HEALTH ▾ HYGIENE ▾ HOME

10 February 2017

2016 – SOLID GROWTH, EXCELLENT MARGIN EXPANSION

Results at a glance (unaudited)	**Q4 £m**	**% change actual exchange**	**% change constant exchange**	**FY £m**	**% change actual exchange**	**% change constant exchange**
Net Revenue	**2,760**	+19	+1	**9,891**	+11	+2
*- Like-for-like growth**			*+1*			*+3*
Operating Profit – reported				**2,410**	+8	-3
Operating Profit – adjusted**				**2,777**	+17	+6
Net Income – reported				**1,832**	+5	-5
Net Income – adjusted**				**2,157**	+15	+4
EPS (diluted) – reported				**256.5p**	+6	
EPS (diluted) – adjusted**				**302.0p**	+17	

* Like-for-like ("LFL") growth excludes the impact of changes in exchange rates, acquisitions and disposals.
** Adjusted results exclude exceptional items.

Highlights: Full Year

- LFL Net Revenue growth of +3%. Total Net Revenue growth (at actual rates) of +11% reflecting the net positive impact of translational FX and M&A.
- Geographic growth – ENA[1] performance LFL +1% and DvM[1] performance LFL +8%. Negative impact of Korea HS issue of -1% on Group and -3% on DvM.
- Health & Hygiene led growth of LFL +4%. Health growth +4% LFL reflected broad-based growth across the portfolio, offset by Scholl / Amopé decline.
- Gross margin expansion +180bps to 60.9%, driven by mix, commodity cost tailwinds and cost optimisation initiatives.
- Continuing investment in brand equity. BEI +£63m (constant) +50bps to 13.2% of net revenue.
- Adjusted operating margin up +130bps to 28.1%.
- Adjusted net income growth of +15% (+4% constant); adjusted diluted EPS of 302.0p (+17%).
- Exceptional costs of £367m were charged in the year, principally in respect of Korea.
- Reported net income increased by +5% (-5% constant); reported diluted EPS of 256.5p (+6%).
- Strong free cash flow generation of £2,036m.
- The Board recommends a final dividend of 95.0p per share (2015: 88.7p). Total dividend for 2016 153.2p (2015: 139.0p), an increase of +10%.

Highlights: Q4 / H2

- Q4 Net Revenue LFL growth +1% – demonstrating resilience in the face of known issues (Korea, Scholl / Amopé and Russia).
- H2 Adjusted Operating Margin +40bps, driven by Gross Margin expansion and Project Supercharge initiatives.

[1] ENA and DvM composition on page 21.

Commenting on these results, Rakesh Kapoor, Chief Executive Officer, said:

“2016 was a good year in which we achieved broad-based growth and excellent margin expansion, despite challenging markets and an unusual number of issues.

We have remained focused on our Powermarkets, Powerbrands and virtuous earnings model. We continue to apply our culture of consumer centric innovation to address unmet consumer needs. We brought some successful innovations to market, including Veet Sensitive Trimmer, and Wave toilet block, launched under Harpic, Cillit Bang and Lysol. We also had poor in-market results from the new Wet & Dry, rechargeable pedi product, launched under the Scholl / Amopé franchise.

We are never happy when an innovation misses the mark, and we are proud of a culture that allows people to push ideas they passionately believe in. As such, we have to also accept that with a multitude of successes, comes the occasional failure. The important lessons have been learned. I am confident we have an exciting innovation pipeline for 2017 which has the right balance for growth and outperformance.

From a market perspective, we saw slower growth in 2016, across both Developed and a number of Emerging markets. Russia and the US in particular were tough, Turkey and Saudi were impacted by geopolitical issues. This was in part offset by strong performances in India, China, Indonesia and Thailand.

For the full year we achieved a top line growth of +3% LFL. Our virtuous earnings model continued to deliver significant value creation for shareholders. Strong gross margin expansion, combined with efficient fixed cost management, created the room in our P&L to both increase investment behind our brands (BEI) and to deliver another year of excellent operating margin expansion of +130bps.

RB has a long and proud history; in 2011 the tragic events in Korea first came to light. We have made a public and personal apology to the victims who suffered lung damage from using Oxy RB’s humidifier sanitiser product, and I reiterate that here. The harm that resulted from the use of humidifier sanitizers sold by Oxy RB and other manufacturers can never be allowed to happen again. We are committed to reinforcing our focus on safety for the future.

We have made significant strides in 2016 to do the right thing for affected Korean consumers and I have outlined these in the special report within this release. As a responsible company Oxy RB will continue to work with other manufacturers and stakeholders towards a fair and sustainable solution for all those who have been affected.

In 2017, we expect macro conditions to remain challenging, and for a number of existing headwinds to persist in the first half. We remain confident in the strength of our business and choices across Powerbrands and Powermarkets. We are targeting LFL net revenue growth of +3%[1]. For operating margin[2], we reiterate our medium term target of moderate margin expansion. ”

[1] At constant rates.
[2] Adjusted to exclude the impact of exceptional items.

Korea HS Issue

The HS issue, while dating back to events in Korea from the late 1990s, demanded significant senior management attention in 2016.

In 2001, RB acquired Oxy, a Korean company. Oxy RB manufactured and sold household products, including Humidifier Sanitiser (HS) products which accounted for less than one half of one percent of their sales. Oxy RB was one of about thirteen suppliers of HS products in the Korean market. RB did not sell HS products in any other market. Oxy RB continued to sell the HS products in Korea for the next ten years. In 2011 the Korean Centre for Disease Control (KCDC) determined that HS products might be responsible for serious respiratory diseases, including fatalities. Oxy RB immediately began to withdraw its HS products.

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

We recognised in April 2016 that this court-led process was taking too long, and was not fair on victims. From this point, Oxy RB publicly apologised to all individuals and their families who had suffered lung injury as a result of its HS product, and committed to deliver a compensation plan. In July 2016, it announced a full and fair compensation package for Category I & II Oxy HS victims categorised by the Korean Government in its first two categorisation rounds. As of 31 January 2017, 97% of eligible victims are participating in this plan.

We recognise that it took too long for Oxy RB to move from a legally driven approach and to bring forward a compensation plan. We deeply regret this delay. We are proud of the leadership position that Oxy RB has taken since April 2016 in working to resolve this tragedy.

We recognise that it will be a long road to recover the trust of Korean consumers. We also understand that all the work we can do pales in comparison to the hardship and irreparable harm suffered by HS victims. Oxy RB cannot undo the past but can work to make amends. Today its focus is on these victims and ensuring they have recognition and fair compensation for the damage caused.

Drawing on the lessons of this tragedy RB is strengthening further its approach to consumer safety. Actions are the real demonstration of putting safety at the centre of operations. We have taken significant steps including the creation of a Board Committee on product safety, compliance & ethics which will ensure that product safety is further embedded across the organisation.

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

Our Compliance Management committee is undertaking a review of safety and quality management systems; and working on the continued roll out across the world of SQC activities, including those related to evidence, safety and medical oversight.

Transparency is key in our response to the HS issue. We have included all the details of our actions on our website.

In 2017, Oxy RB will work hard to engage other stakeholders, including the Korean government and other manufacturers and ingredient suppliers, to try to find a long-term and sustainable industry-wide solution for all Category I & II HS victims in the third and fourth rounds of the categorisation process. Resolving this issue is a matter of urgency, and requires everyone to participate and learn from their mistakes.

For our part, RB is a learning organization and we will ensure our structure and governance continues to put consumer safety at the core.

Basis of Presentation and Non GAAP measures

Throughout the Report, certain measures are used to describe RB's financial performance which are not recognised under IFRS or other generally accepted accounting principles (GAAP). The Executive Committee of the Group assesses the performance of the operating segments based on net revenue and adjusted operating profit, which excludes effect of exceptional items. Management believes that the use of adjusted measures such as adjusted operating profit, adjusted net income and adjusted earnings per share provide additional useful information on underlying trends to Shareholders.

Like-for-Like ("LFL") growth on Net Revenue excludes the impact of changes in exchange rates, acquisitions and disposals. A reconciliation of LFL to reported net revenue growth by operating segment is shown on page 6 and by category on page 9.

Constant exchange rate adjusts the actual consolidated results such that the foreign currency conversion applied is made using the same exchange rates as was applied in the prior year.

Actual exchange rates show the statutory performance and position of the Group, which consolidates the results of foreign currency transactions at period end closing rates (Balance Sheet) or average rates (Income Statement).

BEI represents our Brand Equity Investment and is the marketing support designed to capture the voice, mind and heart of our consumers.

Adjusted results exclude exceptional items, defined as material, non-recurring expenses or income. A breakdown of exceptional items is detailed in Note 3. A reconciliation of adjusted operating profit is shown in Note 2 and a reconciliation of Adjusted Net Income is given in Note 5, used in the calculation of Adjusted EPS.

Free cash flow is defined as net cash generated from operating activities less net capital expenditure. A reconciliation of cash generated from operations to free cash flow is shown in the Financial Review section on page 12.

Project Supercharge

Project Supercharge was announced in February 2015 (refer to details on p12 of the 11 February 2015 announcement for a detailed description). The project focuses on:

- creating a simpler, more agile organisation
- reducing cost and driving efficiencies.

Project Fuel

Project Fuel is our ongoing cost optimization programme within cost of goods sold ("COGS").

Detailed Operating Review: Total Group

Full Year 2016

RB delivered a year of robust growth and excellent margin expansion, against a backdrop of slowing market trends and some negative company specific items.

Total full year (FY) Net Revenue was £9,891m, an increase of +2% at constant exchange rates, and +3% on a LFL basis. The impact of net M&A was slightly negative, as a positive impact from our Hypermarcas sexual wellbeing brands acquisition was more than offset by the disposal of the Medcom Hospital business and a couple of small homecare brands. The devaluation of sterling following the UK referendum in June had a significant positive impact on reported results as the majority of the Group's revenue and profits are earned outside of the UK. The positive foreign exchange on translation increased Net Revenue by +9%. From a geographic perspective growth was broad based. Our developed market area of ENA delivered LFL growth of +1% in slowing market conditions. Russia in particular saw very weak consumer demand, and the US was impacted by a later flu season than in the previous year. Our emerging market area (DvM) delivered +8% LFL growth in mixed market conditions. India and China continue to be strong, with improving trends in Indonesia, Thailand and Pakistan. Geopolitical issues and/ or challenging macro backdrop impacted performance in Turkey, Saudi Arabia and Brazil. Indian demonetization had a small impact in 2016, but will also impact the early part of 2017.

On a category basis, growth continues to be driven by our strategic priorities of Consumer Health and Hygiene brands. Consumer Health saw broad based growth across the portfolio, with the exception of the Scholl / Amopé franchise which was significantly impacted by an innovation (the Wet & Dry express pedi) which failed to deliver to our expectations. Hygiene had an improved performance in the year with growth across most powerbrands, driven by innovation and penetration building initiatives. Our Home care category had a weak year, due to specific issues in Korea (the HS issue). The underlying performance was in line with our goal of performing in line with the market.

Gross Margin increased by +180bps to 60.9%, an excellent performance driven by favourable input costs, margin accretive innovation, pricing, Project Fuel initiatives, and supply related Supercharge savings. The impact of commodity driven input costs will vary from year to year, and in 2016 these were a significant tailwind. As previously reported, we expect input costs to become headwinds in 2017. Gross Margin has, and will continue to, drive our virtuous earnings model, as we focus on favourable mix, driven by consumer health led growth, Project Fuel, pricing and gross margin enhancing innovations across our Powerbrands.

We increased investment behind our brands (as defined by our Brand Equity Investment (BEI) metric), by +£63m (constant exchange), +50bps to 13.2% of Net Revenue. The efficiencies we have driven from our Supercharge programme, (eg: consolidation of creative agencies and media buying savings), have been re-invested back into brand equity building initiatives throughout the year.

On Project Supercharge, we have completed the majority of the programme of our planned £150m cost savings over three years.

Operating profit as reported was £2,410m, +8% versus FY 2015 (-3% constant), reflecting the impact of an exceptional pre-tax charge of £367m (2015: £133m). The exceptional items relate mainly to the HS issue in Korea. Details of the exceptional charge are set out in Note 3. On an adjusted basis, operating profit was ahead +17% (+6% constant) to £2,777m. The Adjusted Operating Margin increased by +130bps to 28.1%, due to the strong gross margin expansion, and fixed cost containment.

Net finance expense was £16m (2015: £33m). Borrowing levels and the cost of finance remained broadly the same in 2016 and benefitted from some cash temporarily held in high interest countries.

The tax rate (excluding exceptionals) was 22% and in line with our guidance. We continue to expect our underlying group effective tax rate to be in the region of 23%.

Net income as reported was £1,832m, an increase of +5% (-5% constant) versus 2015. On an adjusted basis, net income was £2,157m +15% (+4% constant). Diluted earnings per share of 256.5 pence was +6% on a reported basis; on an adjusted basis, the growth was +17% to 302.0 pence.

Fourth quarter 2016

Q4 net revenue was £2,760m, an increase of +1% on a LFL basis. On a geographic basis ENA had a weaker quarter (-2% LFL), as a result of a high comparative, the Scholl / Amopé launch miss, the tough Russian market and a late start to the flu season. DvM continued its strong underlying performance with double digit growth excluding Korea. The demonetisation issue caused growth to slow in India.

Consumer Health sales were impacted by significant decline in the Scholl / Amopé franchise and a late start to the cold and flu season in the US. The rest of the portfolio experienced broad based growth. Hygiene continued its improved trend versus the prior year with good growth in Dettol, Harpic Mortein and Veja in Brazil. Lysol had a light quarter in the US due also to the late start to the cold and flu season. Within Home, Air Wick and Vanish declined, predominantly due to Korea.

FY 2016 Business Review

Summary: % Net Revenue growth

	Q4				FY16			
	LFL	**Net M&A***	**FX**	**Reported**	**LFL**	**Net M&A***	**FX**	**Reported**
North America	*-3%*	*-*	*+19%*	*+16%*	*-*	*-*	*+12%*	*+12%*
Rest of ENA	*-1%*	*-1%*	*+17%*	*+15%*	*+1%*	*-1%*	*+9%*	*+8%*
ENA	-2%	-	+18%	+15%	+1%	-1%	+10%	+10%
DvM	+6%	-	+20%	+26%	+8%	-	+6%	+14%
Food	+7%	-	+19%	+26%	+5%	-	+13%	+18%
Group	**+1%**	**-**	**+18%**	**+19%**	**+3%**	**-1%**	**+9%**	**+11%**

* Reflects the impact of acquisitions and disposals.

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

Analyses by operating segment of net revenue and adjusted operating profit, and of net revenue by product group are set out below. The Executive Committee of the Group assesses the performance of the operating segments based on net revenue and adjusted operating profit. This measurement basis excludes the effect of exceptional items.

Review by Operating Segment

Quarter ended 31 Dec 2016 £m	2015 £m	% change exch. Rates actual	const.		Full Year ended 31 Dec 2016 £m	2015 £m	% change exch. Rates Actual	const.
				Total Net Revenue				
753	*648*	*+16*	*-3*	*North America*	***2,460***	*2,189*	*+12*	*-*
1,050	*917*	*+15*	*-2*	*Rest of ENA*	***3,950***	*3,641*	*+8*	*-*
1,803	1,565	+15	-2	ENA	**6,410**	5,830	+10	-
825	653	+26	+7	DvM	**3,070**	2,695	+14	+8
132	105	+26	+7	Food	**411**	349	+18	+5
2,760	2,323	+19	+1	**Total**	**9,891**	8,874	+11	+2

	2016	2015	actual	const.
Operating profit				
ENA	**1,978**	1,744	+13	+2
DvM	**681**	528	+29	+19
Food	**118**	102	+16	+2
Operating profit - adjusted*	**2,777**	2,374	+17	+6
Exceptional items	**(367)**	(133)		
Total Operating profit	**2,410**	2,241	+8	-3

Operating margin – adjusted*	**%**	%	
ENA	**30.9**	29.9	*+100bp*
DvM	**22.2**	19.6	*+260bp*
Food	**28.7**	29.2	-50*bp*
Total	**28.1**	26.8	*+130bp*

* Adjusted to exclude the impact of exceptional items.

In the following Business Review growth rates are given at constant exchange rates. Margins are at actual rates.

ENA 65% of Net Revenue

FY 2016 total net revenue was £6,410m, with LFL growth of +1%. North America had a tough year with a flat LFL performance. Good growth in our VMS brands, Mucinex and Finish was offset by weakness in Amopé (Wet & Dry pedi innovation).

Russia had a very weak year with double digit decline in LFL growth. Volume declines arose from a combination of customer and consumer destocking and weakness in Scholl. Whilst Russia remains volatile, we are looking for an improving performance in 2017.

The rest of ENA saw robust growth during the year. Growth in our larger markets of Germany, UK, France, Spain and Australia was innovation led, with strong performances from Veet precision trimmer, Harpic Waves and Air Wick Pure. Scholl had a mixed performance, with a strong performance from our GelActive insoles more than offset by weakness from the Wet & Dry pedi.

FY Adjusted Operating Profit increased +2% (constant) to £1,978m; the adjusted operating margin increased +100bps to 30.9%, due to strong gross margin expansion.

Q4 total Net Revenue was £1,803m, with a LFL decline of -2%. Within North America (-3% LFL) Mucinex and Lysol were impacted by a late start to the flu season and Amopé. Russia continued to see significant negative volumes. The rest of ENA continued to perform well.

DvM **31% of Net Revenue**

FY 2016 total net revenue was £3,070m, with LFL growth of +8%; a strong underlying performance of double digit LFL growth ex Korea. The impact of the disruption on reported revenue was reduced by a focussed programme of support to distributors with some increase in channel inventory, which will reverse in 2017. In South Asia, India delivered strong growth, despite a significant slowdown in Q4 caused by the demonetization market disruption. We achieved further strong penetration gains in our leading brands of Dettol and Harpic, underpinned by innovation and consumer education programmes. China had another strong year with e-commerce driven initiatives and the launch of Move Free driving the growth. Over 30% of China's net revenue is now via e-commerce channels and we have the ambition to achieve 50% by 2020. Indonesia and Thailand also had strong performances. The Brazil macro environment remains challenging, although a strong performance from Veja and pest brands helped mitigate some of the weakness. Turkey and Saudi had a weaker year due to the geopolitical issues in the second half.

FY Adjusted Operating Profit increased by +19% (constant) to £681m; the adjusted operating margin was +260bps higher at 22.2%. This was due to gross margin expansion, combined with Supercharge initiatives.

Q4 total Net Revenue was £825m, with LFL growth of +6%. A further strong quarter with strength in China, India (though slower due to demonetization), offset by Korea, geopolitical issues in Turkey, and the Middle East.

Food **4% of Net Revenue**

FY 2016 total Net Revenue was £411m, a +5% LFL increase versus prior year and +7% LFL increase in Q4. French's continues to deliver a strong performance, driven by growth of French's ketchup, regaining share in French's mustard, outperformance on Frank's Red Hot and continued expansion in International markets, most notably Canada.

Operating margins declined by -50bps to 28.7% as we continue to invest for growth and international expansion.

FY 2016 Category Review

Summary: % net revenue growth by Category

	Q4				FY16			
	LFL	**Net M&A***	**FX**	**Reported**	**LFL**	**Net M&A***	**FX**	**Reported**
Health	-1%	-	+17%	+16%	+4%	-	+9%	+13%
Hygiene	+3%	-	+19%	+22%	+4%	-	+9%	+13%
Home	-2%	-1%	+18%	+14%	-1%	-1%	+8%	+7%
Portfolio (inc Food)	+7%	-1%	+22%	+27%	-	-5%	+11%	+6%
Group	**+1%**	**-**	**+18%**	**+19%**	**+3%**	**-1%**	**+9%**	**+11%**

* Reflects the impact of acquisitions and disposals. Note: due to rounding, this table will not always cast.

Quarter ended 31 December					Year ended 31 December			
2016 £m	2015 £m	% change exch. Rates actual	const.		**2016 £m**	2015 £m	% change exch. Rates actual	const.
				Net Revenue by category				
967	833	+16	-1	Health	**3,332**	2,942	+13	+4
1,086	890	+22	+3	Hygiene	**4,066**	3,589	+13	+4
501	438	+14	-3	Home	**1,828**	1,715	+7	-1
206	162	+27	+6	Portfolio Brands	**665**	628	+6	-5
2,760	2,323	+19	+1	**Total**	**9,891**	8,874	+11	+2

* Adjusted to exclude the impact of exceptional items.

In the following Category Review, growth rates are given at constant exchange rates. Margins are at actual rates.

Health **34% of Net Revenue**

FY 2016 total Net Revenue was £3,332m, with LFL growth +4%. Overall growth slowed in 2016, following an exceptional +14% LFL growth in 2015. This was an average result versus the market but lower than our ambition to outperform. We remain steadfast in our commitment to driving outperformance in this strategic category.

Scholl / Amopé: This franchise experienced double digit decline. The cause of this was twofold – an exceptional year of product launches and geographic expansion in 2015, followed by the launch of the Wet & Dry rechargeable pedi in 2016 which failed to meet expectations. We have taken some key learnings from this launch and continue to innovate in this underpenetrated and important category.

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

- Durex / KY: “Invisible” ultra thin condom and the launch of our KY Duration spray in the US,
- Gaviscon: continued strong growth of our recent Double Action innovation,
- VMS brands: All of our key brands (Megared, Move Free, Digestive Advantage and Airborne) grew during the year. Move Free was particularly strong following its launch in China.
- Mucinex: successful launch of our Clear & Cool range of liquids within Fast Max and Sinus Max.

We believe we are well positioned to outperform long-term category growth within Consumer Health, led by our market leading, trusted brands, strong consumer centric innovation pipeline, and significant investment behind medical professional and consumer education programmes.

Q4 total Net Revenue was £967m, with LFL decline of -1%. We saw no significant trend changes during the quarter, with broad-based growth across most or our brands. This growth was offset by declines in Scholl / Amopé and weakness in Mucinex due to a combination of reduced consumer consumption from lower incidences of cold and flu, and additional private label competition in some SKUs.

Hygiene 41% of Net Revenue

FY 2016 total Net Revenue was £4,066m, with LFL growth of +4%. This was an improved performance versus the previous year and we saw growth across both ENA and DvM. Growth continues to be led by our key emerging market brands of Dettol and Harpic, as we focus on the right combination of relevant and appropriately targeted innovations (eg; Dettol Squeezy / Harpic bathroom cleaner) and consumer awareness programmes. Finish was a growth driver in ENA, with particular success in the US behind instore initiatives and our successful Max-in-1 innovation. Veet had a successful year with the launch and scaling of our new precision trimmer innovation. Our pest brands and Veja also had strong performances in Brazil.

Q4 total Net Revenue was £1,086m with LFL growth +3% with good growth in Veet, Dettol and Harpic offset by declines in Lysol due to a late start to the flu season in the US.

Home 18% of Net Revenue

FY 2016 total Net Revenue was £1,828m with a LFL decline of -1%. Air Wick grew with a good performance from our recent innovation (Air Wick Pure), which we scaled across a number of ENA markets during the year. Vanish declined in 2016, driven solely by the impact of events in Korea. Our overall performance in Home care, excluding the impact of Korea, was at the upper end of our long term category growth rates.

Q4 total net revenue was £501m. LFL growth was -2%. Trends were similar to those of the full year, with Korea disproportionately impacting growth in this segment.

Portfolio (including Food)   7% of Net Revenue

FY 2016 total Net Revenue was £665m, with a flat LFL performance versus the prior year. Laundry detergents and fabric softeners suffered from the twin impact of weakness in Southern Europe and Korea. Food continues to perform well.

Q4 total Net Revenue was £206m, with LFL performance of +7%. This was driven by an excellent performance in Food of +7% growth, solid laundry sales and high sales in the other small, volatile items in the segment.

New Product Initiatives: H1 2017

RB announces a number of new product initiatives for the first half of 2017:

Health:

- Scholl Electronic Hard Skin remover, with Marine Minerals – addition of Marine Minerals to Roller-heads, known as natural exfoliators
- Scholl In-Growing Toenail – Complete Clip & Spray Kit. 1st Ever Solution that allows at-home successful treatment of Ingrowing toenails
- KY Duration Spray – Last Longer. Stay in the Moment! Just a few sprays of KY Duration before having sex will help him last longer to prolong the intimate sexual experience for both
- Nurofen Long, Russia and Nuromol Australia – stronger pain relief, combining the power of ibuprofen and paracetamol
- Nurofen FeverSmart Thermometer – Continuous, real-time temperature monitoring for reassurance & control of your child's fever

Hygiene:

- Dettol Protect+ Smart Mask – Breakthrough protection against the damaging effects of air pollution, plus enhanced breathability for optimal comfort
- Dettol Deep Cleanse Soap – 100% better skin protection with micro scrubbing beads for deep skin cleansing
- Lysol Laundry Sanitiser – Sanitize all your family's clothes without the use of chlorine bleach
- SBP Advanced – Personal Insect Repellent range. Protection that lasts twice as long

Home:

- Air Wick Freshmatic Pure – a better way to keep your home fresh. More fragrance in the air, less on the floor
- Vanish Platinum Powder & Gel – Works 1st time on 100% of stain types

Financial Review

Net finance expense. Net finance expense was £16m (2015: £33m).

Tax. The effective tax rate was 23% (2015: 21%) and the tax rate on adjusted profit excluding the effect of exceptional items was 22% (2015: 20%). The effective rate in the year was reduced by 1% by the deferred tax effect of the enactment of a 1% reduction in the UK corporate tax rate in 2020.

Exceptional Items. In 2016 a pre-tax exceptional charge of £367m (2015: £133m) was incurred, relating primarily to costs associated with the HS issue in Korea. Further details of this charge can be found in Note 3 to this report.

Net working capital. During the year, inventories increased to £770m (2015: £681m), trade and other receivables increased to £1,623m (2015: £1,331m), and trade and other payables increased to £3,495m (2015: £2,948m). These increases were principally driven by a depreciation in the British pound during 2016. There was an improvement in net working capital to minus £1,102m (2015: minus £936m). Net working capital as a percentage of net revenue is -11% (2015: -11%).

Cash flow. Cash generated from operations was £2,951m (2015: £2,295m). Net cash generated from operating activities was £2,422m (2015: £1,784m) after net interest payments of £16m (2015: £31m) and tax payments of £513m (2015: £480m).

Free cash flow is the amount of cash generated from operating activities after capital expenditure on property, plant and equipment and intangible assets and any related disposals. Free cash flow reflects cash flows that could be used for payment of dividends, repayment of debt or to fund acquisitions or other strategic objectives. Free cash flow as a percentage of adjusted net income was 94% (2015: 89%).

	31 December 2016 £m	31 December 2015 £m
Net cash generated from operations	**2,422**	1,784
Purchase of property, plant & equipment	**(179)**	(154)
Purchase of intangible assets	**(214)**	(25)
Proceeds from the sale of property, plant & equipment	**7**	51
Free cash flow	**2,036**	1,656

Net debt at the end of the year was £1,391m (2015: £1,620m). This reflected strong free cash flow generation, offset by the payment of dividends totalling £1,036m (2015: £926m), net share purchases of £723m (2015: £730m) and net M&A of £158m (2015: £10m). The Group regularly reviews its banking arrangements and currently has adequate facilities available to it.

Balance sheet. At the end of 2016, the Group had total equity of £8,426m (2015: £6,906m), an increase of 22%. Net debt was £1,391m (2015: £1,620m) and total capital employed in the business was £9,817m (2015: £8,526m).

This finances non-current assets of £14,569m (2015: £12,386m), of which £878m (2015: £730m) is property, plant and equipment, the remainder being goodwill, other intangible assets, deferred tax, retirement benefit surplus, available for sale assets and other receivables. The Group has net working capital of minus £1,102m (2015: minus £936m), current provisions of £251m (2015: £229m) and long-term liabilities other than borrowings of £3,388m (2015: £2,652m).

The Group's financial ratios remain strong. Return on shareholders' funds (net income divided by total shareholders' funds) was 21.7% on a reported basis and 25.6% on an adjusted basis (2015: 25.2% on a reported basis and 27.1% on an adjusted basis).

Dividends. The Board of Directors recommends a final dividend of 95.0 pence (2015: 88.7 pence), to give a full year dividend of 153.2 pence (2015: 139.0 pence). The dividend, if approved by shareholders at the AGM on 4 May 2017, will be paid on 25 May to shareholders on the register at the record date of 18 April. The ex-dividend date is 13 April. 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. The Group has net debt of approximately £1.4bn. It is not possible to be definitive on future needs, but we consider that this provides the Group with appropriate liquidity.

We intend to continue our current policy of paying an ordinary dividend equivalent to around 50% of adjusted net income.

Legal provisions. The Group is involved in litigation, disputes, and investigations in multiple jurisdictions around the world. It has made provisions for such matters, where appropriate. Where it is too early to determine the likely outcome of these matters, or to make a reliable estimate, the Directors have made no provision for such potential liabilities. Further details can be found in Note 8 to this report.

Contingent liabilities. The Group is involved in a number of civil and/or criminal investigations by government authorities as well as litigation proceedings and has made provisions for such matters where appropriate. Where it is too early to determine the likely outcome of these matters, or to make a reliable estimate, the Directors have made no provision for such potential liabilities. Further details can be found in Note 10 to this report.

Targets

In 2017, we expect macro conditions to remain challenging, and for a number of existing headwinds to persist in the first half. We remain confident in the strength of our business and choices across Powerbrands and Powermarkets.

We are targeting LFL net revenue[1] growth of 3% in 2017.

For operating margin[2], we reiterate our medium term target of moderate margin expansion.

[1] at constant rates.
[2] Adjusted to exclude the impact of exceptional items.

For further information, please contact:

RB

Richard Joyce **+44 (0)1753 217800**
SVP, Investor Relations, Communications & External Affairs

Patty O'Hayer
Director, External Relations and Government Affairs

Brunswick (Financial PR) **+44 (0)20 7404 5959**

David Litterick

Notice to shareholders

Cautionary note concerning forward-looking statements

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

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

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

Group Income Statement
For the 12 months ended 31 December 2016 (unaudited)

	Notes	**Unaudited Year ended 31 December 2016 £m**	Audited Year ended 31 December 2015 £m
Net Revenue	2	**9,891**	8,874
Cost of sales		**(3,865)**	(3,628)
Gross profit		**6,026**	5,246
Net operating expenses		**(3,616)**	(3,005)
Operating profit	2	**2,410**	2,241
Adjusted operating profit	2	**2,777**	2,374
Exceptional items	3	**(367)**	(133)
Operating profit		**2,410**	2,241
Finance income		**42**	21
Finance expense		**(58)**	(54)
Net finance expense		**(16)**	(33)
Profit before income tax		**2,394**	2,208
Income tax expense	4	**(558)**	(463)
Net income		**1,836**	1,745
Attributable to non-controlling interests		**4**	2
Attributable to owners of the parent		**1,832**	1,743
Net income		**1,836**	1,745
Basic earnings per ordinary share (pence)	5	**260.2**	244.4
Diluted earnings per ordinary share (pence)	5	**256.5**	240.9

Group Statement of Comprehensive Income
For the 12 months ended 31 December 2016 (unaudited)

	Unaudited Year ended 31 December 2016 £m	Audited Year ended 31 December 2015 £m
Net income	**1,836**	1,745
Other comprehensive income/(expense)		
Items that may be reclassified to profit or loss in subsequent years		
Net exchange gains/(losses) on foreign currency translation, net of tax	**1,618**	(124)
Losses on net investment hedges, net of tax	**(128)**	(49)
(Losses)/gains on cash flow hedges, net of tax	**(22)**	14
Reclassification of foreign currency translation reserves on disposal of foreign operations, net of tax	**-**	33
	1,468	(126)
Items that will not be reclassified to profit or loss in subsequent years		
Revaluation of available for sale financial assets	**(2)**	-
Remeasurements of defined benefit pension plans, net of tax	**(138)**	46
	(140)	46
Other comprehensive income/(expense), net of tax	**1,328**	(80)
Total comprehensive income	**3,164**	1,665
Attributable to non-controlling interests	**4**	2
Attributable to owners of the parent	**3,160**	1,663
	3,164	1,665

Group Balance Sheet
As at 31 December 2016 (unaudited)

	Notes	**Unaudited 31 December 2016 £m**	Audited 31 December 2015 £m
ASSETS			
Non-current assets			
Goodwill and other intangible assets	6	**13,454**	11,296
Property, plant and equipment		**878**	730
Available for sale financial assets		**39**	-
Deferred tax assets		**81**	57
Retirement benefit surplus		**36**	63
Other non-current receivables		**81**	240
		14,569	12,386
Current assets			
Inventories		**770**	681
Trade and other receivables		**1,623**	1,331
Derivative financial instruments		**158**	121
Current tax recoverable		**14**	9
Short term investments		**3**	-
Cash and cash equivalents		**882**	740
		3,450	2,882
Total assets		**18,019**	15,268
LIABILITIES			
Current liabilities			
Short-term borrowings		**(1,585)**	(1,749)
Provisions for liabilities and charges	8	**(251)**	(229)
Trade and other payables		**(3,495)**	(2,948)
Derivative financial instruments		**(58)**	(22)
Current tax liabilities		**(12)**	(91)
		(5,401)	(5,039)
Non-current liabilities			
Long-term borrowings		**(804)**	(671)
Deferred tax liabilities		**(1,983)**	(1,692)
Retirement benefit obligations		**(361)**	(257)
Other provisions	8	**(174)**	(115)
Non-current tax liabilities		**(740)**	(559)
Other non-current liabilities		**(130)**	(29)
		(4,192)	(3,323)
Total liabilities		**(9,593)**	(8,362)
Net assets		**8,426**	6,906
EQUITY			
Capital and reserves			
Share capital		**74**	74
Share premium		**243**	243
Merger reserve		**(14,229)**	(14,229)
Hedging reserve		**(4)**	18
Foreign currency translation reserve		**526**	(964)
Retained earnings		**21,811**	21,762
Attributable to owners of the parent		**8,421**	6,904
Attributable to non-controlling interests		**5**	2
Total equity		**8,426**	6,906

Group Statement of Changes in Equity
For the 12 months ended 31 December 2016 (unaudited)

	Notes	Share capital £m	Share premium £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2015		**74**	**243**	**(14,229)**	**(820)**	**21,564**	**6,832**	**2**	**6,834**
Comprehensive income							-		
Net income		-	-	-	-	1,743	1,743	2	1,745
Other comprehensive (expense) / income		-	-	-	(126)	46	(80)	-	(80)
Total comprehensive (expense) / income		-	-	-	**(126)**	**1,789**	**1,663**	**2**	**1,665**
Transactions with owners									
Treasury shares re-issued		-	-	-	-	74	74	-	74
Share-based payments		-	-	-	-	50	50	-	50
Current tax on share awards		-	-	-	-	5	5	-	5
Deferred tax on share awards		-	-	-	-	8	8	-	8
Shares repurchased and held in Treasury		-	-	-	-	(804)	(804)	-	(804)
Cash dividends	9	-	-	-	-	(924)	(924)	(2)	(926)
Total transactions with owners		**-**	**-**	**-**	**-**	**(1,591)**	**(1,591)**	**(2)**	**(1,593)**
Balance at 31 December 2015		**74**	**243**	**(14,229)**	**(946)**	**21,762**	**6,904**	**2**	**6,906**
Comprehensive income									
Net income		-	-	-	-	1,832	1,832	4	1,836
Other comprehensive income / (expense)		-	-	-	1,468	(140)	1,328	-	1,328
Total comprehensive income / (expense)		**-**	**-**	**-**	**1,468**	**1,692**	**3,160**	**4**	**3,164**
Transactions with owners									
Treasury shares re-issued		-	-	-	-	79	79	-	79
Share-based payments		-	-	-	-	66	66	-	66
Current tax on share awards		-	-	-	-	14	14	-	14
Deferred tax on share awards		-	-	-	-	(4)	(4)	-	(4)
Shares repurchased and held in Treasury		-	-	-	-	(702)	(702)	-	(702)
Cash dividends	9	-	-	-	-	(1,035)	(1,035)	(1)	(1,036)
Transactions with non-controlling interests		-	-	-	-	(61)	(61)	-	(61)
Total transactions with owners		**-**	**-**	**-**	**-**	**(1,643)**	**(1,643)**	**(1)**	**(1,644)**
Balance at 31 December 2016		**74**	**243**	**(14,229)**	**522**	**21,811**	**8,421**	**5**	**8,426**

Group Cash Flow Statement
For the 12 months ended 31 December 2016 (unaudited)

	Notes	**Unaudited Year ended 31 December 2016 £m**	Audited Year ended 31 December 2015 £m
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations			
Operating profit		**2,410**	2,241
Depreciation, amortisation and impairment		**183**	171
Other non cash losses/(gains)		**-**	(33)
Decrease in inventories		**14**	22
Increase in trade and other receivables		**(39)**	(218)
Increase in payables and provisions		**(1)**	(23)
Non-cash exceptional items		**318**	85
Share-based payments		**66**	50
Cash generated from operations		**2,951**	2,295
Interest paid		**(56)**	(54)
Interest received		**40**	23
Tax paid		**(513)**	(480)
Net cash generated from operating activities		**2,422**	1,784
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(179)**	(154)
Purchase of intangible assets		**(214)**	(25)
Proceeds from the sale of property, plant and equipment		**7**	51
Acquisition of businesses, net of cash acquired	11	**(158)**	(10)
Purchase of available for sale financial instruments		**(36)**	-
Purchase of short-term investments		**(3)**	-
Maturity of short-term investments		**-**	3
Proceeds on disposal of subsidiaries		**-**	1
Net cash used in investing activities		**(583)**	(134)
CASH FLOWS FROM FINANCING ACTIVITIES			
Shares repurchased and held in Treasury		**(802)**	(804)
Treasury shares re-issued		**79**	74
Proceeds from borrowings		**469**	23
Repayment of borrowings		**(695)**	(165)
Dividends paid to owners of the parent	9	**(1,035)**	(924)
Dividends paid to non-controlling interests		**(1)**	(2)
Other financing activities		**219**	-
Net cash used in financing activities		**(1,766)**	(1,798)
Net increase/(decrease) in cash and cash equivalents		**73**	(148)
Cash and cash equivalents at beginning of the year		**737**	913
Exchange gains/(losses)		**63**	(28)
Cash and cash equivalents at end of the year		**873**	737
Cash and cash equivalents comprise			
Cash and cash equivalents		**882**	740
Overdrafts		**(9)**	(3)
		873	737

1 ACCOUNTING POLICIES

General

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

These condensed financial statements have not been audited.

Basis of Preparation

These condensed financial statements for the year ended 31 December 2016 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. They have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRSs) but do not comply with the full disclosure requirements of these standards. The condensed financial statements are also in compliance with IFRS as issued by the IASB but do not comply with full disclosure requirements.

These condensed financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year to 31 December 2015 have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified and did not contain statements under 498 (2) or (3) of the Companies Act 2006 and did not contain any emphasis of matter.

The Group has considerable financial resources together with a diverse customer and supplier base across different geographical areas and categories. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence. The Group therefore continues to adopt the going concern basis of accounting in preparing these condensed financial statements.

Changes in Accounting Policy

The accounting policies adopted in the preparation of the condensed financial statements are consistent with those described on pages 102-106 of the Annual Report and Financial Statements for the year ended 31 December 2015.

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

In these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

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

IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. The Company is in the process of evaluating the impact of these new standards. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until this detailed review has been completed.

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

2 OPERATING SEGMENTS

The Executive Committee is the Group’s chief operating decision-maker (CODM). Management has determined the operating segments based on the reports reviewed by the Executive Committee for the purposes of making strategic decisions and assessing performance. The Executive Committee considers the business principally from a geographical perspective, but with the Food business being managed separately given the significantly different nature of this business and the associated risks and rewards.

The Group’s geographical segments consists of ENA and DvM. ENA comprises of Europe, Russia/CIS, Israel, North America, Australia and New Zealand. DvM principally comprises North Africa, Middle East (excluding Israel), Turkey, Africa, South Asia, North Asia, Latin America, Japan, Korea and ASEAN.

The geographical segments derive their revenue primarily from the sale of branded products in the health, hygiene and home categories. Food derives its revenue from food products primarily sold in ENA countries.

The Executive Committee assesses the performance of the operating segments based on net revenue from external customers and adjusted operating profit. Finance income and expense are not allocated to segments, as they are managed on a central Group basis.

The segment information provided to the Executive Committee for the operating segments for the year ended 31 December is as follows:

2016	**ENA £m**	**DvM £m**	**Food £m**	**Total £m**
Net revenue	**6,410**	**3,070**	**411**	**9,891**
Depreciation, amortisation and impairment	**117**	**60**	**6**	**183**
Adjusted operating profit	**1,978**	**681**	**118**	**2,777**
Exceptional items				**(367)**
Operating profit				**2,410**
Net finance expense				**(16)**
Profit before income tax				**2,394**

2015	ENA £m	DvM £m	Food £m	Total £m
Net revenue	5,830	2,695	349	8,874
Depreciation, amortisation and impairment	104	62	5	171
Adjusted operating profit	1,744	528	102	2,374
Exceptional items				(133)
Operating profit				2,241
Net finance expense				(33)
Profit before income tax				2,208

2 OPERATING SEGMENTS (CONTINUED)

Analysis of Categories
The Group analyses its revenue by the following categories:

	Net revenues	
	2016	2015
	£m	£m
Health	**3,332**	2,942
Hygiene	**4,066**	3,589
Home	**1,828**	1,715
Portfolio Brands (including Food)	**665**	628
	9,891	8,874

Health, Hygiene, Home and Portfolio Brands categories are all split across the two geographical segments of ENA and DvM. Food is sold primarily in ENA but is recognised within a separate operating segment.

3 EXCEPTIONAL ITEMS

	2016	2015
	£m	£m
Korea 'HS' issue	**300**	-
Acquisition, integration and restructuring costs	**67**	76
Loss on disposal of subsidiary	**-**	57
Total exceptional items	**367**	133

Exceptional items totalling £367m (2015: £133m) have been recognised during the year.

These relate primarily to the HS issue in South Korea. A background to this issue is set out in the Korea HS section of this report. Details of the exceptional costs recognised for FY 2016, mainly in respect of the Compensation Plan, are set out in this note.

The Compensation Plan was established by Oxy RB to provide fair compensation to Oxy HS product users categorised by the Korean government in Rounds 1 and 2 of the Korean Government's categorisation process as suffering, or having suffered, lung damage which was "almost certainly" (Category I) or had a "high possibility" (Category II) of being a result of their use of Oxy RB's HS product. It was designed in consultation with these victims and their families, informed by four overarching values of Fairness, Transparency, Respect and Speed and is aimed at addressing each person according to their own individual circumstances, including those who have previously entered into settlement agreements with us.

Compensation for Category I and II Oxy HS victims categorised in Rounds 1 and 2 comprises two elements:

- A payment to reflect mental distress / pain and suffering, lost income (past and future), past medical, certain legal and other expenses plus interest. This payment for a victim could be up to approximately KRW 1 billion (c.£700k) for death or severe disability.
- Compensation proposals for victims living with the ongoing effects of the Oxy HS product, include a commitment to cover their future medical costs and care needs which are incurred as a reasonably foreseeable consequence of their HS-related lung condition.

In 2014, Oxy RB announced the creation of a humanitarian fund of KRW 5 billion (£3m) for HS-affected individuals to be administered in cooperation with two governmental organisations in Korea. In April 2016, Oxy RB announced its intention to add another KRW 5 billion (£3m) to the fund.

We expect to incur a number of other non-recurring costs in relation to the HS issue. These include advisers' fees, costs in administering the Compensation Plan and costs associated with operation of the local business.

We have classified the expected costs as follows:

- where we consider the costs to be probable and we are currently able to estimate the quantum of costs, we have provided for them; and
- where we do not consider the costs to be probable or are currently unable to estimate the quantum or likely outcome of potential future costs, we have disclosed them as a contingent liability.

Exceptional costs recognized in FY 2016

During FY 2016, we have charged £300m to exceptional costs in relation to this issue, comprising of both cash and non-cash items. These include:

- Expected compensation payments, including the value of expected future medical costs, to be paid on an "as incurred" basis where borne by the Group, to Oxy HS Round 1 and 2 victims categorized as Category I or II (a total of 183 victims, four of whom have already received settlements from another manufacturer). 97% of these victims have registered for the Compensation Plan.
- An estimate of compensation payments and future medical costs for victims who could be categorised as Category I and II Round 3 applicants. As of 25 January 2017, 353 (47% of the total 752 applicants) Round 3 cases have been reviewed. Of them, 53 (15%) have been recognized as Category I or II HS victims, 49 of whom indicated that they used the Oxy HS product either on its own or in conjunction with another HS product. The Korean government has stated its intention to complete categorisation of the remaining Round 3 applicants by the end of 2017.
- Legal and other associated costs directly linked to the HS issue including civil and criminal proceedings - including both legal fees and potential fines. On 6 January 2017, the Korean criminal court found Oxy RB guilty of false labelling under Korea's Fair Labelling & Advertising Act, a charge which the company did not contest, and fined Oxy RB KRW 150 million (£0.1m). Two current Oxy RB employees were sentenced to 5 and 7 years' imprisonment respectively for occupational negligence and false labelling. Oxy RB's former General Manager and former Head of R&D were each sentenced to 7 years' imprisonment for the same offences. All four individuals were employees of Oxy at the time it was acquired by the Group in 2001. Some of the conduct that was the object of the criminal prosecution took place prior to the acquisition. A former General Manager was acquitted of all charges. These sentences were generally less than the prosecutor had requested. The current and former employees who were convicted have appealed. The Prosecutor's Office has appealed against (i) the acquittal of four of the current and former employees of charges of criminal fraud, (ii) the acquittal of the former General Manager of all charges; and (iii) the sentences of all those convicted (except Oxy RB RB because the maximum fine was imposed).
- Costs associated with the set-up and operation of the Compensation Plan infrastructure.
- A provision for the additional amount committed to the Humanitarian Fund in April 2016.
- An impairment charge against the carrying value of a number of Oxy RB local brands (c. £44m).
- Other directly connected costs of the local business.

The provision does not include any costs associated with the reported 4,059 Round 4 applicants who registered for categorisation between April and December 2016, nor any contributions to a Special Relief Account contemplated by the HS Damage Relief Act passed by the Korean National Assembly on 20 January 2017. These are disclosed as a contingent liability, in Note 10.

The remaining £67m (2015: £76m) of exceptional items relate to the on-going restructuring of the Group's operations, and the integration of acquisitions. Costs incurred consist primarily of legal and other professional fees, redundancy and business integration costs which have been included within net operating expenses.

In the prior year, a loss of £57m was recognised on the disposal of Medcom-MP, the entity owning the Russian hospital business. This included a loss of £33m arising from the recycling, from equity, of previous exchange losses arising on the consolidation of the legal entity sold.

4 INCOME TAXES

The tax rate was 23%, an increase from the 2015 rate of 21%. The adjusted tax rate on ordinary activities (excluding the impact of exceptional items was 22% (2015: 20%). The 2016 adjusted tax rate included a 1% benefit (2015: 3% benefit) as a result of the enactment of the reductions in the future UK corporation tax rate primarily on closing deferred tax liabilities.

5 EARNINGS PER SHARE

	2016 pence	2015 pence
Basic earnings per share	**260.2**	244.4
Diluted earnings per share	**256.5**	240.9
Adjusted basic earnings per share	**306.3**	262.4
Adjusted diluted earnings per share	**302.0**	258.6

Basic

Basic earnings per share is calculated by dividing the net income attributable to owners of the parent (2016: £1,832m; 2015: £1,743m) by the weighted average number of ordinary shares in issue during the year (2016: 704,164,106; 2015: 713,063,230).

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company has the following categories of potentially dilutive ordinary shares: Executive Share Awards (including Executive Share Options and Executive Restricted Share Scheme Awards) and Employee Sharesave Scheme Options. The options only dilute earnings when they result in the issue of shares at a value below the market price of the share and when all performance criteria (if applicable) have been met. As at 31 December 2016 there were nil (2015: 4 million) Executive Share Awards excluded from the dilution because the exercise price for the options was greater than the average share price for the year.

	2016 Average number of shares	2015 Average number of shares
On a basic basis	**704,164,106**	713,063,230
Dilution for Executive Share Awards	**9,405,777**	9,680,716
Dilution for Employee Sharesave Scheme Options outstanding	**730,750**	802,516
On a diluted basis	**714,300,633**	723,546,462

Adjusted earnings

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

	2016 £m	2015 £m
Net income attributable to owners of the parent	**1,832**	1,743
Exceptional items	**367**	133
Tax effect of exceptional items	**(42)**	(5)
Adjusted net income attributable to owners of the parent	**2,157**	1,871

6 GOODWILL AND OTHER INTANGIBLE ASSETS

	Brands £m	Goodwill £m	Software £m	Other £m	Total £m
Cost					
At 1 January 2015	7,938	3,282	97	115	11,432
Additions	-	-	25	-	25
Arising on business combinations	-	6	-	-	6
Disposals	-	-	(1)	-	(1)
Exchange adjustments	31	15	-	(8)	38
At 31 December 2015	**7,969**	**3,303**	**121**	**107**	**11,500**
Additions	359	-	25	-	384
Arising on business combinations	24	148	-	-	172
Disposals	-	-	(12)	(44)	(56)
Exchange adjustments	1,197	491	3	2	1,693
At 31 December 2016	**9,549**	**3,942**	**137**	**65**	**13,693**
Accumulated amortisation and impairment					
At 1 January 2015	89	24	23	44	180
Amortisation and impairment charge	3	-	15	15	33
Disposals	-	-	(1)	-	(1)
Exchange adjustments	-	(3)	-	(5)	(8)
At 31 December 2015	**92**	**21**	**37**	**54**	**204**
Amortisation and impairment charge	59	-	14	6	79
Disposals	-	-	(12)	(41)	(53)
Exchange adjustments	5	1	2	1	9
At 31 December 2016	**156**	**22**	**41**	**20**	**239**
Net book value					
At 31 December 2015	**7,877**	**3,282**	**84**	**53**	**11,296**
At 31 December 2016	**9,393**	**3,920**	**96**	**45**	**13,454**

During the year, the Group exercised its option to acquire the legal title to intellectual property associated with the collaboration agreement with Bristol Myers Squibb (BMS), as described in the Annual Report and Financial Statements 2013. The amount capitalised includes a prepayment made in 2013 of £170m (at 2016 exchange rates).

7 NET DEBT

Analysis of net debt	**2016 £m**	2015 £m
Cash and cash equivalents	**882**	740
Overdrafts	**(9)**	(3)
Borrowings (excluding overdrafts)	**(2,380)**	(2,417)
Short term investments	**3**	-
Derivative financial instruments	**113**	60
Net debt at end of year	**(1,391)**	(1,620)

Reconciliation of net debt	**2016 £m**	2015 £m
Net debt at beginning of year	**(1,620)**	(1,543)
Net increase/(decrease) in cash and cash equivalents	**73**	(148)
Proceeds from borrowings	**(469)**	(23)
Repayment of borrowings	**695**	165
Purchase of short-term investments	**3**	-
Exchange and other movements	**(73)**	(71)
Net debt at end of year	**(1,391)**	(1,620)

8 PROVISIONS FOR LIABILITIES AND CHARGES

	Legal provisions £m	Restructuring provisions £m	Other provisions £m	Total provisions £m
At 1 January 2015	201	13	176	390
Charged to the income statement	18	33	24	75
Charged to equity	-	-	800	800
Separate recognition of related insurance receivable	36	-	-	36
Utilised during the year	(95)	(13)	(815)	(923)
Released to the income statement	(18)	-	(16)	(34)
Exchange adjustments	(1)	-	1	-
At 31 December 2015	141	33	170	344
Charged to the income statement	264	23	12	299
Charged to equity	-	-	702	702
Utilised during the year	(90)	(33)	(806)	(929)
Released to the income statement	-	(2)	(8)	(10)
Exchange adjustments	14	1	4	19
At 31 December 2016	**329**	**22**	**74**	**425**

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

	2016 £m	2015 £m
Current	**251**	229
Non-current	**174**	115
	425	344

Provisions are recognised when the Group has a present or constructive obligation as a result of past events, it is more likely than not that there will be an outflow of resources to settle that obligation, and the amount can be reliably estimated.

Legal provisions of £329m (31 December 2015: £141m) include exceptional legal provisions of £277m (2015: £116m) in relation to a number of historic regulatory matters in a number of markets, including a provision in respect of the HS issue in South Korea (Note 3).

The restructuring provision relates principally to business integration costs, the majority of which is expected to be utilised within one year.

Other provisions include obligations of the Group to acquire its own equity ordinary shares within one year of £nil (2015: £100m), and environmental and other obligations throughout the Group, the majority of which are expected to be used within five years. Provisions to acquire equity ordinary shares are charged to equity.

9 DIVIDENDS

Cash dividend distributions

	2016 £m	2015 £m
Dividends on equity ordinary shares:		
2015 Final paid: 88.7p (2014: Final 79.0p) per share	**625**	566
2016 Interim paid: 58.2p (2015: Interim 50.3p) per share	**410**	358
Total dividends for the year	**1,035**	924

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 95.0p per share which will absorb an estimated £665m of Shareholders' funds. If approved by Shareholders it will be paid on 25 May 2017 to Shareholders who are on the register on 18 April 2017, with an ex-dividend date of 13 April 2017.

10 CONTINGENT LIABILITIES AND ASSETS

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

We noted in our 2015 Annual Report and 2016 interim announcements that the Group was involved in ongoing investigations by the US Department of Justice and the US Federal Trade Commission and related litigation proceedings arising from certain matters relating to the RB Pharmaceuticals business prior to its demerger in December 2014 to form Indivior PLC and may incur liabilities in relation to such matters. These investigations and related proceedings are continuing and we are in active discussion with the DoJ. The outcome for the Group in relation to ultimate resolution and/or cost at this stage remains uncertain. The Group is cooperating with the relevant agencies. The Company remains committed to ensuring that these investigations and related proceedings are concluded or resolved satisfactorily.

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

<u>HS Korea</u>

As set out in Note 3 on exceptional items, provision has been made for certain costs arising as a result of the HS issue, including costs arising from compensating Oxy HS category I and II victims classified within Rounds 1, 2 and 3 of the Korean Centre for Disease Control (KCDC) classification process.

There are in addition a number of further costs / income relating to the HS issue that are either not able to be estimated or quantified or are considered not probable at the current time.

1. Round 4 applicants: The Korean government opened Round 4 to new applicants on 22 April 2016 for an indefinite period. As of 13 January 2017, the Ministry of Environment (MoE) reported it had received 4,059 applications to participate in Round 4. Because no categorisation has been published, we are currently unable to determine how many applicants may be eligible for compensation through the Compensation Plan. The MoE has stated its intention to complete and announce the results of the review by the end of 2017. We note that the recognition of HS victims as Category I or II has steadily declined, from 48% in Round 1 to 30% for Round 2, and to date, 15% for the two tranches of categorizations released in respect of Round 3.
2. Costs associated with the wider HS issue: We are considering how best to contribute to addressing the wider HS issue including contributions to a Special Relief Account contemplated by the HS Damage Relief Act (the "Act") passed on 20 January 2017. The Act, among other things, requires Korean Government Agencies to establish and operate a Special Relief Account for the benefit of certain HS victims, funded through contributions by HS manufacturers and ingredient suppliers (the "Account"). The size of the contributions will be determined through the application of a formula, the full details of which are still to be determined through secondary legislation that has not yet been published. The Act contemplates an initial Account of KRW 125 billion (£84m) towards which HS manufacturers will be required to contribute collectively KRW 100 billion (£67m). The Act provides that the maximum size of the Account will be KRW 200 billion (£134m).
3. Potential recoveries from other HS manufacturers: Oxy RB has committed to compensating Category I and II Oxy HS victims from Rounds 1 and 2 in full under the terms of our Compensation Plan, even if they used other manufacturers' HS products in conjunction with that of Oxy, taking into account the delay that had occurred. Of the 183 Oxy RB Round 1 and 2, Category I and II victims, approximately 50 used both Oxy and at least one other PHMG HS manufacturer's product. For these "multi-user" cases we are seeking to recover an element of compensation costs from the relevant other HS manufacturer. Oxy RB has yet to agree a fair recovery mechanism with the other HS manufacturers and have therefore not recognised any potential receivable.
4. We continue to assess and, where appropriate, pursue rights which Oxy RB may have to recover sums from other involved parties.

5. Given the high profile and complex nature of this issue, rules and regulations to be determined under the Act and other legal or governmental proposals or developments in Korea may give rise to further financial liability for RB.

Reports by the United Nations ("Report of the Special Rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and waste" and "Report of the Special Rapporteur on the implications for human rights of the environmentally sound management and disposal of hazardous substances and wastes on its mission to the Republic of Korea") and by a special committee of the Korean National Assembly ("Report on the Results of the National Assembly Investigation for Fact, Finding, Injury Relief and Reoccurrence Prevention Regarding the Humidifier Sanitizer Incident") have identified multiple causes of this tragedy. Both reports identify the role of government, of ingredient manufacturers, and private label suppliers as contributing to the tragedy.

In addition, given the elapse of time since relevant HS products were used by consumers (from seventeen to six years ago), it is difficult to demonstrate which products contributed to harm caused to victims.

We also believe that victims should be provided with a single, consistent and readily accessible source of compensation which also covers uncertain long-term medical needs, regardless of which products they used, and whether they can demonstrate this.

We believe this requires a single, industry-wide approach to compensation, funded fairly by all the contributors to this tragedy. We are working hard to try to find such an approach to compensating Category I and II victims for Rounds 3 and 4 with the Korean government, other manufacturers and other relevant stakeholders.

11 BUSINESS ACQUISITIONS AND DISPOSALS

On 3 October 2016, the acquisition of Hypermarcas condom and lubricant business in Brazil completed with a purchase consideration of BRL 671 million.

All assets and liabilities were recognised at the following provisional fair values. The full consideration transferred was paid in cash in the period. The amount of consideration transferred over the net assets acquired is recognised as goodwill in the Group financial statements:

	Provisional fair value £'m
Property, plant and equipment	**4**
Intangible assets	**24**
Deferred tax liabilities	**(8)**
Other liabilities	**(3)**
Net assets acquired	**17**
Goodwill	**146**
Total consideration transferred	**163**

	£'m
Consideration paid on signing definitive agreement in January 2016	**116**
Impact of foreign exchange	**47**
Total consideration transferred	**163**

Acquisition related costs have been expensed within exceptional items in the income statement.

The amount of revenue and profit on the business acquired since acquisition was not material in the context of the Group Income Statement. Had the business been acquired on 1 January 2016, the revenue and profit of the Group for the period would not have been materially different to that appearing on the Group Income Statement. Consideration paid in relation to this acquisition is included within 'Acquisition of business, net of cash acquired' in the Group Cash Flow Statement.

In October 2015, in line with RB's continued focus on its core business of health, hygiene and home, the Group disposed of the Medcom business in Russia. The reported loss on sale of the entity was £57m. This was included within exceptional items. It comprised a £24m difference between the net sale proceeds and the net assets; and a recycling from reserves of previous exchange losses arising on consolidation of the legal entity sold. Due to the significant devaluation of the Russian rouble since acquisition, the non-cash exchange loss required to be recycled through the income statement was £33m.

12 POST BALANCE SHEET EVENTS

On 10 February, Reckitt Benckiser Group plc ("RB") announced it had signed a merger agreement with Mead Johnson Nutrition Company ("Mead Johnson") under which Mead Johnson shareholders will receive $90 in cash for each share of common stock, valuing the total equity at $16.6 billion.

Including Mead Johnson's net debt, the total value of the transaction is $17.9 billion.

The transaction is subject to shareholder and regulatory approvals. The boards of RB and Mead Johnson have both unanimously approved the transaction and will recommend that their respective shareholders vote in favour of the transaction. It is expected to be completed by the end of Q3 2017.