,110k (nominal values) at rates of between 0.23% and 0.92% with maturities ranging from 11 January 2016 to 10 November 2016.

The intergroup derivatives represent intergroup forward contracts which are fair valued, either through profit or loss or designated as cash flow hedges.

The external derivatives represent the forward contracts with third parties outside of the Group which are fair valued, either through profit or loss or designated as cash flow hedges.

The fair value of derivatives has been estimated by discounting cash flows at prevailing interest rates and by applying year end exchange rates.

12. Creditors due after more than one year

	2016 £000	2015 £000
Bonds	**803,685**	671,583
Amounts owed to Group undertakings	**330,340**	449,711
Derivative financial instruments - Intragroup	**126,614**	33,115
Derivative financial instruments - External	**-**	117
	1,260,639	1,154,526

The amounts owed to Group undertakings are unsecured, interest bearing at LIBOR plus or minus a margin of various rates (2015 - same). Further detail on the rates of interest payable on amounts owed to Group undertakings is provided in note 13 to these Financial Statements.

Further disclosure about creditors due after more than one year is included in note 13.

13. Financial Instruments

At 31 December 2016

	Loans and receivables £000	Fair value through the P&L £000	Derivatives used for hedging £000	Carrying value total £000	Fair value total £000
Assets as per the balance sheet					
Cash at bank and in hand	31,242	-	-	31,242	31,242
Current asset investments	253,292	-	-	253,292	253,292
External derivative financial instruments - short term	-	153,678	2,753	156,431	156,431
External derivative financial instruments - long term	-	3,297	-	3,297	3,297
Internal derivative financial instruments - short term	-	29,660	-	29,660	29,660
Internal derivative financial instruments - long term	-	-	-	-	-
Intercompany financing loans – short term (3)(4)	30,298,014	-	-	30,298,014	30,298,014
Intercompany financing loans – long term (3)(4)	1,261,092	-	-	1,261,092	1,302,266
Other debtors	21	-	-	21	21
Prepayments and accrued income	157	-	-	157	157
Intercompany trade receivables	-	-	-	-	-

At 31 December 2016

	Fair value through the P&L £000	Other financial liabilities at amortised cost £000	Carrying value total £000	Fair value total £000
Liabilities as per the balance sheet				
Borrowings (excluding bond) (1)	-	1,560,496	1,560,496	1,560,496
US$1bn bond (two tranches of US$500m at 2.125% (2018) and 3.625% (2023) respectively) (2)	-	803,685	803,685	820,648
External derivative financial instruments - short term	40,801	-	40,801	40,801
External derivative financial instruments - long term	-	-	-	-
Internal derivative financial instruments - short term	28,761	-	28,761	28,761
Internal derivative financial instruments - long term	126,614	-	126,614	126,614
Intercompany financing loans – short term (3)(4)	-	27,909,789	27,909,789	27,909,789
Intercompany financing loans – long term (3)(4)	-	330,340	330,340	330,340
Intercompany trade payables	-	38,021	38,021	38,021
Accruals and deferred income	-	13,986	13,986	13,986

At 31 December 2015

	Loans and receivables £000	Fair value through the P&L £000	Carrying value total £000	Fair value total £000
Assets as per the balance sheet				
Cash at bank and in hand	45,722	-	45,722	45,722
Current asset investments	194,476	-	194,476	194,476
External derivative financial instruments - short term	-	111,039	111,039	111,039
External derivative financial instruments - long term	-	78	78	78
Internal derivative financial instruments - short term	-	17,140	17,140	17,140
Internal derivative financial instruments - long term	-	117	117	117
Intercompany financing loans – short term (3)(4)	28,499,484	-	28,499,484	28,499,484
Intercompany financing loans – long term (3)(4)	1,090,555	-	1,090,555	1,172,159
Other debtors	80	-	80	80
Prepayments and accrued income	78	-	78	78
Intercompany trade receivables	70,186	-	70,186	70,186

At 31 December 2015

	Fair value through the P&L	Other financial liabilities at amortised cost £000	Carrying value total £000	Fair value total £000
Liabilities as per the balance sheet				
Borrowings (excluding bond) (1)	-	1,705,600	1,705,600	1,705,600
US$1bn bond (two tranches of US$500m at 2.125% (2018) and 3.625% (2023) respectively) (2)	-	671,583	671,583	682,556
External derivative financial instruments - short term	19,793	-	19,793	19,793
External derivative financial instruments - long term	117	-	117	117
Internal derivative financial instruments - short term	28,047	-	28,047	28,047
Internal derivative financial instruments - long term	33,115	-	33,115	33,115
Intercompany financing loans – short term (3)(4)	-	26,016,462	26,016,462	26,016,462
Intercompany financing loans – long term (3)(4)	-	449,711	449,711	449,711
Intercompany trade payables	-	2,110	2,110	2,110
Accruals and deferred income	-	9,137	9,137	9,137

Financial Instruments (continued)

(1) The categories in this disclosure are determined by IAS39. External borrowings largely relate to Commercial Paper. As at 31 December 2016 the Company had Commercial Paper in issue amounting to US$1,412,000k (nominal values) at rates of between 0.95% and 1.38% with maturities ranging from 4 January 2017 to 15 September 2017, and €500,000k (nominal values) at the rate of negative 0.26% with maturities ranging from 21 February 2017 to 23 February 2017. As at 31 December 2015 the Company had Commercial Paper in issue amounting to US$2,522,110k (nominal value) at rates of between 0.23% and 0.92% with maturities ranging from 11 January 2016 to 10 November 2016.

(2) The fair value of bonds at 31 December 2016 is a liability of £820,648k (2015 - £682,556k). This value is derived using a quoted market rate in an active market (level 1 classification).

(3) Intercompany loans payable and receivable are unsecured and are either interest free, interest bearing at a fixed rate, interest bearing at LIBOR plus or minus a margin of various rates or interest bearing at other floating based rates (2015 - same).

(4) The fair value of short term loans is deemed to be in line with the carrying amount due to their short term nature. The fair value of floating long term loans are deemed to be comparable with the carrying value. The fair value of long term fixed rate debt is determined by discounting future flows at the prevailing rate and converting to sterling at the year end rate.

All financial instruments, with the exception of the bond, are in level 2 of the 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. The fair value measurement hierarchy levels have been defined as follows:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2). If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3. Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

The fair value of forward foreign exchange contracts at 31 December 2016 is a liability of £196,176k (2015 - £81,072k) and an asset of £189,388k (2015 - £128,374k). 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 2016 is £Nil (2015 - £Nil), no further level 3 disclosures have been made. There have been no movements of financial instruments between levels (2015 - £Nil).

Offsetting Financial Assets and Financial Liabilities

The Company has forward foreign exchange contracts that are subject to enforceable master netting arrangements:

	Gross amounts of recognised financial assets £000	Gross amounts of recognised financial liabilities set off in the balance sheet £000	Net amounts of financial assets presented in the balance sheet £000	Financial instruments not set off in the balance sheet £000	Net amount £000
As at 31 December 2016					
Forward foreign exchange contracts - External	159,728	-	159,728	(40,801)	118,927
Forward foreign exchange contracts - Internal	29,660	-	29,660	-	29,660
	189,388	-	189,388	(40,801)	148,587

	Gross amounts of recognised financial assets £000	Gross amounts of recognised financial liabilities set off in the balance sheet £000	Net amounts of financial assets presented in the balance sheet £000	Financial instruments not set off in the balance sheet £000	Net amount £000
As at 31 December 2015					
Forward foreign exchange contracts - External	111,117	-	111,117	(19,910)	91,207
Forward foreign exchange contracts - Internal	17,257	-	17,257	-	17,257
	128,374	-	128,374	(19,910)	108,464

Financial Liabilities

As at 31 December 2016	Gross amounts of recognised financial liabilities £000	Gross amounts of recognised financial assets set off in the balance sheet £000	Net amounts of financial liabilities presented in the balance sheet £000	Financial instruments not set off in the balance sheet £000	Net amount £000
Forward foreign exchange contracts - External	(40,801)	-	(40,801)	40,801	-
Forward foreign exchange contracts - Internal	(155,375)	-	(155,375)	-	(155,375)
	(196,176)	-	(196,176)	40,801	(155,375)

As at 31 December 2015	Gross amounts of recognised financial liabilities £000	Gross amounts of recognised financial assets set off in the balance sheet £000	Net amounts of financial liabilities presented in the balance sheet £000	Financial instruments not set off in the balance sheet £000	Net amount £000
Forward foreign exchange contracts - External	(19,910)	-	(19,910)	19,910	-
Forward foreign exchange contracts - Internal	(61,162)	-	(61,162)	-	61,162
	(81,072)	-	(81,072)	19,910	61,162

External FX forward trades are subject to an enforceable right of offset in the advent of a default by either party. Internal trades are not subject to such an agreement.

Financial Risk Management

The Company's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates (foreign exchange risk), interest rates, credit risks and liquidity. The Company 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 Company.

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

The Board of Directors review and agree policies, guidelines and authority levels for all areas of Treasury activity and individually approve 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 Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from recognised assets and liabilities.

The Company'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 Company aligns internal foreign currency exposures and where necessary uses external debt and forward FX instruments to mitigate the risk to its income statement. The Company seeks to minimise its foreign currency exposures.

The notional principal amount of the outstanding external forward foreign exchange contracts at 31 December 2016 was £4,437,054k payable (2015 - £5,487,497k payable).

The notional principal amount of the outstanding internal forward foreign exchange contracts at 31 December 2016 was £2,463,907k payable (2015 - £2,252,323k payable).

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

The remaining major monetary financial instruments (liquid assets, receivables, interest and non-interest bearing liabilities) are directly denominated in the functional currency of the Company 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 £446,117k gain (2015 - £36,662k gain). This includes the forward exchange contracts economically hedging intercompany and external debt, which is included in the net exchange gain in the year in note 4 to these financial statements (2015 - included in the net exchange losses in note 5 to these financial statements).

Market Risk (continued)

(b) Cash flow and fair value interest rate risk

The Company has both interest-bearing and non interest-bearing assets and liabilities. The Company monitors its interest income and expense rate exposure on a regular basis. The Company 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 Company 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 and assets 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 £6,148k (2015 - £11,298k) or decrease of £6,148k (2015 - £11,298k), respectively for the liabilities and assets covered.

The Company has a number of loans, both receivable and payable, with other Group companies. These loans are unsecured and are either interest free, interest bearing at a fixed rate, or interest bearing at a floating based rate. The tables below categorise the intragroup loans by the rates of interest that are applied to these loans.

Amounts owed by Group undertakings

	2016 £000	2015 £000
Basis of interest receivable:		
Interest free	**57,440**	40,988
Fixed based interest (4.5%)	**731,540**	612,595
Floating based interest	**30,762,582**	28,927,779
Total	**31,551,562**	29,581,362

Amounts owed to Group undertakings

	2016 £000	2015 £000
Basis of interest payable:		
Interest free	**949,853**	1,304,103
Fixed based interest (between 1.9% and 4.81%)	**12,200**	30,247
Floating based interest	**27,276,332**	25,130,574
Total	**28,238,385**	26,464,924

2. Credit Risk

The Company has no significant concentrations of third party 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. 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 Company uses BBB and higher rated counterparties to manage risk, and operationally only uses sub BBB rated counterparties by exception. The amount of exposure to any individual counterparty is subject to a limit defined within the counterparty risk policy, which is reassessed annually by the Board of Directors. Derivative financial instruments are only traded with counterparties in accordance with the approved policy. Derivative risk is measured using a risk weighting method.

The Company has counterparty risk from asset positions held with financial institutions. This is comprised of short-term investments, cash and cash equivalents and derivatives positions as stated on the face of the Balance Sheet. For risk management purposes the Company assesses the exposure to major financial institutions by looking at the deposits, cash and cash equivalents and 5% of derivative notional position. The table below summarises the Company's assessment of its exposure.

		2016 Exposure		2015 Exposure
	Credit rating	£000	Credit rating	£000
Counterparty				
Bank A	AAA	150,000	AAA	133,400
Bank B	AA-	57,116	A	82,073
Bank C	AAA	49,500	A+	60,933
Bank D	AAA	47,000	AA-	56,349
Bank E	A-	45,146	A-	55,245

The above table does not include exposures to intercompany balances, the Company is in a net asset position and there is no history of intercompany default on balances owing to the Company. The maximum asset exposure to intercompany credit risk is £31,588,766k (2015 - £29,677,482k).

3. Liquidity Risk

Cash flow forecasting is performed by other business units in the RB Group and on an aggregated basis by GT. GT monitors rolling forecasts of the Company’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 Company 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 Company has various borrowing facilities available to it. The Company 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 Company’s future operations.

At the end of 2016, the Company had, in addition to its long-term debt of £803,685k (2015 - £671,583k), committed borrowing facilities totalling £3,500,000k (2015 - £3,500,000k), of which £3,500,000k exceeded 12 months' maturity (2015 - £3,500,000k). Of the total facilities at the year end, £nil (2015 - £Nil) was utilised. The committed borrowing facilities, together with available uncommitted facilities and central cash and investments, are considered sufficient to meet the Company's projected cash requirements.

The undrawn committed facilities available, in respect of which all conditions precedent have been met at the balance sheet date, were as follows:

	2016 **£000**	**2015** **£000**
Undrawn committed borrowing facilities:		
Expiring within one year	**-**	-
Expiring between one and two years	**-**	-
Expiring after more than two years	**3,500,000**	3,500,000
	3,500,000	3,500,000

All committed 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.

The table below analyses the Company’s financial liabilities 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 £000	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 31 December 2016					
Overdrafts	(913)	(913)	-	-	-
Commercial paper	(1,570,467)	(1,570,467)	-	-	-
Bonds	(930,409)	(23,298)	(428,485)	(44,064)	(434,562)
Intercompany trade payables	(38,021)	(38,021)	-	-	-
Accruals and deferred income	(13,986)	(13,986)	-	-	-
Intercompany financing loans	(28,627,807)	27,966,568	(55,458)	(128,359)	(477,420)

	Total £000	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 31 December 2015					
Commercial paper	(1,711,530)	(1,711,530)	-	-	-
Bonds	(798,639)	(19,510)	(19,510)	(383,415)	(376,204)
Intercompany trade payables	(2,110)	(2,110)	-	-	-
Accruals and deferred income	(9,137)	(9,137)	-	-	-
Intercompany financing loans	(26,615,919)	(26,106,459)	(55,305)	(84,677)	(369,478)

The table below analyses the Company’s derivative financial instruments 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.

At 31 December 2016

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Forward exchange contracts - External				
Outflow	(4,420,860)	(5,956)	(10,238)	-
Inflow	4,531,379	7,702	14,344	-
Forward exchange contracts - Internal				
Outflow	(1,874,066)	(7,702)	(582,139)	-
Inflow	1,874,801	5,956	741,778	-

At 31 December 2015

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Forward exchange contracts - External				
Outflow	(5,479,389)	(8,108)	-	-
Inflow	5,566,916	8,003	-	-
Forward exchange contracts - Internal				
Outflow	(1,676,525)	(8,003)	(567,795)	-
Inflow	1,670,957	8,108	612,595	-

4. Capital Management

The Company considers capital to be net debt plus total equity. Net debt is calculated as total external borrowings (excluding intercompany liabilities) less cash at bank in hand, current asset investments and derivative financial instruments. Total equity includes share capital, reserves and retained earnings as shown in the Company Balance Sheet.

	2016 £000	2015 £000
Net debt	**1,974,996**	2,052,201
Total equity	**4,790,482**	4,706,072
	6,765,478	6,758,273

The objectives for managing capital are to safeguard the Company'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.

The Company monitors net debt and at year end the Company had net debt of £1,974,996k (2015 - £2,052,201k). The Company seeks to pay down net debt using cash generated by the business to maintain an appropriate level of financial flexibility.

14. Share Capital

	2016 £000	2015 £000
Allotted and fully paid		
2,000,102 (2015 - 2,000,102) Ordinary shares of £1 each	**2,000**	2,000

15. Directors

During the year the Company had 6 Directors resident in the UK, none of whom received any emoluments in respect of services to the Company (2015 - 4 Directors, no emoluments). The remuneration is paid by Reckitt Benckiser Corporate Services which has made no recharge to the Company for the Directors' services during their time as Director. The Directors are also Directors of a number of fellow subsidiaries, and it is not possible to make an accurate apportionment of their remuneration in respect of each of the subsidiaries. Accordingly, the above details include no remuneration in respect of the Directors.

16. Post Balance Sheet Events

In anticipation of the acquisition of Mead Johnson Nutrition Company, the Company has completed syndication of certain debt facilities totalling $21.2 billion. These facilities will be available to draw down upon shareholders approval of the transaction.

17. Ultimate Parent Undertaking and Controlling Party

The immediate parent company is Reckitt Benckiser plc which is registered in the United Kingdom.

The ultimate parent company and controlling party is Reckitt Benckiser Group plc, a company incorporated in the United Kingdom, which is the parent undertaking of the smallest and largest Group to consolidate these Financial Statements. Copies of the Group Financial Statements of Reckitt Benckiser Group plc can be obtained from 103-105 Bath Road, Slough, Berkshire, SL1 3UH or at http://www.rb.com.

18. Auditors' Remuneration

The Auditors' remuneration is met by the ultimate parent company, Reckitt Benckiser Group plc and is disclosed in total in the Group Financial Statements. No recharge is made to its subsidiaries as it is not practical to make an allocation of the audit fee to each subsidiary entity individually.

Reckitt Benckiser Treasury Services plc

Independent Auditors' report to the members of Reckitt Benckiser Treasury Services plc

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' responsibilities statement set out on page 3, 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 International Standards on Auditing (UK and Ireland) ("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

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 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.

Christopher Richmond (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 June 2016

Reckitt Benckiser Treasury Services plc

Statement of Comprehensive Income
For the Year Ended 31 December 2015

	Note	2015 £000	2014 £000
Administrative expenses		**(5,846)**	(8,633)
Interest receivable and similar income	4	**284,921**	296,792
Interest payable and similar charges	5	**(161,427)**	(131,300)
Profit on ordinary activities before tax		**117,648**	156,859
Tax on profit on ordinary activities	6	**124,290**	(26,593)
Profit for the financial year		**241,938**	130,266
Other comprehensive income			
Other comprehensive income		**-**	-
Total comprehensive income		**241,938**	130,266

The notes on pages 10 to 34 form part of these Financial Statements.

All amounts in the current and prior year relate to continuing operations.

Reckitt Benckiser Treasury Services plc
Registered number:05960843

Balance Sheet
As at 31 December 2015

	Note		2015 £000		Represented 2014 £000
Fixed Assets					
Investments	7		**3,610,237**		3,610,237
			3,610,237		3,610,237
Current Assets					
Debtors due after one year	8,13	**1,090,750**		773,726	
Debtors due within one year	8,13	**28,700,563**		30,443,022	
Current asset investments	9,13	**194,476**		438,203	
Cash at bank and in hand	10,13	**45,722**		2,633	
		30,031,511		31,657,584	
Creditors due within one year	11,13	**(27,781,150)**		(29,866,865)	
Net Current Assets			**2,250,361**		1,790,719
Total Assets less Current Liabilities			**5,860,598**		5,400,956
Creditors due after more than one year	12,13		**(1,154,526)**		(936,822)
Net Assets			**4,706,072**		4,464,134
Equity					
Share capital	14		**2,000**		2,000
Share premium			**3,975,335**		3,975,335
Retained earnings			**728,737**		486,799
Total Equity			**4,706,072**		4,464,134

The notes on pages 10 to 34 form part of these Financial Statements.

The Financial Statements on pages 7 to 34 were approved and authorised for issue by the board and were signed on its behalf on 27 June 2016.

Richard Mark Greensmith
Director

Reckitt Benckiser Treasury Services plc

Statement of Changes in Equity
For the Year Ended 31 December 2015

	Share capital	Share premium	Retained earnings	Total Equity
	£000	£000	£000	£000
At 1 January 2015	**2,000**	**3,975,335**	**486,799**	**4,464,134**
Comprehensive income				
Profit for the financial year	**-**	**-**	**241,938**	**241,938**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**241,938**	**241,938**
Total transactions with owners	**-**	**-**	**-**	**-**
Balance at 31 December 2015	**2,000**	**3,975,335**	**728,737**	**4,706,072**

Statement of Changes in Equity
For the Year Ended 31 December 2014

	Share capital	Share premium	Retained earnings	Total Equity
	£000	£000	£000	£000
At 1 January 2014	**2,000**	**3,975,335**	**356,533**	**4,333,868**
Comprehensive income				
Profit for the financial year	**-**	**-**	**130,266**	**130,266**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**130,266**	**130,266**
Total transactions with owners	**-**	**-**	**-**	**-**
Balance at 31 December 2014	**2,000**	**3,975,335**	**486,799**	**4,464,134**

The notes on pages 10 to 34 form part of these Financial Statements.

1. Accounting Policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

1.1 General Information

Reckitt Benckiser Treasury Service plc is a Company incorporated in England and Wales. The address of the registered office is given on the Company Information page at the beginning of these statutory accounts. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 2.

1.2 Statement of Compliance

The Financial Statements have been prepared on a going concern basis, under the historical costs convention, as modified by the revaluation financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. and in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

1.3 Basis of Preparation

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 101 are disclosed in note 18.

The preparation of Financial Statements in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 2).

1.4 Changes in accounting policy and disclosure

There are no new standards which will have a material impact on the company.

1. Accounting Policies (continued)

1.5 Financial Reporting Standard 101 – Reduced Disclosure Exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these Financial Statements, as permitted by FRS 101 for qualifying entities:

- The requirements of IAS 7 Statement of Cash Flows;
- The requirements in IAS 24 Related Party Disclosures not to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- The following paragraphs of IAS 1, 'Presentation of Financial Statements':
  – 10(d), (statement of cash flows)
  – 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
  – 16 (statement of compliance with all IFRS),
  – 38A (requirement for minimum of two primary statements, including cash flow statements),
  – 38B-D (additional comparative information),
  – 40A-D (requirements for a third statement of financial position)
  – 111 (cash flow statement information), and
  – 134-136 (capital management disclosures)
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting policies, Changes in Accounting Estimates and Errors;
- The requirements of paragraphs 130(f)(ii), 130(f)(iii),134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets, provided that equivalent disclosures are included in the consolidated Financial Statements of the Group in which the entity is consolidated.

The Company's shareholders have been notified in writing about, and do not object to the use of, the above disclosure exemptions. The Company's results are included in the publically available consolidated Financial Statements of Reckitt Benckiser Group plc and these Financial Statements may be obtained from 103-105 Bath Road, Slough, Berkshire, SL1 3UH.

1.6 Consolidation

The Financial Statements contain information about Reckitt Benckiser Treasury Services plc as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated Financial Statements as it and its subsidiary undertakings are included in the consolidated Financial Statements of its ultimate parent company, Reckitt Benckiser Group plc, a company registered in England and Wales.

1. Accounting Policies (continued)

1.7 Foreign Currency Balances

The Company's functional and presentational currency is Sterling, therefore foreign currency is determined to be any other currency than Sterling.

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange on the day the transaction occurs. Monetary assets and liabilities denominated in a foreign currency are translated into Sterling at the exchange rate ruling on the balance sheet date.

1.8 Pension Commitments

The Company contributes to a defined contribution scheme on behalf of its employees. Payments to the scheme are charged to the comprehensive income or expense in the year as they are incurred.

1.9 Interest

Interest payable is charged to comprehensive income or expense as incurred and interest receivable is credited as it falls due.

1.10 Fixed Asset Investments

Investments in subsidiaries are held at the lower of cost and their recoverable amount, which is determined as the higher of net realisable value and value in use, except where a foreign currency investment meets the criteria for hedge accounting, in which case it is translated at closing rates.

In accordance with IFRS 1 para D15 as a first-time adopter of FRS 101 the Company shall elect to measure its investments at deemed cost. The deemed cost of the investments shall be its previous GAAP carrying amount at the date of transition: 1 January 2014.

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.

1.11 Current Asset Investments

Current asset investments are included at amortised cost and include deposits with a maturity of less than three months.

1. Accounting Policies (continued)

1.12 Financial Instruments

Reckitt Benckiser Treasury Service plc may use derivatives to manage its exposures to fluctuating foreign exchange rates. The Company has adopted IAS 39 'Financial Instruments: Recognition and Measurement.' The derivatives are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value. All changes in fair value or derivative instruments are recognised immediately in the Statement of Comprehensive Income.

The Company recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are de-recognised when they are discharged or when the contractual terms expire. The Company's accounting policies in respect of financial instruments transactions are explained below.

(a) Financial Assets
The Group classifies its intercompany assets as loans and receivables at amortised cost and its derivative assets at fair value through profit or loss.

Loans and receivable assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers e.g. trade receivables, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Company's loans and receivable comprise amounts owed by Group undertakings.

(b) Financial Liabilities
The Group classifies its financial liabilities in the following categories: as financial liabilities at amortised cost, or at fair value through profit or loss for derivatives.

Financial liabilities at amortised cost include bank borrowings and intercompany loans which are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method.

1.13 Cash at bank and in hand

Cash at bank and in hand comprise cash balances when deposited.

Bank overdrafts are included within creditors due within one year in the balance sheet.

1. Accounting Policies (continued)

1.14 Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax 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 the taxable income for the year, using tax rates enacted in the UK 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 Financial Statements. The deferred tax is not accounted for if it arises from the total 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 investment 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 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 balances on a net basis.

2. Judgments in Applying Accounting Policies and Key Sources of Estimation Uncertainty

In preparing these Financial Statements, the Directors have had to make the following judgements:

- Determine whether there are indicators of impairment of the Company's fixed asset investments. Factors taken into account are net assets for holding companies and enterprise value for trading companies.

The Company's Directors are of the opinion that there are no further judgements and no key sources of estimation uncertainty that have a significant risk of causing material adjustment to the carrying value of assets and liabilities for the Company within the next financial year.

3. Staff costs

Staff costs were as follows:

	2015 £000	2014 £000
Wages and salaries	**761**	757
Social security costs	**99**	76
Other pension costs	**75**	81
	935	914

The average monthly number of employees during the year was as follows:

	2015 No.	2014 No.
Administration and support	**9**	9

4. Interest receivable and similar income

	2015 £000	2014 £000
Interest receivable from Group undertakings	**277,231**	284,508
Bank interest receivable	**7,690**	12,284
	284,921	296,792

5. Interest payable and similar charges

	2015 £000	2014 £000
Interest payable on third party borrowings	**34,911**	37,912
Interest payable to Group undertakings	**122,298**	110,034
Exchange loss/(gain) - net	**4,218**	(16,646)
	161,427	131,300

6. Taxation

	2015 £000	2014 £000
Corporation tax		
Current tax (credit)/charge on profits for the financial year	**(38,204)**	56,730
Adjustments in respect of previous years	**(87,219)**	(33,002)
Foreign tax		
Foreign withholding tax (credit)/charge	**3,689**	2,865
Total current tax	**(121,734)**	26,593
Deferred tax		
Origination and reversal of timing differences	**-**	6,870
Adjustment in respect of previous years	**(2,875)**	(6,393)
Effect of changes in tax rates	**319**	(477)
Total deferred tax	**(2,556)**	-
Tax (credit)/charge on profit on ordinary activities	**(124,290)**	26,593

Reconciliation of tax (credit)/charge

The tax assessed for the year is lower than (2014 - lower than) the standard rate of corporation tax in the UK of 20.25% (2014 - 21.5%). The differences are explained below:

	2015 £000	2014 £000
Profit on ordinary activities before tax	**117,648**	156,859
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.5%)	**23,820**	33,714
Effects of:		
Transfer pricing adjustments	**(4,436)**	(6,839)
Non deductible worldwide debt cap (income) / expense	**(57,402)**	36,725
Utilisation of tax losses	**-**	(6,870)
Higher rate taxes on overseas earnings	**3,503**	2,865
Adjustments to tax charge in respect of prior years	**(90,094)**	(33,002)
Tax rate changes	**319**	-
Total tax (credit)/charge for the year	**(124,290)**	26,593

6. Taxation (continued)

Factors that may affect future tax charges

The standard rate of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's profits and losses for this accounting year are taxed at an effective rate of 20.25%.

Reductions to the tax rate, reducing it to 19% from 1 April 2017 and 18% from 1 April 2020 have been substantively enacted. A further reduction to 17% from 1 April 2020 has been announced but not substantively enacted. Future profits will be taxed at the appropriate rate.

Worldwide debt cap

Worldwide debt cap legislation provides for the exemption from tax of certain financing income of UK group companies where there has been a disallowance of interest expense in relevant UK group companies.

7. Fixed Asset Investments

	Investments in subsidiary undertakings £000
Cost or valuation	
At 1 January 2015 and 31 December 2015	**3,610,237**
Impairment	
At 1 January 2015	-
At 31 December 2015	-
Net book value	
At 31 December 2015	**3,610,237**
At 31 December 2014	3,610,237

7. Fixed Asset Investments (continued)

Direct Subsidiary Undertakings

The following were direct subsidiary undertakings of the Company:

Name	Class of shares	Holding	Country of incorporation
Reckitt Benckiser Jersey (No. 1) Ltd	Ordinary	100 %	Jersey
Reckitt Benckiser Jersey (No. 2) Ltd	Ordinary	100 %	Jersey

The Directors believe that the carrying value of the investments is supported by their net assets.

8. Debtors

	2015 £000	Represented 2014 £000
Due after more than one year		
Amounts owed by Group undertakings	**1,090,555**	768,071
Derivative financial instruments - Intragroup	**117**	5,593
Derivative financial instruments - External	**78**	62
	1,090,750	773,726

	2015 £000	Represented 2014 £000
Due within one year		
Amounts owed by Group undertakings	**28,569,670**	30,304,867
Other debtors	**80**	166
Prepayments and accrued income	**78**	961
Derivative financial instruments - Intragroup	**17,140**	10,420
Deferred tax asset	**2,556**	-
Derivative financial instruments - External	**111,039**	126,608
	28,700,563	30,443,022

8. Debtors (continued)

The amounts owed by Group undertakings are unsecured and are either interest free, interest bearing at a fixed rate, interest bearing at LIBOR minus or plus a margin of various rates or interest bearing at other floating based rates (2014 - interest free, interest bearing at a fixed rate, interest bearing at LIBOR minus or plus a margin of various rates or interest bearing at other floating based rates).

In the prior year £4,196,674k was presented as long term loans, these have been represented as short team loans because they are repayable on demand. This is a presentational change only.

The intergroup derivatives represent intergroup forward contracts which are fair valued through profit or loss.

The external derivatives represent the forward contracts with third parties outside of the Group which are fair valued through profit or loss.

The fair value of derivatives has been estimated by discounting cash flows at prevailing interest rates and by applying year end exchange rates.

9. Current Asset Investments

	2015 £000	2014 £000
Short term deposits	**194,476**	438,203

Short term deposits are at a floating rate.

10. Cash at bank and in hand

	2015 £000	2014 £000
Cash at bank	**45,722**	2,633

11. Creditors due within one year

	2015 £000	Represented 2014 £000
Bank loans and overdrafts	**1**	1
Derivative financial instruments - Intragroup	**28,047**	11,967
Commercial paper issued by the Company	**1,705,600**	1,920,928
Amounts owed to Group undertakings	**26,018,572**	27,893,772
Derivative financial instruments - External	**19,793**	27,142
Accruals and deferred income	**9,137**	13,055
	27,781,150	29,866,865

The amounts owed by Group undertakings are unsecured and are either interest free, interest bearing at a fixed rate, interest bearing at LIBOR minus or plus a margin of various rates or interest bearing at other floating based rates (2014 - interest free, interest bearing at a fixed rate, interest bearing at LIBOR minus or plus a margin of various rates or interest bearing at other floating based rates).

In the prior year £8,499,675k was presented as long term loans, these have been represented as short team loans because they are repayable on demand. This is a presentational change only.

Included in the amounts owed to Group undertakings are Eurobonds, quoted on the Channel Islands Stock Exchange, of £37,324k (2014 - £51,358k) issued to subsidiary undertakings that have an early redemption option attached to them. The fair value of each bond is similar to the carrying value and therefore they are disclosed at their carrying value. They are interest bearing at a rate of 3M LIBOR plus 0.3%.

The Commercial Papers are unsecured short term debt instruments, taken out against short term funding. As at 31 December 2015 the Company had Commercial Paper in issue amounting to US$2,522,110k (nominal values) at rates between 0.23% and 0.92% with maturities ranging from 11 January 2016 to 10 November 2016.

The intergroup derivatives represent intergroup forward contracts which are fair valued through the profit or loss.

The external derivatives represent the forward contracts with third parties outside of the Group which are fair valued through profit or loss.

The fair value of derivatives has been estimated by discounting cash flows at prevailing interest rates and by applying year end exchange rates.

12. Creditors due after more than one year

	2015 £000	Represented 2014 £000
Bonds	**671,583**	634,062
Amounts owed to Group undertakings	**449,711**	302,636
Derivative financial instruments - Intragroup	**33,115**	62
Derivative financial instruments - External	**117**	62
	1,154,526	936,822

The amounts owed to Group undertakings are unsecured, interest bearing at LIBOR minus or plus a margin of various rates (2014 - LIBOR minus or plus a margin).

In the prior year £8,499,675k was presented as long term loans, these have been represented as short team loans because they are repayable on demand. This is a presentational change only.

13. Financial Instruments

Financial Instruments by Category

At 31 December 2015

	Loans and receivables £000	Fair value through the P&L £000	Available for sale £000	Carrying value total £000	Fair value total £000
Assets as per the balance sheet					
Cash at bank and in hand	45,722	-	-	45,722	45,722
Current asset investments	194,476	-	-	194,476	194,476
External derivative financial instruments - short term	-	111,039	-	111,039	111,039
External derivative financial instruments - long term	-	78	-	78	78
Internal derivative financial instruments - short term	-	17,140	-	17,140	17,140
Internal derivative financial instruments - long term	-	117	-	117	117
Intercompany financing loans – Short Term (3)(4)	28,499,484	-	-	28,499,484	28,499,484
Intercompany financing loans – Long Term(3)(4)	1,090,555	-	-	1,090,555	1,172,159
Other debtors	80	-	-	80	80
Prepayments and accrued income	78	-	-	78	78
Intercompany trade receivables	70,186	-	-	70,186	70,186

At 31 December 2015

	Fair value through the P&L £000	Other financial liabilities at amortised cost £000	Carrying value total £000	Fair value total £000
Liabilities as per the balance sheet				
Borrowings (excluding bond) (1)	-	1,705,600	1,705,600	1,705,600
US$1bn bond (two tranches of US$500m at 2.125% and 3.625% respectively) (2)	-	671,583	671,583	682,556
External derivative financial instruments - short term	19,793	-	19,793	19,793
External derivative financial instruments - long term	117	-	117	117
Internal derivative financial instruments - short term	28,047	-	28,047	28,047
Internal derivative financial instruments - long term	33,115	-	33,115	33,115
Intercompany financing loans – Short Term (3)(4)	-	26,016,462	26,016,462	26,016,462
Intercompany financing loans – Long Term (3)(4)	-	449,711	449,711	449,711
Intercompany trade payables	-	2,110	2,110	2,110
Accruals and deferred income	-	9,137	9,137	9,137

At 31 December 2014

	Loans and receivables £000	Fair value through the P&L £000	Available for sale £000	Carrying value total £000	Fair value total £000
Assets as per the balance sheet					
Cash at bank and in hand	2,633	-	-	2,633	2,633
Current asset investments	438,203	-	-	438,203	438,203
External derivative financial instruments - short term	-	126,608	-	126,608	126,608
External derivative financial instruments - long term	-	62	-	62	62
Internal derivative financial instruments - short term	-	10,420	-	10,420	10,420
Internal derivative financial instruments - long term	-	5,593	-	5,593	5,593
Intercompany financing loans – Short Term (3)(4)	30,273,358	-	-	30,273,358	30,273,358
Intercompany financing loans – Long Term (3)(4)	768,071	-	-	768,071	853,565
Other debtors	166	-		166	166
Prepayments and accrued income	961	-		961	961
Intercompany trade receivables	31,509	-	-	31,509	31,509

At 31 December 2014

	Fair value through the P&L	Other financial liabilities at amortised cost £000	Carrying value total £000	Fair value total £000
Liabilities as per the balance sheet				
Borrowings (excluding bond) (1)	-	1,920,928	1,920,928	1,920,928
US$1bn bond (two tranches of US$500m at 2.125% and 3.625% respectively) (2)	-	634,062	634,062	659,594
External derivative financial instruments - short term	27,142	-	27,142	27,142
External derivative financial instruments - long term	62	-	62	62
Internal derivative financial instruments - short term	11,967	-	11,967	11,967
Internal derivative financial instruments - long term	62	-	62	62
Intercompany financing loans – Short Term (3)(4)	-	27,835,565	27,835,565	27,835,565
Intercompany financing loans – Long Term (3)(4)	-	302,636	302,636	302,636
Intercompany trade payables	-	58,207	58,207	58,207
Accruals and deferred income		13,055	13,055	13,055

(1) The categories in this disclosure are determined by IAS 39. External borrowings largely relate to Commercial Paper. As at 31 December 2015 the Company had Commercial Paper in issue amounting to US$ 2,522,110k (nominal value) at rates of between 0.23% and 0.92% with maturities ranging from 11 January 2016 to 10 November 2016.

(2) The fair value of bonds at 31 December 2015 is a liability of £682,556k (2014 - £659,594k). This value is derived using a quoted market rate in an active market (level 1 classification).

(3) Intercompany loans payable and receivable are unsecured and are either interest free, interest bearing at a fixed rate, interest bearing at LIBOR minus or plus a margin of various rates or interest bearing at other floating based rates (2014 - interest free, interest bearing at a fixed rate, interest bearing at LIBOR minus or plus a margin of various rates or interest bearing at other floating based rates).

(4) The fair value of short term loans is deemed to be in line with carrying amount due to their short term nature. The fair value of Long term loans have been adjusted to reflect prevailing fixed interest rates discounted back to present value.

All financial instruments, with the exception of the bond, are in level 2 of the 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. 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 2015 is a liability of £81,072k (2014 - £39,233k) and an asset of £128,374k (2014 - £142,683k). 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 2015 is £nil (2014 - £nil), no further level 3 disclosures have been made. There have been no movements of financial instruments between levels (2014 - £nil).

Offsetting Financial Assets and Financial Liabilities

The Company has forward foreign exchange contracts that are subject to enforceable master netting arrangements:

	Gross amounts of recognised financial assets £000	Gross amounts of recognised financial liabilities set off in the balance sheet £000	Net amounts of financial assets presented in the balance sheet £000	Financial instruments not set off in the balance sheet £000	Net amount £000
As at 31 December 2015					
Forward foreign exchange contracts - External	111,117	-	111,117	(19,910)	91,207
Forward foreign exchange contracts - Internal	17,257	-	17,257	-	17,257
	128,374	-	128,374	(19,910)	108,464

	Gross amounts of recognised financial assets £000	Gross amounts of recognised financial liabilities set off in the balance sheet £000	Net amounts of financial assets presented in the balance sheet £000	Financial instruments not set off in the balance sheet £000	Net amount £000
As at 31 December 2014					
Forward foreign exchange contracts - External	126,670	-	126,670	(22,936)	103,734
Forward foreign exchange contracts - Internal	16,013	-	16,013	-	16,013
	142,683	-	142,683	(22,936)	119,747

Financial Liabilities

As at 31 December 2015	Gross amounts of recognised financial liabilities £000	Gross amounts of recognised financial assets set off in the balance sheet £000	Net amounts of financial liabilities presented in the balance sheet £000	Financial instruments not set off in the balance sheet £000	Net amount £000
Forward foreign exchange contracts - External	(19,910)	-	(19,910)	19,910	-
Forward foreign exchange contracts - Internal	(61,162)	-	(61,162)	-	(61,162)
	(81,072)	-	(81,072)	19,910	(61,162)

As at 31 December 2014	Gross amounts of recognised financial liabilities £000	Gross amounts of recognised financial assets set off in the balance sheet £000	Net amounts of financial liabilities presented in the balance sheet £000	Financial instruments not set off in the balance sheet £000	Net amount £000
Forward foreign exchange contracts - External	(27,204)	-	(27,204)	22,936	(4,268)
Forward foreign exchange contracts - Internal	(12,029)	-	(12,029)	-	(12,029)
	(39,233)	-	(39,233)	22,936	(16,297)

External FX forward trades are subject to an enforceable right of offset in the advent of a default by either party. Internal trades are not subject to such an agreement.

Financial Risk Management

The Company's operations expose it to a variety of financial risks that include the effects of changes in foreign currency exchange rates (foreign exchange risk), interest rates, credit risks and liquidity. The Company 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 Company.

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

The Board of Directors review and agree policies, guidelines and authority levels for all areas of Treasury activity and individually approve 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 Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from recognised assets and liabilities.

The Company'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 Company aligns internal foreign currency exposures and where necessary uses external debt and forward FX instruments to mitigate the risk to its income statement. The company seeks to manage its foreign currency exposures to zero on a daily basis so movements in foreign exchange rates will have nil impact on its income statement (2014: Nil).

The notional principal amount of the outstanding external forward foreign exchange contracts at 31 December 2015 was £5,487,497k payable (2014 - £4,298,342k payable).

The notional principal amount of the outstanding internal forward foreign exchange contracts at 31 December 2015 was £2,252,323k payable (2014 - £1,881,588k payable).

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

The remaining major monetary financial instruments (liquid assets, receivables, interest and non-interest bearing liabilities) are directly denominated in the functional currency of The Company 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 £36,662k gain (2014 - £96,958k gain).

(b) Cash flow and fair value interest rate risk

The Company has both interest-bearing and non interest-bearing assets and liabilities. The Company monitors its interest income and expense rate exposure on a regular basis. The Company 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 Company 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 and assets 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 £11,298k (2014 - £5,841k) or decrease of £11,298k (2014 - £5,841k), respectively for the liabilities and assets covered.

2. Credit Risk

The Company has no significant concentrations of credit risk. Credit risk arises from cash at bank in hand, current asset investments, derivative financial instruments, deposits with banks and financial institutions. Financial institution counterparties are subject to approval under Group Treasury Counterparty Risk Policy and such approval is limited to financial institutions with a BBB rating or above. The Company uses BBB and higher rated counterparties to manage risk. 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 Company's major financial institution counterparties by credit rating (lower of S&P and Moody's) and balances (cash at bank in hand, current asset investments, derivative financial instruments, deposits) at the balance sheet date.

		2015 Exposure		2014 Exposure
	Credit rating	£000	Credit rating	£000
Counterparty				
Bank A	AAA	133,400	AAA	199,211
Bank B	A	82,073	A+	101,926
Bank C	A+	60,933	A+	15,221
Bank D	AA-	56,349	AA-	45,794
Bank E	A-	55,245	A-	22,246

The above table does not include exposures to intercompany balances, the Company is in a net asset position to intercompany and there is no history of intercompany default on balances owing to the Company. The maximum asset exposure to intercompany credit risk is £29,677,482k (2014: £31,088,951k).

3. Liquidity Risk

Cash flow forecasting is performed by other business units in the RB Group and on an aggregated basis by GT. GT monitors rolling forecasts of the Company'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 Company 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 Company has various borrowing facilities available to it. The Company 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 Company's future operations.

At the end of 2015, The Company had, in addition to its long-term debt of £671,583k (2014 - £634,062k), committed borrowing facilities totaling £3,500,000k (2014 - £3,500,000k), of which £3,500,000k exceeded 12 months' maturity (2014 - £3,500,000k). Of the total facilities at the year end, £nil (2014 - £nil) was utilised. The committed borrowing facilities, together with available uncommitted facilities and central cash and investments, are considered sufficient to meet the Company'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:

	2015 £000	2014 £000
Undrawn committed borrowing facilities:		
Expiring within one year	**-**	-
Expiring between one and two years	**-**	-
Expiring after more than two years	**3,500,000**	3,500,000
	3,500,000	3,500,000

All committed 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.

The table below analyses the Company'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 £000	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 31 December 2015					
Commercial paper	(1,711,530)	(1,711,530)	-	-	-
Bonds	(798,639)	(19,510)	(19,510)	(383,415)	(376,204)
Intercompany trade payables	(2,110)	(2,110)	-	-	-
Accruals and deferred income	(9,137)	(9,137)	-	-	-
Intercompany financing loans	(26,615,919)	(26,106,459)	(55,305)	(84,677)	(369,478)

	Total £000	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
At 31 December 2014					
Commercial paper	(1,926,398)	(1,926,398)	-	-	-
Bonds	(773,978)	(18,457)	(18,457)	(369,535)	(367,529)
Intercompany trade payables	(58,207)	(58,207)	-	-	-
Accruals and deferred income	(13,055)	(13,055)	-	-	-
Intercompany financing loans	(28,222,675)	(27,900,299)	(1,554)	(141,825)	(178,997)

The table below analyses the Company'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.

At 31 December 2015

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Forward exchange contracts - External				
Outflow	(5,479,389)	(8,108)	-	-
Inflow	5,566,916	8,003	-	-
Forward exchange contracts - Internal				
Outflow	(1,676,525)	(8,003)	(567,795)	-
Inflow	1,670,957	8,108	612,595	-

At 31 December 2014

	Less than 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Forward exchange contracts - External				
Outflow	(4,289,110)	(9,232)	-	-
Inflow	4,382,170	9,330	-	-
Forward exchange contracts - Internal				
Outflow	(1,304,463)	(9,330)	-	(567,795)
Inflow	1,305,232	9,232	-	579,521

4. Capital Management

The Company considers capital to be net debt plus total equity. Net debt is calculated as total borrowings (excluding intercompany liabilities) less cash at bank in hand, current asset investments and derivative financial instruments. Total equity includes share capital, reserves and retained earnings as shown in the Company Balance Sheet.

	2015 £000	2014 £000
Net debt	**2,052,201**	2,026,616
Total equity	**4,706,072**	4,464,134
	6,758,273	6,490,750

The objectives for managing capital are to safeguard the Company'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.

The Company monitors net debt and at year end the Company had net debt of £2,052,201k (2014 - £2,026,616k). The Company seeks to pay down net debt using cash generated by the business to maintain an appropriate level of financial flexibility.

14. Share Capital

	2015 £000	2014 £000
Issued and fully paid		
2,000,000 (2014 - 2,000,000) Ordinary shares of £1 each	**2,000**	2,000

15. Directors

During the year up until 31 December 2015 the Company had 4 Directors resident in the UK, none of whom received any emoluments in respect of services to the Company (2014 - 2 Directors, no emoluments).

16. Ultimate Parent Undertaking and Controlling Party

The immediate parent company is Reckitt Benckiser plc which is registered in the United Kingdom.

The ultimate parent company and controlling party is Reckitt Benckiser Group plc, a company incorporated in the United Kingdom, which is the parent undertaking of the smallest and largest Group to consolidate these Financial Statements. Copies of the Group Financial Statements of Reckitt Benckiser Group plc can be obtained from 103-105 Bath Road, Slough, Berkshire, SL1 3UH or at http://www.rb.com.

17. Auditors' Remuneration

The Auditors' remuneration is met by the ultimate parent company, Reckitt Benckiser Group plc and is disclosed in total in the Group Financial Statements. No recharge is made to its subsidiaries as it is not practical to make an allocation of the audit fee to each subsidiary entity individually.

18. First Time Adoption of FRS 101

This is the first year that the Company has presented its results under FRS 101. The last Financial Statements under UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 101 was 1 January 2014. The policies applied under the Company's previous accounting framework are not materially different to FRS 101 and have not impacted on equity or profit or loss.

REGISTERED OFFICE OF THE ISSUER AND THE GUARANTOR

103-105 Bath Road
Slough
Berkshire SL1 3UH
United Kingdom

LEGAL ADVISORS

to the Issuer and the Guarantor as to matters of U.S. and English law

Linklaters LLP
One Silk Street
London EC2Y 8HQ
United Kingdom

to the Initial Purchasers as to matters of U.S. and English law

Shearman & Sterling (London) LLP
9 Appold Street
London EC2A 2AP
United Kingdom

to the Trustee as to matters of U.S. law

Moses & Singer LLP
The Chrysler Building
405 Lexington Avenue
New York, NY 10174
United States

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH
United Kingdom

TRUSTEE, PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

Deutsche Bank Trust Company Americas
Trust & Agency Services
60 Wall Street, 16th Floor
New York, NY 10005
United States