### Highlights

#### Introduction from the Chairman

2016 was an important year for RB. Our earnings model remains strong, as our growth strategy continues to deliver outperformance. The tragic humidifier sanitiser (HS) issue in South Korea, and Oxy RB’s part in it, reminds us that consumer safety is our number one priority. The lessons from the HS issue and actions we have taken are set out on pages 14 to 15.

#### betterfinancials

<table>
<thead>
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<th>Measure</th>
<th>Amount</th>
<th>Change</th>
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<tbody>
<tr>
<td>Net Revenue</td>
<td>£9.9bn</td>
<td></td>
</tr>
<tr>
<td>Adjusted(^1) Earnings Per Share (diluted)</td>
<td>302.0p</td>
<td>+17%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>60.9%</td>
<td>+180bps</td>
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<tr>
<td>Adjusted(^1) Operating Margin</td>
<td>28.1%</td>
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<td>Operating Margin</td>
<td>24.3%</td>
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<tr>
<td>Reported Earnings Per Share (diluted)</td>
<td>256.5p</td>
<td>+6%</td>
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\(^1\) Definitions of non-IFRS measures and their reconciliation to IFRS measures are shown on page 45.

#### bettersociety

<table>
<thead>
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<th>Measure</th>
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<tr>
<td>Net Revenue from more sustainable products</td>
<td>13.2%</td>
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<tr>
<td>People reached with Health and Hygiene messaging</td>
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#### betterenvironment

<table>
<thead>
<tr>
<th>Measure</th>
<th>Amount</th>
<th>Change</th>
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<tr>
<td>Greenhouse gas emissions per unit of production</td>
<td>25.0%</td>
<td>Reduction since 2012</td>
</tr>
<tr>
<td>Water usage per unit of production</td>
<td>31.8%</td>
<td>Reduction since 2012</td>
</tr>
</tbody>
</table>
Our purpose...

Our purpose inspires us and informs what we do. With every decision, we look for innovative solutions that can help our consumers to live better, from new products that improve health to social programmes that touch millions of lives.
Our purpose is to make a difference, by giving people innovative solutions for healthier lives and happier homes.

Our world is changing

Many factors, from increasing life expectancy to rising healthcare costs, are boosting demand for health and hygiene products.

People reached with Health and Hygiene messaging

365m

Our purpose informs every aspect of our strategy, from the brands we focus on and the innovations we bring to market, to the role we play in society.

As well as offering innovative products, we improve people’s health and hygiene through our education and prevention programmes.

Save a Child Every Minute

Our campaign with Save the Children uses our expertise and our people’s efforts to stop diarrhoea being a top five killer of children.
…combined with our passion

RB has a unique culture that harnesses the passion of our people. We have a compelling desire to challenge ourselves and each other, to not just deliver but to outperform and make RB the best it can be.
We want our people to behave as if they own the business. The “Top40” managers in RB have the highest shareholding requirements in the industry.

**Total share ownership requirement for “Top40” management**

£203m

We have the highest shareholding requirement in the industry and the FTSE 100.

**Our culture means we continually look for ways to do things better**

£150m

Savings targeted from Project Supercharge

**Partnerships**

We tap into innovation, creativity and knowledge through our partnerships with other organisations, and strive for a spirit of openness.

**Achievement**

Everyone wants a sense of achievement and for RB that means outperformance.

**Entrepreneurship**

RB is 35,000 passionate people, pursuing projects they believe in and pushing the boundaries of innovation.
...drives our (out) performance

Bringing together passionate people and giving them a clear purpose makes RB a business where we act fast, take responsibility and aim for and reward exceptional performance.

Rakesh Kapoor
Chief Executive Officer
Why RB delivers

Right portfolio strategy

We identify unmet consumer needs, drive growth through innovation and invest disproportionately behind our high-potential markets (Powermarkets) and our faster-growing brands (Powerbrands).

Powerbrands 19

Powermarkets 16

Successful innovation

Continuous, successful innovation is the key to long-term success. We listen to our consumers, develop new products and invest heavily behind them.

Performance-based culture

Our culture is central to our outperformance. We live our values, and our compensation approach and share ownership requirements encourage our people to act as if the Company was their own.

Virtuous earnings model

By targeting higher-margin segments and optimising cost, we expand our Gross Margin. This gives us room to invest for growth, increasing Net Revenue and our Operating Margin.

Value creation

We have created substantial value through organic growth but, in a fragmented consumer health market, we also have the opportunity to acquire strong brands. The combination of our organic growth strategy and acquisitions have generated significant returns for Shareholders.

Total Shareholder Return since announcement of strategy in 2012:

£100 invested on 1 January 2012 was worth £253 on 31 December 2016.
Chairman’s Statement

“Our review in September once again confirmed that the strategy was working well and that the focus on Health and Hygiene positions us for further outperformance.”

Adrian Bellamy
Chairman

An important year
This was an important year for RB. One of the Board’s top priorities has been absorbing the lessons from the tragic events in South Korea surrounding humidifier sanitisers (HS), and Oxy RB’s involvement in this industry-wide issue. Oxy RB has expressed their sincere apologies to all individuals and their families who have suffered from lung injury as a result of the HS issue.

Consumer safety is the Group’s fundamental priority. Developments in South Korea as described on pages 14 to 15 caused both management and the Board to review the Group’s quality, compliance and safety procedures. We have established a new Board committee, chaired by Pamela Kirby, to support the Board in fulfilling its duty to safeguard and advance RB’s reputation for responsible and sustainable corporate conduct. In addition, we have brought together our consumer safety, health and safety, quality, compliance and sustainability functions into a single team. The objective is to further strengthen our safety, quality and compliance culture, and to drive continuous improvement in these critical areas. The Board has also engaged law firm Linklaters LLP to advise the Board on the Group’s management of the HS and related safety issues.

Business performance
Performance was affected by the HS issue and by weak conditions in key markets such as Russia. Even so, our successful strategy delivered Revenue growth that compared favourably with our peers and Profit growth that was well ahead of the industry.

Total Net Revenue rose by 11%, which equated to a 3% increase on a like-for-like basis. Reported Operating Profit was up 8% in actual currency and down 3% in constant currency terms. Adjusted Operating Profit rose 17% in actual currency and 6% in constant currency, resulting in a 130bps increase in our Adjusted Operating Margin. Reported Diluted Earnings Per Share were up 6% to 256.5 pence, while Adjusted Diluted Earnings Per Share were 17% higher at 302.0 pence.

Our Profit growth enables us to reward Shareholders through rising dividends. The Directors have proposed a final dividend of 95.0 pence per share, up 7%. When added to the interim dividend of 58.2 pence per share, this gives a total dividend for the year of 153.2 pence per share, an increase of 10%. Subject to Shareholder approval, the final dividend will be paid on 25 May 2017 to Shareholders on the register on 18 April 2017.

RB is a highly cash generative business and we continued to use surplus free cash flow to buy back shares, with the aim of keeping our net debt broadly constant. In 2016, these buybacks totalled £802 million. This policy leaves us with a healthy Balance Sheet, while retaining the financial strength we need to implement our strategy. As a business, we are resolutely focused on...
outperformance and it is pleasing to see this reflected in our Total Shareholder Return (TSR), which shows the increase in the share price assuming dividends are reinvested. Since we adopted our current strategy in 2012, RB has delivered a TSR of 153%, compared with the 54% return from the FTSE 100.

The right strategy
The Board formally reviews RB’s strategy each year. Our review in September once again confirmed that the strategy was working well and that the focus on Health and Hygiene positions us for further outperformance.

During the year, we invested US$50 million to acquire a stake of around 1% in China Resources Pharmaceutical Group (CRP). CRP is China’s largest manufacturer of over-the-counter (OTC) drugs. While the investment is small in the context of RB, it opens up some interesting strategic possibilities for us. We have signed a non-binding memorandum of understanding with CRP, which will see us explore ways to cooperate with respect to certain designated OTC medicines, medical devices and healthcare products in the Chinese market.

RB’s better business strategy recognises that long-term success depends as much on meeting our obligations to society and the environment as it does to strong financial performance. We further improved our environmental performance in 2016 and continued with our social programmes, which support our business purpose by helping people benefit from better health and hygiene.

The Mead Johnson acquisition: A great strategic fit
On 10 February 2017, RB announced that an agreement has been signed to acquire Mead Johnson for US$16.6 billion. The acquisition of Mead Johnson is aligned with RB’s well-established strategic focus on growing in consumer health and on investing in Powerbrands with attractive growth prospects. RB already reaches millions of mothers through certain designated OTC medicines, medical devices and healthcare products in the Chinese market.

We remain focused on succession planning and regularly review the composition of the Board and its committees. In July 2016 a new Corporate Responsibility, Sustainability, Ethics and Compliance Committee was established (see Board achievements).

We have also approved changes to our committees. André Lacroix will become Chairman of the Audit Committee from the conclusion of the Company’s AGM. Ken Hydon will step down as Chairman but will remain a member of the Committee to support André in his new role. Mary Harris will move from the Audit Committee to the Remuneration Committee following the conclusion of the AGM and transition to the role of Chair of that Committee on 1 November 2017. Judy Sprieser will remain on the Remuneration Committee to support Mary in her new role. I would like to thank Ken and Judy for their many years of service as Chairs of their respective committees.

More information about RB’s approach to corporate governance and the Board’s activities during the year can be found in my Statement on pages 60 to 61 and in the full Corporate Governance Statement on pages 62 to 67.

A culture of outperformance
As this Annual Report explains, RB’s unique culture is one of the most important contributors to its success. It makes our people hungry to achieve more and frees their entrepreneurial instincts, while encouraging them to work in partnership and act as if they own the business. This drives us on to do better for consumers, customers and Shareholders.

Our approach to reward is a fundamental part of this culture. While average performance leads to average reward, we give our people the chance to earn exceptional long-term reward for exceptional long-term performance.

AGM resolutions
The AGM is on 4 May 2017 and the resolutions that Shareholders will vote on are fully explained in the Notice of Meeting.

A General Meeting (GM) will be held to approve the acquisition of Mead Johnson Nutrition. Shareholders will receive details separately.

Conclusion
The Board remains confident in RB’s future. The Company has the right strategy and is strongly positioned to outperform categories with robust long-term growth characteristics. Combined with our outstanding people and culture of achievement, we look forward to creating further value for all our stakeholders.

I would also like to express my personal appreciation to my fellow Board members, to Rakesh Kapoor and his team, and to everyone in RB around the world for their substantial efforts during a challenging year.

Adrian Bellamy
Chairman
20 March 2017
Acquiring a world leader in infant and children’s nutrition

On 10 February 2017, we announced that we have signed an agreement to acquire Mead Johnson for US$16.6 billion in cash. The acquisition will be a significant step forward in RB’s journey as a leader in Consumer Health and will increase our revenues in this area by approximately 90%.

Mead Johnson’s Enfa brands are the world’s leading franchise in infant and children’s nutrition. The Enfa franchise is a natural extension to our Consumer Health portfolio and will become our largest Powerbrand. We already reach millions of mothers through our hygiene education programmes and, through world-class brands such as Nurofen and Mucinex, provide parents with relief and reassurance when their children are unwell. This will be enhanced by Mead Johnson’s deep understanding of a new mother’s journey and well-established relationships with healthcare professionals.

A large and growing market
The global infant and children’s nutrition category is worth approximately US$46 billion in annual sales. We expect this to grow at 3-5% per annum in the medium to long term. This growth is underpinned, particularly in developing markets, by trends such as economic growth, urbanisation, increasing spend on premium nutrition, special nutritional needs, more mothers choosing to work while their children are young, and changes to China’s one-child policy. Brand, quality and innovation are increasingly important differentiators in the category.

Mead Johnson’s geographic footprint significantly strengthens our position in developing markets. The business derives 67% of its Net Sales in Asia and Latin America, including 2016 Net Sales of US$1.1 billion in China. Developing markets will account for approximately 40% of the combined group’s sales, with China becoming our second largest Powermarket.

Drawing on the best of both businesses
Our ambition is to bring together the best of both companies, keeping the consumer at the heart of the combined group. RB has extensive multi-channel go-to-market and global branding capabilities across consumer health and a track record of consumer-centric innovation. These capabilities, together with our culture of swift decision making and commitment to driving performance, will enable us to add value to Mead Johnson by enhancing its position in key markets. At the same time, Mead Johnson brings significant R&D, quality, regulatory and specialist distribution capabilities to RB.

Following a transitional period, our goal is for Mead Johnson to perform progressively towards the upper end of the 3-5% category growth rate. Our supply chain infrastructure and distribution network will enhance Mead Johnson’s go-to-market capabilities, while our scale and expertise will enable accelerated entry into nascent markets for Mead Johnson, where we already have a deep understanding of the local consumer health dynamics.
We also expect to build on Mead Johnson’s e-commerce platforms. The two companies have complementary e-commerce expertise, particularly in China where approximately 30% of RB’s sales are online.

Financial highlights
Mead Johnson Shareholders will receive US$90 in cash for each share of common stock, valuing the total equity at US$16.6 billion. Including net debt of US$1.2 billion as at 31 December 2016, the total enterprise value of the transaction is US$17.9 billion, representing a multiple of 17.4x 2016 non-US GAAP EBITDA of US$1.0 billion and 14.0x 2016 non-US GAAP EBITDA including the expected run-rate cost savings described below.

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

The acquisition is expected to be accretive to our Adjusted Diluted Earnings Per Share in the first full year following completion and double-digit accretive by year three. We also expect the acquisition to deliver a post-tax return on invested capital in excess of our cost of capital by year five.

We intend to maintain our current dividend policy of paying out about 50% of our Adjusted Net Income. However, we do not intend to buy back any further RB shares until debt is materially lower.

Financing
The acquisition will be financed through new fully underwritten debt facilities with Bank of America, Merrill Lynch, Deutsche Bank and HSBC. These facilities include US$9 billion of term loans over three to five years and US$8 billion of bridge funding to cover the cash consideration, plus a further US$3 billion to refinance existing Mead Johnson bonds if required. They also include an additional £1 billion revolving credit facility, to provide financing headroom from the date of completion. We expect to refinance the bridge by issuing bonds with a variety of maturity dates which will reflect the expected cash flows of the combined group. We are in discussion with the rating agencies and expect to retain a strong investment grade credit rating.

Integration planning
We have a track record of effectively integrating consumer health companies. The acquisitions of Boots Healthcare International, Adams and SSL all delivered an important inflection point of growth for RB.

We will establish an infant and children’s nutrition division, which will report directly to Rakesh Kapoor. Selected key RB employees will transfer to this new division.

We will balance the opportunity to realise cost savings with the need to retain and invest in valuable talent at Mead Johnson, especially within the R&D, quality, regulatory and specialist distribution capabilities. Our objective will be to balance RB’s leadership and FMCG talent with the skill and expertise that has helped establish Mead Johnson as a category leader.

Steps to completion
The proposed acquisition requires the approval of RB’s Shareholders. We will in due course send a circular to Shareholders, convening a meeting to approve the acquisition. The RB Board is unanimous in recommending the transaction.

The acquisition is also subject to approval by Shareholders of Mead Johnson, regulatory approvals (including in the US, China and other markets), and certain other customary conditions.

The transaction is expected to complete by the end of Q3 2017.
Chief Executive’s Statement

“The acquisition of Mead Johnson is a significant step forward in RB’s journey as a leader in consumer health.”

See more on pages 10-11

Rakesh Kapoor
Chief Executive Officer

A purpose-driven company
RB has a clear purpose: to provide people with innovative solutions for healthier lives and happier homes. This purpose inspires us and we are passionate about achieving it. We look to bring it to life in everything we do: the strategic choices we make, the brands we focus on, the type of innovations we bring to market and the programmes we run. Having this purpose makes the work we do each day more fulfilling for our people and drives us to higher levels of performance.

Our purpose also encompasses the role we play in the world. There is a social dimension to our work, in particular our programme to eradicate diarrhoea as a leading killer of children under five years old. This unique, multi-year commitment focuses everyone in RB on an issue where we can use our health and hygiene capabilities to real effect. Our financial contribution is important but we also apply our R&D resources to create products specifically for families around the world who cannot afford high-end solutions for preventing diarrhoea.

RB’s business strategy also includes setting challenging environmental objectives. We have set ourselves targets for reductions in carbon emissions and water use. As a highly innovative company we can use our new product pipeline to bring more responsible products to the market. These efforts have made us one of the top-ranked companies in the sector for corporate responsibility.
However, I am deeply sorry that an Oxy RB product in South Korea caused lung and respiratory injuries and deaths among its users. Oxy RB has taken responsibility for the part it played, along with other companies who supplied humidifier sanitisers. In July 2016, Oxy RB announced a full and fair compensation package for Category I & II Oxy HS victims categorised by the South Korean Government in its first two categorisation rounds. As of 31 January 2017, 97% of eligible victims are participating in this plan.

As Oxy RB strives to do the right thing in South Korea, we must also ensure that similar problems cannot arise in the future. We have therefore created a new position of Chief Safety, Quality and Compliance (SQC) Officer, reporting directly to me. Through this combined SQC organisation, we will focus on end-to-end safety: product and consumer safety, as well as the health and safety of our people, and our quality and compliance systems and processes. I am determined that RB will learn all the lessons we can from this tragedy, so we emerge a much stronger and better Group.

**Delivering outperformance**

Market conditions were generally difficult in 2016. Economic growth was slow in developed markets and mixed in developing markets, with India expanding rapidly but major economies such as Brazil and Russia proving weak, and geopolitical and social issues affecting the Middle East and Turkey. Commodity prices, which had been favourable, have also started to rise.

RB is not immune to these challenges but our goal is to always deliver, no matter what the external environment. Our Net Revenue performance of 3% growth on a like-for-like basis, was affected by a combination of challenging markets, the HS issue in South Korea reducing our growth rate by 1% and an innovation within our consumer health portfolio which failed to meet our expectations. However, RB’s virtuous earnings model delivered a further strong expansion in our Operating Profit Margin, while giving us the room to invest in category building initiatives, penetration programmes and new market entries.

Innovation plays an important role in our growth, with Dettol Squeeze, Mucinex Clear & Cool and Harpic Bathroom among the many new products contributing in 2016. However, there was a negative impact from the lower-than-expected uptake of the Scholl/Amopé Wet & Dry express pedi, which we launched this year. We pride ourselves on high-quality innovation and have a culture that allows people to push ideas they are passionate about. This passion for ideas is the most important driver of innovation. While we are never happy when a launch fails, I firmly believe it is the sign of a healthy culture. Companies that never fail are companies that are not doing their best, since they avoid the calculated risks that outperformance demands.

**The Mead Johnson acquisition**

The acquisition of Mead Johnson will mark a significant step forward in RB’s journey as a global leader in consumer health; with the Enfamil franchise already established as the global leader in the infant and children’s nutrition category.

Mead Johnson brings significant R&D, quality, regulatory and specialist distribution capabilities. When paired with our existing expertise in consumer-centric innovation, scaling global brands and commitment to driving performance this will enable long-term value creation for the Group. (See more on pages 10 to 11).

**Looking forward**

The next few years will be both challenging and exciting for RB. The challenges will come from world markets that are likely to remain tough. However, we see exciting possibilities for our business and aim to outperform categories whose long-term growth prospects remain robust.

We continue to position RB for a world where digital and technological advancements are changing how people live their lives, as well as how they connect with brands and look for solutions that can keep them healthier. At the touch of a button, consumers can now find the right medication for their symptoms. Offering tailor-made, innovative solutions for their everyday ailments is a huge opportunity for us.

At the same time, the rise of e-commerce is creating a borderless world, opening up new opportunities for RB. We already have major successes in this area, notably in China where more than 30% of our revenue this year was online. We intend to stay at the forefront as other developing countries go through this transformation.

Overall, we remain confident that our medium and long-term strategic choices are right, and will deliver Shareholder returns. In 2017, we are targeting like-for-like Net Revenue growth of 3%. For Adjusted Operating Margin, we reiterate our medium-term target of moderate margin expansion.

**Rakesh Kapoor**

Chief Executive Officer
20 March 2017

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**E-commerce China revenue this year was**

>30% of China’s Net Revenue

Up from 25% of China’s Net Revenue in 2015

**Connected Health**

Connected Health is the interrelationship between digital technology, health and self care. The ability to bring these areas together has led to our breakthrough innovation and first-ever connected health product: Nurofen FeverSmart Temperature Monitor.

This innovation has been designed with young children in mind. Parents will be familiar with the concern experienced when a child is unwell with fever. Research shows that over 80% of parents find it hard to monitor a young child’s temperature.

In response to this clear consumer need RB has launched FeverSmart. Placed under a child’s arm the small, flexible monitor sends real-time continuous temperature readings straight to the user’s smartphone. Parents can track medication doses and receive alerts for when their child’s temperature spikes; helping parents manage their child’s temperature.
Our ongoing support in South Korea

The Humidifier Sanitiser (HS) issue, while dating back to events in South Korea from the late 1990s, required significant senior management attention in 2016.

RB remains committed to putting victims first in working to resolve this tragedy.

In 2001, RB acquired Oxy, a South Korean company. Oxy RB manufactured and sold household products, including HS products which accounted for less than one half of one percent of their sales. By 2011, Oxy RB was one of about 13 suppliers of HS products in the South Korean market. RB did not sell HS products in any other market. Oxy RB continued to sell the HS products in South 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 legal action from the Government and sought to defend itself in the courts. It took the same approach in defending against civil claims which began to arise from individual victims. Over the period to March 2016, 63 of the 79 cases (80%) 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 South 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.

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

We recognise that it will be a long road to recover the trust of South Korean consumers. We also understand that all the work Oxy RB 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.

We believe that victims of lung injury from HS products 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. We believe this requires a single, industry-wide approach to compensation, funded fairly by all the contributors to this tragedy.

In 2017, Oxy RB will work hard to engage other stakeholders, including the South Korean Government and other manufacturers and ingredient suppliers, to try to find such 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.

**RB today**

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 and 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 rollout across the world of SQC activities, including those related to evidence, safety and medical oversight.

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

The Board has also engaged law firm Linklaters LLP to advise the Board on the Group’s management of the HS and safety-related issues.
How our business works

Our business model

1. We are passionate about using our strengths...

Our people, culture and brands differentiate us from our competitors.

**People and culture**
RB has a unique culture, which harnesses our people’s passion and allows them to make a real difference (pages 36 to 37).

**Powerbrands**
We have 19 Powerbrands, which are leaders in their markets and offer faster growth (page 26).

Our business model also depends on the following inputs for its success:

**Skillset**
We have proven clinical R&D capabilities and an agile organisation.

**Infrastructure**
We have well-invested manufacturing sites, R&D laboratories and logistics centres.

**Relationships**
We develop strong, value-creating relationships with customers, consumers, suppliers and communities.

**Environment**
We use natural raw materials, water and energy.

**Financial capital**
We are financed by Shareholders’ equity, debt and retained profit.

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2. to power our business...

### Our markets

<table>
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<tr>
<th>ENA (Europe, including Russia/CIS and Israel), North America and Australia/New Zealand</th>
<th>DvM (Africa, Middle East (excluding Israel), Turkey, Asia (excluding Russia/CIS) and Latin America)</th>
<th>Food (We run Food as a standalone business. Its brands include French’s, the leading mustard brand in the US)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Revenue</strong></td>
<td>£6,410m</td>
<td>£3,070m</td>
</tr>
<tr>
<td>LFL growth</td>
<td>+1%</td>
<td>+8%</td>
</tr>
</tbody>
</table>

### Our categories

- **Health**
  Covers treatment products for everyday issues such as pain and flu, but also wellness products in sexual wellbeing, footcare, vitamins and supplements

  - **Net Revenue** £3,332m
    - LFL growth +4%

- **Hygiene**
  Personal and home hygiene products, which provide the foundation for healthy living

  - **Net Revenue** £4,066m
    - LFL growth +4%

- **Home**
  Brands that make the home environment harmonious and less stressful, so that families are happier every day

  - **Net Revenue** £1,828m
    - LFL growth -1%

- **Portfolio (including Food)**
  Includes our laundry and fabric softener business, as well as our Food brands

  - **Net Revenue** £665m
    - LFL growth flat

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1 Definitions of non-IFRS measures and their reconciliations to IFRS are shown on page 45.
and pursue our purpose...

Megatrends
Powerful long-term trends are influencing our markets, from longer lives to the relentless rise of technology and e-commerce.

See more on pages 18-19

Our purpose-driven strategy
We have designed our strategy to respond to these trends and deliver long-term success

betterfinancials
How we outperform, through our focus on our brands, markets and creating a digitally connected company

bettesociety
How we support our communities, develop our people, and drive quality and safety in all we do

betterenvironment
How we reduce our environmental impact and ensure we source materials responsibly

See more on pages 20-21

Operating model
Our three-part model enables us to rapidly scale up our ideas and offer them to consumers around the world

Create
Create innovative products that meet consumers’ under-served demands

Scale
Scale our innovations to make them as global as possible

Activate
Activate our ideas through our customer relationships, while driving consumer demand through offline and digital channels

Outcomes
Our strategy and operating model push us to outperform, so we create value for all our stakeholders.

People
Exciting and challenging careers, with excellent rewards for outstanding performance

35,000
challenging careers

Consumers
Safe, high-quality products that lead to healthier lives and happier homes

19
market-leading Powerbrands

Shareholders
Strong operational and financial performance, so we can grow dividends and return funds

153%
TSR since adoption of new strategy in 2012

Customers
Leading brands that grow the category, and drive customer value in all relevant channels

 mortar + E-commerce

Communities
Improved health and hygiene standards, through our products and social programmes

365m
people reached with health and hygiene messaging.
The megatrends driving our business

Our world is changing

Powerful trends are changing what consumers, society and investors demand from us. Here we explain those trends and how they are shaping our strategy.

We are living longer

Life expectancy is rising around the world. The number of people aged over 60 is expected to increase from 900 million in 2015 to 1.4 billion in 2030 and 2.1 billion by 2050. Ageing populations put ever-greater demands on healthcare services and motivate people to find new ways to promote wellbeing and wellness.

People over 60

1.4bn in 2030

Up from 900m in 2015

Our incomes are rising

The global middle class currently numbers 3 billion people. By 2021, this could surpass 4 billion – more than half the world’s population – with the growth coming from developing markets. This means people will have more money after meeting their essential needs, spurring demand for health and hygiene products. Infrastructure improvements, such as new sanitation systems, will further increase demand.
We are more proactive about health

Longer lives and rising incomes are encouraging more of us to look after ourselves and prevent health issues before they occur, for example through better hygiene and healthier home environments. We believe that self-care is the new frontier of healthcare.

Our lives are busier

The pace of modern life means many people feel busier than ever. This encourages consumers to use easily accessible over-the-counter health products, rather than wait for a doctor’s appointment, to seek out the most effective hygiene product, and to look for personal grooming and beauty treatments they can use at home.

We are always connected

Consumers are making ever-greater use of online resources and e-commerce to manage lifestyles and healthcare. Sites such as WebMD and Facebook allow us to learn about health and wellbeing, interact with brands and exchange information. Consumers around the world are increasingly buying online, giving companies data about their preferences that drive tailored offerings and increase engagement.

Our environment is changing

Healthcare costs are rising

Access to healthcare is a basic human right. Current systems are strainning due to rising populations, longer lives and shortages of healthcare professionals. Scientific advances offer more solutions for health needs but at a higher cost. Society therefore needs more cost-effective ways to help consumers protect and manage their health.

New health risks are emerging

As populations urbanise, pollution is becoming an increasing risk to people’s health. We are also seeing diseases emerging, such as the Zika virus, which is spread by mosquitoes and other pests.

Regulation is changing

Governments are demanding responsibility and accountability from all stakeholders, as the evolving consumer landscape exposes gaps in regulations covering areas such as environmental stewardship, patient safety and data protection. Companies must innovate to meet changing laws and regulations, adapting their products to exclude ingredients that may affect safety or the environment and reducing their environmental footprint. This favours forward-thinking companies that strive for transparency and continuous improvement.

RB’s response to the changing consumer landscape

By creating innovative Health, Hygiene and Home products, we help consumers to protect and improve their health and wellbeing, as they enjoy longer and more prosperous lives. Our Powerbrands strategy gives consumers brands they can trust to meet these needs.

Our Powermarkets strategy addresses the countries with the fastest growing demand for our products, while our organisation strategy helps us to scale our innovations and get them quickly to the consumers who need them.

We are also investing in our e-business and data capabilities, to respond to the shift to buying online, and developing connected products, such as the new Nurofen Feversmart digital thermometer which links to the consumer’s smartphone.

RB’s response to the changing environment

Our Health products provide a cost-effective way for consumers to treat a range of ailments, relieving pressure on health services. We continue to develop innovative responses to new health threats, such as our Dettol air pollution range of masks and our pest control products.

A key part of our organisation strategy is working to comply with all laws and regulations, through our new Safety, Quality and Compliance function.

Stakeholder expectations are changing

Companies’ licence to operate now encompasses stakeholder expectations that go beyond the letter of the law and regulations. To be truly sustainable, companies must continuously improve their environmental and social performance.

One particularly strong trend that companies such as RB can help to address is the growing focus on tackling easily preventable deaths and illness. For example, each year around the world there are over 94,000 deaths from sexually transmitted diseases, over 526,000 children under the age of five years die from diarrhoea, and malaria kills over 439,000 people. All these deaths can be prevented.

RB’s response to changing stakeholder expectations

Our better society and better environment strategies ensure we work in the way expected of us by our stakeholders and society as a whole.
Our operating model **explained**

We develop, acquire, produce, distribute and promote consumer products in the growing Health, Hygiene and Home categories.

Our operating model has three key elements, which enable us to create value for all our stakeholders, but primarily for our consumers, our people and our Shareholders.

Our operating model **in action**

**Wave toilet block**

Keeping the toilet clean and fresh is an everyday struggle for consumers. We homed in on this need by developing the Wave toilet block. Available under the Harpic, Cillit Bang and Lysol brands, it delivers best-in-class fragrance and cleaning cues, lasting up to four weeks. The product also looks great, with a sleek, colourful design.

**Veet Sensitive Precision**

We realised that women were not fully satisfied with products for removing hair in sensitive areas. They saw them as painful or inconvenient, and lacking the precision and gentleness they wanted. We recognised this as an opportunity for Veet to play in a new area of the market, driving brand penetration.
Create

Innovation is in the DNA of our Company. By staying close to our consumers, we learn about their needs and demands. We generate a range of ideas to meet those needs, which we translate to differentiated products with blockbuster potential, driving greater consumer loyalty, faster growth and better margins. Sustainability is built into our process, for example to minimise carbon emissions and water use. Our culture of innovation and pushing boundaries on new-to-world solutions means that occasionally we also fail, such as with the Scholl/Amopé Wet & Dry express pedi. We are as comfortable with these rare failures as we are excited by our many successes.

Wave toilet block

Create

Having identified the need for a superior toilet block, we partnered with a third party to develop and improve their existing product. The toilet block was launched just six months after conception in France, Germany, US, Turkey, UK and Benelux. This required no capital expenditure for RB and demonstrated our speed to market.

Scale

Centralised procurement leverages our purchasing power, while sourcing responsibly. We manufacture most Powerbrand products in-house, with third parties producing some other brands for us. Quality control is stringent, particularly in healthcare. Our customer-facing supply services organisation aims for best-in-class delivery and customer satisfaction. To rapidly scale our innovations, we identify a lead market and our Power of 1 team develops global launch packages which we can take to all markets. Our financial strength also allows us to acquire brands, which we quickly integrate into our operating model.

Activate

Our brands and innovations drive footfall and online traffic for our retail customers, encouraging them to stock our products. We work with major retailers to promote our products and grow the category, supported by our worldwide commercial operations, and use of distributors to reach smaller retailers. We invest heavily behind our brands, through advertising, social and digital media, and consumer education. Our virtuous earnings model enables us to fund this investment, grow revenues and increase our margins.

Veet Sensitive Precision

Create

Our product idea was distinctive: a versatile electric trimmer, tailored to gently trim and precisely style hair in areas such as the face, bikini and underarms. We test marketed it in Germany, which proved the high penetration potential of mass-distributing the device and maximising its visibility and accessibility.

Scale

Close collaboration across departments, great supplier management and constant monitoring of test markets enabled us to rapidly ramp up capacity, as sales exceeded expectations. We addressed issues identified by online reviews through continuous improvement and, in just six months, we rolled out the trimmer in more than 20 markets.

Activate

By continually gathering lessons, identifying success factors and correcting issues, we achieved excellent execution across our markets. We used our keen understanding of the ‘4Ps’ (product, price, promotion and place), and created strong communication assets to maximise consumer awareness, including activation guidelines for vloggers and bloggers.
Strategic overview

Our better business strategy

better financials

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

What we said

- Deliver +4-5% LFL Net Revenue growth, through focus on Health and Hygiene and by increasing distribution and penetration
- Achieve moderate Adjusted Operating Margin expansion
- Drive further benefits from Project Supercharge
- Continue to create a connected company, through investments in our systems, e-business capabilities and data analytics

What we did

- LFL Net Revenue growth (+3%) short of target due to the HS issue in South Korea and the Scholl/Amopé Wet & Dry express pidi failing to deliver to expectation
- Outperformed our Adjusted Operating Margin expansion target (up 130bps)
- Made further progress towards our Net Revenue targets for DvM and Health and Hygiene (see pages 38 to 41), and on Project Supercharge, we have completed the majority of the programme of our planned £150 million cost savings over three years
- Formed a Safety, Quality and Compliance (SQC) team (see page 24)
- Established a dedicated e-business function to accelerate online revenues (see page 24)

What we will do

- Continue to invest heavily behind our Powermarkets and Powerbrands, particularly in Health and Hygiene, to increase penetration and distribution
- Advance our SQC processes and practices, with the aim of moving from good to great performance

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

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

Powerbrands
We invest heavily in our focused portfolio of 19 market-leading Powerbrands. They provide over 80% of our revenue and offer higher revenue growth and margins.

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Medium-term growth:</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>4-6%</td>
<td>Outperform</td>
</tr>
<tr>
<td>Hygiene</td>
<td>3-5%</td>
<td>In line</td>
</tr>
<tr>
<td>Home</td>
<td>1-2%</td>
<td></td>
</tr>
</tbody>
</table>

### Operating Margin Expansion

The increase in the Adjusted Operating Margin

<table>
<thead>
<tr>
<th>Year</th>
<th>Margin Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>+20bps</td>
</tr>
<tr>
<td>2014</td>
<td>+160bps</td>
</tr>
<tr>
<td>2015</td>
<td>+210bps</td>
</tr>
<tr>
<td>2016</td>
<td>+130bps</td>
</tr>
</tbody>
</table>

Commentary

Adjusted Operating Margin was 28.1% due to strong Gross Margin expansion and fixed cost containment.

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### Health and Hygiene

Net Revenue generated by our Health and Hygiene categories, as a percentage of total Net Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>31%</td>
</tr>
<tr>
<td>2014</td>
<td>30%</td>
</tr>
<tr>
<td>2015</td>
<td>31%</td>
</tr>
<tr>
<td>2016</td>
<td>31%</td>
</tr>
</tbody>
</table>

Commentary

Health and Hygiene delivered LFL growth of 4%. The Health portfolio exceeded market growth rates (with the exception of Scholl/Amopé Wet & Dry express pedi). Hygiene growth was led by DvM growth of the Dettol and Harpic brands and the growth of Finish in ENA.

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Please note: 2013 numbers have been adjusted to strip out RB Pharmaceuticals

1 Excluding the impact of the proposed acquisition of Mead Johnson

2 Definitions of non-IFRS measures and their reconciliation to IFRS measures are shown on page 45
Strategic overview

better financials in action

What we’re doing

Enhancing our safety, quality and compliance culture

Our new SQC team brings together health and safety, consumer safety, quality, compliance and sustainability, with the aim of strengthening and co-ordinating our capabilities. The team sets the agenda for the Group and reports directly to the CEO, giving these critical areas focus at the very top of the organisation.

Driving incremental growth online

In 2016, we established a dedicated e-business unit. It supports our in-country teams with their online offerings but crucially is also developing a centralised proposition for selling our products across borders. By building our relationships with e-distributors and partners such as Amazon, it aims to accelerate online growth for us.

Leveraging the power of data

Data analysis gives us essential insights into consumer needs. This year we opened a digital centre in Poland, employing around 40 specialists to give us better and faster data analytics. The new metrics and key performance indicators we can now produce will help us to become more agile and improve our speed of decision making.

Organisation

We continued to develop our organisation in 2016, establishing new functions to support our growth and operations, while introducing further simplification and efficiency.

Highlights 2016

- Continued to benefit from two-area structure introduced in 2015, simplifying the scaling and activation of our initiatives (see Operating Review on pages 38 to 41)
- Delivered further benefits from Project Supercharge, our cultural programme to simplify the organisation, targeting £150 million annual savings
- Set up Safety, Quality and Compliance (SQC) team
- Established new e-business function and digital centre
- Continued to simplify and strengthen our IT function, by consolidating suppliers, data centres and help desks, and investing in cyber security
Powermarkets
In 2016, we made further strategic progress in our Powermarkets, with particular success in India and China.

Highlights 2016
- Strong growth in DvM, with improved household penetration, and solid growth in ENA, held back by difficult conditions in Russia (see pages 38 to 39)
- India was a major contributor to growth this year, fuelled by innovation and expanded distribution, despite a significant slowdown in Q4 caused by the demonetisation market disruption.
- China grew rapidly, led by e-commerce
- Acquired cornerstone investment in China Resources Pharmaceutical Group, China’s largest over-the-counter (OTC) drugs manufacturer, and signed non-binding strategic cooperation agreement

Setting the pace in e-commerce
E-commerce is a huge growth driver for us in China. As well as our own platform, we have strong relationships with major players such as Taobao and Alibaba, and e-distributors who put our products in around 1,000 online shops. This presence means online sales are now over 30% of our Net Revenue in China, with a target of 50% by 2020.

Succeeding with our strategy in India
We once again delivered rapid growth in India, with successful brand penetration programmes and marketing putting our products in the hands of ever more consumers. We also stepped up our visits to stores, with an extra 200 salespeople helping to significantly expand our distribution.

Dettol India continued to implement its five-year Banega Swachh India (BSI) programme promoting nationwide hygiene and sanitation among students

Working in partnership with Amazon
Our relationship with Amazon in the US is going from strength to strength. By analysing Amazon’s traffic data and providing high-quality content that differentiates our products, we are increasing conversions and repeat visits, resulting in significant sales growth.
Strategic overview

better financials in action

continued

What we’re doing

Increasing penetration for Dettol

Increasing penetration has been key to Dettol’s growth this year. From smaller sizes at lower prices in India to cost-effective super-sized soap bars in Nigeria, we offer the right size at the right price. We also raise awareness of the importance of hand hygiene, for example through sponsoring Handwashing Day and our hand hygiene education programme in India.

Raising demand through consumer education

Our point of market entry campaigns for Durex were very successful in 2016. By offering sex education to young people and helping them avoid unwanted pregnancies, we stimulated demand for our products. We also continued to innovate, expanding our sexual wellbeing offer with KY Duration, to help with premature ejaculation.

Growing the market for Scholl

We have increased penetration of Scholl significantly since 2013. In 2016, we launched Scholl Light Legs compression tights and GelActiv invisible insoles and inserts – all designed to provide superior comfort for tired legs and feet.

Highlights 2016

- Successfully grew in Health and Hygiene by focusing on penetration initiatives for our global brands (see case studies and Operating Review on pages 40 to 41)
- Successful innovations contributed to growth, such as Durex Invisible extra thin condoms, Mucinex Fast Max Day/Night gelcaps and Dettol Gold, although newly launched Scholl/Amopé Wet & Dry express pedi underperformed, against a strong comparative for the brand in 2015
- While short-term growth rates may fluctuate, our medium-term annual growth rate expectation for our categories is unchanged: Health 4-6%, Hygiene 3-5%, Home 1-2%

Powerbrands

We continue to benefit from our strategic focus on the Health and Hygiene categories and remain well positioned to outperform the long-term category growth rates.

Multiple hand hygiene initiatives have reached 12.8 million people in India
Virtuous earnings model

Through our virtuous earnings model, we are able to fund investment in our brands, capabilities and development, so we drive revenue growth while increasing our operating margin.

Progress

Our virtuous earnings model remained highly effective in 2016.

- **Gross Margin**
  - Gross Margin benefited from a beneficial sales mix, commodity cost tailwinds and cost optimisation initiatives.
  - +180bps

- **Fixed cost**
  - Fixed costs were little changed as a percentage of Net Revenue, as we invested in the business and Project Supercharge continued to deliver savings and efficiencies.
  - Flat

- **BEI**
  - We increased investment behind our brands by £63 million or 50bps of Net Revenue. Total investment was 13.2% of Net Revenue.
  - +£63m

- **Net Revenue**
  - We grew Net Revenue by 3% on a like-for-like basis.
  - +3%

- **Adjusted1 Operating Margin**
  - The outcome was an increase in the Operating Margin of 130bps, to 28.1%.
  - +130bps

1 Definitions of non-IFRS measures and their reconciliation to IFRS measures are shown on page 45
Strategic overview

Our better business strategy

**betta**__society

_Betta_society_ is about how we meet our responsibilities in the workplace and in our communities, as well as in relation to our products.

Read more in our Sustainability Report [sustainabilityreport2016.rb.com](http://sustainabilityreport2016.rb.com)

**Strategic approach**

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

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

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

**What we said**
- Continue to improve our health and safety performance at all our sites
- Advance our gender diversity initiative, Project DARE (Develop, Attract, Retain, Engage talented women)
- Promote health and hygiene messages and continue to invest to deliver social impact
- Grow the proportion of revenue from more sustainable products
- Further increase transparency about the ingredients in our products

**What we did**
- Continued to reduce our lost working day accident rate and further restructured our health and safety compliance programmes
- Focused on gender balance, including Project DARE, improved performance reviews and increased support to international transferees and their partners
- Relaunched our Human Rights and Responsible Business policy and continued to work with stakeholders to address human rights issues
- Reached 365 million people through our health and hygiene messages and invested £8 million in social impact programmes
- Increased proportion of Net Revenue from more sustainable products to 13.2%
- Started reviewing our Restricted Substances List (RSL), increased ingredient transparency and accelerated the phasing out of microbeads

**What we will do**
- Launch global standards for health and safety, to set our minimum expectations for the highest risk areas across all our sites
- Focus on diversity, talent, succession and performance
- Develop our networks, to scale our health and hygiene programmes globally
- Continue to increase revenue from more sustainable products
- Complete the review of our RSL and continue to increase ingredient transparency
- Deliver further improvements to our human rights due diligence and remediation processes
KPIs

Workplace

GENDER DIVERSITY
The percentage of women in our global workforce.

Target: Expand our focus of diversity and talent by improving the retention rates of women from managers to senior managers.

LOST WORK DAY ACCIDENT RATE (LWDAR)
The number of workplace accidents at manufacturing, warehouse and R&D sites, resulting in at least one day of lost time, per 100,000 hours worked.

Target to 2020: continued reduction in the LWDAR

Performance

20%
women in “Top 400” Senior positions

Commentary
New KPI for 2016.

0.071

Commentary
Further reduction in LWDAR delivered in 2016.

2013 0.107
2014 0.093
2015 0.080
2016 0.071

Healthier lives

PEOPLE REACHED WITH HEALTH AND HYGIENE MESSAGING
The total number of people encouraged to improve their health and hygiene behaviour, as a result of our brands’ educational programmes.

Target to 2020: 400m

Commentary
Reached a further 128m people during 2016.

365m

Commentary
An additional £1.5m provided to Save the Children during 2016 vs 2015.

2013 24m
2014 142m
2015 237m
2016 365m

SAVE A CHILD EVERY MINUTE
The amount RB committed to the programme during the year, including through employee fundraising.

Target to 2020: remove diarrhoea as one of the top killers of children

Products

NET REVENUE FROM MORE SUSTAINABLE PRODUCTS
The proportion of total Net Revenue derived from product innovations with significant sustainability benefits, such as a reduction of 10% or more in CO₂ emissions, water use or virgin packaging material per dose.

Target to 2020: 1/3 of Net Revenue

Commentary
More than double the Net Revenue from more sustainable products since last year, amounting to over £1 billion.

13.2%
of Net Revenue

Commentary

2013 3.3%
2014 4.7%
2015 6.0%
2016 13.2%
Strategic overview

better society in action

Human rights

We recognise our responsibility for respecting human rights wherever we operate. In 2016, we relaunched our Human Rights and Responsible Business policy, reinforcing our commitment. We continued to work with forums such as AIM-Progress, to promote responsible sourcing and sustainable production, and worked with suppliers to understand their performance in areas such as managing labour, health and safety, environment and business integrity. We also provided compulsory human rights training to RB’s site management, global procurement and supply services DvM teams, and engaged with suppliers through workshops and other initiatives. In addition, we conducted a review against the UN Guiding Principles on Business and Human Rights, and identified opportunities to improve our due diligence and remediation processes.

Health and safety

Health and safety is a business imperative. Since 2006, our robust approach has reduced our lost working day accident rate (LWDAR) by 79% and cut the rate each year since 2012. Despite this, we are deeply saddened by the deaths of two contractors in 2016, at an RB manufacturing site in Pakistan. Our investigation and response has contributed to a further restructuring of our health and safety compliance programmes. We have strengthened our global standards and introduced Regional Health & Safety Compliance Managers. They will add rigour to annual audits across sites and increase training for our employees. New global standards will also set our minimum expectations in the highest-risk areas across all our sites. At our manufacturing sites, we will continue to develop an Environment, Health & Safety (EHS) Competence framework for managers, supervisors and EHS professionals.

Workplace

In 2016, we made further progress with our people strategy, reinvigorated our health and safety approach, relaunched our Human Rights and Responsible Business policy and continued to work with stakeholders to address human rights issues.

What we’re doing

Our people

Improving gender balance and female leadership development, engagement and retention were a major focus in 2016. We continued to implement Project DARE (Develop, Attract, Retain, Engage talented women), introduced initiatives such as the Accelerate leadership programme for women, and enhanced support for women on maternity leave. We also focused on unconscious bias and inclusive leadership. Enhancing performance reviews was another key project. We helped line managers to have inspiring and meaningful conversations with team members, giving employees clarity about their performance, their impact and how they can develop. This is improving both engagement and performance. International assignments are key to our development model and we increased support for international transferees and their partners.

The percentages of female members in the Group’s director, senior manager and all employee populations at 31 December 2016 were 27%, 20% and 42% respectively. The Group has designated the members of its “Top40” and “Top400” populations as RB’s ‘senior managers’ for the purpose of the gender split disclosure required by the Companies Act 2006. Of Board Directors, eight were male and three female, of senior managers, 346 were male and 86 female, and 15,681 of all employees were male and 11,430 female. There is a variance in total employee numbers from those reported in Note 5 on page 119, in respect of contracted labour for which gender split information is not available.
What we're doing

Brand purpose

We continued to deliver health and hygiene awareness and education programmes to improve people’s lives. Many of our programmes are linked to our brands, such as Durex, Mortein and Dettol. We aim to reach 400 million people by 2020. So far, we have reached 365 million since 2013. This includes 120 million through hygiene and sanitation programmes, 217 million with sexual health messaging and 27 million with mosquito-borne disease education programmes.

Social investment

This year, we invested £8 million through our Save a Child Every Minute programme, to stop children dying from preventable diseases such as diarrhoea to build toilets to discourage open defecation and to educate communities on hygiene habits. Our social impact through this programme benefited more than 1.5 million people in 2016.

What we’re doing

Innovation

We further improved the sustainability profile of some of our biggest selling brands, for example through reducing packaging and cutting associated emissions and reducing water consumption. This helped us to more than double our Net Revenue from more sustainable products to over £1 billion.

Stewardship

In 2016, we started a full review of our Restricted Substances List, which ensures we have a consistent global approach to ingredients of concern. We continued to increase ingredient transparency, with 66% of our Net Revenue from products for which we publish ingredients lists. We also accelerated our commitment to phase out microbeads in our personal care products, recognising their negative effect on the marine environment.

Healthier lives

We continued to promote healthier lives, reaching more people with our health and hygiene messaging and supporting the Save a Child Every Minute campaign.

Products

We increased revenue from more sustainable products, grew the proportion of more sustainable products in our pipeline and revitalised our approach to product safety.
Strategic overview

Our better business strategy

better environment

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

What we did
- Successfully reduced our total greenhouse gas (GHG) emissions per unit of production
- Little change in our carbon footprint since 2012 due to how our business has grown across our product portfolio and key markets
- Our water footprint has reduced over time and we have invested in product innovation
- Further reduced water use per unit of production
- Invested in reusing and recycling waste water, and in waste water treatment
- Achieved our 2020 waste reduction goal ahead of schedule, strengthened our recycling processes and further improved our product packaging
- Further increased traceability within our palm oil supply chain and successfully started three smallholder farmer programmes. Continued to engage with suppliers to ensure materials are sourced responsibly against our policies

What we will do
- Look for further opportunities to reduce GHG emissions across our manufacturing sites
- Work across our value chain to further explore opportunities to reduce the water impact of our products
- In our manufacturing sites we will identify ways to reduce, reuse and recycle water, and invest in waste water treatment facilities and monitoring systems
- Continue to drive towards zero waste to landfill, with an emphasis on finding new ways to reuse and recycle waste
- Further develop our palm oil programme, focusing on increasing traceability within our supply chain and the implementation of transformation programmes. We will increase human rights due diligence for palm oil

Strategic approach

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

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

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

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

#### Greenhouse gas emissions

**GHG EMISSIONS PER UNIT OF PRODUCTION**
The percentage reduction in GHG emissions per unit of production, against our 2012 baseline.

<table>
<thead>
<tr>
<th>Year</th>
<th>% Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>(3.6)%</td>
</tr>
<tr>
<td>2014</td>
<td>(7.8)%</td>
</tr>
<tr>
<td>2015</td>
<td>(13.8)%</td>
</tr>
<tr>
<td>2016</td>
<td>(23.0)%</td>
</tr>
</tbody>
</table>

**Target to 2020: 40% reduction**

**Commentary**
A further 13% reduction in GHG emissions per unit of production in 2016 vs 2015.

#### Water

**WATER USE PER UNIT OF PRODUCTION**
The percentage reduction in total water consumption per unit of production against 2012 baseline.

<table>
<thead>
<tr>
<th>Year</th>
<th>% Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>(18.9)%</td>
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<tr>
<td>2014</td>
<td>(24.8)%</td>
</tr>
<tr>
<td>2015</td>
<td>(29.9)%</td>
</tr>
<tr>
<td>2016</td>
<td>(31.8)%</td>
</tr>
</tbody>
</table>

**Target to 2020: 35% reduction**

**Commentary**
A further 2.6% reduction in water per unit of production in 2016 vs 2015.

**WATER IMPACT PER DOSE OF PRODUCT**
Total water used during the product’s entire life cycle, from material sourcing to disposal or recycling, adjusted to reflect water scarcity at each stage, and divided by the number of product doses manufactured.

<table>
<thead>
<tr>
<th>Year</th>
<th>% Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>(9)%</td>
</tr>
<tr>
<td>2014</td>
<td>(2)%</td>
</tr>
<tr>
<td>2015</td>
<td>(1)%</td>
</tr>
<tr>
<td>2016</td>
<td>(0)%</td>
</tr>
</tbody>
</table>

**Target to 2020: 1/3 reduction**

**Commentary**
A 6% reduction since 2012.

#### Waste

**FACTORIES SENDING ZERO WASTE TO LANDFILL**
Percentage of our factories achieving zero waste to landfill status, including both hazardous and non-hazardous waste.

<table>
<thead>
<tr>
<th>Year</th>
<th>% Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>48%</td>
</tr>
<tr>
<td>2014</td>
<td>74%</td>
</tr>
<tr>
<td>2015</td>
<td>89%</td>
</tr>
<tr>
<td>2016</td>
<td>97%</td>
</tr>
</tbody>
</table>

**Target to 2020: 100% reduction**

**Commentary**
All except for one factory is now zero waste to landfill.

**MANUFACTURING WASTE PER UNIT OF PRODUCTION**
The percentage reduction in manufacturing waste per unit of production, against our 2012 baseline.

<table>
<thead>
<tr>
<th>Year</th>
<th>% Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>(2.7)%</td>
</tr>
<tr>
<td>2014</td>
<td>(6.5)%</td>
</tr>
<tr>
<td>2015</td>
<td>(14.4)%</td>
</tr>
<tr>
<td>2016</td>
<td>(19.2)%</td>
</tr>
</tbody>
</table>

**Target to 2020: 20% reduction**

**Commentary**
A further 5.5% reduction in waste per unit of production in 2016 vs 2015.
better environment in action

Our manufacturing

We made further progress with our efforts to reduce GHG emissions, the amount of energy and water we use in manufacturing, and the waste we produce.

What we’re doing

Greenhouse gas emissions

Energy use is a major source of our carbon footprint and we have focused on using renewable energy and reducing consumption. In 2016, we implemented new energy programmes across our manufacturing sites. We made our biggest investment in renewables to date, installing a 2.5MW solar energy system at our Belle Mead factory in New Jersey. We purchased renewable electricity at our manufacturing sites in Derby and Hull (UK), Nowy Dwor (Poland), St Peters and Belle Mead (US). This helped to decrease overall carbon emissions by 7.8% tonnes globally. We also invested in low-carbon technologies. The Nowy Dwor plant installed a free cooling module that uses external air to cool manufacturing operations, while our St Peters plant collaborated with the Materials Lifestyle Management Company to transform our waste into low carbon fuel.

In 2016, our GHG emissions from our entire operations, including manufacturing, R&D, offices and distribution centres, were made up of:

- Scope 2: 180,497 tCO₂e (2015: 214,586) – emissions from energy supplied to RB such as electricity, heat, steam or cooling.

Total GHG emissions from Scope 1 and Scope 2 emissions in 2016 were 260,818 tCO₂e (2015: 294,087). We calculate our emissions intensity per unit of production, which equated to 0.0344 tCO₂e in 2016 (2015: 0.0389 tCO₂e).

Note: Our GHG data includes all emissions from operations covered by the Group Financial Statements for which we have operational control. We include emissions for businesses we acquire in the first full calendar year of our ownership. We calculated CO₂e emissions using internationally recognised methodologies from the Greenhouse Gas Protocol and International Energy Authority (IEA). Scope 2 GHG emissions reported in 2016 are net emissions which equals gross emissions minus emissions from renewable electricity certificates purchased (36,814.89t).

Water

We reduced water consumption by 2.6% across our operations in 2016 vs 2015. We have improved metering systems in our plants, to better understand where we can reduce water use, and invested in initiatives to deliver reductions, including reusing reject water in cooling towers and chillers.

Using water in our production processes and for cleaning creates waste water, which we treat and clean before we release it from our sites. All our sites must comply with local legislation and monitor water discharge parameters. In 2016, we strengthened compliance by setting water management and waste water discharge standards across all our global manufacturing sites. We have also invested in our facilities, including a new waste water treatment plant at our site in Cali, Colombia.

Waste

Our Zero Manufacturing Waste to Landfill Challenge encourages sites to find new ways to divert waste from landfill. It has helped us to make significant progress and in 2016, 46 of our sites sent zero waste to landfill, with the remaining one facility having clearly defined plans to meet the target by 2020. During 2016, the average waste sent to landfill across our factories was less than 1%, which translates to a reduction of over 22,570 tonnes of hazardous and non-hazardous waste being diverted from landfill since 2012.

In 2015, we increased our waste reduction goal to 20% by 2020. We continued to lower our waste production throughout 2016 and given our strong progress, we have further increased the target to 30% by 2020 (against a 2012 baseline).
Strategic Report

What we’re doing

GHG and water footprint for products

Our carbon footprint per dose of product is broadly unchanged since 2012. While we have made good progress in the areas under our control, consumer demand for products with high carbon intensity (especially in hygiene) is offsetting reductions elsewhere. Water use per dose has decreased since 2012. We are developing water efficient products such as Dettol Squeezy and are working to see how we can further reduce impacts in the largest part of our footprint – consumer use of our products.

Packaging waste

We continually look to reduce, reuse and recycle our packaging through our sustainable innovation and efficiency programmes. We measure the sustainability impact of packaging for all new products through our Sustainable Innovation App, to encourage packaging reductions and the use of more sustainable materials. As a result, approximately 40% of the products in our pipeline now have less packaging than their predecessor.

Our products

We continue to focus on reducing GHG emissions and water use for our products, across the value chain through product innovation although savings made are offset by impacts at the point of consumer use.

 Responsible sourcing

We continue to focus on engaging with our suppliers, increasing levels of traceability and ensuring that our raw materials are sourced responsibly, in line with our policy.

Palm oil

Since 2014, we have focused on tracing the palm oil we procure back through the supply chain, from supplier to refinery, and refinery to mill. In 2016, we achieved traceability to mill for 87% of our supply base outside of India, and 55% traceability to port in India. Traceability in India is challenging and we have run multiple workshops with suppliers and other brands to address this. We have continued to support on-the-ground transformation programmes, and in partnership with The Forest Trust we launched two smallholder farmer programmes to educate farmers in good farming techniques and crop diversification.

1 Excluding surfactants

Other materials

In 2016, we started our first latex smallholder farmer programme. As part of this programme we have already engaged with over 120 smallholder farmers and have run multiple workshops focused on building farmer resilience. We continued to ensure that the paper and board we use are sourced in compliance with our policies, whilst rolling out packaging initiatives for brands including Durex, where we converted the board used for the cartons to sustainable sources. We are a very small user of soy. However, in 2016 we confirmed that the raw soy we use originates from low-risk countries.
It’s my RB

RB has a distinct culture. We are driven to outperform, by acting like owners and having the drive and passion of entrepreneurs.

Our culture comes to life through our values. These values are interlinked and together define how we make decisions, how our people behave, how we reward people and how people grow.

The right values

Achievement
We aim high and strive for outperformance. We challenge ourselves to climb mountains and then look for the next peak.

Ownership
We treat the Company as if it is our own in everything we do.

Entrepreneurship
We passionately believe in our ideas and are willing to win big, even if we may sometimes fail.

Partnership
We leverage relationships to make each other the best we can be, both inside and outside of the Company.

Achievement
Everyone wants a sense of achievement. For RB, that means we have to outperform.

Ownership
To achieve exceptional things, our people need a sense of ownership.

We constantly challenge ourselves and inspire others to stretch. We are not happy with the status quo because we want better innovations, better ways of doing things and better results. This hunger pushes us to be the very best. Our unique approach to reward means outperformance results in excellent rewards.

We encourage our people to behave as if they own the business. This means they identify issues, take responsibility and own the outcome. They act in RB’s and consumers’ best interests and spend money as if it were their own.
Our ownership philosophy extends to our shareholding requirements for our senior managers, which are the highest in the industry. Many of our employees also own shares. In addition, share-based incentives deliver long-term rewards that can outweigh short-term bonuses. Creating Shareholder value through outperformance therefore materially benefits our people.

Entrepreneurship
Owners are usually entrepreneurs, so we make a conscious effort to breed a culture of entrepreneurship.

Entrepreneurs are passionate about their ideas. By tightly controlling resources, we encourage our people to find innovative ways to achieve their goals. We allow them to pursue projects they believe in, knowing they can fail small and still be rewarded if their project is launched. This contrasts with the typical big company, which has more resources than ideas and avoids taking calculated risks because it worries more about failure than success. We create a culture of diversity so we benefit from different experiences, and encourage people to speak up.

Partnership
To be a great company, we must be obsessed with making each other the best we can be.

We cannot be the best if we do everything ourselves. There is far more innovation, creativity and knowledge outside RB than there can ever be inside it. We therefore partner with organisations that bring us innovative products and better ways of working. We also strive for openness in our internal partnerships. We seek help when we need it, share best practice and make each other better every day.

Net Revenue
£9.9bn
Like-for-like growth 3%
Total reported growth 11%
Operating Review

ENA

% of Net Revenue

65%

Rob de Groot / Executive Vice President, ENA

Net Revenue

£6,410m

2015: £5,830m
LFL growth: +1%
Actual growth: +10%

Adjusted Operating Profit

£1,978m

2015: £1,744m
Total growth: +2% at constant
+13% at actual

Food

4% of Net Revenue

Total Net Revenue was £6,410 million, with like-for-like (LFL) growth of +1%. North America had a tough year, with a flat LFL performance. While we achieved good growth in our VMS brands, Mucinex and Finish, this was offset by weakness with our Amopé Wet & Dry pedi innovation.

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

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

Adjusted Operating Profit increased by 2% at constant exchange rates to £1,978 million. The Adjusted Operating Margin rose by +100bps to 30.9%, due to strong Gross Margin expansion.

Food

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.
Total Net Revenue was £3,070 million, with LFL growth of +8%. This reflected a strong underlying performance.

Had it not been for the impact of South Korea, LFL growth in DvM would have been double digit. For more information on our ongoing support in South Korea see pages 14 to 15.

In South Asia, India delivered strong growth, despite a significant slowdown in the fourth quarter caused by demonetisation disrupting the market. We reduced the impact of the disruption on reported revenue through a focused programme of support to distributors, with some increase in channel inventory which will reverse in 2017.

We achieved further strong penetration gains with our leading Dettol and Harpic brands, underpinned by innovation and consumer education programmes. China had another strong year, driven by e-commerce initiatives and the launch of Move Free. Over 30% of China’s net revenue is now via e-commerce channels and we have an 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 Arabia had a weaker year, due to geopolitical issues in the second half.

Adjusted Operating Profit increased by +19% at constant exchange rates to £681m, and the Adjusted Operating Margin was +260bps higher at 22.2%. This was due to Gross Margin expansion, combined with Supercharge initiatives.
Operating Review

Health

Net Revenue

£3,332m

2015: £2,942m
LFL growth: +4%
Actual growth: +13%

Market position
- Nurofen and Gaviscon are leading analgesic and gastro-intestinal brands in Europe and Australia
- Durex is No.1 worldwide in condoms for both safe and more pleasurable sex
- Strepsils is No.1 in medicated sore throat globally
- Mucinex is the No.1 cough brand in the US
- Scholl/Amopé is No.1 globally in footwear

Our Health
Powerbrands

Highlights 2016

Total Net Revenue was £3,322 million, with LFL growth of +4%, following exceptional LFL growth of +14% in 2015. This was an average result versus the market but below our ambition to outperform. We remain steadfast in our commitment to driving outperformance in this strategic category.

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

All the 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 in 2015, exceeding both in-year and medium-term category growth rates.

This broad-based growth in 2016 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 full 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 in Consumer Health, led by our market-leading and trusted brands, strong consumer-centric innovation pipeline and significant investment behind medical professional and consumer education programmes.

Home

Net Revenue

£1,828m

2015: £1,715m
LFL growth: -1%
Actual growth: +7%

Market position
- Vanish is No.1 worldwide in fabric treatment
- Calgon is No.1 in water softeners
- Air Wick is No.2 worldwide in air care

Our Home
Powerbrands

Highlights 2016

Total Net Revenue was £1,828 million, with a LFL decline of -1%. Air Wick grew, with a good performance from our recent Air Wick Pure innovation, which we scaled across a number of ENA markets during the year. We also experienced success in the US from the launch of the new liquid electrical fragrance diffuser. This provides the user with the benefit of ‘8 x more fragrance control’ and has won a number of international design awards.

The Vanish franchise declined in 2016, driven solely by the impact of events in South Korea. We have continued to drive the Vanish Gold franchise with the ‘30 second removal even on seven day dried in stains’ campaign as well as penetration building activities in key DvM markets in Indonesia, Mexico and the Middle East.

Our overall performance in Home care, excluding the impact of South Korea, was at the upper end of our long-term category growth rates.
## Highlights 2016

Total Net Revenue was £4,066 million, 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 (such as Dettol Squeezy and Harpic bathroom cleaner) and consumer awareness programmes. Dettol also launched an innovative new mask in China to protect families from the harmful effects of air pollution. Banega Swachh in India continues to gain momentum in championing better hygiene and Global Handwashing day, which helps teach children better hand hygiene, delivered more than 2 billion impressions.

Finish was a growth driver in ENA, with particular success in the US as a result of our instore initiatives and successful Max-in-1 innovation. We also saw a near doubling of our Finish business in China where we announced a new global partnership with a leading dishwasher manufacturer in China. While the market is still small in absolute terms, the growth rates for new dishwashers are now becoming the highest in the world and Finish remains well positioned to benefit from this growth.

Veet had a successful year, with the launch and scaling of our new precision trimmer innovation. Our pest business had a very strong year experiencing high market growth due to the spread of mosquito borne illnesses like Zika, the launch of our premium insect repellent range in Brazil and the recovery of our business in India. Veja also had a strong performance in Brazil.

## Portfolio (including Food)

Total Net Revenue was £411 million, representing a +5% LFL increase. Food continues to deliver a strong performance, driven by growth of French’s ketchup, regaining share in French’s mustard, outperformance by Frank’s Red Hot and continued expansion in international markets, most notably Canada.

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

## Portfolio (including Food)

Total Net Revenue was £665 million, 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 South Korea. Food continues to perform well.
Reckitt Benckiser Group plc (RB)
Annual Report and Financial Statements 2016

Financial Review

Like-for-like (LFL) growth

3%

Net Revenue

£9,891m

Adjusted Operating Margin

+130bps

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

Adrian Hennah / Chief Financial Officer

Total Net Revenue was £9,891 million, an increase of +2% at constant exchange rates and +3% on a LFL basis. The positive foreign exchange impact on translation increased Net Revenue by +9%. 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 the UK.

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 affected 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 backdrops impacted performance in Turkey, Saudi Arabia and Brazil. Indian demonetisation had a small impact in 2016, but will also affect 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 the Wet & Dry express pedi innovation failing to deliver to our expectations. Hygiene had an improved performance in the year, with growth across most Powerbrands, driven by innovation and penetration building initiatives. Our Home care category had a weak year, due to specific issues in South Korea. The underlying performance of the Home category was in line with our goal of performing in line with the market.

Gross Margin increased by +180bps to 60.9%, an excellent performance driven by favourable input costs, margin accretive innovation, pricing, mix, 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 in the 2016 interim statement, we expect input costs to become headwinds in 2017. Gross Margin has driven our virtuous earnings model, we expect that it will continue to drive it, as we focus on favourable mix, driven by Consumer Health led growth, and on 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 +£63 million (at constant exchange rates) or +50bps to 13.2% of Net Revenue. The efficiencies we have driven from our Supercharge programme (for example, consolidation of creative agencies and media buying savings), have been reinvested in brand equity building initiatives throughout the year.

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

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

Net Income as reported was £1,832 million, an increase of +5% (-5% constant) versus 2015. On an adjusted basis, Net Income was
£2,157 million (+15% (+4% constant). Diluted Earnings Per Share of 256.5 pence was up +6% on a reported basis. On an adjusted basis, the growth was +17% to 302.0 pence.

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

**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%), in line with our guidance. The effective rate in the year was reduced by 1% by the effect on the deferred tax liability of the enactment of a 1% reduction in the UK corporate tax rate in 2020. We continue to expect our underlying Group effective tax rate to be in the region of 23%.

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

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

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

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%).

<table>
<thead>
<tr>
<th></th>
<th>31 December 2016</th>
<th>31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash generated from operations</td>
<td>£2,422</td>
<td>£1,784</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(179)</td>
<td>(154)</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(214)</td>
<td>(25)</td>
</tr>
<tr>
<td>Proceeds from the sale of property, plant and equipment</td>
<td>7</td>
<td>51</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td><strong>2,036</strong></td>
<td><strong>1,656</strong></td>
</tr>
</tbody>
</table>

**Net debt**
Net debt at the end of the year was £1,391 million (2015: £1,620 million). This reflected strong free cash flow generation, offset by the payment of dividends totalling £1,036 million (2015: £926 million), net share purchases of £723 million (2015: £730 million) and net M&A of £158 million (2015: £10 million). 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 £8,426 million (2015: £6,906 million), an increase of 22%. Net debt was £1,391 million (2015: £1,620 million) and total capital employed in the business was £9,817 million (2015: £8,526 million).

This finances non-current assets of £14,569 million (2015: £12,386 million), of which £878 million (2015: £730 million) is property, plant and equipment, with 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 £1,102 million (2015: minus £936 million), current provisions of £251 million (2015: £229 million) and long-term liabilities other than borrowings of £3,388 million (2015: £2,652 million).

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 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. The Group had net debt of approximately £1.4 billion at 31 December 2016. In announcing the planned acquisition of Mead Johnson, we confirmed that we intend to continue our current policy of paying an ordinary dividend equivalent to around 50% of adjusted net income. We also stated that, if the transaction completes, we do not intend to buy-back any further shares until the debt taken on to fund the transaction is materially reduced.

**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 17.

**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 19.
RB’s return on capital employed (ROCE), both “as reported” and adjusted for the demerger of RB, is set out above. A return-based approach is firmly embedded into both organic operational activities and M&A transactions undertaken by the Group.

**Organic activities**
Operational activities which utilise capital employed are undertaken with the same rigorous and returns-based approach, which we adopt for brand equity investment and other “P&L” based investments:

- **Capital expenditure (capex)** – all proposed capex must be supported by a relevant business case. We do not set rigid capex budgets each year, but allow the organisation to invest where and when the case is strong. We assign a high priority to projects addressing safety and quality opportunities. Capex levels are on average approximately 2% of Net Revenue.

- **Net Working Capital (NWC)** – tight management of inventories, payables and receivables is always required. The leadership in every market in which RB operates is targeted on NWC performance. It is typically one of the three multiplicative metrics which determine the annual bonus. NWC is on average approximately minus 8–9% of Net Revenue.

**Inorganic activities**
Our principal focus is on organic growth. However, there is an inorganic element to our strategy focused around both value accreting acquisitions, and non-core/tail brand divestitures. Decision making with respect to inorganic opportunities is taken at a Group level. Our front-line operations play the leadership role in building the case for an acquisition, the due diligence prior to a transaction and delivering value once a transaction takes place.

A transaction may reduce the Group’s ROCE during the years immediately following the transaction. Of key importance, however, is the generation of an appropriate cash return on invested capital within a reasonable time frame. The Group deliberately sets no return thresholds for an acquisition, as transactions vary in nature, strategic importance, risk and size. The Group does, however, undertake a significant amount of analysis and due diligence prior to any transaction to review the return expected to be generated by the end of year three, compared to the Group’s weighted average cost of capital (WACC).

As management is required to hold a significant personal stake of RB shares, there is strong alignment of interest between management and Shareholders in seeking to ensure that transactions deliver an appropriate return within an appropriate time frame. Post-investment reviews of all transactions are undertaken on a regular basis and discussed at a Board level.

**Review of RB ROCE**
The Group’s ROCE declined following the acquisitions of BHI (2006), Adams (2008), SSL (2010) and Schiff (2012) and then improved as good returns were subsequently generated. It was also negatively impacted in 2013 with the demerger of RB, as RB earned a high return on capital employed (RB ROCE is removed in reported data from both 2014 and its comparative year, 2013).

RB performed well in 2014. ROCE performed less well, however, as reported profit was reduced by significant foreign exchange headwinds (-10% negative translational impact on Group profits), while capital employed was less impacted as a significant part of the Group’s net assets are denominated in stronger currencies. In 2015 the Group ROCE increased following a year of excellent organic growth and minimal increase in capital employed.

RB performed well in 2016, however, the Group’s reported ROCE decreased as a result of the increased Sterling value of the Group’s net assets due to the significant depreciation in Sterling from mid-2016. Over 80% of the Group’s net assets are denominated in currencies other than Sterling. The Group’s results are translated using average rates (which included a half year of weaker Sterling) and year end rates are used to translate the Balance Sheet. If the Group’s results were translated using year end rates then ROCE would have increased by 110bps.
Reporting our performance

The following terms are used to describe RB’s financial performance. Certain terms are considered to be Non-GAAP measures because they are adjusted from comparable IFRS measures in order to provide additional clarity about the underlying performance of the business. Other terms, which are not themselves Non-GAAP measures are also defined below.

Non-GAAP measures:

- Like-for-like (LFL) growth on Net Revenue excludes the impact of changes in exchange rates, acquisitions and disposals.
- Constant exchange rates 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.
- Adjusted results and Adjusted Operating Margin exclude exceptional items, defined as material, non-recurring expenses or income.
- Adjusted Earnings per share is defined as Adjusted Net Income attributable to owners of the parent divided by weighted average of ordinary shares (Note 8 to the Financial Statements).
- Free cash flow is defined as net cash generated from operating activities less net capital expenditure.

Other measures and terms:

- Actual exchange rates show the statutory performance and position of the Group, which consolidates the results of foreign currency transactions at year-end closing rates (Balance Sheet) or annual average rates (Income Statement).
- BEI represents our Brand Equity Investment and is the marketing support designed to capture the voice, mind and heart of our consumers and is presented as a component of distribution costs within Net Operating Expenditure.
- Return on capital employed (ROCE) is defined as Net Adjusted Operating Profit after Tax (Note 3 to the Financial Statements) divided by capital employed, where capital employed is measured as Total Assets less non-interest bearing Current Liabilities.
- Total Shareholder Return (TSR) measures the return received by a Shareholder, capturing both the increase in share price and the value of dividend income (assuming dividends are reinvested).

### Summary of % Net Revenue growth

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th></th>
<th>FY 2015</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LFL</td>
<td>Net M&amp;A</td>
<td>FX</td>
<td>Reported</td>
</tr>
<tr>
<td>North America</td>
<td>–</td>
<td>–</td>
<td>+12%</td>
<td>+12%</td>
</tr>
<tr>
<td>Rest of ENA</td>
<td>+1%</td>
<td>-1%</td>
<td>+9%</td>
<td>+8%</td>
</tr>
<tr>
<td>ENA</td>
<td>+1%</td>
<td>-1%</td>
<td>+10%</td>
<td>+10%</td>
</tr>
<tr>
<td>DvM</td>
<td>+8%</td>
<td>–</td>
<td>+6%</td>
<td>+14%</td>
</tr>
<tr>
<td>Food</td>
<td>+5%</td>
<td>–</td>
<td>+13%</td>
<td>+18%</td>
</tr>
<tr>
<td>Group</td>
<td>+3%</td>
<td>-1%</td>
<td>+9%</td>
<td>+11%</td>
</tr>
<tr>
<td>Health</td>
<td>+4%</td>
<td>–</td>
<td>+9%</td>
<td>+13%</td>
</tr>
<tr>
<td>Hygiene</td>
<td>+4%</td>
<td>–</td>
<td>+9%</td>
<td>+13%</td>
</tr>
<tr>
<td>Home</td>
<td>-1%</td>
<td>-1%</td>
<td>+8%</td>
<td>+7%</td>
</tr>
<tr>
<td>Portfolio</td>
<td>–</td>
<td>-5%</td>
<td>+11%</td>
<td>+6%</td>
</tr>
<tr>
<td>Group</td>
<td>+3%</td>
<td>-1%</td>
<td>+9%</td>
<td>+11%</td>
</tr>
</tbody>
</table>

### Adjusted Net Income

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>1,832</td>
<td>1,743</td>
</tr>
<tr>
<td>Exceptional items</td>
<td>367</td>
<td>133</td>
</tr>
<tr>
<td>Tax effect of exceptional items</td>
<td>(42)</td>
<td>(5)</td>
</tr>
<tr>
<td>Adjusted net income attributable to owners of the parent</td>
<td>2,157</td>
<td>1,871</td>
</tr>
</tbody>
</table>

### Free Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash generated from operations</td>
<td>2,422</td>
<td>1,784</td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(179)</td>
<td>(154)</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>(214)</td>
<td>(25)</td>
</tr>
<tr>
<td>Proceeds from the sale of property, plant and equipment</td>
<td>7</td>
<td>51</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>2,036</td>
<td>1,656</td>
</tr>
</tbody>
</table>
Our framework for risk management

The following table provides a summary review of the principal strategic risks and uncertainties that are more likely to affect the Group, as identified by management and the Board.

RB operates a major risk assessment process to periodically identify, assess and mitigate those risks it considers to be most significant to the successful execution of our strategy.

The following table sets out the principal strategic risks and uncertainties facing the Group at the date of this report. They do not comprise all of the risks that the Group may face. Additional risks and uncertainties not presently known to management, or deemed to be less material at the date of this report, may also have an effect on the Group.

Viability Statement

The Board conducted a Viability Review covering a five-year period. This period was selected as it is the period covered in the Group’s long-term forecasting process. This period covers the introduction to the market of the current new product pipeline.

The five-year Viability Review first looks at the Group’s ability to continue in operation if it performs in line with the Group forecast. This assumes that normal market conditions continue and current trends remain. The evaluation takes into account the Group’s cash flow, historical Group planning accuracy, available banking facilities and interest cover ratios in connection with financial covenants. The analysis concluded that if RB performs in line with forecast it would have sufficient funds to trade, settle its liabilities as they fall due, and remain compliant with financial covenants.

The analysis goes on to consider the viability of the business should adverse unexpected events arise. To illustrate this, a sensitised view of the Group forecast was produced. The adverse assumptions are based primarily upon the realisation of key Group principal risks, which have the most relevant potential impact on viability (see risks marked “*” on the following pages).

The sensitivity assigns each adverse assumption an estimated annual monetary value and estimates the impact on interest cover ratios and headroom over available borrowing facilities. The analysis concludes that even with the occurrence of key unexpected scenarios, RB would still have sufficient funds to trade, settle its liabilities as they fall due, and remain compliant with financial covenants.

The Board has further considered the occurrence of a ‘Black Swan’ event: an event with sufficient potential impact to risk the future of RB as a strong and independent business operating in its chosen markets. The occurrence of a major issue could result in significant reputational impact, a catastrophic share price fall, significant loss of consumer confidence and inability to retain and recruit quality people. Such an event could have an impact on the viability of the business.

As there are a number of mitigating controls in place across the business, the occurrence of a Black Swan event is considered sufficiently unlikely that it has not been factored into the sensitivity analysis.

As a result of the Viability Review, the Board have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period covered in the Viability Review.
Risk management framework

Compared with a year ago, the individual risks have evolved as follows:

- ‘Safety’ both for consumers as well as for employees has been reassessed through a newly implemented Safety, Quality and Compliance (SQC) governance structure, implemented mid-year, and are now included as separate principal risks;
- Due to developments during 2016 in ‘South Korea’, this risk is now demonstrably material and is actively managed separately from the Legal Non-Compliance risk;
- ‘RB Reputation’ has been included for the first time as a principal risk, reflecting RB’s increased maturity as a healthcare business;
- The ‘Product and GXP Regulatory Non-Compliance’ risks have been refocused, again in light of the newly implemented SQC governance structure; and
- The ‘Significant Country Underperformance’ risk has been removed from the list, as the materiality of the net exposure has reduced.

The Group risk profile has also shifted, with more principal risks carrying a higher likelihood than in the previous year, notably risk numbers 2, 3, 9 and 10 per the listing adjacent. This shift represents a recalibration from the perspective of a healthcare business in the case of numbers 2 and 3; the potential impact of risk number 9 is also considered to be higher than the previous year based on the experiences of 2016; and, in the case of risk number 10, the global tax environment is seen as generally tougher than was previously the case.

Overall, it is considered that the Group risk management framework has been considerably strengthened during 2016 through the combination of greater Board leadership and oversight with the establishment of the CRSEC Committee together with the establishment of executive management committees, the establishment of the Safety, Quality and Compliance function reporting directly to the Group CEO and the channelling of additional resources to strengthen compliance assurance across the Group.

Exchange rate risk

While the exchange rate is not considered to be a principal risk to the Group, the means used to mitigate this risk are considered in Note 14 on pages 131 to 132.

Current Group principal risks

1. Product Safety
2. Non-Compliance with Product Regulations
3. Non-Compliance with GXP Regulations
4. South Korea
5. Fatality or Major Employee Safety Incident
7. ERP/IT Systems Failure
8. Cyber Security and Data Protection
9. Legal Non-Compliance
10. Major Tax Disputes
11. Loss of Key Management
12. RB Reputation
BS. ‘Black Swan’ Event
Routine Risks
Risk management framework

Principal risk

1. Product Safety*

Description
Risk of not having a robust process for assessment of product safety; this may result in:
- Consumer Safety issue
- Gaps in the completion of our safety assessment
- Reputational damage with consumers, customers or regulators
- Significant financial losses arising from supply disruption, product recalls, delayed launches, penalties, etc.
- Possible criminal liability for RB senior management

Mitigation status
A dedicated pharmacovigilance group monitors and reports on adverse events and manages patient safety risks.

Safety team has been strengthened during 2016 with clearer leadership of the Safety, Quality and Compliance organisation, reporting directly to the Group CEO.

A Compliance Management Committee (CMC) has been established in 2016, meeting monthly and chaired by the Group CEO. This committee routinely reviews Product Safety governance and issues arising and escalates to the Executive Committee as necessary.

Quarterly updates of Product Safety progress from the CMC to the CRSEC Committee.

Ongoing 2017 actions
Review of Product Safety Evaluation Records (PSERs) to ensure current availability for all products.

Systems review to ensure that all product changes are satisfactorily tracked, controlled and updated.

Develop and deliver base training for all employees, and advanced training for relevant employees to fully understand their role in fulfilling safety, quality and compliance standards for RB products.

2. Non-Compliance with Product Regulations*

Description
Risk that non-compliance with regulations of relevant product classifications (e.g. medicinal products, medical devices, VMS, food, cosmetics, general products etc.) results in:
- Consumer safety issue
- Reputational damage with consumers, customers or regulators
- Significant financial losses arising from supply disruption, product recalls, delayed launches, penalties, etc.
- Possible criminal liability for RB senior management

Mitigation status
REGEX (Regulatory Excellence) programme executed to review compliance of RB’s medicine marketing authorisations.

Regulatory investment during 2016 to create a dedicated compliance and maintenance team to strengthen existing product regulatory control.

A Compliance Management Committee (CMC) has been established, meeting monthly and chaired by the Group CEO. This committee routinely reviews Product Regulatory governance and issues arising.

Quarterly updates of Product Regulatory progress from the CMC to the Board Compliance Committee.

REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) compliance programme progressing.

Best practice guidance on technical due diligence and vulnerability/compliance activities post acquisition has been developed, based on learnings from recent acquisitions.

Ongoing 2017 actions
Product Vulnerability Programme (review of ingredients, formulations, stability data, etc. in Health portfolio).

Pilot compliance programme for sexual wellbeing medical devices has started and will be accelerated as part of product integrity reviews.

Improve artwork and label approval process.

Continue comprehensive REACH compliance programme and implementation of business-wide change control capability.

*Key Group Principal risks

---

Decreased
No change
Increased
New

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### Principal risk

#### 3. Non-Compliance with GXP Regulations*

**Description**

Non-compliance with applicable regulations, guidelines, internal standards and/or registrations across the supply chain and throughout the product life cycle (PLC) governing how we produce and supply product.

Non-compliance results in risk to:
- Consumer – safety and efficacy
- Business disruption including site or business closures
- Possible criminal liability for RB senior management

<table>
<thead>
<tr>
<th>Mitigation status</th>
<th>Ongoing 2017 actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>A CMC has been established, meeting monthly and chaired by the Group CEO. This committee routinely reviews GXP Regulatory governance and issues arising.</td>
<td>Implementation of a full Company Quality Management System (QMS) to cover Health, Hygiene and Home and all supporting functions.</td>
</tr>
<tr>
<td>Quarterly updates of Product Regulatory progress from the CMC to the Board Compliance Committee.</td>
<td>The establishment of an independent Quality Audit function reporting directly to the Chief Safety, Quality and Compliance Officer.</td>
</tr>
<tr>
<td>Minimum standards programme in place to monitor and measure performance.</td>
<td>Enhance the Medical Device QMS to ensure compliance with new ISO and Authority Standards.</td>
</tr>
<tr>
<td>Health compliance regularly audited externally and clear actions in place.</td>
<td>Improve and enhance the Global Consumer Relations function and system to facilitate appropriate signal detection and action to be taken.</td>
</tr>
<tr>
<td>Change management, already in place for Health, rollout to rest of the business in 2016.</td>
<td>External benchmarking and review of QMS.</td>
</tr>
</tbody>
</table>

*Key Group Principal risks

#### 4. South Korea

**Description**

Significant financial and reputational risk as a result of death and lung injury caused by inhaling Oxy Sac Sac, a humidifier sanitiser product marketed by RB’s Korean subsidiary Oxy RB.

While a fully appropriate provision was made at half year to cover the one-off costs of litigation, civil settlements and medical costs, as well as some impairment, the risk of additional exposure remains.

However, there was no substantive basis to take further provision at year end.

<table>
<thead>
<tr>
<th>Mitigation status</th>
<th>Ongoing 2017 actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>RB and Oxy RB crisis management team in place and functioning throughout the year to progress a compensation plan and address legal and governmental action.</td>
<td>RB continues to work closely with government, lawyers and other businesses to progress settlement with claimants.</td>
</tr>
<tr>
<td>Full public apology formally and repeatedly made by Oxy RB to affected parties.</td>
<td></td>
</tr>
<tr>
<td>Financial modelling completed to quantify risk and provide for financial exposure at the half year.</td>
<td></td>
</tr>
<tr>
<td>Compensation agreements reached with a significant proportion of Round 1 and Round 2 victims of lung damage.</td>
<td></td>
</tr>
<tr>
<td>Lessons learned exercise performed to understand required process and control enhancements to prevent reoccurrences.</td>
<td></td>
</tr>
</tbody>
</table>

*betterfinancials better society*

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*Key Group Principal risks

**Decreased**

**No change**

**Increased**

**New**
### Principal risk

#### 5. Fatality or Major Employee Safety Incident

**Description**

Work accidents leading to death, injury or illness on RB premises or premises under RB supervision, in the case of outsourced operations, resulting in risks to:

- Loss of life
- Company reputation – brand and company image damage
- Operational efficiency – factory closures, significant supply disruption as issues are identified and rectified
- Financial performance – loss of sales, fines and cost of remediation activities
- Possible criminal liability for RB senior management

**Mitigation status**

- Policy and minimum Environment, Health & Safety (EHS) standards established and confirmed through self-assessment, site visits and independent audits.
- A CMC has been established, meeting monthly and chaired by the Group CEO. This committee routinely reviews Employee Safety governance and issues arising.
- Quarterly updates of progress with Safety governance and issues from the CMC to the CRSEC Committee.
- H&S training for both manufacturing site leadership and commercial offices running through 2016.

**Ongoing 2017 actions**

- EHS resourcing review to consider appropriateness across RB for supply, R&D and commercial offices.
- New independent internal EHS audit team and programme established for regional deployment. Clear guidelines and cultural safety programme to be developed as part of this.

---


**Description**

Risk that our business continuity plans (BCPs), including mono-sourcing of materials and finished products, do not adequately address all risks facing the Group, resulting in unforeseen business disruption.

**Mitigation status**

- Continued progress in driving principal single sourced manufacturing sites to achieve and maintain FM Global certification as ‘Highly Protected Risk’ (HPR) sites, or otherwise have fully tested risk mitigation plan.
- Annual review of Business Interruption insurance policies to ensure adequate cover is in place.
- Tested and proven product recall process.
- BCP documentation and testing to be reviewed for each significant factory and in aggregate to ensure that business continuity arrangements remain sufficient.

**Ongoing 2017 actions**

- New independent internal EHS audit team and programme established for regional deployment. Clear guidelines and cultural safety programme to be developed as part of this.

---

#### 7. ERP/IT Systems Failure

**Description**

Risk of IT disruption or accounting error, due to legacy Enterprise Resource Planning (ERP) and IT systems, impacts business operations in a number of areas, e.g. through unavailability of key management information or disruption to transactional processing.

There is an associated, additional risk that SAP deployment, to replace the existing legacy ERP (JDE), is delayed.

**Mitigation status**

- Executive Committee strategic decision committing to Group-wide ERP rollout.
- SAP commercial and factory templates now live in two and four entities respectively, with multiple deployment teams now active in rapid rollout phase.
- Disaster recovery plans for key IT systems redefined, reviewed and tested under new outsource provider platform, providing improved systems integrity.

**Ongoing 2017 actions**

- SAP rapid rollout phase consists of five deployment teams working in separate geographies to deliver a single instance SAP for both commercial and manufacturing sites in those geographies.
- Full migration of all servers to outsourced data centres.

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### Key Group Principal risks

1. Decreased
2. No change
3. Increased
4. New

---

*Reckitt Benckiser Group plc (RB)*
Annual Report and Financial Statements 2016
Principal risk

8. Cyber Security and Data Protection*

Description
Risk that RB is subject to increasingly sophisticated cyber attacks aimed at causing business disruption, capture of data for financial gain, and reputational damage or that RB’s data privacy is considered by regulators to be inadequate.

Mitigation status
Cyber security awareness and data privacy training for all staff, and anti-phishing training for senior management.

Data Privacy programme in place.

Solutions implemented for data loss prevention and privileged access management.

Strengthening of Information Security resourcing and capabilities.

Proactive investment in system patching against cyber threats.

Transformation of internal cyber team, with additional resourcing for Security, Privacy and Compliance.

Single Sign On platform implemented.

Ongoing 2017 actions
Transformation of hardware environment, Cyber Security Monitoring and Vulnerability Management tools being delivered.

Global Data Privacy compliance assessment to identify further remediation required.

Implement Digital Compliance programme.

Additional investment in Cyber Monitoring, Digital Cyber Protection and IT Forensic systems.


9. Legal Non-Compliance*

Description
Risk that we are not fully compliant with relevant laws and regulation, including anti-corruption laws and global competition laws, resulting in damage to RB’s reputation, significant potential fines and possible criminal liability for RB senior management. (See Notes 17 and 19 of the Financial Statements for further details).

Mitigation status
Group Legal Compliance programme strengthened.

Global Compliance Passport online training completed by all employees.

Group Whistleblower Hotline operational, widely communicated and embedded.

Legal Academy launched, providing centralised training facilities.

Ongoing 2017 actions
Appointment of new General Counsel to the Executive Committee.

Develop tool for ongoing monitoring to prevent abuse of significant market positions.

Development of global gift register to replace local tools.

Decreased
No change
Increased
New
*Key Group Principal risks
Risk management framework continued

Principal risk

10. Major Tax Disputes

Description

Risk of significant unprovisioned cash outflows as a result of tax authority challenge to filed tax positions. (See Note 7 of the Financial Statements for further detail.)

Mitigation status

Implementation of a Governance Review Board to monitor and drive compliance against our operating model.

Ongoing monitoring of progress of European Community State Aid investigations and their possible impact on RB. Also for Base Erosion and Profit Shifting (BEPS) initiatives.

Ongoing proactive management to progress formal Advanced Pricing Agreements (APAs) and proactive management of ongoing tax audits.

11. Loss of Key Management

Description

Risk that RB cannot implement its strategies and meet objectives as a result of key management leaving the business who cannot be readily replaced by equally high-calibre experienced/qualified candidates.

Succession plans for key management positions are in place.

Retention risk analysis undertaken regularly, including review of turnover rates.

Continuous review of competitiveness of the total compensation programmes at RB.

DARE (Develop, Attract, Retain, Engage talented women) programme launched with the objective of reducing the drop-off rate of females from manager to senior management positions.

The Group structures its reward programme to attract and retain the best people.

The formal succession planning process continues to evolve with plans being reviewed and updated regularly for all key positions and individuals.

The DARE programme is a key focus for 2017.

12. RB Reputation

Description

The risk of significant reputational damage within multiple external stakeholder groups, including consumers, customers, suppliers, investors and regulatory bodies, as a result of recent and any future publicly known issues.

Recent organisational changes, most notably development of the Safety, Quality and Compliance function, to strengthen RB’s compliance culture.

A Board CRSEC Committee and an executive Compliance Management Committee (CMC) have been introduced and now meet regularly.

A Critical Event process has been formalised with clear decision making and escalation through an independent functional line to the CEO.

On executive pay, the Remuneration Committee has reduced LTIP awards across the Board for 2017, with the most substantial reduction being the CEO share awards.

Also, from 2017, variable pay awards may be withheld from individuals if it is considered that their results have not been achieved in alignment with RB values and Code of Conduct.

 Decreased

 No change

 Increased

 New

*Key Group Principal risks
In order to manage the more numerous and routine risks, the Group maintains a complete and robust governance framework. This consists of a full set of policies, processes and systems covering all aspects of compliance, with international and local laws as well as with the Group’s stated minimum control standards.

Management provide primary assurance by driving risk compliance through their respective area, regional or functional responsibility. This is done through regular and detailed business and governance reviews. Secondary assurance is provided independently through a combination of Internal and External Audit covering all aspects of the Group’s operations.

The adequacy of the risk and control framework, together with Group policies, is reviewed annually by the Audit and CRSEC Committees. Incremental improvements are made each year to further strengthen RB’s system of internal control and risk management.

By order of the Board

Rupert Bondy
Company Secretary
20 March 2017