CONTINUED STRONG FINANCIAL PERFORMANCE

Jeff Carr
Chief Financial Officer

We delivered another strong performance in 2021.

Group net revenue of £13,234 million grew by 3.5% on a LFL basis in 2021, reflecting volume growth of 0.6% and price/mix improvements of 2.9%. Performance was driven by strong growth in Hygiene, particularly in North America. Lysol saw good growth off the back of an outstanding 2020, as core consumption remained strong, and we gained further penetration in the laundry sanitiser segment. Total net revenue at actual exchange rates was down 5.4%, reflecting net M&A impact of -3.8% and foreign exchange headwinds of 5.1%.

The two-year stacked LFL net revenue growth for 2021 vs 2019 (the summation of the year-on-year growth rates for 2021 and 2020) for the group was 17.4%. This was driven by two-year stacked LFL net revenue growth of 27% in Hygiene, and 12% and 6% in Health and Nutrition, respectively.

Our in-market competitiveness remains strong. 62% of our Core Category Market Units (CMUs), excluding IFCN China, held or gained share. In Hygiene it was 57% and in Health and Nutrition it was 61% and 72%, respectively (weighted by net revenue).

During the year, COVID continued to impact net revenue. Around 70% of our portfolio, representing brands less sensitive to COVID dynamics, grew mid-single-digits. The remaining 30% of our portfolio which includes Lysol, Dettol and our cold and flu brands (Mucinex, Strepsils and Lemsip) have been more volatile reflecting fluctuations in COVID related demand.

E-commerce net revenue[1], excluding IFCN China, grew by 17% in 2021 and now accounts for 12% of group net revenue. The two-year stacked growth is over 85%.

Our Global Business Solutions (GBS) has further developed its channel and geographic footprint through partnerships with operators such as Diversey. We have taken market share within the sectors in which we participate, although overall performance in 2021 was impacted by a slower return to travel and workplaces than originally anticipated.[1]

Adjusted gross margin (excluding IFCN China) was 58.5%, (2020: 60.5%) a reduction of 200bps. The reduction in gross margin was principally driven by c.11% cost inflation, partially mitigated by productivity initiatives (+250bps) and pricing and mix (+80bps).

Adjusted operating profit (excluding IFCN China) was £2,944 million (2020: £3,216 million) at an adjusted operating margin of 22.9% (2020: 24.5%) in line with our guidance of 22.7-23.2%. The reduction of -160bps was principally driven by gross margin (-200bps) partially offset by productivity efficiencies in BEI spend (60bps).

Adjusted operating margin (including IFCN China) was 21.7% (2020: 23.6%). As previously communicated, IFCN China experienced challenging trading throughout the nine months of ownership in 2021, as well as c.£40 million of exit costs incurred just prior to the transfer of the business which diluted adjusted operating margin in 2021.

The IFRS operating loss was £804 million (2020: £2,160 million profit). The IFRS operating loss in 2021 included a pre-tax loss of £3,353 million in relation to the strategic review and disposal of IFCN China and pre-tax losses of £234 million from the sale of Scholl and EnfaBebé brand in Argentina.

Total adjusted diluted EPS was 288.5p in 2021 (IFRS: -4.5p loss per share), 11.8% lower than 2020 due to the lower adjusted operating profit and the adverse impact of foreign exchange.

The 2021 proposed dividend of 174.6p remains in line with 2020 consistent with our approach of sustaining 2019 levels to rebuild dividend cover to two times. Thereafter, we will grow the dividend progressively in line with adjusted net income.

Free cash flow was £1,258 million in 2021 (2020: £3,052 million). As expected, this was lower than the prior year due to the partial unwind of significant working capital favourability experienced in 2020. Capital investment to support our growth and margin ambitions was £441 million, 3.3% of Group net revenue.

Net debt ended the year 2.6x adjusted EBITDA (2020: 2.4x adjusted EBITDA).

1. Adjusted and other non-GAAP measures, definitions and terms are defined on page 81

3.5%

LFL net revenue growth[1]

22.9%

adjusted operating margin excl. IFCN China[1]
2020: 24.5%

-5.4%

IFRS net revenue growth
2021: £13,234m (2020: £13,993m)

-6.1%

IFRS operating margin
2020: 15.4%

HYGIENE

Net Revenue 2021	£m	Volume	Price/Mix	LFL	FX	GAAP
FY 2021	5,911	5.1%	2.4%	7.5%	-5.9%	1.6%

Operating Profit	£m	Constant FX (CER)	GAAP
Adjusted Operating Profit	1,401	-1.3%	-6.9%
Adjusted Operating Profit Margin %	23.7%		-220bps

2021 PERFORMANCE

Hygiene net revenue grew 7.5% on a LFL basis to £5,911 million for the full-year. Volume grew by 5.1% and price/mix improved by 2.4%. Price increases taken in the latter half of 2021 were offset by a return to more normalised promotion levels, especially in North America. On a two-year stacked LFL basis, net revenue is up 27%.

Growth was broad-based across our core categories and regions, with over 57% of Core Hygiene CMUs (weighted by net revenue) growing or holding share. E-commerce net revenue grew by 28% and we continue to have better market share positions online, driven by our improved capabilities in go-to-market and digital demand creation.

Lysol continued the positive momentum, with net revenues up high-single-digits on a LFL basis in 2021 following well over 70% growth in 2020. Growth was driven by increased consumption due to the pandemic as well as strong growth in new spaces (e.g. Laundry Sanitisers) and new places. Lysol has continued to gain market share and significantly contributed to category growth, especially in Laundry Sanitisers, where we see significant further penetration growth potential. Overall, Lysol revenue was c.90% higher than 2019.

Finish continued its growth momentum with net revenue growing by mid-single-digits in 2021. Revenue growth was particularly strong in Europe and Developing Markets driven by our focus on category building, and penetration growth with superior solutions in our premium Finish Quantum product. E-commerce significantly contributed to the brand's success.

Air Wick net revenue grew double-digits. This was led by the US driven by strong market growth and market share gains. Air Wick's scented oils natural range together with the launch of purpose inspired marketing campaigns in partnership with the World Wildlife Fund significantly accelerated Air Wick's growth momentum.

Vanish net revenue grew double-digits driven by reduced confinements of consumers versus the prior year and the success of our purpose led marketing campaign. Harpic grew mid-single-digits as a result of continued penetration activities in key markets. Our Pest business delivered low-single-digits growth.

Adjusted operating profit for Hygiene at £1,401 million was down 1.3% on a constant foreign exchange basis and 6.9% on an actual basis. Our industry leading adjusted operating margin was 23.7%. Higher raw material and transportation costs were partially mitigated by record productivity savings, pricing and volume leverage leading to a -220bps decline in adjusted operating margin versus the prior year.

HEALTH

Net Revenue 2021	£m	Volume	Price/Mix	LFL	Net M&A	FX	GAAP
FY 2021	4,646	-2.1%	2.0%	-0.1%	-0.4%	-4.5%	-5.0%

Operating Profit	£m	Constant FX (CER)	GAAP
Adjusted Operating Profit	1,187	-5.5%	-11.0%
Adjusted Operating Profit Margin %	25.5%		-180bps

2021 PERFORMANCE

Health net revenue of £4,646 million was broadly flat in 2021 versus 2020 on a LFL basis. Volume declined 2.1%, reflecting primarily the reduction in Dettol volumes. Price/mix improved by 2.0%.

On a two-year stacked LFL basis, net revenue is up 12%, reflecting the higher consumption rates for some of our brands, the broadening of our brands to new places and spaces, and the actions we have taken on portfolio management to create a faster growth business.

The disposal of Scholl and acquisition of Biofreeze, combined, contributed 40bps decline to reported Health net revenue growth for the full-year.

In 2021 Health delivered strong market share gains, with 61% of Core Health CMUs (weighted by net revenue) growing or holding share.

Dettol net revenue declined low double-digits in the year following exceptional growth in 2020. The brand has continued to stabilise with net revenue up over 40% compared to 2019, for both the year as a whole and in the fourth quarter. We delivered a number of successful product launches during the year, including 'Dettol Tru Clean' – our first plant-based disinfectant, quickly establishing itself as one of the larger eco brands in the UK. We have a strong pipeline of innovations launching in 2022 and are targeting Dettol to continue its strong, sustainable growth trajectory.

Intimate Wellness delivered strong mid-teens growth in both 2021 and on a two-year stack, led by our flagship brands of Durex and KY. Growth is underpinned by a renewed focus on execution fundamentals, innovation, investment behind omnichannel growth across e-commerce and new 'impulse access models'. In particular, we have seen strong growth in China from our recent and successful polyurethane Durex condom launch. KY has driven renewed momentum from its digital-first, culturally connected advertising and media strategy, which has sparked new points of trial and captured incremental households in the US during the year. Growth in a number of our developing markets has also been strong, with increased distribution and improved display execution, to win in impulse points. As a result, Durex has now become the number 2 condom brand in India. We see significant growth opportunities within our Intimate Wellness business as we pivot from a brand focus to a category centric portfolio of global lifestyle brands.

OTC net revenue grew by low-single-digits in 2021 but declined by low-single-digits on a two-year stack basis, driven predominantly by very low incidences of cold & flu in 2020 and the spring of 2021. Within OTC our less seasonally impacted brand of Gaviscon delivered strong growth in both 2020 and 2021 driven by market share gains, and increased distribution into new places such as India and parts of Latin America. Our cold and flu relief brands, including Mucinex, Strepsils and Lemsip, were adversely impacted by extremely low incidences of cold and flu, and resultant high levels of retailer stock in the first half of the year, offset by strong start to the season in the second half. Importantly we have made good progress in our growth drivers during 2021; we entered into an adjacent category (new space) with the successful launch of Mucinex InstaSoothe, sore throat relief, in the second half of the year. We also launched into new places with the rollout of Nuromol – a unique and exclusive formulation of Ibuprofen and Paracetamol – into Brazil – a top 5 market globally for analgesics. And we made a strategically important entry into the world's large analgesic market with the acquisition of Biofreeze in the US. Biofreeze a fast growing, efficacious, topical analgesic brand, will benefit from Reckitt's strong distribution platform in the US, and its global category expertise and innovation capability. Since the acquisition Biofreeze has delivered double-digit LFL growth.

Our personal care portfolio, following the sale of Scholl in H1 2021, has grown mid-single-digits led by our Veet brand. Growth was driven by our focus on new channels with high-single-digit growth in our e-commerce platforms, the expansion of Veet for Men, and our entry into new spaces such as Veet Minima/Pure.

Adjusted operating profit for Health at £1,187 million was down 5.5% on a constant foreign exchange basis. Adjusted operating margin was 25.5%, a reduction of 180bps year-on-year. The decline is due to the impact of a weak cold and flu season, further investment behind capabilities and a deteriorating input cost environment. This was partially mitigated by our productivity programme and some pricing taken in the second half of 2021.

NUTRITION

Net Revenue 2021	£m	Volume	Price/Mix	LFL	Net M&A	FX	GAAP
FY 2021	2,677	-4.9%	5.5%	0.6%	-14.4%	-4.8%	-18.6%
FY 2021 (ex IFCN China)	2,294	-4.9%	5.5%	0.6%	0.2%	-6.2%	-5.4%

Operating Profit	£m	Constant FX (CER)	GAAP
Adjusted Operating Profit	289	-31.2%	-37.4%
Adjusted Operating Profit Margin %	10.8%		-330bps
Adjusted Operating Profit (ex IFCN China)	356	2.4%	-5.6%
Adjusted Operating Profit Margin % (ex IFCN China)	15.5%		Unchanged

2021 PERFORMANCE

Nutrition net revenue grew by 0.6% on a LFL basis in the full-year at £2,677 million, and grew 6% on a two-year stack. Within this, our IFCN business grew consistently over the past two years at low-single digit growth, with our VMS business delivering very strong growth in 2020, offset by a weaker 2021 as it lapped the very strong comparatives. For 2021 volume declined 4.9% and we delivered price/mix improvements of 5.5% as pricing was taken in a number of markets. Actual net revenue declined 18.6% primarily as a result of the performance and disposal of IFCN China which completed in September.

Market share performance was strong, with 72% of our Core Nutrition CMUs (weighted by net revenue) holding or gaining market share for the year, excluding IFCN China.

IFCN net revenue grew 3% on a LFL basis. The US business, which represents around half of IFCN net revenue, grew mid-single-digits. Growth in our speciality brands was strong, we gained share in the important non-WIC portion of the market, and further expanded our adult nutrition offering with the launch of Provital in ASEAN and Sustagen in the developing markets. Latin America grew low single-digits, whilst ASEAN was down slightly, with better momentum in the second half of the year in part driven by improvements in competitiveness in key ASEAN markets.

Net revenue in our Vitamins, Minerals and Supplements business declined high-single-digits. This was primarily the result of a reduction in demand for Airborne following exceptional growth in 2020, plus increased competitive challenges. Despite these challenges, net revenue in 2021 significantly exceeded 2019 levels. Move Free grew strongly in both the US and China, and Neuriva, has become the leader in the US for household penetration in the brain category, with net revenue doubling in 2021.

Adjusted operating profit for Nutrition at £289 million was 31.2% lower on a constant foreign exchange basis and 37.4% lower on an actual basis. Adjusted operating margin was 10.8%, down 330bps year-on-year reflecting principally the negative leverage related to the significant decline in IFCN China net revenue. Excluding IFCN China, adjusted operating profit for Nutrition was £356 million (15.5% margin).

IFCN China

The disposal of IFCN China completed on 9 September 2021. The business contributed net revenue of £383 million and an adjusted operating loss of £67 million in 2021 to the date of sale, with a challenging and competitive trading environment throughout the year, and c.£40 million of exit costs incurred immediately prior to the transfer of the business.

ADDITIONAL FINANCIAL COMMENTARY

The following section should be read in conjunction with the FY 2021 Review from page 74 and the Adjusted Performance Measures section from page 81.

GROUP OPERATING PROFIT

Adjusted operating profit was £2,877 million (2020: £3,301 million) at an adjusted operating margin of 21.7%, 190bps lower than the prior year (2020: 23.6%). Adjusted operating margin excluding IFCN China was 22.9% (2020: 24.5%), 160bps lower than prior year. Adjusted operating profit in 2021 included the favourable effect of adjustments to trade spend and operational expenditure accruals, certain of which were subject to significant estimation uncertainty as a result of the COVID-19 pandemic when originally recorded in 2020.

IFRS operating loss was £804 million (2020: £2,160 million profit) at an IFRS operating margin of minus 6.1% (2020: 15.4%). The IFRS operating loss in 2021 was principally driven by the loss of £3,353 million in relation to the IFCN China strategic review. The IFRS operating profit in 2020 included impairment charges of £985 million in relation to IFCN goodwill.

NET FINANCE EXPENSE

Adjusted net finance expense was £220 million (2020: £260 million). The decrease in 2021 is due to lower average net debt, a credit on revaluation of a put option liability and a favourable comparison with prior year adjusted net finance expense which included the interest element of a sales tax provision.

IFRS net finance income of £547 million (2020: £286 million net finance expense) was principally driven by a £766 million net foreign exchange gain resulting from the liquidation of a number of subsidiaries to simplify the Group's legal entity structure.

TAX

The adjusted effective tax rate was 22.0% (2020: 22.7%). The rate in 2021 benefited from favourable updates to estimates in relation to certain historical matters.

The IFRS tax rate was -80.0% (2020: 38.4%). The IFRS tax rate in 2021 was impacted by the effect of non-taxable net foreign exchange gains on the liquidation of subsidiaries, the deferred tax effect of disposals in the period and the impact of the UK tax rate change on deferred tax on intangible assets.

DISCONTINUED OPERATIONS

Income from discontinued operations of £31 million (2020: £50 million) relates to the Group's RB Pharmaceuticals (now Indivior) business demerged in 2014. The amount in 2021 principally relates to income from an agreement with Indivior plc to settle indemnity claims relating to the Group's settlement with the DoJ in 2019, and related matters.

EARNINGS PER SHARE (EPS)

Total adjusted diluted EPS was 288.5p (2020: 327.0p). The decrease in 2021 was principally due to lower adjusted operating profit and the adverse impact of foreign exchange.

IFRS total diluted EPS was a loss per share of 4.5p (2020: earnings per share of 166.3p), principally due to the net loss in relation to the strategic review of IFCN China.

BALANCE SHEET

At 31 December 2021, the Group had total equity of £7,453 million (31 December 2020: £9,159 million).

Current assets of £4,862 million (31 December 2020: £5,314 million) decreased by £452 million, principally as the result of lower cash and cash equivalents and lower inventories.

Current liabilities of £8,088 million (31 December 2020: £6,938 million) increased by £1,150 million. The increase is principally due to the re-classification from non-current to current liabilities of $3.2 billion (£2,401 million) of bonds which mature in June 2022, offset by lower trade and other payables and the repayment of commercial paper in 2021.

Non-current assets of £21,941 million (31 December 2020: £25,978 million) are primarily comprised of goodwill and other intangible assets of £18,868 million (31 December 2020: £22,979 million) and property, plant and equipment. The decrease of £4,037 million is predominantly due to the disposal of goodwill and other intangible assets relating to IFCN China and Scholl, partially offset by the recognition of goodwill and other intangible assets on the acquisition of Biofreeze.

Non-current liabilities of £11,405 million (31 December 2020: £15,195 million) decreased by £3,790 million. This decrease is principally due to the re-classification from non-current to current liabilities of $3.2 billion (£2,401 million) of bonds which mature in June 2022, the early repayment of term loans and the reduction in deferred tax liabilities as a result of the disposal of IFCN China.

NET WORKING CAPITAL

Negative net working capital was reduced by £347 million to negative £1,882 million (2020: negative £2,229 million), or a reduction of £194 million excluding IFCN China which was disposed in 2021. Negative NWC as a percentage of net revenue was 14% (2020: 16%).

The reduction in negative NWC excluding IFCN China was the result of higher inventory and receivables, and as expected lower payables following the partial reversal of the favourable impact on NWC in 2020.

CASH FLOW

Free cash flow

£m	31 Dec 2021	31 Dec 2020
Adjusted Operating Profit	**2,877**	3,301
Depreciation and share-based payments	**401**	407
Capital expenditure	**(441)**	(476)
Movement in working capital and provisions	**(356)**	895
Exceptional cash flow	**(86)**	(46)
Interest paid	**(222)**	(267)
Tax paid	**(915)**	(762)
Free cash flow	**1,258**	3,052
Free cash flow conversion	**61%**	131%

Free cash flow (FCF) is the amount of cash generated from continuing operating activities after net capital expenditure on property, plant and equipment and intangible software assets. Free cash flow reflects cash flows that could be used for payment of dividends, repayment of debt or to fund acquisitions or other strategic objectives.

Free cash flow as a percentage of continuing adjusted net income was 61% (2020: 131%). The lower free cash conversion in 2021 was expected, principally resulting from the partial unwind of significant working capital favourability experienced in the prior year. Free cash flow in 2021 includes £203 million of transaction costs and cash tax relating to the disposal of IFCN China. Excluding cash outflows relating to the disposal of IFCN China, free cash flow conversion was 71% in 2021.

Net cash from operating activities was £1,697 million (2020: £3,518 million), down £1,821 million.

Net debt

£m	31 Dec 2021	31 Dec 2020
Opening net debt	**(8,954)**	(10,749)
Free cash flow	**1,258**	3,052
Shares reissued	**80**	131
Acquisitions, disposals and purchase of investments	**694**	(36)
Dividends paid	**(1,263)**	(1,257)
New lease liabilities in the year	**(109)**	(86)
Exchange and other movements	**(82)**	1
Cash flow attributable to discontinued operations	**(2)**	(10)
Closing net debt	**(8,378)**	(8,954)

Net debt at 31 December 2021 was £8,378 million (31 December 2020: £8,954 million), a decrease of £576 million, as free cash flow and net proceeds from M&A more than offset the dividend payments in 2021.

The Group regularly reviews its banking arrangements and currently has adequate facilities available to it. The Group has committed facilities totalling £4,500 million (31 December 2020: £5,500 million), which expire after more than two years, which are undrawn and available to draw. The Group remains compliant with its banking covenants. The committed borrowing facilities, together with cash and cash equivalents, are considered sufficient to meet the Group's projected cash requirements.

DIVIDENDS

The Board of Directors recommends a final 2021 dividend of 101.6 pence (2020: 101.6 pence), consistent with its policy and guidance from February 2020. The ex-dividend date will be 28 April 2022 and the dividend will be paid on 9 June 2022 to shareholders on the register at the record date of 29 April 2022. The last date for election for the share alternative to the dividend is 17 May 2022. The final 2021 dividend will be accrued once approved by shareholders.

RETURN ON CAPITAL EMPLOYED (ROCE)

ROCE in 2021 was 10.1%, in line with the prior year (2020: 10.1%), as lower adjusted operating profit was offset by lower average capital employed. The lower capital employed principally resulted from the disposal of IFCN China, which has been removed from capital employed from the date of disposal in September 2021.

CAPITAL RETURNS POLICY

Reckitt has consistently communicated its intention to use its strong cash flow for the benefit of shareholders. Our priority remains to reinvest our financial resources back into the business, including through value-adding acquisitions, in order to deliver sustainable growth in net revenue and improving earnings per share over time.

In managing the balance sheet, we intend to maintain key financial ratios in line with those expected of an A-grade credit-rated business. This will broadly define acceptable levels of leverage over time.

Repatriating cash to shareholders through a growing dividend remains a long-term goal of the business. As a result of the investments being made during 2021, which will benefit long-term sustainable growth, our pay-out for 2021 is in excess of our policy of paying an ordinary dividend equivalent to c.50% of total adjusted net income.

As set out in February 2020, we will maintain the dividend pay-out per share at 2019 levels until we rebuild dividend cover to target levels, at which time we will be able to resume growth in dividends in line with the growth in adjusted net income.

We will return surplus cash to shareholders as appropriate.

ALTERNATIVE PERFORMANCE MEASURES

The financial information included in this preliminary announcement is prepared in accordance with International Financial Reporting Standards (IFRS) as well as information presented on an adjusted (non-IFRS) basis.

Financial information presented on an adjusted basis excludes certain cash and non-cash items. These items have a pattern of recognition that is largely uncorrelated with the trading performance of the business. Management reviews the business on this basis for the purpose of making operating decisions and showing these adjusted measures in addition to the IFRS measures provides useful additional information on trading performance to the users of the financial statements. These adjusted measures should not be considered in isolation from, substitutes for, or superior to the financial measures prepared in accordance with IFRS.

The following items (adjusting items) are excluded from IFRS earnings in calculating adjusted earnings.

- **Impact of business combinations** where IFRS accounting results in the recognition of certain costs that are not comparable with those for internally generated assets, (although the net revenues and other costs of these business combinations are not adjusted for):
  - Amortisation of (a) acquired brands, trademarks and similar assets and (b) certain other intangible assets recorded as the result of a business combination; Inventory fair value adjustments;
  - Professional and advisor costs recorded as the result of a business combination; and
  - Changes to deferred tax liabilities relating to (a) acquired brands, trademarks and similar assets and (b) certain other intangible assets recorded as the result of a business combination as the amortisation or profit on disposal of these brands would be treated as an adjusting item.
- **Profits or losses relating to the sale of brands and related intangible assets** as the continued active management of our portfolio results in the recognition of profits or losses relating to disposals of brands and related intangible assets which are largely uncorrelated with the trading performance of the business.
- **Re-cycled foreign exchange translation reserves** upon the sale, liquidation, repayment of share capital or abandonment of a subsidiary previously controlled by the Group, as the gain or loss relates to mainly exchange movements in previous periods rather than the current period.
- **The reclassification of finance expenses on tax balances into income tax expense,** to align with the Group's tax guidance. As a result, these expenses are presented as part of income tax expense on an adjusted basis.
- **Other individually material items of expense or income.** Some of these items are resolved over a period of time such that the impact may affect more than one reporting period.

In the prior year, for presentational purposes adjusting items were split into exceptional items, other adjusting items and the reclassification of finance expenses on tax balances. The change to presentation of these items in the current year is to provide a clearer view of the nature of the Group's adjusting items. There has been no change in individual items classified as adjusting items.

ADJUSTED MEASURES

- **Adjusted Operating Profit and Adjusted Operating Profit margin:** Adjusted operating profit reflects the IFRS operating (loss)/profit excluding items in line with the Group's adjusted items policy. See page 84 for details on the adjusting items and a reconciliation between IFRS operating (loss)/profit and adjusted operating profit. The adjusted operating profit margin is the adjusted operating profit expressed as a percentage of net revenue.
- **Adjusted tax rate:** The adjusted tax rate is defined as the Adjusted continuing income tax expense as a percentage of Adjusted profit before tax.
- **Adjusted diluted EPS:** Adjusted diluted EPS is the IFRS diluted EPS excluding items in line with the Group's adjusting policy. See page 84 for details on the adjusting items and a reconciliation between IFRS net (loss)/income and adjusted net income. The weighted average number of shares for the period is the same for both IFRS EPS and adjusted EPS.
- **Adjusted EBITDA (earnings before interest depreciation and amortisation):** Adjusted operating profit less depreciation and amortisation (excluding adjusting items).

OTHER NON-GAAP MEASURES

- **Like-for-like (LFL):** Net revenue growth or decline at constant exchange rates (see below) excluding the impact of acquisitions, disposals and discontinued operations. Completed disposals are excluded from LFL revenue growth for the entirety of the current and prior years. Acquisitions are included in LFL revenue growth twelve months after the completion of the relevant acquisition. LFL growth also excludes countries with annual inflation greater than 100% (Venezuela).
- **Constant exchange rate (CER):** Net revenue and profit growth or decline adjusting the actual consolidated results such that the foreign currency conversion uses the same exchange rates as were applied in the prior period.
- **Brand Equity Investment (BEI):** BEI is the marketing support designed to capture the voice, mind and heart of our consumers.
- **Net working capital (NWC):** NWC is the total of inventory, trade and other receivables and trade and other payables. NWC is calculated as a % of last twelve months net revenue to compare changes in NWC to the growth of the business.
- **Net Debt:** The Group's principal measure of net borrowings being a total of cash and cash equivalents, short-term and long-term borrowings, lease liabilities and derivative financial instruments on debt.
- **Free Cash Flow and Free Cash Flow Conversion:** The Group's principal measure of cash flow defined as net cash generated from continuing operating activities less net capital expenditure. A reconciliation of cash generated from operations to Free Cash Flow is shown on page 83. The Group tracks Free Cash Flow as a % of adjusted net income to understand the conversion of adjusted profit into cash.

OTHER DEFINITIONS AND TERMS

- **Stacked Net Revenue Growth:** The summation of the like-for-like net revenue growth for the relevant period in 2021 and 2020 (excluding IFCN China), to provide visibility of growth versus periods prior to the start of the COVID-19 pandemic.
- **Category Market Unit (CMU):** Reckitt analyses its market share by CMUs, which represent country and either brand or category, e.g. US Lysol. This allows us to analyse the components of market share growth taking into account both geography and brand/category. Management has identified those Core CMUs that are the most strategically important. The list of Core CMUs is kept under continual review and will change over time based on strategic decisions. Currently, Core CMUs cover c.70% of Group net revenue and between c.65% to c.80% of each GBU's net revenue. As a measure of competitiveness, management tracks the percentage of Core CMUs holding or gaining market share, weighted by net revenue.
- **E-commerce:** E-commerce channel net revenue is direct sales from Reckitt to online platforms or directly to consumers. Estimates of total e-commerce sales as a percentage of Group net revenues are calculated by adding e-commerce channel net revenue to an estimate of e-commerce sales achieved by our brands through omnichannel distributors and retailer websites.
- **Discontinued operations:** Includes credits or charges related to the previously demerged RB Pharmaceuticals business that became Indivior plc. Net income from discontinued operations is presented as a single line item in the Group Income Statement.
- **Return on capital employed (ROCE):** Is defined as adjusted operating profit after tax divided by monthly average capital employed. Capital employed comprises total assets less current liabilities other than borrowings-related liabilities. Total assets exclude cash, retirement benefit surplus, current tax and a technical gross-up to goodwill that arises because of deferred tax liabilities recorded against identified assets acquired in business combinations. Total assets has been adjusted to add back impairments of Goodwill except where the impaired asset has been disposed or partially disposed. Current liabilities exclude legal provisions recorded as a result of exceptional items and current tax.
- **Net revenue attributable to 'more sustainable' products:** A product is defined as 'more sustainable' when it scores 'better' on one of the five parameters (carbon, water, plastics, packaging and ingredients) at time of launch using our Sustainable Innovation Calculator (a streamlined Lifecycle Assessment tool that models the environmental impacts of products). The net revenue from 'more sustainable' products is expressed as a percentage of total net revenue. The calculation is done on the basis of a 12 month period ending September (to allow assembling the related data). This percentage does not apply to infant formula.

RECONCILIATION OF IFRS TO LIKE-FOR-LIKE NET REVENUE BY GBU

Net Revenue 31 December 2021	Hygiene £m	Health £m	Nutrition £m	Group £m
2020 IFRS	**5,816**	**4,890**	**3,287**	**13,993**
Disposals	–	(176)	(885)	(1,061)
2020 Like-for-like	**5,816**	**4,714**	**2,402**	**12,932**
2021 IFRS	**5,911**	**4,646**	**2,677**	**13,234**
M&A	–	(142)	(403)	(545)
Exchange	340	207	143	690
2021 Like-for-like	**6,251**	**4,711**	**2,417**	**13,379**
Like-for-like growth	**7.5%**	**(0.1)%**	**0.6%**	**3.5%**
2020 Like-for-like[1]	**19.5%**	**12.1%**	**0.0%**	**11.8%**
Impact of IFCN China	–	–	5.4%	2.1%
2020 Like-for-like excl. IFCN China[1]	**19.5%**	**12.1%**	**5.4%**	**13.9%**
2021 2 year stack	**27.0%**	**12.0%**	**6.0%**	**17.4%**

1 See page 87 for reconciliation to IFRS

RECONCILIATION OF ADJUSTED EBITDA TO NET DEBT

Adjusted EBITDA/Net debt	31 Dec 2021 £m	31 Dec 2020 £m
Operating (loss)/profit	**(804)**	2,160
Less: Adjusting items	**3,681**	1,141
Adjusted Operating Profit	**2,877**	3,301
Less: Adjusted Depreciation and Amortisation	**362**	392
Adjusted EBITDA	**3,239**	3,693

Net Debt	31 Dec 2021 £m	31 Dec 2020 £m
Cash and cash equivalents including overdrafts	**1,259**	1,644
Financing liabilities	**(9,637)**	(10,598)
Net Debt	**(8,378)**	(8,954)
Adjusted EBITDA/Net Debt	**2.6x**	2.4x

DIVIDEND COVER

	31 Dec 2021 £m	31 Dec 2020 £m
Interim dividend paid in year	**521**	520
Final dividend proposed	**726**	725
Total dividends	**1,247**	1,245
Adjusted Net Income	**2,059**	2,334
Dividend cover	**1.7**	1.9

RECONCILIATION OF OPERATING CASH FLOW TO FREE CASH FLOW

	31 Dec 2021 £m	31 Dec 2020 £m
Cash generated from continuing operations	**2,836**	4,557
Less: net interest paid	**(222)**	(267)
Less: tax paid	**(915)**	(762)
Less: purchase of property, plant & equipment	**(373)**	(394)
Less: purchase of intangible assets	**(77)**	(92)
Plus: proceeds from the sale of property, plant & equipment	**9**	10
Free Cash Flow	**1,258**	3,052
Free Cash Flow Conversion	**61%**	131%

ROCE CALCULATION

	31 Dec 2021 £m	31 Dec 2020 £m
Adjusted Operating Profit	**2,877**	3,301
Less: Taxation on adjusted operating profit	**(633)**	(750)
Adjusted Net Operating Profit after Tax	**2,244**	2,551
IFRS total assets	**26,946**	31,292
IFRS total current liabilities	**(8,088)**	(6,938)
IFRS total assets less current liabilities	**18,858**	24,354
Less IFRS items not included in capital employed:		
Short-term borrowings	**2,485**	763
Current tax liabilities	**93**	72
Legal provisions	**86**	127
Cash and cash equivalents	**(1,261)**	(1,646)
Current tax recoverable	**(155)**	(125)
Retirement benefit surplus	**(355)**	(226)
IFRS balances included in capital employed	**19,751**	23,319
Add impact back unrealised impairments	**3,143**	5,116
Less Goodwill due to deferred tax on intangibles	**(4,133)**	(5,301)
Impact of average in year vs closing balance	**3,442**	2,023
Average capital employed	**22,203**	25,157
Return on Capital Employed	**10.1%**	10.1%

Group Financial Review (Continued)

The table below reconciles the Group's reported IFRS measures to its adjusted measures for the year ended 31 December 2021.

		Adjusting Items					
	IFRS £m	Impact of business combinations £m	Losses on disposal of brands £m	Reclassified foreign exchange translation on liquidation of subsidiaries £m	Finance expense reclass £m	Other individually material items of income and expense £m	Adjusted £m
Net Revenue	13,234	–	–	–	–	–	13,234
Cost of sales	(5,558)	14	–	–	–	–	(5,544)
Gross profit	**7,676**	**14**	**–**	**–**	**–**	**–**	**7,690**
Net operating expenses	(8,480)	77	234	–	–	3,356	(4,813)
Operating (Loss)/profit	**(804)**	**91**	**234**	**–**	**–**	**3,356**	**2,877**
Net finance income/(expense)	547	–	–	(766)	(1)	–	(220)
Share of loss of associate	(3)	–	–	–	–	–	(3)
(Loss)/profit before income tax	**(260)**	**91**	**234**	**(766)**	**(1)**	**3,356**	**2,654**
Income tax credit/(charge)	208	170	(117)	–	1	(846)	(584)
Net (loss)/income from continuing operations	**(52)**	**261**	**117**	**(766)**	**–**	**2,510**	**2,070**
Less: Attributable to non-controlling interest	(11)	–	–	–	–	–	(11)
Net (loss)/income for the year attributable to owners of the parent	**(63)**	**261**	**117**	**(766)**	**–**	**2,510**	**2,059**
Net income from discontinued operations	**31**	**–**	**–**	**–**	**–**	**(31)**	**–**
Total net (loss)/income for the year attributable to owners of the parent	**(32)**	**261**	**117**	**(766)**	**–**	**2,479**	**2,059**
Earnings per share (EPS) from continuing operations							
Basic	(8.8)	36.6	16.4	(107.3)	–	351.6	288.5
Diluted	(8.8)	36.6	16.4	(107.3)	–	351.6	288.5
Earnings per share (EPS) from discontinued operations							
Basic	4.3	–	–	–	–	(4.3)	–
Diluted	4.3	–	–	–	–	(4.3)	–
Earnings per share (EPS) from total operations							
Basic	(4.5)	36.6	16.4	(107.3)	–	347.3	288.5
Diluted	(4.5)	36.6	16.4	(107.3)	–	347.3	288.5

Earnings per share (EPS) is calculated using 713.8 million shares (basic) and 713.8 million shares (diluted).

Impact of business combinations is composed of:

- Amortisation of acquired intangibles of £61 million relates to the amortisation of certain intangible assets recognised as a result of historical business combinations. Included within income tax expense is a £14 million tax credit in respect of this amortisation.
- Acquisition advisor costs relate to acquisition related costs of £19 million as a result of acquisitions in 2021, £3 million of which has been charged to Cost of Sales. Included within income tax expense is a £4 million tax credit in relation to these costs.
- Inventory fair value adjustment of £11 million relates to the amount charged to cost of sales for the fair value step-up of acquired inventories as these inventories are sold. Included within income tax expense is a £1 million tax credit in relation to these charges.
- Changes to deferred tax liabilities of £189 million relate principally to the revaluation of deferred tax liabilities for acquired intangible assets due the change in the UK corporate tax rate, which was substantively enacted during the year.

Losses related to disposals of brands and related intangible assets: the pre-tax loss of £234 million relates to the disposal of Scholl (£165 million) and the disposal of EnfaBebé (£69 million). Included within income tax expense are associated tax credits of £94 million in relation to these disposals, and a deferred tax credit of £23 million on classification of the E45 brand as held for sale at 31 December 2021.

Reclassified foreign exchange translation on liquidation of subsidiaries of £766 million is the net gain following the liquidation of legal entities as part of simplification of the Group's legal entity structure.

Reclassification of finance expenses of £1 million relates to the net interest charge on tax liabilities that is shown within the adjusted tax charge.

Other individually material items of income and expense principally relate to charges in relation to the strategic review of IFCN China, which resulted in the disposal of the IFCN China business, the closure of factories in Australia dedicated to IFCN China and the subsequent re-organisation of the remaining Reckitt Nutrition business.

Amounts charged to IFRS operating loss in relation to the IFCN China strategic review include:

- Loss on disposal of IFCN China of £3,284 million;
- Impairment of the Australian factory assets, £48 million along with associated termination fee £3 million; and
- Costs of £18 million relating to the subsequent restructuring of the Reckitt Nutrition business.

Included within income tax expenses is a £846 million net tax credit in relation to the IFCN strategic review.

Also included within IFRS operating loss is a charge of £3 million in relation to the Korea HS issue. Income from discontinued operations of £31 million relates to amounts agreed with Indivior plc to settle indemnity claims relating to the DoJ settlement in 2019.

The table below reconciles the Group's reported IFRS measures to its adjusted measures for the year ended 31 December 2020.

	IFRS £m	Adjusting Items: Impact of business combinations £m	Losses on disposal of brands £m	Reclassified foreign exchange translation on liquidation of subsidiaries £m	Finance expense reclass £m	Other individually material items of income and expense £m	Adjusted £m
Net Revenue	13,993	–	–	–	–	–	13,993
Cost of sales	(5,558)	–	–	–	–	–	(5,558)
Gross profit	**8,435**	**–**	**–**	**–**	**–**	**–**	**8,435**
Net operating expenses	(6,275)	80	–	–	–	1,061	(5,134)
Operating profit	**2,160**	**80**	**–**	**–**	**–**	**1,061**	**3,301**
Net finance expense	(286)	–	–	–	26	–	(260)
Share of loss of associate	(1)	–	–	–	–	–	(1)
Profit before income tax	**1,873**	**80**	**–**	**–**	**26**	**1,061**	**3,040**
Income tax expense	(720)	59	–	–	(26)	(3)	(690)
Net income from continuing operations	**1,153**	**139**	**–**	**–**	**–**	**1,058**	**2,350**
Less: Attributable to non-controlling interest	(16)	–	–	–	–	–	(16)
Net (loss)/income for the year attributable to owners of the parent	**1,137**	**139**	**–**	**–**	**–**	**1,058**	**2,334**
Net (loss)/income from discontinued operations	**50**	**–**	**–**	**–**	**–**	**(50)**	**–**
Total net income for the year attributable to owners of the parent	**1,187**	**139**	**–**	**–**	**–**	**1,008**	**2,334**
Earnings per share (EPS) from continuing operations							
Basic	160.0	19.6	–	–	–	148.7	328.3
Diluted	159.3	19.5	–	–	–	148.2	327.0
Earnings per share (EPS) from discontinued operations							
Basic	7.0	–	–	–	–	(7.0)	–
Diluted	7.0	–	–	–	–	(7.0)	–
Earnings per share (EPS) from total operations							
Basic	167.0	19.6	–	–	–	141.7	328.3
Diluted	166.3	19.5	–	–	–	141.2	327.0

Earnings per share (EPS) is calculated using 710.9 million shares (basic) and 713.7 million shares (diluted).

Acquisition related items are composed of:

- Amortisation of acquired intangibles of £80 million relates to the amortisation of certain intangible assets recognised as a result of historical business combinations. Included within income tax expense is a £19 million tax credit in respect of this amortisation
- Changes to deferred tax liabilities of £78 million relate to principally to the change in the UK corporate tax rate which was substantively enacted during the year (which is netted against the £19 million tax credit)

Reclassification of finance expenses of £26 million relates to the net interest charge on tax liabilities that is shown within the adjusted tax charge.

Other individually material items of income and expense include:

- £985 million impairment in relation to IFCN goodwill;
- £69 million charge relating to the Korea HS issue; and
- £7 million relating to previously announced restructuring projects (principally RB 2.0 costs).

Income tax expense is a £3 million tax credit for these items.

ADJUSTED MEASURES EXCLUDING IFCN CHINA

The table below reconciles the Group's reported IFRS measures to its adjusted measures excluding IFCN China for the years ended 31 December 2021 and 31 December 2020.

Year ended 31 December 2021	**IFRS £m**	**Adjusting Items £m**	**Adjusted £m**	**IFCN China £m**	**Adjusted excl. IFCN China £m**
Net Revenue	13,234	–	13,234	(383)	12,851
Cost of sales	(5,558)	14	(5,544)	214	(5,330)
Gross profit	**7,676**	**14**	**7,690**	**(169)**	**7,521**
Net operating expenses	(8,480)	3,667	(4,813)	236	(4,577)
Operating (loss)/profit	**(804)**	**3,681**	**2,877**	**67**	**2,944**
Operating margin	–6.1%				22.9%
Operating margin vs PY	(2,150 bps)				(160 bps)

Year ended 31 December 2020	IFRS £m	Adjusting Items £m	Adjusted £m	IFCN China £m	Adjusted excl. IFCN China £m
Net Revenue	13,993	–	13,993	(861)	13,132
Cost of sales	(5,558)	–	(5,558)	375	(5,183)
Gross profit	**8,435**	**–**	**8,435**	**(486)**	**7,949**
Net operating expenses	(6,275)	1,141	(5,134)	401	(4,733)
Operating profit	**2,160**	**1,141**	**3,301**	**(85)**	**3,216**
Operating margin	15.4%				24.5%

RECONCILIATION OF PRIOR YEAR IFRS TO LIKE-FOR-LIKE NET REVENUE

Net Revenue 31 December 2020	**Hygiene £m**	**Health £m**	**Nutrition £m**	**Group £m**
2019 IFRS & like-for-like	**5,031**	**4,462**	**3,353**	**12,846**
IFCN China disposal	–	–	(991)	(991)
2019 Like-for-like (excl. IFCN China)	**5,031**	**4,462**	**2,362**	**11,855**
2020 reported	**5,816**	**4,890**	**3,287**	**13,993**
Exchange	194	114	65	373
2020 Like-for-like	**6,010**	**5,004**	**3,352**	**14,366**
2020 IFCN China disposal	–	–	(863)	(863)
2020 Like-for-like (excl. IFCN China)	**6,010**	**5,004**	**2,489**	**13,503**
Like-for-like growth	**19.5%**	**12.1%**	**0.0%**	**11.8%**
Like-for-like growth (excl. IFCN China)	**19.5%**	**12.1%**	**5.4%**	**13.9%**