24 February 2021

RECKITT BENCKISER (RB.L)
STRONG PERFORMANCE UNDERPINS PROGRESS TOWARDS SUSTAINABLE GROWTH

	Q4 2020			FY 2020		
	£m	LFL[1]	Reported	£m	LFL[1]	Reported
Hygiene	1,589	+25.7%	+21.9%	**5,816**	**+19.5%**	**+15.6%**
Health	1,171	+2.8%	+0.8%	**4,890**	**+12.1%**	**+9.6%**
Nutrition	809	-3.5%	-5.5%	**3,287**	**unchanged**	**-2.0%**
Total	3,569	+10.2%	+7.5%	**13,993**	**+11.8%**	**+8.9%**

	£m	Constant FX[1]	Reported
Operating Profit – Adjusted[1]	**3,301**	**+0.7%**	**-2.0%**
Operating Profit Margin – Adjusted[1]	**23.6%**		**-260bps**
Operating Profit – Reported	**2,160**		***nm***
Operating Profit Margin – Reported	**15.4%**		***nm***
EPS (diluted) – Adjusted[1]	**327.0p**		**-6.3%**
EPS (diluted) – Reported[2]	**159.3p**		***nm***
Free Cash Flow[1]	**3,052**		**+42.3%**
Net Debt[1]	**8,954**		**-17%**

[1] *Non-GAAP measures and definitions are defined on page 18*
[2] *Reported diluted EPS from continuing operations*

Full Year Financial Highlights

* **Group LFL net revenue up +11.8%:** very strong, volume-led growth in a COVID environment, as consumers seek trusted, heritage brands, reinforced by stronger purpose-led brand equity and strengthened execution
* **Hygiene LFL net revenue up +19.5%:** very strong growth, particularly from Lysol and Finish, with broad-based growth in all regions and improved overall market share for Hygiene
* **Health LFL net revenue up +12.1%:** very strong Dettol growth in all major markets, strong growth from Gaviscon and improved Durex momentum, and improving market share performance overall
* **Nutrition LFL net revenue unchanged:** US IFCN growth and increased consumer focus on wellness and immunity, with Airborne up over 100%, offset adverse IFCN market in Greater China
* **e-Commerce:** record full year channel growth of 56%; estimated to be c.12%[1] of group net revenue
* **Full year adjusted operating margin of 23.6%**, in line with mid-year guidance
* **Full year reported operating profit of £2,160m** (2019: reported operating loss of £1,954m). including IFCN goodwill impairment of £985m (2019: £5,037m) reflecting the volatility and uncertainties relating to COVID-19.
* **Adjusted diluted EPS of 327.0p** (2019: 349.0p)
* **Record free cash flow generation of £3,052m** (2019: £2,145m) reflecting negative net working capital position; **net debt** reduced to £9.0bn (2019: £10.7bn)
* **Full Year Dividend of 174.6p** (2019: 174.6p), reflecting Board recommendation of a final dividend of 101.6p, and in line with policy and guidance from February 2020

Fourth Quarter Highlights

* Group LFL net revenue growth of +10.2%; Hygiene LFL growth of +25.7%, Health LFL growth of +2.8%, Nutrition LFL decline of -3.5%

Strategic Highlights

* **RB's strategy to Rejuvenate Sustainable Growth on track:**
  * **Purpose, Fight** and **Compass** adopted across the group; strengthening our environmental and societal commitments and driving positive changes to culture
  * New organisational structure established, senior management team in place and **£745m invested in growth related initiatives** during 2020; on plan, funded by P&L charge and over £400m of productivity savings
  * **Global Business Solutions** ('GBS') established during 2020, expect c.100bps contribution to Group growth in 2021 – reaching c.8% of disinfectant sales
  * Early **returns on investment** include significantly improved supply chain capacity and flexibility; better customer service levels; strong, targeted eCommerce growth; and focused science platforms driving stronger innovation pipeline
  * **Improved go-to-market execution** across the group, adapting quickly to COVID-19 to capture sustainable growth through increased category penetration, market share gains, new places and new spaces
* **Productivity programme up-sized to £1.6bn over 2020-22 (from £1.3bn)**
  * Efficiency plans ahead of schedule, with additional £300m savings identified
  * Will cover increasing raw material and other costs of goods sold inflation and further investments in competitiveness
* **Strategic review of IFCN China** underway (6% of group revenue)
* Actions taken to further **reposition our portfolio towards higher growth**; announced divestment of **Scholl** and acquisition of **Biofreeze** in separate announcements today

2021 Outlook

* LFL revenue performance expected to be in the range of flat to +2%
* Adjusted operating margin expectation broadly unchanged; in-line with previous guidance, we will continue to invest in growth resulting in margins in 2021 being between 40 - 90bps lower than 2020 levels

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

"In 2020 we successfully navigated unchartered waters. I am immensely grateful to colleagues, customers and partners who helped us respond to the challenges of COVID-19, stepping-up production and improving execution, while staying safe. Our purpose, to protect, heal and nurture in the relentless pursuit of a cleaner and healthier world is more relevant than ever.

This past year we delivered a strong revenue performance with nearly £14bn of sales and +11.8% like-for-like growth. eCommerce sales grew by a record +56% and now account for around 12% of group net revenue. We have made a strong start to implementing our new strategy and proved that we can adapt and successfully respond to rapidly changing market conditions. Our portfolio is clearly resilient - with or without COVID-19 - and we are building a stronger business for the future.

Our category-leading germ protection/disinfection brands have all seen substantial market growth, with around 80% of our consumers expecting to retain many of their new improved habits post pandemic. We capitalised on these new behaviours with Dettol and Lysol entering 41 markets, with plans to enter a further 29 markets in 2021. Our new Global Business Solutions unit is expected to contribute c.100bps to Group revenue growth in 2021. We are taking steps to lock in the significant product penetration and market share gains already achieved by our market leading brands, Finish, Gaviscon and Durex, as well as the strong performance of our nutrition brands in the Americas, including Airborne.

During 2020, we invested a record £745 million (through the P&L) in building capabilities, to strengthen execution and customer service, digital and brand building and sustainability. This was underpinned by our productivity programme which delivered significant savings – over

£400m – well ahead of expectations. This is leading us to increase our projected productivity savings from £1.3bn to £1.6bn.

We are also taking decisive action to strengthen our portfolio with a strategic review of the infant formula business in Greater China already underway. At the same time, we have agreed the sale of Scholl and the acquisition of Biofreeze which we announced separately today. These decisions will position the portfolio towards higher growth brands and markets.

2020 was a turning point for RB. Our performance is strong, we are building capability, actively managing our portfolio and transforming our culture. We expect 2021 to be a year of further strategic progress and we remain confident that we will meet our medium-term targets."

Market developments

RB operates in attractive, growing market segments, underpinned by clear macro trends: urbanisation and global warming, and their impact on their spread of infection, re-enforcing hygiene as the foundation for health; growing demand for self-care, given pressures on governmental spending globally; growing importance of sexual health and wellbeing; a growing and ageing population; and ever-changing technology, which is transforming consumer knowledge and purchasing habits. Most of these trends have been accelerated or accentuated by COVID-19.

The pandemic has heightened the societal importance of hygiene and driving demand for our category-leading disinfectant products such as Lysol and Dettol. New consumer behaviours are becoming engrained, with health professionals continuing to advocate improved hygiene measures as the 'first line of defence'. While vaccines begin to offer protection from existing forms of the virus, concern remains that new variants will need a sustained high level of hygiene to ensure control. Globally, 4 in 5 people say they intend to continue with their improved habits after the pandemic is over. In Australia, for example, where there have been relatively few cases since late September, consumer concern over the spread of germs has remained elevated, and demand for disinfectant remains very strong.

We therefore pay particular attention to four factors: the extent of vaccinations, the degree to which the pandemic has been managed in local jurisdictions to lower spreading, and as an impact, the opening of schools and the increase in mobility. Safety concerns and the rediscovery of new behaviours have meant that people are adapting to spending more time at home. While mobility increases, some social distancing behaviours will decrease, as a result of which the need for protection outside the home will continue to rise, creating new market opportunities for trusted brands. Consequently, while the frequency of usage of some of these products may decrease from the peaks experienced in 2020, there are many drivers that should help sustain recent demand, open up new opportunities and support a stronger level of growth for disinfectants going forward.

These developments have affected our brands in different ways. For example, as people have adapted to nesting at home, demand for Finish and Air Wick has grown. In particular, Finish has seen significant increases in product penetration (with more automatic dishwashers in operation) but also frequency of use. We expect this demand to be moderated long term by the return to school and work, but consumer insights support a substantially larger underlying market than pre-pandemic.

Additionally, consumers are increasingly conscious of the risk of germs being picked up outside of the home. New opportunities have therefore emerged as workspaces, accommodation and other public spaces, such as hospitality venues and public transport, need to not only be clean, but be visibly clean, looking to brands such as ours to give their customers appropriate reassurance.

Recent healthcare pressures have also accelerated the existing trend of self-care with a greater focus on the prevention of illnesses. As a result, we have seen significant growth in preventative treatments, such as vitamins, minerals and supplements ('VMS'). With financial pressures on healthcare systems mounting, the growing importance of self-care is likely to continue, increasing opportunities in consumer health.

Increased social distancing, and the closure of schools, also prevented the transmission of colds and influenza. Incidences of flu are at all-time lows impacting short-term demand for Mucinex and Strepsils. The unfortunate spread of misinformation, without robust evidence, impacted demand for ibuprofen, including Nurofen, although as better understanding grew, we saw market shares recover well. Short-term, restrictions on international movement have impacted cross-border sales, such as those of infant formula between Hong Kong and China. In addition, social distancing had a short-term impact on demand for our sexual well-being products, particularly in the first half of the year.

We fully expect that as schools open and with increased mobility, there will be a positive impact on demand for Mucinex, Nurofen and Strepsils. Similarly, our sexual wellbeing business has since recovered in the second half of the year, with strong demand now being seen in countries managing post-lockdown conditions. As mobility and social interactions increase, we expect our sexual wellbeing business to rebound. At the same time, demand for our gastrointestinal products has increased consistently during the year.

Finally, birth rates are a key driver of our infant nutrition business. Growth rates in a number of markets have been slowing in recent years, but it is likely that COVID will further impact this, as family planning is put on hold for economic or social reasons. As a result, birth rates in the US and China are likely to decline in 2021, although likely to recover post pandemic. Demand for adult nutrition products, a market we now address with the launch of three new innovations at the end of 2020, is expected to grow strongly, driven in part by the increased focus on preventative health initiatives. Similar trends are expected to sustain strong demand for our vitamins, minerals and supplements brands.

As is evident, our portfolio is strongly positioned for both a transitionary world as we recover from COVID, as well as for the medium to long-term, given the fundamental mega-trends that support our growth expectations.

Market developments underpin 4-6% medium term growth expectations

Overall, recent market developments continue to support our 4-6% medium term growth expectations. In Hygiene, our global portfolio of leading brands should grow around 4-5% as we expect to outperform a larger and faster growing market for disinfection (slightly higher than pre-pandemic), benefit from our investments to grow internationally, and in new channels. For Health, increased demand for germ protection, particularly in developing markets, together with sustained strong demand for sexual well-being products, and steady growth in consumer health, should underpin a 4-6% growth opportunity in the medium term. For Nutrition, while there will be an impact near-term from lower birth rates, and significantly reduced cross-border activity, particularly in Greater China, resulting in 2-3% growth for infant nutrition, the increased focus on VMS, particularly immunity, and senior nutrition continues to support 3-5% growth for Nutrition as a whole longer-term.

Strong Full Year underlying group performance

Group net revenue of £13,993m grew by +11.8% on a like for like basis in 2020, driven by strong volume growth (+9.6%) and an increase in price/mix (+2.2%). Volume growth was led by the strong performance of our disinfectant brands, with broad-based growth across much of our portfolio, including Finish, Airborne and Gaviscon. All geographic regions have grown, with the largest contributors to growth including the US, India and China. Around 70% of our category market units by revenue either gained or held market share, with the strongest gains in many Hygiene and Health categories, offsetting difficult trading conditions for our infant nutrition business in Greater China which represents c.6% of Group revenue.

Reported full year net revenue growth of 8.9% reflected a foreign exchange headwind of 2.9%, principally driven by Latin American currencies.

Our eCommerce sales grew strongly, up 56% in 2020 and represented c.12% of total Group revenue in the year (up from around 10% in 2019). Growth was broad-based by channel - online-only platforms, omni-channel retailers, and Direct to Consumer (D2C) – and by geography, benefiting from our investment programmes. Hygiene's eCommerce sales grew very strongly, reflecting the strength of switching from bricks-and-mortar to bricks-and-clicks. Health's eCommerce sales also grew significantly, with a stronger contribution from D2C and growth from platforms. Nutrition, with a big online position already established, also grew eCommerce sales strongly as key consumers bought more online through our own sites, as well as across third-party channels.

Gross margin decreased by 20bps to 60.3% as a result of adverse product mix principally in Health, COVID related expenses and higher costs in IFCN, including c.£40m in inventory write-downs following the Hong Kong border closure, which together more than offset productivity savings within our cost of goods sold.

Brand Equity Investment (BEI) was up 7%, or £138m, on a pound spent basis (at constant currency), at 13.9% of net revenue, 50bps lower than the prior year, reflecting leverage benefits from strong net revenue growth in 2020, productivity initiatives to improve the ratio of working to non-working media spend and our investments in digital talent.

Other costs increased by 290bps as a percentage of net revenue, reflecting higher year-on-year performance related costs, investments in capabilities and finite-life transformation costs.

Group adjusted operating profit was £3,301m (2019: £3,367m) at an adjusted operating margin of 23.6%, in line with our mid-year guidance and 260bps lower than the prior year (2019: 26.2%). This largely reflects the impact of the planned investment programme announced in February 2020. As announced at the half year, the operational leverage from the strong revenue growth was reinvested in our growth initiatives and used to offset COVID related costs of around £120m (c.80bps). These COVID related costs are incremental to our planned investments and we expect them to continue into 2021. Group reported operating profit was £2,160m and includes a £985m impairment of the IFCN goodwill, due to an increase in the discount rate reflecting the volatility relating to COVID-19 and the uncertainties this creates, described on page 30 and in note 5.

Adjusted diluted earnings per share were 327.0p (2019: 349.0p) a decline of 6.3% due primarily to the non-recurrence of certain interest and tax benefits recognised in 2019. Consistent with our dividend policy and the comments made in February 2020 in respect of maintaining a 50% pay-out over time, we are declaring a full year dividend per share of 174.6p, unchanged on 2019 and in line with guidance.

Reflecting the strong net revenue growth and our negative working capital position, free cash flow was very strong at £3,052m (2019: £2,145m).

Fourth Quarter revenue performance sustains strong progress

In the fourth quarter, group net revenue grew by +10.2% on a like for like basis, driven by strong volume growth (+6.8%) and an increase in price/mix (+3.4%). Volume growth was led by the strong performance of our Dettol and Lysol families of disinfectant brands. Price/mix largely reflected the lower level of promotional activity and weaker nutrition volumes.

Hygiene overall delivered very strong LFL growth of +25.7%, led by very strong growth from Lysol and Finish. There was broad-based growth from nearly all key brands.

Health grew +2.8%, with strong growth for Dettol, Durex and Gaviscon, partially offset by the expected impact of the weak cough, cold and flu season which resulted in our OTC portfolio being down just over 20% in the quarter. Veet and E45 also performed well.

Nutrition net revenue was 3.5% lower in the quarter, reflecting good growth for Airborne and Neuriva, offset by lower sales for our IFCN products in Greater China. Hong Kong particularly was again weaker year-on-year reflecting the impact of cross-border closures. Overall, IFCN was 6% lower in the fourth quarter.

Our eCommerce sales grew strongly in the quarter, up 50% and represented c.13% of total Group revenue in the period.

Reported fourth quarter net revenue growth of 7.5% reflected a foreign exchange headwind of 2.7%, principally driven by the movement in the US dollar in the quarter and Latin American currencies.

STRATEGIC REVIEW

Rejuvenating sustainable growth

In February 2020, we shared our strategy for rejuvenating sustainable growth, and our medium-term financial targets. This set out how we would:

1. **Drive growth, rebuild a strong earnings model and outperform** with mid-single digit organic top-line, mid 20's margins and 7-9 percent EPS growth
2. Enable improved growth by **investing in key capabilities** to strengthen product innovation and enhance customer service, with sustainability at the heart of everything we do
3. Fund investment through delivery of an **enhanced productivity programme** and short-term reduction in operating margin
4. Deliver progressive improvements to our top-line growth through better product **penetration, market share gains**, and expansion into **new places** and **new spaces**
5. Manage **capital allocation** to support a strong balance sheet while actively migrating our portfolio to higher growth opportunities

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

Good strategic progress in 2020

During 2020 – in the first phase of our plan - we have executed well, against a highly dynamic market backdrop, achieving financial targets ahead of expectations. As outlined, we have taken the opportunity of stronger than expected revenue growth to reinvest in incremental growth opportunities. As a result, we have taken advantage of some positive market developments across the breadth of the portfolio. For example, COVID-19 has presented significant opportunities for our disinfectant brands, resulting in strong growth; over this period, we have worked to take Dettol and Lysol into 70 new markets, and new category adjacencies over 2020 and 2021, including to service business customers, including the providers of accommodation, travel services, public spaces and events, workspaces and shared facilities.

Strong early achievements investing in the core enablers of growth

Our rejuvenate strategy is centred around rebuilding core capabilities that will support sustainable growth – such as eCommerce, R&D, product quality, sales and marketing excellence and supply chain performance. While there is still work to be done, we have already made good progress in reinvigorating a number of these functions:

- Customer service: established centres of excellence for sales, marketing, eCommerce and medical sales and global customer relationship team; significant improvement in third-party Advantage survey of retailers - advancing 9 places, moving from the lowest tier to inside the top 10 of FMCG peers globally, with further improvements expected over time
- Supply chain: responded strongly to the exceptional demands of 2020 with investment, SKU-rationalisation and use of co-packers; commenced reshaping network to increase long-term capacity and resilience, responding to channel shifts with greater flexibility and reduce overall lead times, leveraging data, AI and machine learning to target substantial further improvements
- Digital and eCommerce: invested behind Be Big, Be Fast and Be Bold strategy – leveraging established capabilities to accelerate developments in D2C, marketplaces and through Bricks and Clicks channels where customer behaviour changes have driven strongest growth; invested to further build B2B e-commerce to leapfrog go-to-market capabilities in developing and emerging markets
- R&D, Quality and Product Innovation: run-rate R&D investment increased by 35% compared to 2019 to help drive development of new science platforms and the strength and depth of the innovation pipeline - delivered PU condom and first adult nutrition products within first year of programme; worked to broaden consumer health brands across broader demand spaces; significantly enhanced consumer-perceived product quality and quality processes
- Sustainability: £40m investment in ***Fight for Access Fund*** to support disadvantaged groups battling COVID-19; the launch of the ***Reckitt Global Hygiene Institute*** to advance evidence of behaviour change; the acceleration of new sourcing, packaging and product innovations as a clear differentiator for purpose led brand growth; and launch of Climate Change commitments accelerating work to deliver Paris Climate Agreement by 2030 and achieve carbon neutrality by 2040

Strong first year from our enhanced productivity plan

Our investments, which total over £2bn over the period 2020-22, are funded primarily by our productivity programme. In our first year we delivered productivity savings of £407m, significantly ahead of our plan. As a result, and with new opportunities identified, we have increased our plan by £300m, to £1.6bn over the three years. This will help us mitigate a number of new input cost pressures.

Improvements across our four growth drivers

Our business overall is much better positioned competitively to win in our markets than a year ago, with demonstrable market share improvements and broad-based momentum for growth behind our brands. Over the course of this year, we have made significant progress against our strategic growth drivers – driving penetration, delivering market share gains and entering new places and spaces. Selected examples include:

<u>Increased penetration</u>

- Our category-leading disinfectant brands have seen exceptionally strong levels of penetration increase, with Lysol for example now estimated to be present in over half of all US homes; Dettol and Lysol used in over 300m households globally; In Canada, Lysol penetration is up over 1200bps over the past year
- In India alone, Harpic is now used in over 100m homes, up by nearly 30m compared to 2019, as a result of purpose-led marketing campaigns centred around behaviour change

<u>Market share gains</u>

- Finish has taken significant share in the US, up over 70bps, in a strong but competitive market, in part due to its purpose-led campaigns around the critical issue of water scarcity
- Gaviscon grew market share by over 100bps globally, including over 300bps in the UK, as a result of product innovation and strong execution
- Step-changed Mortein’s performance in key markets through building brand trust, product innovation and improved marketing
- Durex gains of c.130bps in China following the launch of the PU, ultra-thin condom
- Sequential improvements in market share performance for Mucinex, delivering unchanged market share overall, through better execution in weak US market conditions for medicated products

New Places

- Increased demand for Dettol and Lysol provided the opportunity for expansion into a total of 41 markets during the year
- Global Business Solutions – our professional business – growing strongly and expected to contribute c.100 bps to RB growth in 2021 to represent c.8% of total disinfectant revenue
- Lysol's entry into Brazil in May for example, launching Sprays, Wipes and Liquids, has already achieved prompted brand awareness of over 40%

New spaces

- In Hygiene, we entered into the aromatherapy category in the US, with Air Wick essential mist – an innovation which was recognised amongst the Top 25 Breakthrough Innovations in this year's US BASES awards – four of which were RB products
- In Health, product innovation took Mucinex (All-in-One and Nightshift) and Strepsils (Herbals) into new product adjacencies
- Adult Nutrition launch in China

Clear decisions around capital allocation

Building a stronger balance sheet is a clear priority for us. During 2020, we have reduced net debt by over £1.7bn through improved cash generation and maintaining a strong fiscal discipline around funding our investment programme through enhanced productivity and outperformance. As a result, our net debt leverage metric has improved with Net Debt / Adjusted EBITDA falling from 2.9x at the end of 2019 to 2.4x. Consistent with our statement in February we have confirmed we will hold our full year dividend unchanged at 174.6p. This is so we can rebuild dividend cover to two times and confidently grow the dividend sustainably in the future in line with a stronger, more consistent EPS growth.

We are also taking decisive action to manage our portfolio. With markets for infant formula in Greater China continually evolving, we have been undertaking a strategic review of the infant formula business in China. No decision has yet been taken to the overall outcome and we will provide further updates as appropriate. At the same time, we have agreed the sale of Scholl and the acquisition of Biofreeze – announced separately today. Together, these deals are expected to be earnings neutral initially, but to position further the portfolio towards higher growth markets.

Outlook

2020 was dynamic, characterised by significant changes over the course of the year. The first two months of 2020 saw limited COVID impact, except the early effects we began seeing in China. In March 2020, we saw significant pantry loading in many markets. For the rest of the year, we felt the impact of COVID around the world with varying intensity: positive for some parts of our portfolio, like hygiene and disinfection, and negative for other parts, like Mucinex, despite better execution.

Looking to 2021, set against our strong top-line growth in 2020, we expect our business to grow in 2021 with like for like net revenue growth of between flat to +2%, including a strong first quarter. Overall, we expect continued underlying progress towards our mid-single digit sustainable growth target as we benefit from our significant investment programme. We will deliver further growth for hygiene and germ protection, as we work to hold on to the penetration gains achieved, while growing in new places, channels and categories, strong growth in sexual well-being and start seeing the benefits of our growth investments in other areas, including the wider hygiene, consumer health and nutrition categories. Partially offsetting this, the impact of pandemic-driven lower birth rates in 2020 and 2021 will contribute short-term to lower market growth for our infant formula business.

Our margin expectation for 2021 is broadly unchanged; reflecting stronger performance than initially assumed, we now expect our Adjusted Operating margin to be between 40 and 90bps lower than 2020 levels, with the impact of planned investments and increased input costs, particularly costs of goods sold, partially offset by additional productivity benefits. Our 2021 guidance includes the ongoing COVID-19 and finite-life transformation costs. Combined, these represented c.170bps of margin in 2020 and should mostly unwind in 2022.

Looking to the medium term, our outlook remains unchanged. We continue to expect to progress towards achieving sustained mid-single digit organic revenue growth in the medium term, and a mid-20's margin by the mid-2020s. As updated in October 2020, our improved execution and the investments in capability and growth will enable us to achieve our revenue growth target a year earlier than expected, and with greater confidence.

Other 2021 technical guidance

- Net finance expense is expected to remain around 3% of average net debt
- The adjusted tax rate is expected to remain at approximately 23%
- Free cash flow conversion is expected to reflect a partial reversal of the favourable working capital movements in 2020, and capital expenditure of over 4% of net revenue; over the two years 2020-2021 average free cash flow conversion is expected to remain strong.

OPERATING SEGMENT REVIEW

Hygiene

42% of net revenue in 2020

- Very strong full year net revenue growth, driven by Lysol and Finish with strong growth for Air Wick, Harpic, Mortein, Veja, Calgon and Cillit Bang
- Significant increase in brand penetration, led by Lysol, Sagrotan and Finish
- Good market share performance throughout 2020 led by Lysol, Finish and key markets for Air Wick, Harpic, Mortein and Vanish
- Very strong double-digit growth in North America, with good double-digit growth in Europe and AMEA

	£m	Volume	Price / Mix	LFL[1]	FX	Reported
FY 2020	**5,816**	**+17.7%**	**+1.8%**	**+19.5%**	**-3.9%**	**+15.6%**
Q4 2020	1,589	+22.0%	+3.7%	+25.7%	-3.8%	+21.9%

Operating Profit	£m	Constant FX (CER)[1]	Reported
Adjusted Operating Profit[1]	**1,505**	**+21.3%**	**+17.7%**
Adjusted Operating Profit Margin[1] %	**25.9%**		**+50bps**

[1] *Non-GAAP measures are defined on page 18*

Hygiene net revenue grew +19.5% on a like for like basis to £5,816m for the full year. This reflected positive market developments that drove volume growth of +17.7% and price/mix improvements of +1.8%.

Throughout 2020, the business delivered strong penetration-led growth with good market share gains in most categories, with 70% of net revenue of Core CMUs growing or holding share as consumers continue to choose our trusted brands. This broad-based performance was notably driven by good share gains from our leading disinfectant (Lysol, Sagrotan etc.) and dishwasher (Finish) brands. All major Lysol CMUs delivered share gains, with particularly strong growth and gains in North America.

By brand, Lysol was the strongest performer overall, with net revenues up well over 70%, led by growth in North America, but with strong performances in all other markets, including growth in a range of new countries and categories where we expect to sustain progress and deliver good growth in the future.

Finish also grew strongly, with growth in excess of 20%, reflecting strong execution, market share gains and an increase in the frequency of use of domestic appliances. Finish net revenues improved year-on-year in all geographies, with particularly strong performances in the USA and UK. Air Wick also delivered good growth in the year, after a slow start, led by the USA and Europe, in part reflecting the successful launch of Air Wick Essential Mist and a strong performance from the base scented oils business. Mortein and Harpic also delivered growth in all their major geographies, with Harpic particularly strong in India. Cillit Bang also delivered double digit growth for the year. Overall, of our power brands, only Vanish saw reduced sales in the year, reflecting the impact of ‘stay at home’ behaviour on the demand for stain removal.

Adjusted operating profit for Hygiene at £1,505m was up 21.3% on a constant FX basis and 17.7% on a reported basis. Adjusted operating margin was 25.9%, 50 bps higher than last year. While we accelerated investments under our plan to rejuvenate sustainable growth, notably in eCommerce and digital capabilities, the increased investment was more than offset by record productivity and the strong leverage generated by growth in the business.

Fourth Quarter Performance

Fourth quarter LFL net revenue growth was +25.7%, led by very strong growth from Lysol and Finish. There was broad-based growth from nearly all key brands. Volume growth was 22.0% and price/mix growth was 3.7%. Price/mix growth was largely driven by specific portfolio mix effects in the quarter and a less intensive promotional environment reflecting the current high demand for most products.

Health

35% of net revenue in 2020

- Sustained strong demand for Dettol throughout 2020
- Very positive second half performance from our Sexual Well-Being products, particularly in markets recovering from suppressed demand; successful launch in October of 'Durex 001' – our first PU condom
- Strong market share performances in Germ Protection, Sexual Well-Being and Personal Care, with 85% of revenue from core CMUs holding or growing share
- Year-on-year decline for Nurofen and Strepsils, largely reflecting weak cough, cold and flu season towards the end of the year

	£m	Volume	Price / Mix	LFL[1]	FX	Reported
FY 2020	**4,890**	**+8.4%**	**+3.7%**	**+12.1%**	**-2.5%**	**+9.6%**
Q4 2020	1,171	-3.4%	+6.2%	+2.8%	-2.0%	+0.8%

Operating Profit	£m	Constant FX (CER)[1]	Reported
Adjusted Operating Profit[1]	**1,334**	**-0.2%**	**-2.6%**
Adjusted Operating Profit Margin[1] %	**27.3%**		**-340bps**

[1] Non-GAAP measures are defined on page 18

Health revenue grew LFL +12.1% in the full year to £4,890m. This reflected net positive market developments which supported volume growth of +8.4% and price/mix improvements of +3.7%.

Overall, Health delivered strong market share growth, with 85% of core category market units by revenue growing share in 2020. Although driven principally by broad-based gains for Dettol, Durex and Gaviscon also outperformed their respective markets.

Consumer demand for disinfectants drove strong demand for Dettol throughout 2020, with the brand growing over 50%. With an increased focus on effective antibacterial agents, Dettol achieved strong market share gains in most major geographic regions for the brand. In addition, a major expansion of the geographic and category reach of the brand was started, leveraging the proven capabilities and heritage of the Dettol portfolio. The benefits of this expansion are expected to underpin performance in 2021 and help lock-in the market gains to date and achieve strong growth for the brand in the years ahead.

Following a more challenging first half of the year, relaxations of social distancing regulations resulted in improved demand for our sexual well-being products, led by Durex, in the last six months. As a result, the category delivered good growth in revenue for the year as a whole. The positive trend has been particularly pronounced in markets where the rate of pandemic infection has materially improved. In addition, we launched 'Durex 001' in China in October – marking our entry into the fast-growing Polyurethane (ultra-thin condom) segment. With strong sales execution and innovative marketing support through partnerships in music and lifestyle brands, we are seeing strong share performance, with total share in China up c.130bps in 2020. We expect this innovation will help reverse previous market share losses over the coming quarters. Elsewhere, where our 'Invisible' portfolio and Naturals lubricants platform have been the focus, share performance has been strong in most major markets.

In aggregate, our over-the-counter (OTC) portfolio saw revenue decline 3% in the full year. The year started strongly, with good early gains for Mucinex and the benefits of pantry loading in the early stages of the pandemic. The category saw lower consumer demand during stay-at-home conditions and as a result of the weaker cough, cold and flu season towards the end of the year. For example, the Influenza-like-Illness Index was down over 80% in December. Within OTC, several brands have performed well, including Gaviscon, which delivered share gains of over 100bps globally and double-digit revenue growth in the year, as a result of sustained execution of well-established go-to-market models, continued white space expansion, and growing innovation. Looking forward, we expect the weak cough cold and flu season to significantly impact revenue in the first quarter of 2021 as the category laps the exceptionally strong start to 2020. Progressively, comparatives become easier and with a strong pipeline of investments and innovations, we expect the segment to return to good growth in the second half of 2021.

Our portfolio of personal care products grew overall, despite some weaknesses in the early part of the pandemic, with good performances from Veet and E45. Clearasil was also steady and while Scholl declined overall, demand showed some signs of recovery in the second half.

Adjusted operating profit for Health at £1,334m was down 0.2% on a constant FX basis and down 2.6% on a reported basis. Adjusted operating margin was 27.3%, down 340 basis points year-on-year reflecting the significant investments made under our plan to rejuvenate sustainable growth and some product mix effects, partially offset by the benefits of our enhanced productivity programme.

Fourth Quarter Performance

Fourth quarter LFL net revenue growth was +2.8%, with volumes 3.4% lower and price/mix growth of 6.2%. Overall, this reflected strong growth for Dettol, Durex and Gaviscon, partially offset by the expected impact of the weak cough, cold and flu season which resulted in our OTC portfolio being down just over 20% in the quarter. Veet and E45 also performed well.

Price/mix growth in the quarter reflected the strong performance from Durex, particularly in Asia, and a lower level of price-related promotional activities in disinfection.

Nutrition

23% of net revenue in 2020

- Good innovation-led growth in North America for infant nutrition offset by weakness in Greater China, mainly Hong Kong
    - Good growth for infant nutrition in North America – with improving market share for Enfamil towards the end of the year
    - Lower cross-border revenues and increased domestic competition in Greater China
- Good growth for vitamins, minerals and supplements, led by very strong demand for Airborne

	£m	Volume	Price / Mix	LFL[1]	FX	Reported
FY 2020	**3,287**	**-1.0%**	**+1.0%**	**unchanged**	**-2.0%**	**-2.0%**
Q4 2020	809	-2.9%	-0.6%	-3.5%	-2.0%	-5.5%

Operating Profit	£m	Constant FX (CER)[1]	Reported
Adjusted Operating Profit[1]	**462**	**-34.3%**	**-35.7%**
Adjusted Operating Profit Margin[1] %	**14.1%**		**-730bps**

[1] Non-GAAP measures are defined on page 18

Nutrition revenue was unchanged on a LFL basis in the full year at £3,287m. This reflected a volume decline of 1.0% and price/mix growth of +1.0%.

Infant and child nutrition (IFCN) revenues were down 4% year-on-year, despite the strong performance in North America from Enfamil, where new innovations such as NeuroPro helped the business defend a strong share position in a growing WENR (un-subsidised) market. In particular, the Omega3-DHA-led innovation, strong consumer insight and good execution helped improve competitiveness and market shares in the second half of the year. Performance in Latin America was largely as expected, after the successful overhaul of a key spray-dryer facility in Mexico, although underlying markets remained soft, reflecting the prevailing economic climate in the region.

The Greater China business remains a focus area for the Group as we seek to improve operational performance and continue our review and analysis of strategic options. We will provide further updates through 2021. Performance of infant formula in Greater China, which represents around 25% of our Nutrition business and around 6% of Group revenues, was adversely impacted by ongoing restrictions on cross-border trade activity between Hong Kong and mainland China. In mainland China itself, a steady market share performance in the first few quarters of the year was offset by a challenging fourth quarter where, as expected, sales were adversely affected by increased price competition, particularly in the large Mother and Baby Store channel. We continue to compete well with our multi-national peers and grow share in the high-premium and super-high-premium market. However, a slowing rate of premiumisation and more competition from local suppliers is expected to reduce growth opportunities in the near-term.

In 2020, as a result of the COVID-19 pandemic additional uncertainty has been introduced into the annual impairment review of the goodwill and other intangible assets of IFCN. To reflect this uncertainty management has increased the pre-tax discount rate. This resulted in the IFCN net book value exceeding its recoverable amount, therefore management have recorded an impairment loss against IFCN goodwill of £985m. Detailed information can be found in Note 5.

2020 was a transformative year for some of our vitamins, minerals and supplements brands which now represent around 15% of the Nutrition business and grew over 30% in 2020. Airborne, our immunity supplement, grew in excess of 100% in the year, with strong growth in brand awareness and consumer demand as a result of heightened health concerns. Neuriva, launched in 2019, continued to deliver good growth with the product now commanding a 16% share of its category – up c.10% points over the previous year.

Adjusted operating profit for Nutrition at £462m was -34.3% lower on a constant FX basis and -35.7% lower on a reported basis. Adjusted operating margin was 14.1%, down 730 basis points year-on-year reflecting a number of one-off charges in the second half of the year and the impact of weaker market conditions and limited cross-border trading in Greater China. In particular, as a result of the Hong Kong / China border closures, stock write-downs of stranded product resulted in around £40m of charges in the last quarter. Looking forward, a number of initiatives are underway to improve performance and we expect to be able to make some improvements to margins in 2021, and more substantially beyond, through productivity savings, trading improvements, the benefit of product innovations and the non-repeat of the 2020 one-off charges.

Fourth Quarter Performance

Nutrition net revenue was 3.5% lower in the quarter, reflecting good growth for Airborne and Neuriva, offset by lower sales for our IFCN products in Greater China. Hong Kong particularly was again weaker year-on-year reflecting the impact of cross-border closures. Overall, IFCN was 6% lower in the fourth quarter.

Reflecting these trends, volumes were down 2.9%. Adverse price/mix of 0.6% reflected a positive net price gain in North America, offset by mix effects within Greater China.

Performance by Geography

- Strong like for like growth in all regions
- Particularly strong growth in North America, led by Lysol, Finish and Airborne
- Improved LFL growth in Developing Markets, led by Dettol and Lysol

	£m	Volume	Price / Mix	LFL[1]	FX	Reported
FY 2020						
North America	**4,304**	**+22.5%**	**+0.7%**	**+23.2%**	**-0.7%**	**+22.5%**
Europe / ANZ	**4,474**	**+5.7%**	**+2.1%**	**+7.8%**	**-1.1%**	**+6.7%**
Developing Markets	**5,215**	**+4.0%**	**+3.3%**	**+7.3%**	**-5.8%**	**+1.5%**
Total	**13,993**	**+9.6%**	**+2.2%**	**+11.8%**	**-2.9%**	**+8.9%**
Q4 2020						
North America	1,168	+16.6%	+3.6%	+20.2%	-3.0%	+17.2%
Europe / ANZ	1,136	+1.0%	+3.7%	+4.7%	+0.3%	+5.0%
Developing Markets	1,265	+4.2%	+3.0%	+7.2%	-5.3%	+1.9%
Total	**3,569**	**+6.8%**	**+3.4%**	**+10.2%**	**-2.7%**	**+7.5%**

[1] Non-GAAP measures are defined on page 18

North America

Full year revenue grew +23.2% on a like-for-like basis, driven predominantly by growth in Lysol, with Finish, Air Wick and Airborne also very strong. This was partially offset by the overall impact of the weak cough, cold and flu season that held back Mucinex revenue in the third and fourth quarters of the year, despite a strong start to the year.

Europe/ANZ

Full year revenue grew +7.8% on a like-for-like basis, due to growth for Dettol, Finish and Sagrotan, partly offset by declines in Nurofen and Strepsils.

Developing markets

Full year revenue grew by +7.3% on a like-for-like basis as a result of strong Dettol and Lysol growth, offset in part by declines for Enfamil in Hong Kong.

GROUP FINANCIAL REVIEW – Year Ended 31 December 2020

The following section should be read in conjunction with the condensed financial statements and the adjusted and other non-GAAP measures, definitions and terms section.

Net revenue

On a Group basis, net revenue was £13,993m, representing 11.8% growth on a LFL basis of which 9.6% was volume and 2.2% price/mix. Total net revenue growth at actual exchange rates was +8.9%, reflecting a foreign exchange headwind of +2.9% principally driven by Latin American currencies.

Net revenue in the year reflects the deferral of certain shipments not reaching customers by 31 December 2020, consistent with the passing of control requirements under IFRS. Prior year net revenues included these shipments, the year-on-year impact of which was not significant. The deferral reduced net revenue for the Group by £67m in 2020, of which £25m related to Health, £36m related to Hygiene and £6m related to Nutrition.

Gross margin

Gross margin decreased by 20bps to 60.3% as a result of adverse product mix principally in Health, COVID related expenses and higher costs in IFCN, including c.£40m of inventory write-downs following the Hong Kong border closure, which together more than offset productivity savings within our cost of goods sold.

The impact of the deferral of shipments, as disclosed above, was negligible on gross margin.

Net operating expenses

Brand Equity Investment (BEI) was up 7%, or £138m, on a pound spent basis (at constant currency), at 13.9% of net revenue, 50bps lower than the prior year, reflecting leverage benefits from strong net revenue growth in 2020, productivity initiatives to improve the ratio of working to non-working media spend and investments in digital talent. In absolute terms BEI increased by 5% on a reported basis.

Other costs increased by 290bps as a percentage of net revenue, reflecting higher year-on-year performance related costs, investments in capabilities and finite-life transformation costs.

Group operating profit

Group adjusted operating profit was £3,301m (2019: £3,367m) at an adjusted operating margin of 23.6%, in line with our mid-year guidance and 260bps lower than the prior year (2019: 26.2%). This largely reflects the impact of the planned investment programme announced in February 2020. As announced at the half year, the operational leverage from the strong revenue growth was reinvested in our growth initiatives and used to offset COVID related costs of around £120m (c.80bps). These COVID related costs are incremental to our planned investments and we expect them to continue into 2021.

Reported operating profit was £2,160m (2019: £1,954m operating loss) at a reported operating margin of 15.4% (2019: n/m). In the year to 31 December 2020, adjusting items of £1,141m are included in reported operating profit (2019: £5,321m), this includes £985m (2019: £5,037m) of goodwill impairment (note 5), intangible asset amortisation of £80m (2019: £81m) and a charge in relation to the Korea HS issue of £69m (2019: £nil). Further details on adjusting items can be found on page 20.

Net finance expense

Adjusted net finance expense was £260m (2019: £188m). The increase of £72m is principally due to comparison with adjusted net finance expense in 2019 which included income from significant items not repeated in 2020. Excluding these items, adjusted net finance expense in 2020 slightly increased as lower net interest costs on the Group’s borrowings were offset by the interest element of an indirect tax provision and other finance expenses recorded in 2020.

Reported net finance expense of £286m (2019: £153m) includes £26m of finance expenses on tax balances (2019: £35m finance income) which are reclassified to income taxes on an adjusted basis.

Tax

The adjusted tax rate, which excludes the effect of adjusting items, was 22.7% (2019: 21.8%) in line with expectations.

The reported tax rate was 38.4% (2019: minus 31.6%). The tax rate in 2020 and 2019 was impacted by the non-taxable Goodwill impairment. Excluding this item from both years, the reported rate in 2020 increased by c.3% to 25.2%, primarily due to the impact of the enacted increase in the UK corporation tax rate from 17% to 19% on deferred tax liabilities recorded on intangible assets.

Discontinued operations

Income from discontinued operations of £50m (2019: £898m expense) relates to a partial release of a provision relating to the prior year settlement with the Department of Justice (DoJ) in relation to Indivior PLC matters. This follows a review of outstanding items relating to the DoJ settlement and the associated provisions. The prior period expense reflects the charge to the Income Statement for the $1.4bn settlement agreed with the (DoJ), which was paid in full by the end of 2019, and amounts deemed necessary to cover any remaining litigation exposure.

Earnings per share (EPS)

Adjusted diluted EPS from continuing operations was 327.0p (2019: 349.0p), the decrease of 6.3% primarily driven by lower adjusted operating profit and higher adjusted net finance expense.

Reported diluted EPS from continuing operations was 159.3p (2019: loss per share of 393.0p).

Balance sheet

As at 31 December 2020, the Group had total equity of £9,159m (31 December 2019: £9,407m).

Current assets of £5,314m (31 December 2019: £5,033m) increased by £281m, driven by higher inventories and cash and cash equivalents offset by lower trade and other receivables. The Group's working capital movements are described below.

Current liabilities of £6,938m (31 December 2019: £8,931m) decreased by £1,993m. This decrease principally resulted from significantly lower short-term borrowings, following repayment of commercial paper and term loans in the year, which more than offset higher trade and other payables. The Group's working capital movements are described below.

Non-current assets of £25,978m (31 December 2019: £27,106m) primarily comprise of goodwill and other intangible assets of £22,979m (31 December 2019: £24,261m) and property, plant and equipment. The £1,128m decrease in non-current assets is driven by goodwill and other intangibles, as the result of the £985m IFCN impairment charge in addition to a decline due to the retranslation of foreign currency denominated assets.

Non-current liabilities of £15,195m (31 December 2019: £13,801m) increased by £1,394m, driven predominantly by higher long-term borrowings following the issuance of new bonds of just under £2bn in the year.

Net working capital

During the period, net working capital improved by £802m to negative £2,229m (31 December 2019: negative £1,427m). Net working capital as a percentage of 12-month net revenue is -16% (31 December 2019: -11%).

The improvement in net working capital was primarily driven by higher trade and other payables, up £922m to £5,742m (31 December 2019: £4,820m), and lower trade receivables, down £158m to £1,921m (31 December 2019: £2,079m) partially offset by higher inventories, up £278m to £1,592m (31 December 2019: £1,314m). The increase in trade and other payables is due to higher manufacturing activity, volume related increases to trade spend accruals and higher variable pay accruals.

Cash Flow

	31 Dec 2020 £m	31 Dec 2019 £m
Cash generated from continuing operations	4,557	3,408
Less: net interest paid	(267)	(210)
Less: tax paid	(762)	(647)
Less: purchase of property, plant & equipment	(394)	(306)
Less: purchase of intangible assets	(92)	(137)
Plus: proceeds from the sale of property, plant & equipment	10	37
Free Cash Flow	**3,052**	**2,145**
Free Cash Flow Conversion	**131%**	**87%**

Cash generated from continuing operations was £4,557m (2019: £3,408m), higher by £1,149m primarily driven by favourable net working capital movements of £802m. Net cash generated from operating activities was £3,518m (2019: £1,411m) after net interest payments of £267m (2019: £210m) and tax payments of £762m (2019: £647m).

Free cash flow is the amount of cash generated from continuing operating activities after capital expenditure on property, plant and equipment and intangible assets and any related disposals. Free cash flow reflects cash flows that could be used for payment of dividends, repayment of debt or to fund acquisitions or other strategic objectives. Free cash flow as a percentage of continuing adjusted net income was 131% (2019: 87%).

Net debt

	31 Dec 2020 £m	31 Dec 2019 £m
Opening net debt	(10,749)	(10,746)
Free cashflow from continuing operations	3,052	2,145
Shares reissued	131	61
Purchase of investments and acquisition of businesses	(36)	(36)
Dividends paid	(1,257)	(1,242)
Movement in lease liabilities	(86)	(63)
Exchange and other movements	1	272
Cash flow attributable to discontinued operations	(10)	(1,140)
Closing net debt	**(8,954)**	(10,749)

During the year to 31 December 2020 net debt reduced by £1,795m to £8,954m. The significant reduction in net debt was driven by strong free cash flow of £3,052m offset by dividend payments of £1,257m. The Group regularly reviews its banking arrangements and currently has adequate facilities available to it.

The Group has committed facilities totalling £5,500m (31 December 2019: £5,500m) which are undrawn and available to draw. The Group remains compliant with its banking covenants. The committed facilities are not subject to renewal until from 2022 onwards. During 2020, the Group temporarily drew down part of its committed facilities due to short term illiquidity in the commercial paper market. This was repaid in full during 2020.

Dividends

The Board of Directors recommends a final 2020 dividend of 101.6 pence (2019: 101.6 pence), to give a full year dividend of 174.6 pence (2019: 174.6 pence). The dividend if approved by shareholders at the AGM on 28 May 2021, will be paid on 14 June 2021. The ex-dividend date is 6 May 2021. The final dividend will be accrued once approved by Shareholders.

Capital returns policy

RB has consistently communicated its intention to use its strong cash flow for the benefit of Shareholders. Our priority remains to reinvest our financial resources back into the business, including through value-adding acquisitions, 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 overtime.

Repatriating cash to shareholders through a growing dividend remains a long-term goal of the business. As a result of the investments being made in 2020 and expected to be made in 2021, which will benefit long-term sustainable growth, our dividend pay-out for the current year is above the threshold set out in our policy, i.e. of paying an ordinary dividend equivalent to around 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.

In line with the investment priorities, we expect to invest an incremental capital expenditure of around £400m in total, spread over the next few years.

We will continue to rigorously evaluate our portfolio to actively migrate it to higher growth.

Return on Capital Employed (ROCE)

The Group continues to focus on employing capital appropriate to drive long term value creation for its shareholders. The Group's ROCE in 2020 was 10.1% (2019: 10.3%). This is largely the result of Adjusted Operating Profit at constant exchange rates being broadly flat compared to the prior year coupled with a higher adjusted tax rate in 2020 than 2019.

Adjusted and Other Non-GAAP 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 basis.

Financial information presented on an adjusted basis excludes certain cash and non-cash items which management believe are not reflective of the underlying financial performance of the business. Financial information on an adjusted basis is consistent with how management reviews the business for the purpose of making operating decisions. Adjusting items comprise exceptional items, other adjusting items and the reclassification of finance expenses on tax balances.

- Exceptional items are material, non-recurring items of expense or income.
- Other adjusting items relate to expenses or income that the Group adjust for because their pattern of recognition is largely uncorrelated with the underlying performance of the business. This includes the following items:
    - Amortisation of acquired brands, trademarks and similar assets;
    - Amortisation of certain other intangible assets recorded as the result of a business combination;
    - Profits or losses relating to the sale of brands and related intangible assets
    - 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; and
    - Re-cycled foreign exchange translation reserves upon the sale, liquidation, repayment of share capital or abandonment of a subsidiary previously controlled by the Group.
- Adjusting items include a reclassification of finance expenses on tax balances into income tax expense, to align with the Group's tax guidance. As a result, these expenses are presented as part of income tax expense on an adjusted basis.

Adjusted measures

- **Adjusted Operating Profit and Adjusted Operating Profit margin:** Adjusted operating profit reflects the IFRS operating profit excluding items in line with the group's adjusted items policy. See page 20 for details on the adjusting items and a reconciliation between IFRS operating 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 20 for details on the adjusting items and a reconciliation between IFRS net 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 net working capital:** Adjusted net working capital excludes the impact of the DoJ accrual in respect of the 2019 settlement with the Department of Justice (DoJ) in relation to Indivior PLC matters.

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. LFL growth also excludes Venezuela.

- **Constant exchange rate ("CER"):** Net revenue 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 17. The Group tracks Free Cash Flow on a % of adjusted net income to understand the conversion of adjusted profit into cash.

Other definitions and terms

- **E-commerce:** E-commerce channel net revenue is defined as direct sales from RB to online platforms or directly to consumers. Estimates of total e-commerce sales as a percentage of group revenues includes direct sales and an estimate of sales achieved by our brands corresponding to sales through our omnichannel distributors and retailer' websites.

- **Continuing operations:** Continuing operations excludes any credits or charges related to the previously demerged RB Pharmaceuticals business that became Indivior PLC. Net income / (loss) from discontinued operations is presented as a single line item in the Group Income Statement.

- **Return on capital employed ("ROCE")** is defined as adjusting 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 the impairment of IFCN made in 2019 and 2020, so that ROCE is not increased by these impairments. Current liabilities exclude legal provisions recorded as a result of exceptional items and current tax.

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

Year ended 31 December 2020	Reported £m	Adjusting items: Exceptional items[1] £m	Adjusting items: Other Items[2] £m	Adjusting items: Finance Expense Reclass[3] £m	Adjusted £m
Operating Profit	**2,160**	**1,061**	**80**	**-**	**3,301**
Net finance expense	(286)	-	-	26	**(260)**
Share of loss of associate	(1)	-	-	-	**(1)**
Profit before income tax	**1,873**	**1,061**	**80**	**26**	**3,040**
Income tax expense	(720)	(3)	59	(26)	**(690)**
Net income from continuing operations	**1,153**	**1,058**	**139**	**-**	**2,350**
Less: Attributable to non-controlling interests	(16)	-	-	-	(16)
Net income from continuing operations attributable to owners of the parent company	**1,137**	**1,058**	**139**	**-**	**2,334**
Net profit for the period from discontinued operations	**50**	**(50)**	**-**	**-**	**-**
Total net income for the year attributable to owners of the parent	**1,187**	**1,008**	**139**	**-**	**2,334**
Diluted earnings per share (EPS) from continuing operations	**159.3**				**327.0**

1. Exceptional items include £985 million impairment on IFCN Goodwill (2019: £5,037 million) (note 5), a charge of £69 million (2019: £nil) relating to the Korea HS issue and a charge of £7 million relating to previously announced restructuring projects (principally RB 2.0 costs). Included within income tax expense is a £3 million tax credit for these exceptional costs.
2. Other adjusting items of £80 million relate to the amortisation of certain intangible assets recognised as a result of the acquisition of MJN. Included within income tax expense is a net £59 million charge, being a £19 million tax credit in respect of this amortisation offset by a £78 million tax charge to adjust deferred tax liabilities for intangible assets for the UK tax rate change.
3. Adjusting items of £26 million relate to the reclassification of interest expense on income tax balances from net finance expense to income tax in the adjusted measures.

The table below reconciles the Group's reported IFRS measures to its adjusted measures for the year ended 31 December 2019.

Year ended 31 December 2019	Reported £m	Adjusting items: Exceptional items[2] £m	Adjusting items: Other Items[3] £m	Adjusting items: Finance Expense Reclass[4] £m	Adjusted £m
Operating (Loss) / Profit	**(1,954)**	**5,240**	**81**	**-**	**3,367**
Net finance expense	(153)	-	-	(35)	(188)
(Loss) / Profit before income tax	**(2,107)**	**5,240**	**81**	**(35)**	**3,179**
Income tax expense	(665)	(45)	(18)	35	(693)
Net (loss) / income from continuing operations	**(2,772)**	**5,195**	**63**	**-**	**2,486**
Less: Attributable to non-controlling interests	(13)	-	-	-	(13)
Net (loss) / income from continuing operations attributable to owners of the parent company	**(2,785)**	**5,195**	**63**	**-**	**2,473**
Net loss for the period from discontinued operations	**(898)**[1]	**898**	**-**	**-**	**-**
Total net (loss) / income for the year attributable to owners of the parent	**(3,683)**	**6,093**	**63**	**-**	**2,473**
Diluted earnings per share (EPS) from continuing operations	**(393.0)p**				**349.0p**

1. Exceptional items within Discontinued Operations of £898 million relate to charges in relation to the settlement amount for the US Department of Justice ("DoJ") and the US Federal Trade Commission investigations. Refer to Note 9 for further details.

2. Exceptional items within Operating Profit of £5,240 million relate to MJN integration / RB2.0 costs (£113 million), restructuring and other projects (£11 million), IFCN impairment of goodwill (£5,037m) and Oriental Pharma impairment of intangible assets (£79 million). Included within income tax expense is a £45 million income tax credit for these exceptional costs.
3. Other adjusting items of £81 million relate to the amortisation of certain intangible assets recognised as a result of the acquisition of MJN. Included within income tax expense is a £18 million income tax credit in respect of these costs.
4. Adjusting items of £35 million relate to the reclassification of interest income on income tax balances from net finance expense to income tax in the adjusted measures.

Condensed Financial Statements

Group Income Statement
For the 12 months ended 31 December 2020 (unaudited)

For the year ended 31 December	**2020 £m unaudited**	2019 £m audited
CONTINUING OPERATIONS		
Net Revenue	**13,993**	12,846
Cost of sales	**(5,558)**	(5,068)
Gross profit	**8,435**	7,778
Net operating expenses	**(5,290)**	(4,616)
Impairment of goodwill and other intangible assets	**(985)**	(5,116)
Operating profit/(loss)	**2,160**	(1,954)
Finance income	**77**	161
Finance expense	**(363)**	(314)
Net finance expense	**(286)**	(153)
Share of loss of equity-accounted investees, net of tax	**(1)**	–
Profit/(loss) before income tax	**1,873**	(2,107)
Income tax expense	**(720)**	(665)
Net income/(loss) from continuing operations	**1,153**	(2,772)
Net profit /(loss) from discontinued operations	**50**	(898)
Net income/(loss)	**1,203**	(3,670)
Attributable to non-controlling interests	**16**	13
Attributable to owners of the parent company	**1,187**	(3,683)
Net income/(loss)	**1,203**	(3,670)
Basic earnings/(loss) per ordinary share		
From continuing operations (pence)	**160.0**	(393.0)
From discontinued operations (pence)	**7.0**	(126.7)
From total operations (pence)	**167.0**	(519.7)
Diluted earnings/(loss) per ordinary share		
From continuing operations (pence)	**159.3**	(393.0)
From discontinued operations (pence)	**7.0**	(126.7)
From total operations (pence)	**166.3**	(519.7)

Group Statement of Comprehensive Income
For the 12 months ended 31 December 2020 (unaudited)

For the year ended 31 December	**2020 £m unaudited**	2019 £m audited
Net income/(loss)	**1,203**	(3,670)
Other comprehensive income/(expense)		
Items that may be reclassified to income statement in subsequent years		
Net exchange losses on foreign currency translation, net of tax	**(207)**	(579)
(Losses)/gains on net investment hedges, net of tax	**(75)**	70
Losses on cash flow hedges, net of tax	**(17)**	(9)
	(299)	(518)
Items that will not be reclassified to income statement in subsequent years		
Remeasurements of defined benefit pension plans, net of tax	**(60)**	14
Revaluation of equity instruments – FVOCI	**19**	(13)
	(41)	1
Other comprehensive (expense) net of tax	**(340)**	(517)
Total comprehensive income/(expense)	**863**	(4,187)
Attributable to non-controlling interests	**16**	12
Attributable to owners of the parent company	**847**	(4,199)
Total comprehensive income/(expense)	**863**	(4,187)
Total comprehensive income/(expense) attributable to owners of the parent company arising from:		
Continuing operations	**797**	(3,301)
Discontinued operations	**50**	(898)
	847	(4,199)

Group Balance Sheet
As at 31 December 2020 (unaudited)

As at 31 December	**2020 £m unaudited**	2019 £m audited
ASSETS		
Non-current assets		
Goodwill and other intangible assets	**22,979**	24,261
Property, plant and equipment	**2,233**	2,140
Equity instruments	**136**	58
Deferred tax assets	**258**	224
Retirement benefit surplus	**226**	268
Other non-current receivables	**146**	155
Total non-current assets	**25,978**	27,106
Current assets		
Inventories	**1,592**	1,314
Trade and other receivables	**1,921**	2,079
Derivative financial instruments	**30**	30
Current tax recoverable	**125**	61
Cash and cash equivalents	**1,646**	1,549
Total current assets	**5,314**	5,033
Total assets	**31,292**	32,139
LIABILITIES		
Current liabilities		
Short-term borrowings	**(763)**	(3,650)
Provisions for liabilities and charges	**(243)**	(178)
Trade and other payables	**(5,742)**	(4,820)
Derivative financial instruments	**(118)**	(138)
Current tax liabilities	**(72)**	(145)
Total current liabilities	**(6,938)**	(8,931)
Non-current liabilities		
Long-term borrowings	**(9,794)**	(8,545)
Deferred tax liabilities	**(3,562)**	(3,513)
Retirement benefit obligations	**(372)**	(351)
Provisions for liabilities and charges	**(49)**	(56)
Non-current tax liabilities	**(1,021)**	(969)
Other non-current liabilities	**(397)**	(367)
Total non-current liabilities	**(15,195)**	(13,801)
Total liabilities	**(22,133)**	(22,732)
Net assets	**9,159**	9,407
EQUITY		
Capital and reserves		
Share capital	**74**	74
Share premium	**252**	245
Merger reserve	**(14,229)**	(14,229)
Other reserves	**(379)**	(80)
Retained earnings	**23,397**	23,353
Attributable to owners of the parent company	**9,115**	9,363
Attributable to non-controlling interests	**44**	44
Total equity	**9,159**	9,407

Group Statement of Changes in Equity
For the 12 months ended 31 December 2020 (unaudited)

	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total attributable to owners of the parent company £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2019	74	245	(14,229)	437	28,197	14,724	47	14,771
Comprehensive income								
Net (loss)/income	–	–	–	–	(3,683)	(3,683)	13	(3,670)
Other comprehensive (expense)/income	–	–	–	(517)	1	(516)	(1)	(517)
Total comprehensive (expense)/income	**–**	**–**	**–**	**(517)**	**(3,682)**	**(4,199)**	**12**	**(4,187)**
Transactions with owners								
Treasury shares re-issued	–	–	–	–	61	61	–	61
Share-based payments	–	–	–	–	18	18	–	18
Tax on share awards	–	–	–	–	4	4	–	4
Cash dividends	–	–	–	–	(1,227)	(1,227)	(15)	(1,242)
Transactions with non-controlling interests	–	–	–	–	(18)	(18)	–	(18)
Total transactions with owners	**–**	**–**	**–**	**–**	**(1,162)**	**(1,162)**	**(15)**	**(1,177)**
Balance at 31 December 2019	**74**	**245**	**(14,229)**	**(80)**	**23,353**	**9,363**	**44**	**9,407**
Comprehensive income								
Net income	–	–	–	–	1,187	1,187	16	1,203
Other comprehensive (expense)/income	–	–	–	(299)	(41)	(340)	–	(340)
Total comprehensive income/(expense)	**–**	**–**	**–**	**(299)**	**1,146**	**847**	**16**	**863**
Transactions with owners								
Treasury shares re-issued	–	7	–	–	124	131	–	131
Share-based payments	–	–	–	–	15	15	–	15
Purchase of ordinary shares by employee share ownership trust	–	–	–	–	(4)	(4)	-	(4)
Tax on share awards	–	–	–	–	4	4	–	4
Cash dividends	–	–	–	–	(1,241)	(1,241)	(16)	(1,257)
Total transactions with owners	**–**	**7**	**–**	**–**	**(1,102)**	**(1,095)**	**(16)**	**(1,111)**
Balance at 31 December 2020	**74**	**252**	**(14,229)**	**(379)**	**23,397**	**9,115**	**44**	**9,159**

Group Cash Flow Statement
For the 12 months ended 31 December 2020 (unaudited)

For the year ended 31 December	**2020 £m unaudited**	2019 £m audited
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit/(loss) from continuing operations	**2,160**	(1,954)
Losses/(gains) on sale of property, plant and equipment and intangible assets	**3**	(4)
Depreciation, amortisation and impairment	**1,457**	5,554
Share-based payments	**15**	18
Increase in inventories	**(317)**	(87)
Decrease/(increase) in trade and other receivables	**94**	(150)
Increase in payables and provisions	**1,145**	31
Cash generated from continuing operations	**4,557**	3,408
Interest paid	**(323)**	(371)
Interest received	**56**	161
Tax paid	**(762)**	(647)
Net cash flows attributable to discontinued operations	**(10)**	(1,140)
Net cash generated from operating activities	**3,518**	1,411
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(394)**	(306)
Purchase of intangible assets	**(92)**	(137)
Proceeds from the sale of property, plant and equipment	**10**	37
Acquisition of businesses, net of cash acquired	**-**	(18)
Purchase of equity instruments and convertible notes	**(36)**	(18)
Net cash used in investing activities	**(512)**	(442)
CASH FLOWS FROM FINANCING ACTIVITIES		
Treasury shares re-issued	**131**	61
Purchase of ordinary shares by employee share ownership trust	**(4)**	-
Proceeds from borrowings	**2,903**	1,548
Repayment of borrowings	**(4,583)**	(1,122)
Dividends paid to owners of the parent company	**(1,241)**	(1,227)
Dividends paid to non-controlling interests	**(16)**	(15)
Other financing activities	**(47)**	(75)
Net cash used in financing activities	**(2,857)**	(830)
Net increase in cash and cash equivalents	**149**	139
Cash and cash equivalents at beginning of the year	**1,547**	1,477
Exchange losses	**(52)**	(69)
Cash and cash equivalents at end of the year	**1,644**	1,547
Cash and cash equivalents comprise:		
Cash and cash equivalents	**1,646**	1,549
Overdrafts	**(2)**	(2)
	1,644	1,547

1 ACCOUNTING POLICIES

General

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

These condensed Financial Statements have not been audited.

Basis of Preparation

The condensed Financial Statements have been prepared in accordance with the recognition, measurement and presentation requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006, in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, and in accordance with IFRS as issued by the International Accounting Standards Board (IASB).

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2020 or 2019. The financial information for 2019 is derived from the statutory accounts for 2019 which have been delivered to the registrar of companies. The auditor has reported on the 2019 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for 2020 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

The Directors are satisfied that the Group has adequate resources to continue in operation for a period of not less than twelve months from the date of these condensed Financial Statements. Consequently, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing these condensed Financial Statements. When reaching this conclusion, the Directors took into account the Group's overall financial position, its diverse customer and supplier base across different geographical areas and categories, and its exposure to principal risks, including the ongoing impact of COVID-19. At 31 December 2020, the Group had cash and cash equivalents of £1.6bn. The Group also had access to committed borrowing facilities of £5.5bn. These facilities were undrawn at year end and are not subject to renewal until 2022 onwards.

Accounting Policies and Estimates

With the exception of those changes described below, the accounting policies adopted in the preparation of the condensed Financial Statements are consistent with those described on pages 157-163 of the Annual Report and Financial Statements for the year ended 31 December 2019.

The following amended standards and interpretations were adopted by the Group on 1 January 2020. They have not had a significant impact on the condensed Financial Statements:

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8).
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

In preparing these condensed Financial Statements, the significant estimates and judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group financial statements for the year ended 31 December 2019.

2 OPERATING SEGMENTS

The Group's operating segments comprise of the Hygiene, Health and Nutrition business units reflecting the way in which information is presented to and reviewed by the Group's Chief Operating Decision Maker (CODM) for the purposes of making strategic decisions and assessing group-wide performance. In the second half of 2020, the Group's operating segments changed as the information presented to and reviewed by the Group's CODM was aligned to organisational changes which were implemented by the Group on 1 July 2020.

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

The Executive Committee assesses the performance of these operating segments based on Net Revenue from external customers and Adjusted Operating Profit. Intercompany transactions between operating segments are eliminated. Finance income and expense are not allocated to segments, as each is managed on a centralised basis.

The segment information for the operating segments for the year ended 31 December 2020 and 31 December 2019 is as follows:

Year ended 31 December 2020	**Hygiene £m**	**Health £m**	**Nutrition £m**	**Adjusting Items £m**	**Total £m**
Net Revenue	**5,816**	**4,890**	**3,287**	**-**	**13,993**
Depreciation & amortisation	**(128)**	**(142)**	**(122)**	**(80)**	**(472)**
Operating Profit	**1,505**	**1,334**	**462**	**(1,141)**	**2,160**
Net finance expense					**(286)**
Share of loss from associates					**(1)**
Profit before income tax					**1,873**
Income tax expense					**(720)**
Net income from continuing operations					**1,153**

Year ended 31 December 2019 (restated)*	Hygiene £m	Health £m	Nutrition £m	Adjusting Items £m	Total £m
Net Revenue	5,031	4,462	3,353	-	12,846
Depreciation & amortisation	(117)	(135)	(97)	(81)	(430)
Operating Profit/(Loss)	1,279	1,370	718	(5,321)	(1,954)
Net finance expense					(153)
Loss before income tax					(2,107)
Income tax expense					(665)
Net loss from continuing operations					(2,772)

* Segmental information for the year ended 31 December 2019 has been restated to reflect the Group's current operating segments, which changed in the second half of 2020.

Financial information for the Hygiene, Health and Nutrition operating segments is presented on an adjusted basis, which excludes certain cash and non-cash items which management believe are not reflective of the underlying financial performance of the business. Financial information on an adjusted basis is consistent with how management reviews the business for the purpose of making operating decisions. Adjusting items to operating profit comprise exceptional items and other adjusting items.

- Exceptional items are material, non-recurring items of expense or income.
- Other adjusting items includes the amortisation of certain fair value adjustments recorded in respect of finite-life intangible assets recognised in the purchase price allocation for the acquisition of MJN. These are not classified as exceptional items because of their recurring nature.

3 INCOME TAXES

	2020 £m	2019 £m
Current tax	**740**	640
Adjustment in respect of prior periods	**(45)**	36
Total current tax	**695**	676
Origination and reversal of temporary differences	**(56)**	(10)
Impact of changes in tax rates	**81**	(1)
Total deferred tax	**25**	(11)
Income tax expense	**720**	665

4 EARNINGS PER SHARE

	2020 pence	2019 pence
Basic earnings/(loss) per share		
From continuing operations	160.0	(393.0)
From discontinued operations	7.0	(126.7)
Total basic earnings/(loss) per share	167.0	(519.7)
Diluted earnings/(loss) per share		
From continuing operations	159.3	(393.0)
From discontinued operations	7.0	(126.7)
Total diluted earnings/(loss) per share	166.3	(519.7)

Basic

Basic earnings per share is calculated by dividing the net income/(loss) attributable to owners of the parent company from continuing operations (2020: £1,137 million income; 2019: £2,785 million loss) and discontinued operations (2020: £50 million income; 2019: £898 million loss) by the weighted average number of ordinary shares in issue during the year (2020: 710,907,200; 2019: 708,688,420).

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 2020 there were 1,865,524 (2019: 7,970,362) Executive Share Awards excluded from the dilution because the exercise price for the options was greater than the average share price for the year or the performance criteria have not been met.

	2020 Average number of shares	2019 Average number of shares
On a basic basis	710,907,200	708,688,420
Dilution for Executive Share Awards[1]	61,251	–
Dilution for Employee Sharesave Scheme Options outstanding[1]	2,778,499	–
On a diluted basis	713,746,950	708,688,420

1 As there was a loss in 2019, the effect of potentially dilutive shares is anti-dilutive.

5 GOODWILL AND INTANGIBLE ASSETS

Impairment of IFCN Goodwill

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

In 2019 the Group determined that the IFCN net book value exceeded its recoverable amount. The Group accordingly recognised an impairment loss of £5,037 million against IFCN goodwill, to record IFCN at its recoverable amount of £9,890 million. Following the recognition of this impairment loss, no headroom remained between the IFCN recoverable amount and net book value.

During 2020 IFCN's performance fell below expectations, particularly in Greater China due to on-going restrictions on cross border trade between Hong Kong and mainland China, and the impact of increased local competition, despite holding market share in mainland China. Additionally, operating margins were impacted by product write-offs due to lack of trade between Hong Kong and mainland China. The COVID-19 pandemic and the resultant recession further impacted global IFCN performance. The Group considers these headwinds to be temporary and does not anticipate these factors to significantly impact its long-term expectations for the IFCN business. However, as a result, for the 2020 IFCN impairment assessment the Group has revised down its near-term expectations for IFCN ahead of anticipated medium-term recovery and margin improvement from on-going and future productivity programs. The Group's expectations for IFCN operating margins in the medium term are consistent with assumptions in the prior year's impairment assessment.

In 2020, as a result of the COVID-19 pandemic additional uncertainty has been introduced into the valuation of IFCN. To reflect this uncertainty management has increased the pre-tax discount rate used to determine value-in-use. This resulted in the IFCN net book value exceeding its recoverable amount, therefore management have recorded an impairment loss against IFCN goodwill of £985 million to record IFCN at its recoverable amount of £8,810 million.

The recoverable amount for IFCN has been calculated on a value-in-use basis (2019: value-in-use basis). The value-in-use of IFCN was determined utilising a discounted cash flow approach with future cash flows derived from a detailed five-year financial plan. Cashflows beyond the five-year plan are projected using steady or progressively declining growth rates followed by a terminal growth rate. The valuation used a pre-tax discount rate of 9.6% (2019: 9.0%) and an IFCN specific terminal growth rate of 2.5% (2019: 2.5%).

The determination of the recoverable amount for IFCN at 31 December 2020 incorporates certain key assumptions, some of which are subject to considerable uncertainty. These assumptions include but are not limited to the duration of the COVID-19 pandemic, the resultant recession and the impact on birth rates, the duration of cross border trade restrictions between Hong Kong and mainland China and the commercial success of new product launches, including adult nutrition, and the expansion of specialty nutrition. As no headroom exists between the IFCN recoverable amount and net book value, any changes to these assumptions, or any deterioration in other macro or business-level assumptions supporting the IFCN recoverable amount could necessitate the recognition of impairment losses in future periods.

The expected Net Revenue and Gross Margin growth rates included within the 2020 impairment assessment are outlined below, and reflect the lower base in 2020 in the calculation of the growth rates:

	2020
Annual growth in Net Revenue between 2021 and 2030[1]	**3% to 5%**
Annual growth in Gross Margin between 2021 and 2030[1]	**3% to 6%**

	2019
Annual growth in Net Revenue between 2020 and 2029[1]	**2% to 4%**
Annual growth in Gross Margin between 2020 and 2029[1]	**2% to 4%**

[1] At constant exchange rates, excluding the impact of future foreign exchange movements.

The key estimates incorporated within the determination of the IFCN recoverable amount are summarised below:

Key estimates	Commentary
Greater China market	In the short to medium-term, management expects that Greater China will continue to be impacted by increased competition and regulation combined with generally subdued domestic birth rates. Management currently expects the restrictions on cross-border trade between Hong Kong and mainland China to be removed in the short-term, which is a source of uncertainty.
US market	In the US, management expects market conditions to be relatively stable but be impacted by a medium-term decline in birth rates due to COVID-19. Tendering for WIC contracts continues to remain highly competitive.
Net Revenue	In the short to medium-term, management expects to achieve Net Revenue growth (excluding the impact of foreign exchange movements) of between 3% and 5% per annum. This is expected to be achieved through a mix of ongoing premiumisation, price increases, volume growth and revenues from new products / category launches including adult nutrition, and the expansion of specialty nutrition.
Margins	In the short to medium-term, management expects IFCN margins (both gross and operating) to increase from current levels as the temporary factors which impacted margins in 2020 unwind and IFCN realises benefits from RBs multi-year productivity program. Management's expectations for IFCN operating margins in the medium term are consistent with assumptions in the prior year's impairment assessment.
Discount rate	Management determined an IFCN-specific weighted average cost of capital (WACC) and the implied pre-tax discount rate with the support of a third party expert. In addition, management performed benchmarking against other comparable companies. For valuation purposes management used the upper end of the calculated range in 2020 to reflect considerable uncertainty in certain key assumptions.
Terminal growth rate	Management engaged a third-party expert to help calculate an IFCN-specific terminal growth rate. Management is satisfied with the reasonableness of this rate when compared against independent market growth projections and long-term country inflation rates.

The table below shows the sensitivity of the 2020 recoverable amount to reasonable changes in key assumptions. The table assumes no related response by management (e.g. to drive further cost savings) and is hence theoretical in nature.

	(£m)
Expected Net Revenue growth rates (2021 to 2030) adjusted by 100 bps	+/- 900
Expected EBIT growth rates (2021 to 2030) adjusted by 100 bps	+/- 600
Terminal growth rate (applied from 2031) adjusted by 50 bps	+600 / -500
Pre-tax discount rate adjusted by 50 bps	+700 / -600

6 FINANCIAL LIABILITIES - BORROWINGS

	2020 £m	2019 £m
Bank loans and overdrafts[1]	**20**	16
Commercial paper[2]	**671**	2,993
Senior notes	**-**	569
Lease liabilities	**72**	72
Total short-term borrowings	**763**	3,650
Bonds	**8,041**	6,201
Senior notes	**1,221**	1,265
Term loans	**291**	826
Lease liabilities	**241**	253
Total long-term borrowings	**9,794**	8,545
Total borrowings	**10,557**	12,195
Derivative financial Instruments	**43**	105
Less overdrafts presented in cash and cash equivalents in the cash flow statement	**(2)**	(2)
Total financing liabilities	**10,598**	12,298

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.

Subsequent to the year end, the Group repaid $400 million (£291 million) of term loans earlier than their contractual maturity date. At 31 December 2020, these term loans were presented in non-current liabilities on the balance sheet as they were not due for repayment based on their contractual maturity date within the next twelve months.

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

	Assets		**Liabilities**	
2020 (£m)	**Current**	**Non-Current[1]**	**Current**	**Non-Current**
Derivative financial instruments (financing liabilities)	6	19	(68)	-
Derivative financial instruments (non-financing liabilities)	24	-	(50)	-
At 31 December 2020	30	19	(118)	-

[1]Included within Other non-current receivables on the Balance Sheet.

	Assets		Liabilities	
2019 (£m)	Current	Non-Current[1]	Current	Non-Current
Derivative financial instruments (financing liabilities)	4	–	(109)	–
Derivative financial instruments (non-financing liabilities)	26	–	(29)	–
At 31 December 2019	30	–	(138)	–

[1]Included within Other non-current receivables on the Balance Sheet.

Reconciliation of movement in financing liabilities to cash flow statement	**2020 £m**	2019 £m
At 1 January	12,298	12,223
Proceeds from borrowings	2,903	1,548
Repayment of borrowings	(4,583)	(1,122)
Other financing cash flows	(47)	(75)
New lease liabilities	86	63
Exchange, fair value and other movements	(59)	(339)
At 31 December	10,598	12,298

7 DIVIDENDS

	2020 £m	2019 £m
Cash dividends on equity ordinary shares:		
2019 Final paid: 101.6p (2018: Final 100.2p) per share	**721**	709
2020 Interim paid: 73p (2019: Interim 73p) per share	**520**	518
Total dividends for the year	**1,241**	1,227

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2020 of 101.6p per share which will absorb an estimated £724 million of Shareholders' funds. If approved by Shareholders it will be paid on 14 June 2021 to Shareholders who are on the register on 7 May 2021, with an ex-dividend date of 6 May 2021.

8 CONTINGENT LIABILITIES AND ASSETS

The Humidifier Sanitiser ("HS") issue in South Korea was a tragic event. The Group continues to make both public and personal apologies to the victims who have suffered lung injury as a result of the Oxy HS product and the role that the Oxy HS product played in the issue.

As previously reported, over the last several years the South Korean government has designated a number of diseases as HS injuries, in addition to the HS lung injury for which RB Korea's (RBK) compensation plan was established. These include asthma, toxic hepatitis, child interstitial lung disease, bronchitis and upper airway disease. Detailed data underpinning recognition of these diseases has not been disclosed nor has detailed recognition criteria.

The Korean National Assembly passed a bill on 6 March 2020 to amend the HS law. The amendment became effective on 25 September 2020. The main changes in the amendment relate to: (i) the definition of HS injury (removing the requirement for "substantial causation" with HS exposure); (ii) the legal presumption of causation (shifting the burden of proof for causation to the defendant if the plaintiff demonstrates "epidemiological correlation" between HS exposure and their injury), and (iii) amendments to the fund set up by the government and funded by the government and HS companies (the special relief fund ("SRF"), now called the injury relief fund ("IRF")) to provide expanded support payments to HS victims (which would cover all elements of court awarded damages except mental distress, aside from KRW 100 million consolation payments for death cases, and partial lost income). The government can also impose on HS manufacturers an additional levy for the IRF of up to the amount previously collected for the SRF.

Further, under the amended HS law, HS victims will no longer be classified as Categories 1 to 5 based on the likelihood that HS exposure caused their lung injury. As RBK's compensation plan was dependent on the previous classification system, it will no longer be possible for the compensation plan to operate and it is now being closed.

The pending civil actions filed by HS claimants against RBK will also be impacted by the amended HS law, e.g. due to the lowered causation standard of "epidemiological correlation". Thus, we expect the number of civil claimants to increase, primarily seeking awards for mental distress and lost income (for portions not already covered by the IRF).

The Group currently has a provision of £83 million (2019: £26 million) in relation to the HS issue in South Korea. In addition, there are further potential costs that either are not considered probable or cannot be reliably estimated at the current time. The impact of the HS law amendments will require further monitoring and analysis, in particular those which will be subject to court interpretation, such as the new epidemiological correlation standard, any limitation applied by courts to damage awards and the interest rate applied by individual courts to damage awards and external factors such as the rate of future IRF applications/recognitions. Accordingly, it is not possible to make any reliable estimate of liability for individuals recognised by the government as having HS injuries.

RBK is reliant on the Group to provide funding to meet its HS liabilities, which to date the Group has been willing to do.

Other
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.

9 DISCONTINUED OPERATIONS

In the year ended 31 December 2020, the Group recorded income of £50 million (2019: £898 million expense) in discontinued operations. This income in 2020 relates to the partial release of a provision relating to the prior year settlement with the Department of Justice (DoJ) in relation to Indivior PLC matters, following a review of outstanding items relating to the DoJ settlement. The prior period expense reflects the charge to the Income Statement for the $1.4 billion settlement agreed with the (DoJ), which was paid in full by the end of 2019 and amounts deemed necessary to cover any remaining litigation exposure.

In January 2021, Indivior PLC agreed to pay $50 million to the Group over the next 5 years to settle indemnity claims relating to the Group's previous settlement with the DoJ, and certain related matters. Amounts in relation to this settlement with Indivior will be recognised as income from discontinued operations in 2021.

FURTHER INFORMATION AND CONTACTS

RB

John Dawson **+44 (0)7408 809474**
SVP, Investor Relations
Simon Whittington **+44 (0)7408 812062**
Deputy Head of Investor Relations

Patty O'Hayer **+44 (0)7825 755688**
Director, External Relations and Government Affairs

Finsbury **+44 (0)7768 943171**
Faeth Birch

Cautionary note concerning forward-looking statements

This announcement contains statements with respect to the financial condition, results of operations and business of RB (the "Group") and certain of the plans and objectives of the Group that are forward-looking statements. Words such as ''intends', 'targets', or the negative of these terms and other similar expressions of future performance or results, and their negatives, are intended to identify such forward-looking statements. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including targets for net revenue, operating margin and cost efficiency, are forward-looking statements. Such statements are not historical facts, nor are they guarantees of future performance.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including many factors outside the Group's control. Among other risks and uncertainties, the material or principal factors which could cause actual results to differ materially are: the general economic, business, political and social conditions in the key markets in which the Group operates; the ability of the Group to manage regulatory, tax and legal matters, including changes thereto; the reliability of the Group's technological infrastructure or that of third parties on which the Group relies; interruptions in the Group's supply chain and disruptions to its production facilities; the reputation of the Group's global brands; and the recruitment and retention of key management.

These forward-looking statements speak only as of the date of this announcement. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

This announcement contains inside information.

LEI: 5493003JFSMOJG48V108

Reckitt Benckiser Group plc (RB)