Welcome to the PZ Cussons Annual Report 2013

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Search the entire document by keyword.

Return to the contents at the beginning of the document.

Print a single page or whole sections.

Next Page/Previous Page

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2013

PZ Cussons Plc
Annual Report and Accounts 2013

PZ Cussons is an international consumer products group. We develop leading brands in selected mature and emerging markets that have potential for future growth. World class supply chain and distribution networks in Africa, Asia and Europe enable us to deliver our brands quickly and efficiently to local consumers.

Mission:

We are an entrepreneurial, international company, enhancing lives of consumers, with quality, value and innovation.

Vision:

- We are a profitable, growing and dynamic company. We are passionate about our leading brands.
- We drive innovation in everything we do.
- We have fantastic CAN DO people.
- We are proud of our unique culture that binds us together.
- We do well, we do good and we have fun!

Overview

Report of the Directors

Accounts

2013 Highlights

Group

- A return to profitable growth with a 16% increase in operating profits to £108.4 million
- Revenue and profit growth in all regions of Africa, Asia and Europe
- Post year-end announcement of the acquisition of Australian baby food brand Rafferty's Garden for £42.2 million in cash
- Commissioning of the palm oil refinery in Nigeria as part of the joint venture with Wilmar with a new consumer brand being launched
- Exchange of contracts for the sale of the Polish Home Care brands for £46.6 million with completion expected shortly
- Supply chain optimisation project announced last year on budget and almost complete
- Group structure and systems project under way to optimise the Group's organisation design and IT systems for the future
- A return to a net funds position following strong cash flow from operations
- Total dividend increased 10% year on year marking the 40th anniversary of consecutive year on year increases

Africa

- Increase in revenue in second half despite ongoing unrest in northern Nigeria
- Improvement in operating profits as a result of margin improvement projects and lower raw material costs
- Launch planned post period end of a new consumer brand, as part of the joint venture with Wilmar

Asia

- Another year of double digit revenue growth in Indonesia with growth in both the babycare and non-babycare portfolios
- Wider distribution achieved in Philippines, Myanmar and Vietnam
- A return to profitability in Australia following the successful restructuring of the business

Europe

- Increase in profitability in the UK Washing and Bathing division driven by new product launches and despite tough trading conditions
- Strong performance in the Beauty division with expansion into new markets of Poland, Germany and Canada
- Polish business performing well in both Personal Care and Home Care

Financial Highlights 2013

Reported results (before exceptional items[1])	**Year ended 31 May 2013**	Year ended 31 May 2012	% change
Revenue	**£883.2m**	£858.9m	2.8%
Operating profit	**£108.4m**	£93.4m	16.1%
Profit before tax	**£107.5m**	£92.3m	16.5%
Adjusted basic earnings per share	**16.62p**	14.74p	12.8%
Statutory results			
Operating profit	**£95.7m**	£49.6m	92.9%
Profit before tax	**£94.8m**	£48.5m	95.5%
Basic earnings per share	**14.75p**	8.03p	83.7%
Total dividend per share	**7.39p**	6.717p	10.0%
Net funds/(debt)[2]	**£3.4m**	(£17.9m)	

1 Exceptional items, totalling £12.7 million before tax, are detailed in note 3.
2 Net funds/(debt), above and hereafter, is defined as cash, short-term deposits and current asset investments less borrowings (refer to note 18).

Chairman's Statement

The Group has delivered on its expectations and returned to profitable growth. Growth came from all regions of Europe, Asia and Africa and in particular from the key markets of UK, Indonesia and Nigeria. This has been achieved despite challenging external factors such as the difficult trading environment in Europe, high wage inflation in Indonesia and the continuing unrest in the north of Nigeria.

The Group's entrepreneurial ability to bring new products to market quickly gives us a competitive advantage and the ability to maintain or increase our leading market shares in our chosen geographies and markets.

At the same time, we have maintained our focus on cost reduction, both through the supply chain optimisation project which is almost complete, and other margin improvement projects throughout the Group resulting in overall operating margins now exceeding 12%.

Further margin improvement is planned through the continued separation of the Group's supply chain from its commercial operations so that both structures are optimised for future growth. Investment in new IT systems is also planned over the next few years to maintain our ability to react quickly to market opportunities.

The joint venture with Wilmar in Nigeria has considerable potential and a new consumer brand has its launch planned for the first quarter following the successful commissioning of the palm oil refinery earlier in the year.

We ended the year with a net cash position, as a result of the strong cash generation during the period.

This year, the Group is able to mark its 40th anniversary of consecutive year-on-year increases in dividend, demonstrating the sustainable nature of the Group's cash generation.

Post year end, the acquisition of Australian baby food brand Rafferty's Garden marks the Group's entry into the Food and Nutrition category in Asia Pacific, and adds another leading brand with exciting growth potential.

Despite the challenging trading conditions in most markets, the Group expects to deliver continued increases in profitability and cash flow driven by brand innovation and renovation, as well as further margin improvement projects. Overall performance since the year-end has been in line with expectations.

I would like to take this opportunity to thank all of the Group's staff for their continued hard work and dedication which is highly appreciated both by me and by the Board of Directors. Their commitment to our core CAN DO values will be essential in continuing our progress in the future.

Richard Harvey
Non-executive Chairman

23 July 2013

Cussons Mum & Me

The new Cussons Mum & Me range was launched in June 2012. The novel range was developed by PZ Cussons to guide mums through the journey from bump to baby. Sales rates have been building on a monthly basis as new customers are recruited to the brand. An extension to the brand called Cussons Mum & Me, Little Explorers, is now being launched with a range of products for young children.

At a Glance

The Group's portfolio of categories across a range of developed and developing markets forms the platform for our future growth.

Africa

Revenue

£362.7m

(2012: £362.2m)

Africa remains the Group's largest region and in **Nigeria**, Africa's most populous country (circa 170 million people) and our biggest single market, we continue to operate in four categories: **Personal Care**, **Home Care**, **Electricals** and **Food and Nutrition**.

The **Personal Care** and **Home Care** businesses have established local brands with ongoing renovation programmes leading to continued maintenance and growth of our market share. The **Electricals** business leads the core refrigerator and freezer market. Within the **Food and Nutrition** category we have two joint ventures: Nutricima, (with Glanbia Plc) operating predominantly in the nutritional beverage sector; and PZ Wilmar, (with Wilmar International Limited) operating in the branded oils and spreads market from crude palm oil now refined locally.

In **Ghana** and **Kenya** our established businesses and brands are well placed to benefit from anticipated future growth in these countries and the wider region.

Asia

Revenue

£174.9m

(2012: £161.6m)

The Asian markets in which we operate provide a naturally balanced geographic portfolio, containing both mature and emerging markets with excellent opportunity for growth.

Indonesia is the fourth most populous country in the world with a population of circa 248 million and the largest economy in South East Asia. Our Cussons Baby brand is the market leader and our distribution network also enables our other **Personal Care** brands to be delivered to consumers throughout the region. **Australia** represents a more mature market where we have leading positions in the **Home Care** category through our dish and fabric care products and a growing **Personal Care** business. We have recently added the Rafferty's Garden baby-food brand to this portfolio to start our **Food and Nutrition** category in Asia. Our businesses in **Thailand** and the **Middle East** are smaller and less well established but have good growth potential.

Europe

Revenue

£345.6m

(2012: £335.1m)

Our business in Europe comprises a broad range of categories and markets. **Personal Care** in the UK is serviced by our Personal Wash Centre of Excellence facilities in Manchester and focuses on the Imperial Leather, Carex, Mum & Me and Original Source brands. **Poland's** growth is generated by the **Home Care** business and also by the growing **Personal Care** business. The **Food and Nutrition** category is represented in **Greece** by Minerva and associated brands.

The **Beauty division** is a global business based in London which markets and sells Sanctuary, St Tropez, Charles Worthington and Fudge brands. The division's main markets are the UK, US and Australia.

Our Brands

Africa

Ghana/Kenya/Nigeria

Home Care
- Zip
- Morning Fresh
- Flamingo
- Camel
- Duck
- Canoe

Food & Nutrition
- Nunu
- Coast
- Yo!
- Bliss
- Olympic

Personal Care
- Premier
- Joy
- Carex
- Venus
- Robb
- Imperial Leather
- Cussons Baby

Electricals
- Haier Thermocool
- TEC

Page 14 for more info

Asia

Australia/Indonesia/Thailand

Home Care
- Morning Fresh
- Radiant
- Trix
- DUO

Food & Nutrition
- Rafferty's Garden
- LB1

Personal Care
- Original Source
- Carex
- Imperial Leather
- Pure
- Cussons Baby
- Cussons First Years

Page 16 for more info

Europe

UK/Greece/Poland

Home Care
- Morning Fresh
- E
- IXI

Food & Nutrition
- Minerva
- Benecol

Personal Care
- Imperial Leather
- Original Source
- Carex
- Luksja
- Mum & Me

Beauty Division (Global)
- St. Tropez
- Sanctuary
- Charles Worthington
- Fudge

Page 18 for more info

Business Model

We develop innovative leading brands in markets and geographies selected for growth potential. Our strategic pillars are the key enablers to deliver this model.

Selected geographies

We operate in specific geographies through our own infrastructure or in partnership. In these geographies we will tailor our channel approach for each category.

Progress and priorities

In line with our prior year priorities we have expanded our Beauty division customer base into Germany, Poland and Canada (see page 21). The UK Personal Care division has continued to share best practice across our geographical base and we have grown our core brands of Imperial Leather, Carex and Original Source across our regions. Our Indonesia team have also successfully expanded distribution into the Philippines, Vietnam and Myanmar (see page 17).The Group structure and systems project will further enable commercial teams who are focused on delivering sales in their geographic end-markets. It will also further align our category/geography strategy.

CAN DO people

We work with people who share our unique CAN DO values. Our CAN DO culture is the unifying strength that binds together our diverse businesses around the world. We are responsible, demanding and have a sense of fun!

Progress and priorities

CAN DO continues to be at the heart of our business, demonstrated day in and day out through the passion and commitment of our employees. Our teams in Asia and Poland demonstrated fantastic CAN DO spirit in delivering the transfer of manufacturing from Australia to Indonesia and Polish bar soap manufacture to Thailand as part of our Supply Chain optimisation programme. CAN DO is the catalyst that sparks some of our best innovations, an example being our digital team working with our teams in Fudge and Horio to create Fudge.com and the Horio digital village, harnessing and synergising technology platforms to produce innovative and dynamic sites which have greatly enhanced our ecommerce opportunities in these areas. We will continue to recruit the best CAN DO people and support them in achieving through living our values.

Core Purpose

Develop leading brands in selected markets/ geographies.

Selected categories

We operate in selected categories where our brands have a strategic advantage and which offer profitable growth opportunities. We win through understanding local consumer needs, being first to market and being unconstrained by big company bureaucracy. Continuous and faster innovation will ensure our brands occupy leading positions in these categories.

Progress and priorities

As stated as a priority last year we have renovated and innovated our brand delivery across our portfolio. Highlights include the best ever Imperial Leather formulation (see page 19), the Australian Morning Fresh Power Soaker launch (see page 16) and the new Beauty division Active Reverse body range (see page 20). We have also made significant investments in the Food and Nutrition category through continued investment in the Nigerian PZ Wilmar joint venture (see page 15) and the new Rafferty's Garden Australian baby food acquisition (see page 17). Our priorities for next year are to continue with our brand renovation and innovation strategy and to look for further opportunities to expand where they arise. The Group structure and systems project will enable inter-category brand strategy to be more easily leveraged globally in the future.

Flexible supply chain

We operate an ever evolving supply chain designed to service our categories. We deliver innovative products from various sources to our customers quickly and efficiently.

Progress and priorities

The supply chain optimisation project has been the focus this year and has seen the closure of the Group's manufacturing facilities in Australia and Ghana as well as other optimisation projects in Africa and Asia. The project has increased the flexibility and reduced the overhead footprint of our manufacturing facilities within our supply chain and has already benefited margins in this current financial year. In addition to this a new business planning process was initiated this year with its main benefit being the reduction of inventory holdings. Future priorities include the continued optimisation of the Global Supply chain function as part of the Group structure and systems project.

We work with people who share our unique CAN DO values. Our CAN DO culture is the unifying strength that binds together our diverse businesses around the world. We are responsible, demanding and have a sense of fun!

CAN DO People

As one of our strategic pillars, our team of over 6,000 CAN DO people embodies the core values that are firmly embedded in our culture and are integral to our success. It is this CAN DO culture that we believe is the unifying strength that binds together our diverse businesses around the world.

Our CAN DO values are...

C — Courage

We challenge convention, ourselves and each other. We have the strength, willingness and determination to initiate, make things happen and to carry them through.

A — Accountability

We are all champions of our Company. We take personal responsibility for achieving our objectives. We do what we say we shall do. We do what is right, not merely what is expected. We act with openness, integrity and trust. We ask for help, admit to our mistakes and put things right.

N — Networking

We are one Company across all functions and geographies. We work towards a common goal through co-operation and teamwork.

D — Drive

We are relentless in our pursuit of success. Together we approach each day with the energy, passion and persistence to exceed expectations.

O — Oneness

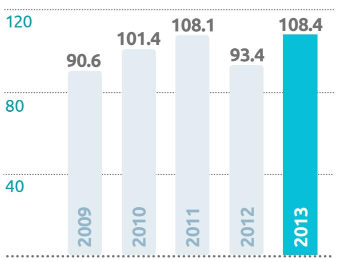
We are all PZ Cussons people. We treat each other with respect regardless of status. We act professionally and together we celebrate our success with understated pride. We are quiet achievers.

Key Performance Indicators

Our strategic pillars are aligned to our overall financial goal to deliver an increasing return to our shareholders over the longer term. We present below the key internal KPIs and external investor KPIs the Board review during the year.

Internal Key Performance Indicators

Operating profit before exceptional items £m

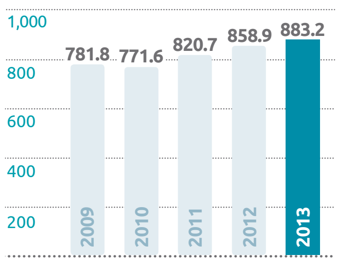


What We Measure
Operating profit before exceptional expense/income items

Why We Measure
Measures underlying performance prior to financing and taxation costs

Performance
Improvement of 16.1% this year

Revenue £m

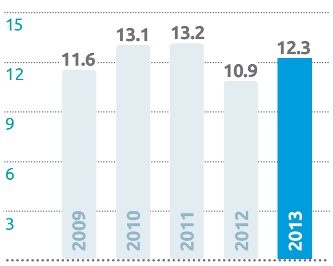


What We Measure
Revenue net of discounts, rebates and sales taxes

Why We Measure
Revenue growth is a key strategic aim

Performance
Growth of 2.8% this year

Operating profit %

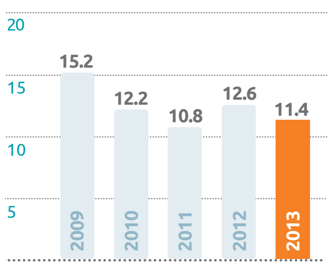


What We Measure
Operating profit before exceptional expense/income items, as a % of revenue

Why We Measure
Indicator of our underlying return on sales prior to financing and taxation costs

Performance
Improvement of 1.4pp this year

Net working capital %



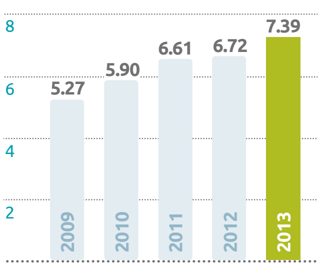
What We Measure
Net working capital as a % of revenue

Why We Measure
Indicator of the working capital (stock, debtors, creditors) required to support the sales that we make

Performance
Reduction of 1.2pp this year

External Key Performance Indicators

Dividend pence

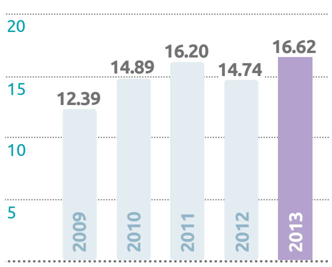


What We Measure
Dividend per share

Why We Measure
Dividend growth is a key performance indicator in terms of tangible return to shareholders

Performance
Improvement of 10% this year

Adjusted basic EPS pence



What We Measure
Adjusted earnings per share

Why We Measure
A key indicator of value enhancement to shareholders

Performance
Improvement of 12.8% this year

Financial Review

The Directors present the Group's annual report and audited financial statements for the year ended 31 May 2013.

This year's highlights

- Profit before tax and exceptional items rose 16.5% to £107.5 million (2012: £92.3 million)
- Revenue up 2.8% to £883.2 million (2012: £858.9 million)
- Adjusted earnings per share rose 12.8% to 16.62p (2012: 14.74p)
- Exceptional costs of £12.7 million incurred in the year (2012: £43.8 million) mainly related to the completion of the supply chain optimisation project
- Net funds of £3.4 million (2012: £17.9 million net debt)
- Recommended total dividend of 7.39 pence per share, a 10% increase on prior year

Financial performance – overview

Operating profits increased 16.1% versus the prior year driven by revenue growth of 2.8%, a return to profit of the Australian business, lower raw material costs and margin improvement initiatives. This increase was achieved despite tough trading conditions and fragile consumer sentiment in Europe, high wage inflation in Indonesia and continuing unrest in the north of Nigeria. In addition, launch costs of the new Cussons Mum & Me brand were incurred during the year together with start-up costs relating to the joint venture with Wilmar.

Within Africa, Nigeria continues to represent over 80% of revenue and operating profits with the balance coming from the businesses in Ghana and Kenya. Revenues in the first half of the year in Nigeria were slightly lower year on year due to consumers adjusting to higher fuel prices, severe flooding in large parts of the country and the impact of unrest in the north. During the second half, whilst trade in the north continued to be difficult, the trading environment in the south was more robust resulting in revenue growth year on year, and therefore for the full year an overall flat revenue position. Full year operating profits for Africa increased 11.6% as a result of improved margins from margin improvement projects and lower raw material costs, and against a prior year which included the negative effects of the nationwide general strike that took place in January 2012.

The increase in Asia revenues was predominantly from Indonesia which marked another consecutive year of double digit growth. The significant increase in Asia profits came from Australia which returned to profitability from a loss position last year. This was achieved by restructuring the business including closing the manufacturing facility to move to a variable cost model.

Revenues and operating profits in Europe were higher despite tough trading conditions. Growth was achieved in both the UK and Poland, whilst revenue in Greece was lower due to the macroeconomic situation. The launch costs of Cussons Mum & Me were incurred in the UK during the year.

The overall impact of exchange rate movements in the year resulted in a decrease in Group revenue and profitability of circa £7 million and £1 million respectively.

Financial position – overview

The Group's balance sheet remains strong and returned to a small net funds position of £3.4 million at the year end following £119.2 million of cash generated from operations through tight control of working capital.

Underlying capital expenditure continues to run close to depreciation levels. Other key cash outflows during the year included £15.0 million for shares purchased for the Employee Share Option Trust (ESOT), £13.0 million relating to the supply chain optimisation project, and £9.5 million for the purchase of additional shares in the Nigerian listed subsidiary.

Major projects

Supply chain optimisation project
A major supply chain optimisation project was announced in March 2012 with the objective of significantly reducing the overhead footprint of the Group's manufacturing activities. The project involved the closure of the Group's manufacturing facilities in Australia and Ghana as well as other optimisation projects in Africa and Asia.

Financial Review
continued

This project is now almost complete, is on budget and is already benefiting margins in the current financial year. In line with the announcement last year, the total exceptional charge for the project is £38.4 million of which £19.9 million are cash items. Of the total cost of £38.4 million, £27.5 million was charged last year, £8.9 million in the year to 31 May 2013 and the balance of £2.0 million will fall in the year to 31 May 2014. Of the total cash outlay of £19.9 million, £3.0 million fell into last year, £13.0 million in the year to 31 May 2013 and the balance of £3.9 million will fall in the year to 31 May 2014.

Group structure and systems project
The supply chain optimisation project which is nearing completion will ensure that the Group's manufacturing footprint is fit for purpose. A Group structure and systems project is now under way to realign the non-manufacturing organisation design, and to invest in the latest systems technology.

The project will be completed by May 2016 and will result in a more effective Group operating model structured around three core principles:

- First an end-to-end supply chain structured independently from the commercial organisation;
- Secondly a category focused approach to brand development and innovation; and
- Thirdly commercial teams focussed on geographic markets.

As part of this project the Group will be substantially upgrading its IT systems including a move to a new core system.

The result of the project will be a more efficient structure to enable faster decision making and speed to market.

The total cost of the project will be £40 million, of which the capital cost will be £30 million and the project cost will be £10 million. The capital costs will be front weighted over the life of the project. The project element will be spread over the three years and will be treated as an exceptional cost.

Post year end acquisition
On 4 July 2013, the Group completed the acquisition of Australian baby food brand Rafferty's Garden. The entire issued share capital of Rafferty's Garden Pty Ltd was acquired from Australian private equity firm Anacacia for £42.2 million in cash.

Rafferty's Garden is Australia's leading premium nutritious baby food brand with approximately 40% share of the wet baby food market, as well as growing shares in the infant dry and snacks market. An export business is in the early stages of development to countries such as Indonesia and Thailand. All manufacturing is outsourced to third parties.

Revenue and EBITDA for the year ended 30 June 2012 were £22.5 million and £3.5 million respectively with growth of 10% estimated for the year to 30 June 2013. As at 30 June 2012, Rafferty's Garden had gross assets of £12.5 million.

The business was acquired on a cash and debt free basis from cash and existing facilities and is expected to be earnings enhancing in the current financial year.

Exceptional items
A net exceptional charge of £12.7 million before tax was recorded during the year (2012: £43.8 million). The exceptional charge relates to the cost of the supply chain optimisation project (£8.9 million) and the exit from the boutique spas business (£3.8 million).

Taxation
The effective tax rate before exceptional items was 26.5% (2012: 27.0%) and is lower principally due to decreased UK corporation tax rates.

Dividend
The Group aims to pay an attractive, sustainable and growing dividend. The Board is recommending a final dividend of 5.04p (2012: 4.487p) per share making a total of 7.39p (2012: 6.717p) per share for the year, a 10% increase and the 40th successive year of dividend increases.

The overall dividend remains some 2.2 times covered by earnings per share before exceptional items. Subject to approval at the Annual General Meeting (AGM), the final dividend will be paid on 1 October 2013 to shareholders on the register at the close of business on 16 August 2013.

Outlook
While we face difficult trading environments in most of the geographies in which we operate our focus remains on driving revenue and profit growth through brand innovation and renovation, and a continuing process of margin improvement.

With the supply chain optimisation project almost complete we are about to commence a Group structure and systems project which will realign the non-manufacturing organisation design and, through investment in the latest systems technology, ensure the business remains well placed to continue to grow successfully with further improvements in margins, which in turn will facilitate further investment in new product development and brand support.

The Wilmar joint venture and the acquisition of Rafferty's Garden will both make a contribution to growth in the new financial year, and with a strong balance sheet, we remain well placed to pursue further opportunities as they arise.

The overall performance of the Group since the year end has been in line with expectations.

Supply Chain Optimisation

Last year the supply chain optimisation project was initiated to reduce the manufacturing footprint of the Group's manufacturing activity. This has involved the closure of the Group's Australian and Ghana manufacturing facilities in addition to a number of further optimisation projects. The project is almost complete and has benefited margin in the current year.

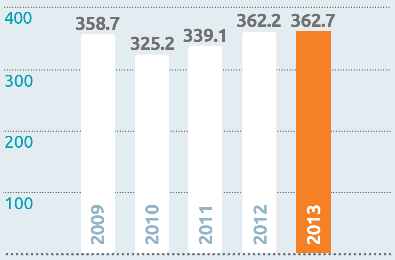
Business Review
Africa

Regional highlights

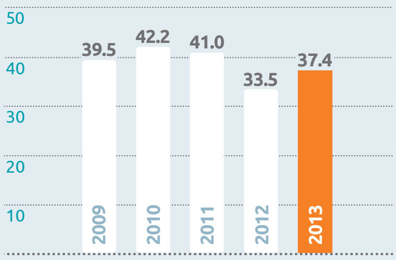
- Increase in revenue in second half despite ongoing unrest in northern Nigeria
- Improvement in operating profits as a result of margin improvement projects and lower raw material costs
- Launch planned post period end of a new consumer brand, as part of the joint venture with Wilmar

Key Brands

Revenue £m



Operating profit £m



Innovations

Elephant and Coolworld making the perfect partnership

This year we have made a successful partnership between our leading Coolworld stores and our well known fabric detergent brand. Accompanied by eye-catching point of sale, customers who bought a Front Loader washing machine from Coolworld were given a free pack of Elephant Auto as the recommended washing brand to accompany their new purchase. The aim was to encourage consumer trial as well as building trust in the brand.

Launch of Carex

We launched Carex Nigeria in November 2012 in Original, Aloe and Protect Plus variants to 3,000 outlets. The launch not only included marketing media, but incorporated an integrated consumer health education programme, promoting the importance of good hand hygiene in personal and family care. PZ Cussons is first to market with a locally manufactured liquid handwash, already reaching 20% market share.

Review

In **Nigeria**, three macro factors affected the trading environment during the year. First, the removal of part of the fuel subsidy in January of the previous fiscal year continued to affect consumer disposable income with wage inflation still yet to compensate for this higher cost. Second, Nigeria suffered its worst flooding in decades, particularly affecting the middle part of the country during September and October. And thirdly, social unrest in the north of the country disrupted trade and transport routes affecting both domestic sales and exports. The combined effect of all these factors resulted in revenue being slightly lower year on year during the first half, and slightly higher year on year during the second half as the trading environment in the south became more robust, therefore resulting in broadly flat revenues for the full year. Operating profits were higher year on year due to margin improvement projects and lower raw material costs, and against a prior year which included the negative effects of the nationwide general strike in January 2012. Economically, interest rates were maintained at high levels which affected liquidity to the trade, whilst positively the Naira to Dollar exchange rate was stable and the country's foreign exchange reserves were preserved.

In Personal Care and Home Care, the Group maintained or grew its leading market shares through brand innovation and renovation and the development of new distribution points. The Group remains the definitive leader in bar soap with Nigeria's number one brand Premier as well as having strong market shares with Joy and Imperial Leather. Other leading brands include Zip detergent, Robb Medicaments and Morning Fresh dishwash, as well as leading babycare brands such as Nigerian baby and Cussons baby.

In the Electricals joint venture with Haier, as well as maintaining the number one market share position in refrigerators and freezers, the Group has now taken market leadership in the growing washing machine category. The HT Coolworld showrooms in Nigeria and Ghana continue to play an important role both as sales outlets and as a showcase for Haier Thermocool's position as the number one brand in the market as it enters its 40th anniversary year.

In Food and Nutrition, revenue in the Nutricima joint venture was lower year on year due to distribution being skewed to the north of the country, however operating profits were maintained at break even level. Focus is now being placed on rationalising the product portfolio and improving distribution.

The new palm oil refinery, which was commissioned earlier in the year as part of the joint venture with Wilmar, has been increasing production levels on a monthly basis and is operating well. The Group's primary objective for this joint venture is to launch a consumer food ingredients brand; this is expected to take place in the first quarter.

During the year, the Group's holding in its listed Nigerian subsidiary has been increased further from 68.8% to 70.4% at a cost of £9.5 million.

Revenue and operating profits in the smaller markets of **Ghana** and **Kenya** were ahead of the prior year. During the year, the production facility in Ghana was closed as part of the supply chain optimisation project with products now sourced either from the Group's facilities in Nigeria or from third parties.

40th Anniversary of Thermocool Electricals Brand

We are pleased to celebrate the 40th anniversary of the Thermocool electricals brand in Nigeria. We have market leading positions in the key white goods categories of refrigerators, freezers and washing machines which are managed through our joint venture partnership with Haier. In addition, we have growing positions in other fast growing electrical categories. The Thermocool brand continues to occupy premium positioning in the Nigerian market based on its key offerings of quality, dependability and innovation linked to local consumer insights.

PZ Wilmar – 'Plantation to Plate'

In 2011, the PZ Wilmar joint venture was formed with the ambition to expand our presence in the Food and Nutrition category in Nigeria through the establishment of a food ingredients consumer brand. Together with our joint venture partner, Wilmar, we have set out to achieve this by developing a new branded consumer product range that will be launched in the first quarter and by constructing a palm oil refining facility to world class standards to secure the availability and quality of the oil ingredients.

In addition, Wilmar and PZ Wilmar have invested (80/20 investment split) in Nigerian palm oil plantations to ensure ongoing oil supply and to support investment in the local Nigerian palm oil industry. These plantations have training schools on site to provide education and skills development in plantation management to local Nigerian employees.

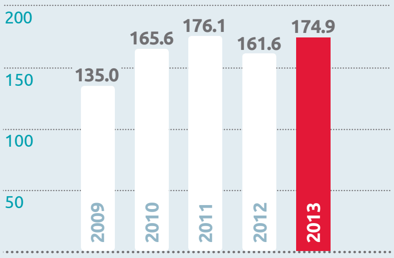
Business Review
Asia

Regional highlights

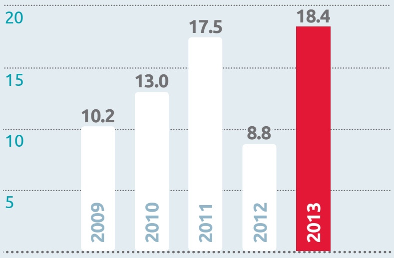
- Another year of double digit revenue growth in Indonesia with growth in both the babycare and non-babycare portfolios
- Wider distribution achieved in Philippines, Myanmar and Vietnam
- A return to profitability in Australia following the successful restructuring of the business

Key Brands

Revenue £m



Operating profit £m



Innovations

Morning Fresh Power Soaker

Building on the great market presence that Morning Fresh has as a leading brand in Australia, we have created the first true enzyme soaking product in the Australia/NZ market. The superior grease cutting power of Morning Fresh and the new micro scrubbing enzymes power through the toughest of stains.

Imperial Leather Relaunch in Indonesia and Thailand

Imperial Leather has been relaunched in Indonesia and Thailand, with a new formula, new packaging and a range of new variants – Classic, Softly Softly, White Princess, Total Protection, Perfume Heaven, Aqua Fresh and For Men. With a new Triple Moisturising Complex for softer skin, long lasting fragrance and a creamier lather, the new range offers a more enjoyable and luxurious showering experience. Our 'Enjoy A Loveable Snuggle' launch campaign included TV, print, digital and instore activation, in addition to a successful trade and business partner launch.

Review

In **Australia**, the business moved back into profitability following the difficult trading environment in the prior year. The key measure to improve the performance of the business was the closure of the production facility with all products now sourced either from the Group's facilities in Indonesia and Thailand or from third parties. This move to a lower cost variable model has allowed the business to focus on its two main brands of Morning Fresh (dish care) and Radiant (fabric care) which are performing well despite the tough trading environment. In addition, growth in the Personal Care portfolio has been achieved through successful new product launches under Imperial Leather and Original Source.

In **Indonesia**, another year of double digit revenue growth has been achieved, primarily through Cussons Baby which has a number one position in the babycare category where it holds more than 40% market share. Additional focus is also being placed on the non-babycare brands with Imperial Leather and Cussons Kids both performing well. Wider distribution of the Indonesian brand portfolio into the Philippines, Vietnam and Myanmar has also begun. Sterling profits are slightly ahead of the prior year despite an approximate 10% weakening in the Rupiah to Dollar exchange rate and a significant increase in wage inflation.

Profitability in the smaller Asian businesses of **Thailand** and the **Middle East** were slightly ahead of the prior year.

Cussons Baby 'Little Star'

Cussons Baby which has a number one position in the Indonesian babycare category launched their first 'Little Star' competition in October 2012. Parents were invited to enter photographs of their 'Little Stars' with the chance of being selected as Brand Ambassador for Cussons Baby and Cussons Kids brands. The competition attracted over 110,000 entries, with the winners appearing on product packs, print and online promotional media campaigns.

Rafferty's Garden

In July 2013 PZ Cussons acquired Australian baby food brand Rafferty's Garden, a leading premium nutritious baby food brand with approximately 40% share of the Australian wet baby food market, as well as growing shares in the infant dry baby food and snacks market. The acquisition marks our entrance into the Food and Nutrition category within Asia-Pacific whilst adding another leading brand with exciting growth potential. Our distribution network and understanding of consumers across Indonesia and Thailand, combined with our strength and experience in babycare through Cussons Baby in this region, ideally positions us to maximise the geographic expansion of Rafferty's Garden.

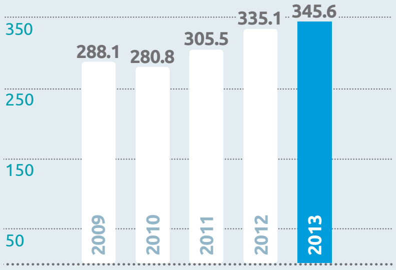
Business Review
Europe

Regional highlights

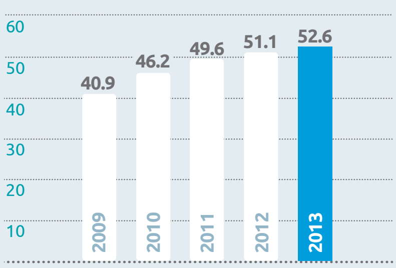
- Increase in profitability in the UK Washing and Bathing division driven by new product launches and despite tough trading conditions
- Strong performance in the Beauty division with expansion into new markets of Poland, Germany and Canada
- Polish business performing well in both Personal Care and Home Care

Key Brands

Revenue £m



Operating profit £m



Innovations

Horio

Our Greek food brand Horio, which is also the Greek term for village, have extended their concept and created a digital 'village' that enhances the consumers relationship with the brand through a new dynamic website. Consumers can navigate through recipes, chefs tips and demonstration videos to help get even more from our fantastic range of cheese, oils and spreads.

Little Explorers

Following the success of Mum & Me, we have extended the opportunity for families to enjoy bath time by introducing Little Explorers, an exciting new product range aimed at toddlers, fuelling little ones' imaginations and development through bath time play.

Review

In the **UK Washing and Bathing** division, an ongoing programme of new product development has ensured that the core brands of Imperial Leather, Carex and Original Source have continued to perform well despite intense promotional activity in the trade and a challenging consumer environment. The strength of the brands and the new product flow have allowed us to achieve this performance without the depth of promotions seen in competitor brands. During the year Imperial Leather was relaunched with a best ever shower formulation and its unique foamburst range is being relaunched over the next few months with exciting new graphics and fragrances. Original Source continues to attract consumers with its successful limited edition ranges whilst Carex has further extended its position as the UK's number one antibacterial hand wash with the launch of three variants for children; Strawberry Laces, Chocolate and Orange, and Cola Bottles. Cussons Mum & Me, the new range of products for mother and baby, launched at the beginning of the financial year, has seen sales rates building on a monthly basis as new customers are recruited to the brand. An extension of the brand called Cussons Mum & Me, Little Explorers, is now being launched with a range of products for young children.

Performance in **Poland** remained strong in both Home Care and Personal Care with revenue and profitability ahead of the prior year. As announced in February 2013, contracts have been exchanged for the sale of the Home Care brands for £46.6 million in cash with merger control clearance anticipated within the next few months. Focus will then be placed on the Personal Care portfolio of Luksja, Carex and Original Source.

Revenue in **Greece** was lower than the previous year due to the macroeconomic environment, however the business still traded profitably across its range of edible oils, cheeses and spreads. The results are immaterial to the Group as a whole.

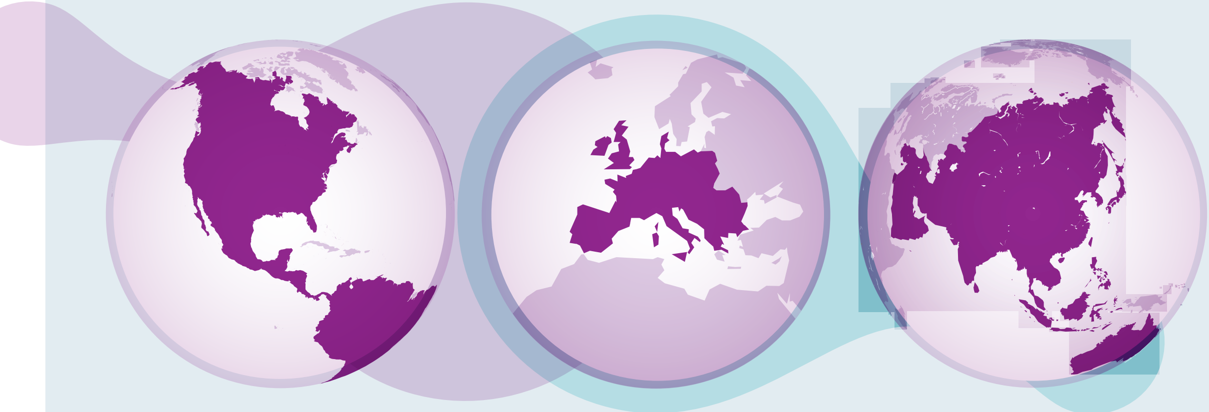
Best Ever Imperial Leather

This year we harnessed 200 years of heritage and expertise in crafting the most amazing fragrances and formulations and delivered our best ever Imperial Leather shower formulation. Our Imperial Leather sensory experts developed a revolutionary new shower recipe, adding millions of bubbles to produce a lather that is richer, thicker and twice as creamy. The launch included the brand's first TV advert in over five years. The combination of a rich heritage with modern innovation has made Imperial Leather an enduring brand and this has recently been brought to life with a redesign of the brand's logo. The new icon pays tribute to the legendary perfume so entwined with its history but with a modern twist. 'Master Perfumers' sits proudly in the new modern gold crest; reminiscent of the brands royal associations.

Happy Birthday Carex

Around this time 20 years ago, the UK's first anti-bacterial hand wash was launched. Its name: Carex Original! Since then, Carex has been number one in cleaning and protecting hands in the UK and increasingly across Europe and the globe. To celebrate, Carex UK launched the nationwide 'Carex Live Life Hands On Awards', asking our customers to tell us about a day in the life of their hands. Mums, policemen, fishermen, artists and families and many others posted photos, made videos and even wrote poems to tell us about real life moments that their hands unlock every day, with the top 20 winning Red Letter Day experiences. Carex continues to innovate and educate in hand hygiene, launching new Strawberry Laces and Chocolate Orange fragranced hand washes, chosen by children to encourage regular hand washing.

Business Review
Beauty Division



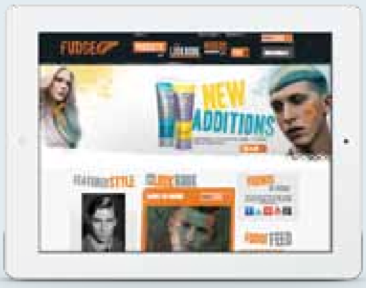
Division highlights

- Strong performance in the Beauty division with expansion into new markets of Poland, Germany and Canada
- Kate Moss becomes the St Tropez global brand ambassador
- New product ranges developed for Sanctuary and Charles Worthington

Key Brands

FUDGE · CHARLES WORTHINGTON · ST.TROPEZ · SANCTUARY SPA COVENT GARDEN

Innovations



Fudge.com

In 2012, Fudge launched a brand new website and 'Look Book' celebrating innovation in hair styling and encouraging fans to create their own styles and inspire others. Fudge collaborated with photographer and film maker Rankin to create a series of videos to celebrate every style, every colour and every length of hair to mark the official launch. Fudge is also building on its strong male grooming heritage and has collaborated with the British Fashion Council for a second season as the Official Hair Partner for London Collections: Men.

Active Reverse Body launch

Following the success of our Active Reverse range, with Darcey Bussell as brand ambassador, we have extended the range to include body treatments. Addressing women's most common concerns with products aimed at improving the appearance of skin, from firming to anti-cellulite, Active Reverse Body is designed to ensure your body looks as good as it possibly can. Each of the five products is designed to improve the appearance of specific body concerns over a four week period; giving instant, interim and four week results.

Review

In the **Beauty division**, growth has been achieved in existing markets through new product launches and expanded distribution, as well as entry into new overseas markets such as Poland, Germany and Canada. In May 2013, the division announced the appointment of Kate Moss as the new face and body of St Tropez. Sales rates have already responded positively following an extensive PR campaign both in the UK and overseas and the role out of stunning in-store imagery. St Tropez is fast becoming synonymous with the leading choice for self tan in the markets in which it is sold. Sanctuary has also performed well with Darcey Bussell continuing in the role of brand ambassador and in particular for the Active Reverse skin care range. A new range of Active Reverse body products is being launched in the coming months as an extension to this successful concept. The three small boutique spas in Richmond, Cambridge and Bristol, which were opened as a trial a number of years ago, are being closed as part of the division's focus on its product ranges. The entire Charles Worthington haircare range was relaunched towards the end of the year with a more premium look and significantly improved formulations, endorsed by actress Alice Eve as the face of the brand. In its first full year of trading under the ownership of the Beauty division, the Fudge hair styling brand has performed well supported by a new look fudge.com website which is e-commerce enabled. New product launches are planned over the coming months under the Fudge Urban retail proposition.

Charles Worthington Salon At Home launches with Alice Eve

Our new look Charles Worthington Salon At Home range launched during June 2013 into the UK, exclusive to Boots and starring Alice Eve as the new brand ambassador. The entire range has been reformulated to capitalise on the latest in hair technology, whilst retaining the staple products that our customers rely on. From shampoos and conditioners to styling products and intensive treatments, these new and highly effective formulations have been combined with fine fragrance and indulgent textures to produce professional solutions to everyday hair concerns.

Kate Moss; the new face and body of St Tropez

In May 2013, St Tropez, our iconic and leading global self-tan range announced the appointment of Kate Moss as the new face and body of the brand. One of the world's most famous fashion and beauty icons brought her unique edge and personality to the brand's first-ever global advertising campaign, resonating with confident women across all age groups. Featuring Kate wearing the ultimate tan, the iconic images, inspired by the high glamour associated with pool-side summers, were seen in global print, online advertising and in-store, with UK and global press featuring the stunning images following release. St Tropez is now in 18 countries, most recently expanding to Poland, Germany and Brazil.

Principal Risks and Uncertainties

On behalf of, and in consultation with, the Board of Directors, the Group Risk Committee is responsible for identifying, assessing and prioritising all material risks facing the Group and ensuring, where possible, that appropriate action is taken to manage and mitigate those risks. The table below highlights the major risks identified which may affect the Group's ability to deliver its Business model and strategy, and the measures taken to address them.

Risks	Description of risks	Measures to reduce the risks
Market risks		
Political and economic instability	The Group conducts a substantial proportion of its operations in emerging markets which have significant capacity for profitable growth, but which also have an increased risk of political and economic instability.	The Group has a diverse geographic portfolio; however, in developing its corporate strategy and in order to help mitigate the risk that could arise in any one particular territory, the Board seeks to maintain an appropriate balance both between mature and emerging markets and, within the developing world, between its operations in different territories. In addition, the Group has extensive and long established experience in all key markets and the Board continually monitors those markets to ensure that any specific risks (or opportunities) may be identified and addressed as they arise.
Demand risks	Demand for the Group's products may be adversely impacted by changes in consumer preferences. The increasingly competitive environment and continued growth of discounters could adversely impact the rate of sales growth and profit margins.	Extensive knowledge of the Group's selected markets is a core strategic pillar and the Group actively monitors the needs and aspirations of consumers on a regular and ongoing basis and is continuously developing new products to satisfy them. The Group will continue to invest in selected brands and selected markets in order to drive profitable sales growth. The Board believes that competition is healthy as it encourages and motivates the Group's operations across the world to do their best to serve the interests of consumers and our brands.
Raw materials	In common with other companies within its sector, the Group's profitability is affected by price and supply fluctuations in raw materials used in the manufacture of its products. Key items, such as oils and fats, packaging materials and energy are subject to fluctuations in price and availability.	The Group takes measures to protect against the short-term impact of these fluctuations and shortfalls; however, failure to recover higher costs or shortfalls in availability could have a negative impact on profits. The Group continually monitors the price and availability of materials against forecast demand to ensure that there are adequate resources to continue in production throughout the world. The Group also continues to refine its raw material forecasting processes and to strengthen its procurement capabilities.

Risks	Description of risks	Measures to reduce the risks
Financial risks		
Foreign currency and treasury risk	The international nature of the Group's activities gives rise to both transactional exchange rate risk (with the main exposure relating to US Dollar trade balances) and translation exposure when the results, assets and liabilities of foreign subsidiaries are translated into Sterling.	The Group requires its operating units to hedge their material transaction exposures on sales and purchases conducted in currencies other than their functional currencies. The Group does not actively hedge its translation exposures as these are of an accounting rather than a cash nature; however, the international spread of the Group's operations itself reduces dependence on individual currencies. The Group maintains a centralised treasury function which operates on a non-speculative basis in accordance with policies and procedures approved by the Board of Directors and reviewed during the year by the Board and the Audit Committee. The aim of this function is to mitigate the effects of any adverse movements in exchange rates and interest rates on the Group's financial results and support operating units in treasury matters.
Operational risks		
Staff retention and recruitment	The Group recognises that in order to deliver sustained strong results it requires the right calibre of people at all levels of the business. In particular, the Group must compete to recruit and retain capable individuals within the business including training them in the skills and competencies which are required to deliver profitable growth.	The Board believes that there is an attractive employment proposition across the Group in place which will continue to attract capable recruits and that key management and personnel are sufficiently well recognised, incentivised and challenged in order to retain them as far as possible.
Reputation risks	Should the Group fail to meet high product safety, social, environmental and ethical standards in all operations and activities, its corporate reputation could be damaged, leading to the rejection of our products by consumers, damage to brands and diversion of management time into rebuilding our reputation.	Product safety, social, environmental and ethical standards continue to be the cornerstones on which our business is based. They are key focus areas for the Corporate Social Responsibility Committee, a standing sub-committee of the Board. Should any issues arise in these areas, the Group has processes in place to enable a quick response.

Corporate Social Responsibility

Doing good business

We are committed to conducting our business with integrity and care in so far as the social and environmental impact of our activities is concerned.

1. The Environment

We are committed to protecting the environment for the benefit of our employees and the public at large.
(see page 26)

2. Consumer safety

The health and safety of our consumers is our paramount consideration. We will never compromise it for any reason.
(see page 30)

3. Health and Safety

We provide safe working environments for all our employees, contractors and visitors.
(see page 31)

4. Business conduct and ethics

We demonstrate ethical behaviour in all our business activities and in all our dealings with third parties.
(see page 32)

5. Our employees

We treat each other with respect and all employees have the right to expect that their dignity will be fully respected in the workplace.
(see page 33)

6. Local community and charity

We recognise our responsibilities to society, and in particular, to the local communities in which we operate. We are committed to enriching the lives of our local communities.
(see page 34)

Doing good business

Introduction

At PZ Cussons we believe passionately in doing 'Good Business'. It is something we have been doing since the Company was founded and it is a key part of our culture and who we are. We are committed to conducting our business with integrity and with care in so far as the social and environmental impact of our activities is concerned. We aim to make a positive impact on society through the products which we sell, through the way in which our products are designed, manufactured and packaged and through the contributions we make to the communities in which we operate.

This report sets out the Group's values and principles in relation to key aspects of corporate social responsibility (CSR) and how these have been put into practice during the year. CSR describes how a business:

- recognises the ways in which its actions affect those around it; and
- regulates those actions so that, consistent with sustainable business and development, they have a positive impact.

We consider the principles of CSR to be integral to how the Group conducts its operations and key to the results which the Group has delivered in the past and to its continued success and development in the future. In particular, we understand the potential benefits which may be derived where CSR activities are aligned to the concerns and demands of our stakeholders (including our shareholders, customers, consumers, suppliers, employees and the wider community) and we listen to and take account of those concerns in shaping our business strategies and practices. We also recognise that companies are subject to increasing regulation, particularly in respect of environmental issues, and we believe that the pursuit of a proactive and positive CSR policy reduces the risk of adverse regulatory action.

The PZ Cussons Plc Corporate Social Responsibility Committee

The Board is responsible for overseeing CSR within the Company, supported by a Corporate Social Responsibility Committee (CSR Committee), the members of which are set out in the Report on Corporate Governance on page 50.

The CSR Committee was established to ensure that the principles of CSR remain at the core of the Group's business activities. The Chairman of the CSR Committee reports to the Board on the Committee's proceedings after each meeting on all matters within the scope of its duties and responsibilities. It's Terms of Reference are available on the Company's website (www.pzcussons.com).

The CSR Committee and the Board have reviewed and endorsed this CSR report.

'Doing Good Business'

Our CSR values and principles are set out in a Statement on Corporate Social Responsibility, called 'Doing Good Business', of which there are six principal areas in which our operations have the greatest potential to impact – either favourably or adversely – upon our stakeholders. They are:

- The environment
- Health and safety
- Consumer safety
- Business conduct and ethics
- Our employees
- Local community and charity

Recognising that doing the 'right thing' in business can sometimes seem to involve difficult decisions, the Statement is intended to provide everyone throughout the Group, at all levels within the business, guidance on how to conduct their business activities and on what 'good business' looks like at PZ Cussons. It is also intended to motivate and support all our employees to identify and vigorously pursue opportunities across the Group to optimise our activities so far as their social and environmental impact is concerned. In doing so, it is the belief of the Board and the CSR Committee that we will make our business stronger, more sustainable and, as a consequence, more profitable.

The Statement is in place across all of the Group's businesses and its policies and principles apply to every Director, manager and employee in all our businesses across our global operations.

A copy of the full 'Doing Good Business' Statement on Corporate Social Responsibility is available on the Company's website (www.pzcussons.com).

Corporate Social Responsibility continued

1. The Environment

We are committed to protecting the environment for the benefit of our employees and the public at large.

Carbon

-7.4%

- reduction in normalised carbon emissions (per tonne of product) versus last year.

We recognise that our business has an impact upon the environment, both through our manufacturing and logistics operations and through our manufactured products and the way in which they are used by our consumers.

We also recognise that we have a responsibility – to all of our stakeholders – to run our business in ways which minimise the adverse impacts and make a positive contribution to meeting global environmental challenges. We aim to identify and vigorously pursue opportunities across our Group to reduce our reliance on increasingly scarce materials and minimise our impact on the environment while delivering margin improvement and continuing to build a sustainable business, thereby creating a 'win:win' both for the environment and our business. We have now completed the first year of our three year environmental performance plan, with all of our operating units actively engaged in our targets.

Carbon

We are focused on reducing the emissions associated with the fuels used to produce energy for our factories, either via direct consumption of fossil fuels such as diesel, oils or gas or via indirect electricity consumed in the factories. The key elements of our approach continue to be the conservation of energy, finding alternative more fuel efficient processes and using alternative low carbon sources of energy.

Carbon performance

During the last financial year, there have been changes in our manufacturing mix and we have closed two factories, one in Australia and one in Ghana, which has enabled us to move manufacturing volume into more efficient factories or outsource. Over the last year, we have extended our carbon emissions scope to all PZ operating companies and we now capture data for three additional head offices, and from all of our Beauty Spas, which had previously been omitted. The emissions from the PZ Wilmar edible oil refining operation in Nigeria are however excluded from this year's data as this has only recently come on stream. This will be included in the scope in the next financial year.

We apply the principles and appropriate conversion factors within:

- Defra (Department for Food and Rural Affairs) Voluntary Reporting Guidelines
- The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition)
- Global warming potentials from IPCC (Intergovernmental Panel on Climate Change) Second Assessment Report (SAR – 100 year)

Despite a volume increase within our own factories of 1.1% and the fact that more locations are now within scope, we have achieved a 7.5% reduction in our absolute carbon emissions versus last year and a 7.4% improvement in our normalised carbon emissions per tonne of production. Our carbon performance can be seen over the page:

Carbon emissions performance

Financial year	Scope 1 (absolute tonnes of CO_2)	Scope 2 (absolute tonnes of CO_2)	Total (absolute tonnes of CO_2)	Normalised by tonne of production
2011/12	91,281[1]	33,444[1]	124,725[1]	649
2012/13	83,763	31,641	115,404	701

As submitted to Carbon Disclosure Project (CDP) and subject to partial external verification with an accepted +/-2% error limit.

1 The data reported in 2011/12 has been amended to account for an amendment in carbon conversion factors.

Below are some key examples of how this reduction in carbon has been achieved:

- Throughout the year output from our Indonesia factory grew rapidly with a 74% increase in production volumes. By driving continuously to reduce energy usage month by month, ensuring equipment not in use is turned off and introducing significant changes in our liquid manufacturing processes, the site has reduced its energy per tonne of product by 23%.
- In May 2012 our Kenyan factory successfully installed and commissioned a five tonne per hour Biomass fuelled boiler to provide steam and hot water for the factory. The boiler has now been in use for a full year and has resulted in the complete elimination of burning fuel oil, saving over 1,681 tonnes of carbon per year, which equates to 76% of the Kenyan carbon footprint for 2012/13. The Biomass boiler burns organic waste which would otherwise have gone to landfill. By using this organic waste, we are able to put a waste crop to good use and avoid the burning of fossil fuels.
- In Greece the factory has investigated many innovative ways to reduce energy consumption including optimisation of production planning, new building insulation and lighting. Furthermore, a new smaller efficient boiler has reduced energy consumption by 9%.
- In Nigeria, which accounts for 41% of our total energy consumption, real time automatic energy monitoring has been implemented. This has given an insight into minute by minute energy consumption for each of the factories on our Ikorodu site and has highlighted potential energy saving opportunities which would not otherwise have been visible on manual monitoring systems. These opportunities will be explored over the coming years and the most viable opportunities implemented. Nigeria has saved 11% energy in the last financial year through various energy saving initiatives.

Carbon Disclosure Project

The CDP is an independent not-for-profit organisation working to drive greenhouse gas emissions reduction and sustainable water use by business and cities. The CDP operates the only global climate change reporting system, gathering data on company strategies and performance with regard to carbon emissions and water use. As a business we have been participating in the CDP for the last five years with a continued commitment to reduce our carbon footprint. Currently we report on Scope 1 and Scope 2 emissions; however, we have an ambition to ultimately work to Scope 3 (which includes third party manufacturing and distribution) in the coming years.

Water

Water scarcity is an increasing threat to the World's population and it has been estimated that by the year 2025 two thirds of the World's population could be facing serious water shortages. We also recognise that we operate in regions which are defined as water scarce, water stressed or water vulnerable (as defined by the United Nations) and that consequently we play a role in ensuring that water resources are used in an efficient and responsible way.

A large part of the water footprint of our products is associated with our consumers' use of our washing and bathing products and, if we are to do all we can to reduce water usage, we will not only need to focus on the water footprint of our manufacturing processes but also on that of our consumers. However, we are at the start of our journey and so we are currently focussing on the volume of water which we directly abstract during the manufacturing process, including water which is extracted for cooling, even if it is returned to water courses after use.

Our water performance per tonne of production has seen a small improvement of 0.8% per tonne of production. We remain committed to hitting the demanding targets which we set for ourselves a year ago and this will be an area of priority for us in the coming 12 months, with particular focus on our operations in Nigeria which account for the majority of the Group's total water consumption. We look forward to reporting further progress next year.

Water

-0.8%

- reduction in normalised water usage (normalised per tonne of product versus last year.

Corporate Social Responsibility continued

1. The Environment
Continued

Waste

Waste can have a significant impact on the environment, whether it is solid waste sent to landfill or burnt or liquid waste disposed of as effluent. We recognise that wastage occurs through our manufacturing processes whether in the form of packaging from incoming goods, non-conforming products which require disposal or water used for cleaning our plant at the end of production. By striving to reduce the level of waste we generate we can have a positive impact on the environment by reducing the levels of natural resources which we consume and the amount of waste requiring disposal. This also delivers significant financial savings for the business.

Accurately capturing and recording waste data in a consistent way, particularly in some of the developing markets, presents significant challenges and, at this stage, our focus is on ensuring the validity and completeness of management information in respect of our waste performance. We will report on our progress in next year's CSR Report.

Packaging

Packaging not only consumes global resources but also generates waste once our consumers have used the product. Whilst we recognise that eliminating packaging is not a realistic target, it is our ambition to reduce the amount of packaging which we use in our products and we also encourage our consumers to reuse and recycle.

Due to the nature of packaging projects, being more long term in their nature, it is not meaningful to report specific progress against the group target this year. However, we have significant plans in the pipeline, focussing on light weighting, optimising structural and material design and eliminating unnecessary packaging materials, while also ensuring that a 'right by design' philosophy is used for all future packaging initiatives.

Packaging

During the year, there has been some notable progress in packaging light weighting, namely:

- The UK has delivered significant packaging weight reductions – saving 76.5 tonnes of plastic through light weighting projects of key packs including Carex and Imperial Leather.
- Greece has also made good progress on our packaging weight reduction target and has reduced the weight of Feta Cheese tubs by 10%, saving 1 tonne of plastic material per year.
- In Kenya, we have successfully moved our Roberts Antiseptic brand out of a PVC bottle into polypropylene. Not only has this initiative enabled us to remove PVC but it has also delivered a significant weight saving and saved a total of 2.65 tonnes of plastic.

We anticipate reporting further packaging progress next year.

Weeding palm oil seedlings in plantation nursery, Nigeria

Working together for sustainable palm oil

Palm oil is the most widely traded vegetable oil in the world and is used in many food and household products. Securing a long-term sustainable supply of this raw material is important to us and is a complex challenge faced across our industry.

We are working hard to increase our understanding of the palm oil supply chain and have been members of the Roundtable for Sustainable Palm Oil (RSPO) since 2010. Through the RSPO we have joined forces with all players in the palm oil supply chain from producers and traders to consumers and NGOs – to promote the growth and use of sustainable oil palm products.

Through our joint venture, PZ Wilmar, we have invested in and begun to regenerate old state owned Nigerian palm oil plantations to ensure ongoing oil supply to our new food ingredients consumer brand and to support investment in the local Nigerian palm oil industry. Our joint venture partner, Wilmar International Limited, is a fellow RSPO member and one of the world's leading producers of RSPO-certified sustainable palm oil. The plantations are working towards internationally-recognised plantation best practice and will contribute to the wider Nigerian palm oil industry and economy through:

- Supporting the local farmers by implementing a smallholder farmers scheme with the support of the State Government
- Training schools built on site to provide education and skills development in plantation management to local Nigerian employees
- Generation of significant direct and indirect employment, both within the plantations and the supply chain
- Investment in local schools and medical facilities.

As members of the RSPO, we have also begun to procure GreenPalm certificates to help offset the direct palm oil used in our UK, Australian and Polish products. Our ultimate ambition is to move to sourcing certified sustainable palm oil via a mass balance or segregated mechanism where commercially available.

Forest footprint disclosure project

PZ Cussons participates annually in the Forest Footprint Disclosure (FFD) project. This is a special project of the Global Canopy Foundation, initiated in 2008. The FFD engages with private sector companies in respect of disclosure of their 'forest footprint' based on exposure to five key commodities; soy, palm oil, timber, cattle products and biofuels. We report on our use of palm oil and on the timber sectors of the FDD.

Our participation in the FDD has improved corporate awareness of the issues around the maintenance of tropical forests resources in developing countries. As part of this commitment and our drive to drive efficiencies in our business, we have now reduced tallow consumption (classified as cattle products for FFD) for the production of soap and now utilise a natural bi-product from the production of our edible palm oil produced in Nigeria.

Corporate Social Responsibility continued

2. Consumer safety

The health and safety of our consumers is our paramount consideration. We will never compromise it for any reason.

The safety of our products is of paramount concern to our consumers and to us. It is our responsibility to ensure that all of our products are safe and meet the performance expectations of consumers in whichever market we are operating.

Consumer safety starts at the product design stage and continues through material sourcing and manufacturing. Our approach to product safety adopts the following key principles:

- Compliance with all Country, Regional or Global regulations and guidelines on materials usage, manufacturing and labelling.
- Wherever possible we adopt a common Global standard which means we exceed local regulations in many countries.
- When making safety assessments, we consider the intended use of our products and, additionally, all 'reasonably foreseeable' conditions of use to ensure that appropriate pack warnings and safety features, such as child proof closures, are adopted when needed.
- When concerns are raised about the safe use of any material, either related to consumer safety or its impact on the environment, we adopt a proactive and cautious approach. Where we believe there are any concerns which have a reasonable scientific basis, we take action to remove, restrict or replace materials ahead of legislation being imposed.

Technical expertise and regulatory affairs

PZ Cussons Technical Teams are responsible for consumer safety and managing compliance to Global regulations. We have experts in each of our regional centres in Europe, Africa and South East Asia who actively work with industry associations and regulatory bodies to ensure we are aware of legislative requirements and we work proactively with them to help shape the industry response to managing future issues. Where necessary, we use specialist expertise, such as Toxicologists and Dermatologists, as part of the product safety assessments and decision-making process.

We closely track the scientific literature, general chemical legislation and consumer safety organisations to guide our materials policy within the Group. In Europe these include ReaCh (Registration, Evaluation, Authorisation and restriction of Chemicals), the list of Substances of Very High Concern (SVHC) and the Scientific Committee for Consumer Safety (SCCS).

We apply the same standards to consumer safety whether our products are developed and manufactured in our own factories or externally sourced.

Cosmetic product safety and regulation

We have adopted the EU Cosmetics Directive as the PZ Cussons Group standard for cosmetic products. This represents the highest safety standard and requires a detailed Cosmetic Product Safety Report to be done for every product before being placed on the market. All new product development is done to this standard and we are working to bring all existing products to this standard.

Food and nutrition safety and regulation

In our Food and Nutrition business in Greece, Nigeria and Australia we aim to apply high standards of manufacture.

In both Greece and Nigeria we operate to local regulatory standards, in addition to Codex Alimentarius, EU regulation 852/2004 and HACCP principles on the hygiene of foodstuffs are applied. Our Greek factory also has IFS, ISO-9001 and ISO-22000 certification.

The recently acquired Rafferty's Garden Baby Food brand sources from specialist food producers in Australia who are accredited with the following food safety standards: HACCP (Hazard Analysis and Critical Control Points), ISO22000 (ISO standard specifically for the food industry), SQF – Safe Quality Food (encompassing HACCP principles, covers production, transport and distribution).

Managing 'Materials of Concern'

We have adopted a Group 'Materials of Concern' list which formalises our approach to material selection and acts as the vehicle for communication around the Group. We continue to progress our programme of managing materials and, where there are reasonable grounds for concern on consumer safety or environmental impact, we will adopt a cautionary approach and materials may be restricted or prohibited ahead of any legislation being put in place.

In the past year we have initiated action on the following:

Microplastic Beads – These are used as exfoliating agents in face and body cleansing products and were reported to be accumulating in the oceans and harming marine life. We are taking action to remove or replace them with natural alternatives.

Triclosan – Triclosan is an antibacterial agent which has been under continued scrutiny for several years. We have not used it in our leading antibacterial liquid soap, Carex, and other antibacterial products for many years and have taken the decision to remove it from the few remaining products in which it is used.

Packing Cussons Baby in our Ikorodu Factory, Nigeria

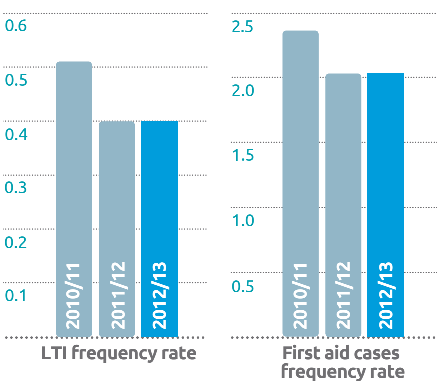
3. Health and Safety

We provide safe working environments for all our employees, contractors and visitors.

Loading finished goods at Agecroft Factory, UK

PZ Cussons recognises that the success of our business is dependent upon the quality and wellbeing of our employees. We are committed to developing the highest standards of occupational health and safety across all of our operating units and we seek to provide safe working environments for all our employees, contractors and visitors and to ensure compliance with all relevant health and safety laws and regulations at all our places of operation.

Lost time incidents and first aid cases



Incidents per 200,000 hours worked

We have comprehensive internal safety management procedures that include verification of regulatory compliance, risk assessment, training, individual site action plans, safety audits and provision of occupational health services.

All operating units participate in the PZ Cussons World Class Manufacturing programme delivering compliance checks and identifying improvement opportunities. We use regular internal and external audits to help drive continuous improvement. Two of our operating units, PZ Cussons UK and PZ Cussons Indonesia, are certified in internationally recognised Occupational Health and Safety management system OHSAS 18001 and we have plans to roll this out across other operating units over the next 12 months. PZ Cussons Nigeria are progressing towards achieving this certification and the business is also implementing health and safety improvement plans which include near miss or hazard identification procedures (HAZOP & HAZID). We empower and encourage our employees to identify and report hazards or near misses and to personally conduct work place risk assessments as part of personal objectives. The Group employs health and safety specialists in all of our operating units and health and safety committees with cross functional and cross hierarchical representation exist at all sites. Where appropriate, PZ Cussons provides on-site medical facilities and health monitoring programmes for employees. We continue to build on our traditional programmes, which focus on workplace behaviours, coupled with helping employees understand any personal health risks.

PZ Cussons regards health and safety as a fundamental business responsibility and reviews health and safety matters on a regular basis. Health and safety is reviewed regularly by the Group Risk Committee which ensures that any related risks are properly identified, assessed and prioritised and that appropriate action is taken to manage and mitigate those risks effectively.

The business tracks and reports two key health and safety performance indicators in all operating units: Lost Time Incidents (LTIs) per 200,000 hours worked and First Aid Cases (FAC) per 200,000 hours worked. LTIs include all health and safety occurrences which result in 1 day or more absence from work (excluding the day of incident); FACs include all health and safety occurrences (including LTIs) which result in the employee being given first aid. FACs include cases where employees are treated for incidents which occur outside of the workplace, as any treatment given may enable us to reduce the number of employee days lost. The FAC indicator was introduced to enable us to continue to improve our health and safety performance as we had successfully reduced LTIs in some operating units to an extremely low level (for example, one of our UK operations has now operated for nearly five years without an LTI incident).

As the graph on the left shows, over the past three years we have successfully reduced LTI frequency as a Group by 20% to a frequency rate of 0.33 per 200,000 hours worked and FACs have remained level at 2.04 per 200,000 hours worked.

4. Business conduct and ethics

We demonstrate ethical behaviour in all our business activities and in all our dealings with third parties.

We believe in doing business the right way, and we aim to demonstrate ethical behaviour in all our business activities, and in all our dealings with third parties.

We are open, honest and fair with our suppliers, customers, business partners, and regulatory authorities and we demonstrate respect and integrity in our dealings with each of them.

Communicating our ethical standards

We have continued to inform and educate our employees, suppliers and business partners around our 'Doing Good Business' CSR values, including the development of additional learning materials and policies, further embedding our values in workplace activities, and the introduction of stretching targets for the future.

Supplier selection

We expect our suppliers and contractors to demonstrate similar high ethical standards and we take due account of this when establishing or continuing business relationships. We scrutinise our suppliers and contractors to ensure that they are diligent, responsible, honest and fair and we choose to work with those who demonstrate the same commitment to ethical values and doing good business as we do. Additional procedures have been developed during the course of the year to further strengthen the controls we have over supplier selection, engagement, monitoring and auditing.

Anti-bribery

We believe that corruption is unacceptable, in all its forms. It is detrimental to society, to customers, and to our business, and is not tolerated at PZ Cussons. Along with our external legal advisors, we continue to monitor our compliance with the UK Bribery Act, amongst other legislation.

Speak up – global whistleblowing programme

Our employees are aware of the ethical standards that we expect of them, and are encouraged to 'Speak Up' via our Global Whistleblowing programme when they notice that management, colleagues or associated parties fall below these standards. The programme is recommunicated to our Global teams on a regular basis. All Speak Up calls are immediately followed up by Group Internal Audit.

Animal testing

We are against animal testing of any form in the development or marketing of cosmetic and household products. We do not test ingredients on animals, nor do we commission or request any of our suppliers or associates to test ingredients, or products, on animals.

We actively support the development of new and valid safety and toxicity methods which would remove the need for animal testing completely.

We fully support the stance taken by governing bodies, such as the European Union, which now prohibit animal testing of Cosmetics (and forthcoming of Household Products) and the moves being made in this direction by other regulatory environments. However, we do recognise that some regulatory authorities still demand testing on animals as part of the burden of proof for consumer safety in some product sectors. At present our operations in those countries are limited and to date we have not been required to test any products on animals. Where required by law, we aim to work with the authorities, through our Product Development and Regulatory Affairs teams, to avoid the need for testing.

We are a Global organisation with a Global Supply base. The position taken by some regulatory environments, and the need to reassure consumers on the safety of products, does mean that we cannot guarantee that some of our ingredients[1] have not been tested on animals historically. We work with our suppliers to source ingredients which have not been tested on animals, although we cannot always guarantee that this is the case.

1 Within PZ Cussons Beauty division, The Sanctuary brand operates with an ingredient cut-off date of 1998 and does not use ingredients that have been tested on animals for cosmetic purposes after this date. We are aiming to achieve this standard across our portfolio and all new product developments for PZ Cussons Beauty are designed to meet this criteria.

5. Our employees

We treat each other with respect and all employees have the right to expect that their dignity will be fully respected in the workplace.

Our employees are essential to the success of our business and to achieving our business goals.

We value and celebrate the diversity of every member of our team of over 6,000 employees, working in 10 countries across Europe, Africa and Asia. PZ Cussons is committed to a culture where all employees are treated with respect and have the right to expect that their dignity will be fully respected in the workplace. We are committed to creating an environment in which all employees have the opportunity to reach their full potential and where everyone has a voice regardless of role, seniority or geography.

Performance management

Managing performance at PZ Cussons is more than just a set of activities and forms. It is an everyday way of working to improve performance by taking action to coach and motivate our people. We measure performance based on business objectives aligned to team, function, operating unit and global business strategies in conjunction with behaviours assessed against key competencies. Together, these provide a rating which is linked to reward and to our global talent and succession planning activity. This enables us to develop and motivate high performing and high potential individuals providing them with challenging and exciting careers. Our performance development and review programmes have now been rolled out globally and have been in place for three years.

Developing PZ Cussons talent

We are committed to the training and development of our employees and have continued with this commitment this year, delivering a wide and varied suite of training courses across the globe in our operating units. The training courses delivered were a combination of management competency and technical skills training and have included:

- Our award winning Global Extraordinary Leadership programme (2011 Peer Awards in Excellence in Leading and Development) continued to be rolled out this year, with 25 cross functional business leaders from Australia successfully completing the course.
- Our commitment to develop in house talent has continued with several various student placement programmes and apprenticeships in each of our operating units.
- Additional technical and management training was conducted in our Indonesian factory to enhance our manufacturing teams skills, including English skills and problem solving.
- Our Graduate Development Programme in Nigeria has been running in excess of ten years, directly recruiting circa 30 Nigerian graduates from across the country every year.
- Skill development programmes have continued in Nigeria, including a Coach programme whereby over 512 employees were trained on coaching skills to improve their team performance and over 150 managers participated in our Zodiak Business Finance and Strategy training programme, improving the business acumen of non-financial managers.

Diversity and inclusion

PZ Cussons is an extremely diverse organisation in terms of its ethnic and cultural make-up and this is something that we continue to promote. We employ many different nationalities including Indian, Chinese, Polish, Indonesian, Singaporean, Thai, Greek, Australian, Nigerian, Ghanaian, Kenyan and British. We also value diversity in respect of gender and age:

	2012/13
Women Employees	30%
Women Senior Managers	30%
Employees with over 15 years service	19%
Employees over 50	6%

We do not employ any person below the local legal working age and we will not, in any circumstances, employ anyone below the age of 16.

Human rights

The Company takes every reasonable step to ensure that everyone's rights are both respected and protected within the working environment and in outside situations linked to the working relationship. The Company will, as a minimum, comply with all employment related legislation.

Our Indonesian Factory Team

Corporate Social Responsibility continued

6. Local community and charity

We recognise our responsibilities to society, and in particular, to the local communities in which we operate. We are committed to enriching the lives of our local communities.

The Seashell Trust

The Seashell Trust is a specialist school in Manchester, dedicated to providing a creative, happy and secure environment for children and adults with complex and severe learning disabilities which include little or no language abilities. PZ Cussons continues to support the Trust and work in active partnership. We are proud to confirm that we have committed to supporting the development of a new housing development on site, which will allow the Seashell Trust to provide further facilities to support even more individuals and families.

We also continue our collaboration between Seven, our fragrance business and the Seashell Trust to research and investigate how fragrance can improve the students' understanding, communication and ability to make choices with extremely encouraging results. Members of Seashell Trust, along with our Creative Perfumer will be presenting the evaluation and outcomes of our latest tranche of innovative action research at this year's European DBI Conference in France.

As a business, we recognise our responsibilities to society and, in particular, to those local communities in which we operate. Employees across the business have continued to show real commitment to supporting their local communities and charities.

We have been working with one of our community partners, the Halle Orchestra, to explore the link between fragrance and music in creating multi-sensory experiences for dementia sufferers to help trigger positive memories. 'Holiday' themed workshops were created featuring familiar fragrances and music which worked together to evoke several environments, for example 'end of the pier' themed music with the sweet aroma of candyfloss and toffee apple. Following the success of the workshops, fragrance therapy is now part of a wider project to create new arts-based training modules for the care home staff.

PZ Cussons Nigeria Foundation

The PZ Cussons Nigeria Foundation was established in 2007 with the objective of positively impacting local communities through schemes related to improving education, health, potable water and infrastructure. So far 40 projects in 30 locations have been completed or are in progress, including the following projects this year:

PZ Cussons Chemistry Challenge
Encouraging more children to take a greater interest in science is of importance globally, and no less in Nigeria. PZ Cussons Nigeria Foundation has launched the PZ Cussons Chemistry Challenge, inviting schools to sign up and take part in a variety of activities and competitions designed to stimulate interest and excitement in the world of chemistry and its practical application. The key aims of the programme are to develop the science IQ of secondary school students age 13–16, to promote appreciation of the role of chemistry in our society and to provide a better perception of the nature and relevance of chemistry. The Foundation will also make scholarship grants available for students who emerge as winners from the competitions.

Schools and Youth Centre development
The Foundation built and donated a new administrative block for Queen's School, Ibadan, which was commissioned in July 2012. This has provided a much improved learning environment and teaching facility for the pupils. Under construction currently are also a new Assembly block for Queen's School in Ilorin and a new Youth Community Centre in Lagos.

Our partnership with the **Jigawa State College of Education (JSCOE)** is continuing with further success. This year, the focus has been on supporting the need for training and infrastructure in Information and Communication Technology (ICT). The key objectives are to set up an ICT teaching unit for the college to provide training and workshops for staff and students. This includes IT and administrative skills, networking and learning systems to provide modern online teaching and learning resources as well as to digitalise student registration and information management. The official launch of the programme took place in January 2013 and is expected to be complete by November 2013.

Health

Our vision is to enhance the lives of our consumers every-day, and we know that this includes the health and wellbeing of our consumers and the communities we operate within. Many initiatives which we are involved with have a focus on addressing such issues, including the following examples:

Global handwashing day takes place on 15 October every year and is a Global Public-Private Partnership for Handwashing to foster and support a global culture of handwashing with soap, raising awareness of the health benefits of health hygiene. Our Carex teams from across our operations get involved in supporting the initiative through a range of activities. In Kenya, the Carex team took hand hygiene on the road, reaching over 2,000 people with the message of the importance of handwashing, before bringing together six local schools for an educational and fun hand hygiene event. Poland have continued with their support for Global Handwashing with the 'Carex Clean Hands Academy' programme which offers a full educational package to schools including, demonstrations, lesson plans, educational materials and competitions all around hand hygiene. The programme has grown each year with over 1,300 schools each joining the 3rd edition in October 2012, receiving educational materials and Carex products.

The Sanctuary continues to support **Wellbeing of Women**, a charity dedicated to improving the health of women and babies, funding medical research into women's reproductive and gynaecological health. In addition to financial support, activities during the year have included the sponsorship of the Daily Mail Inspirational Women of the Year Awards in support of Wellbeing of Women. This included our Cussons Mum and Me brand tying up with Wellbeing of Women and the Royal College of Midwives to fund a new research fellowship, which will provide financial support of £60,000 to enable a midwife to undertake PhD research.

Community

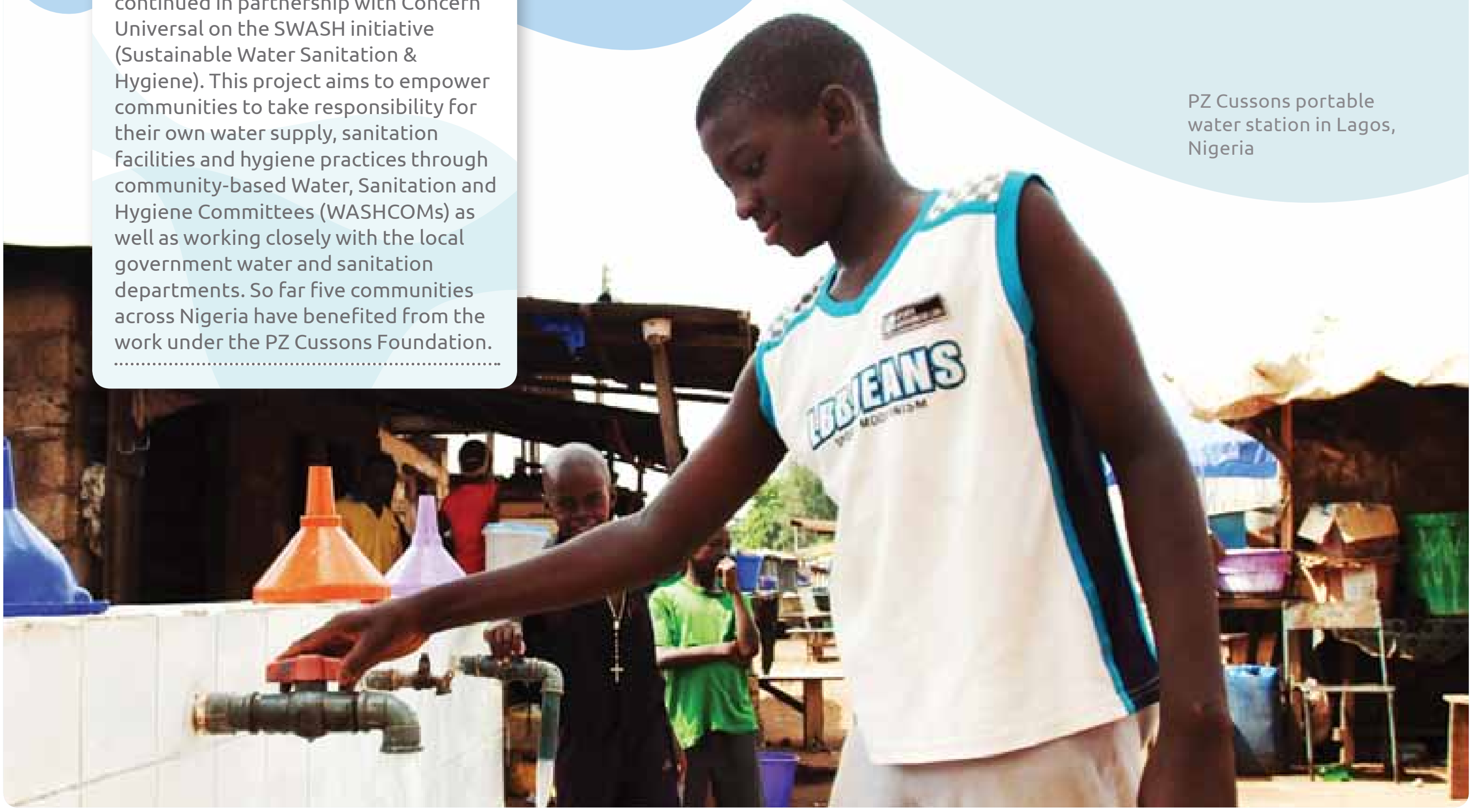
Our community work is largely employee driven, with passionate individuals and teams getting behind charities and community initiatives that are most important to them, with full support from the Company.
Just a few examples are:

PZ Cussons employees in the UK volunteered their time to support a 'Women in the world of work' initiative at Whalley Range Girls school for year seven pupils. The objective for the day was for the students to develop an understanding of core values, skills and qualities that employers look for and PZ Cussons colleagues were pleased to share their experiences and offer advice. We also continued our work with Salford City Academy with Mosaic Mentoring Challenge – an online business tool where the pupils have the opportunity to work in teams and have an insight into 'real life' ways of running a business. PZ Cussons employees ran a session to compliment the challenge, looking specifically at corporate responsibility and the importance of this in business.

Colleagues in Kenya have been passionate about getting their hands dirty to preserve the Nairobi National Park. The Kenya Wildlife Service (KWS) in conjunction with the Kenya Association of Manufacturers (KAM) and many volunteers including our employees embarked on a tree planting exercise – part of an ongoing conservation drive dubbed the 'Nairobi GreenLine Project'. The project aims to have trees planted along the Nairobi National park boundaries to protect it from encroachment.

Ongoing projects

The PZ Cussons Nigeria Foundation has continued in partnership with Concern Universal on the SWASH initiative (Sustainable Water Sanitation & Hygiene). This project aims to empower communities to take responsibility for their own water supply, sanitation facilities and hygiene practices through community-based Water, Sanitation and Hygiene Committees (WASHCOMs) as well as working closely with the local government water and sanitation departments. So far five communities across Nigeria have benefited from the work under the PZ Cussons Foundation.



PZ Cussons portable water station in Lagos, Nigeria

Board of Directors

Directors

Executive Directors:

Alex Kanellis
Group Chief Executive
Mr Kanellis has a Phd in mechanical engineering. He joined PZ Cussons in 1993. He was appointed Managing Director of the Group's business in Thailand in 1998 before becoming Managing Director of Indonesia in 2001. He was appointed to the Board in 2003 as Regional Director of Asia becoming Chief Executive in June 2006. Mr Kanellis is a member of the Nomination, Group Risk and CSR Committees.

Chris Davis
Chief Operating Officer
After working in senior Sales & Marketing roles for various Consumer Goods companies, Mr Davis joined PZ Cussons from the BTR Nylex Group in 1993 and became Managing Director of the Group's business in Australia in 2001. He was appointed to the Board in 2006 as Regional Director of Africa and became Group Commercial Director in 2008. He was appointed Chief Operating Officer in 2013. Mr Davis is a member of the Group Risk and CSR Committees.

Brandon Leigh
Chief Financial Officer
Mr Leigh qualified as a chartered accountant with Deloitte & Touche in 1996. He joined PZ Cussons in 1997 and was appointed to the Board in 2006. Mr Leigh is a member of the Group Risk and CSR Committees.

Independent Non-executive Directors:

Richard Harvey
Mr Harvey was appointed a Non-executive Director of PZ Cussons Plc in January 2010 and took up the position of Chairman on 1 July 2010. A Fellow of the Institute of Actuaries, Mr Harvey became Group Chief Executive of Norwich Union Plc in 1998 and subsequently Group Chief Executive of Aviva Plc, initially branded CGNU, after the merger of Norwich Union with CGU. He has worked extensively overseas in both mature and emerging markets and was Chair of the Association of British Insurers from 2003 to 2005. Since retiring from Aviva Plc in 2007, Mr Harvey has spent time in Africa supporting charitable initiatives and has also worked on other projects to accelerate business development in Africa, including work for the Africa Progress Panel and the World Bank. He is a Non-executive Director of Jardine Lloyd Thompson Plc. Mr Harvey is the Chairman of the Nomination Committee and a member of the CSR and Group Risk Committees.

James Steel
Mr Steel has been a Non-executive Director of PZ Cussons Plc since October 2005 and was appointed Senior Independent Director in September 2012. He works in the Cabinet Office Efficiency & Reform Group and is a Trustee of Independent Age. He was previously a Managing Director of Investment Banking at Citigroup and Arbuthnot Securities and started his career at Price Waterhouse where he qualified as a Chartered Accountant. Mr Steel is Chairman of the Remuneration Committee and a member of the Nomination, Audit, Group Risk and CSR Committees.

Professor John Arnold
Mr Arnold is Emeritus Professor of Accounting and Financial Management at Manchester Business School and has been a Non-executive Director of PZ Cussons Plc since January 2007. A chartered accountant, his previous experience includes spending 12 years as Director and Dean of Manchester Business School. Professor Arnold is currently Chairman of the Co-operative Performance Committee of Co-operatives UK Limited, a member of the Council of the Greater Manchester Chamber of Commerce, Chairman of Feelgood Theatre Productions and an academic advisor to Ashridge and to IBS-ISCTE Business School in Lisbon. Professor Arnold is Chairman of the Audit Committee and the Group Risk Committee and a member of the Nomination, Remuneration and CSR Committees.

Ngozi Edozien

Ms Edozien was appointed a Non-executive Director of PZ Cussons Plc in January 2012. She is Head/Chief Executive Officer, Actis West Africa of the firm Actis, LLP, a leading private equity investor in emerging markets based in the UK. As Head, West Africa, she is responsible for all aspects of the Company's business in the region. Prior to joining Actis, Ms Edozien was VP Strategic Planning and Business Development for Pfizer Inc based in New York. She was transferred to Nigeria in 2005 to run Pfizer's businesses in East, West and Central Africa, before being appointed in 2008 as Chief Executive of the Equity Vehicle for Health in Africa, an investment company focused on investing in private healthcare businesses in the continent. She has a background in management consulting and banking, having spent seven years with McKinsey & Co, working principally in the consumer products and healthcare sectors. A US/Nigerian citizen, she was educated in the United States at Harvard University and started her career in corporate finance at JP Morgan. She is a Non-executive Director of Diamond Bank Plc, a company listed on the Nigerian Stock Exchange and Vlisco Group, a company based in the Netherlands and a leader in the textile and fashion industry in Africa. Ms Edozien is a member of the Nomination, Remuneration, Audit, Group Risk and CSR Committees.

Simon Heale

Mr Heale was appointed a Non-executive Director of PZ Cussons Plc in January 2008 and is Chairman of the CSR Committee and a member of the Nomination, Remuneration, Audit and Group Risk Committees. A chartered accountant, Mr Heale has worked in a variety of senior positions for multi-national companies in America and the Far East and spent five years as Chief Executive of the London Metal Exchange. Mr Heale is Chairman of Kazakhmys Plc, Senior Non-executive Director of Coats Plc, a Non-executive Director of The Morgan Crucible Company Limited and Marex Spectron Limited and a trustee and the treasurer of Macmillan Cancer Support.

Helen Owers

Mrs Owers was appointed a Non-executive Director of PZ Cussons Plc in January 2012. Until recently she was Chief Development Officer for Thomson Reuters Professional, with responsibility for the company's expansion in Rapidly Developing Economies. She played an important role in the development of the company's digital strategy and, as President of Global Businesses for Thomson Reuters Legal, she built new businesses in a number of emerging markets, balancing local consumer insights and needs with the globalisation of the business and key products. Before joining Thomson Reuters, Mrs Owers worked as a consultant with Gemini Consulting, developing and implementing corporate and operational strategies for a number of consumer products clients. She is a Non-executive Director of Wragge & Co LLP and of the Eden Project. Mrs Owers is a member of the Nomination, Remuneration, Audit, Group Risk and CSR Committees.

Report of the Directors

Principal activities
The principal activities of the Group are the manufacture and distribution of soaps, detergents, toiletries, beauty products, pharmaceuticals, electrical goods, edible oils, fats and spreads and nutritional products. The subsidiary undertakings and joint ventures principally affecting the profits, liabilities or assets of the Group are listed in note 33 of the consolidated financial statements.

The principal activity of the Company is a holding company.

Results and dividends
A summary of the Group's results for the year is set out in the Financial Review on pages 11 to 13 of the Annual Report.

The Directors recommend a final dividend of 5.04p (2012: 4.487p) per Ordinary Share to be paid on 1 October 2013 to Ordinary Shareholders on the register at the close of business on 16 August 2013 which, together with the interim dividend of 2.35p (2012: 2.23p) paid on 8 April 2013, makes a total of 7.39p for the year (2012: 6.717p).

Directors
Executive Directors:
Alex Kanellis – Group Chief Executive
Chris Davis – Chief Operating Officer
Brandon Leigh – Chief Financial Officer
John Pantelireis – Supply Chain Director (retired 31 March 2013)

Independent Non-executive Directors:
Richard Harvey
Derek Lewis (retired 19 September 2012)
Professor John Arnold
Simon Heale
James Steel
Helen Owers
Ngozi Edozien

The Non-executive Directors do not have service contracts. Details of the letter of engagement relating to each are set out under the heading 'Service Contracts' within the Report on Directors' Remuneration.

Under the Company's present Articles of Association, all Directors are subject to annual re-election by shareholders. Each of the Directors will retire immediately prior to the 2013 Annual General Meeting and, each, being eligible, will offer himself or herself for re-election at the meeting.

The evaluation of the Board, as reported within the Report on Corporate Governance, concluded that each of the Directors continues to demonstrate effectiveness and commitment to his or her particular role and the re-election of each is accordingly recommended by the Board.

The Directors' interests in the share capital of the Company at 31 May 2013 together with their interests at 1 June 2012 are detailed below:

	Ordinary Shares	
	2013 Number	2012 Number
Beneficial		
Mr R Harvey	**47,424**	33,206
Mr G A Kanellis	**438,543**	409,340
Prof J A Arnold	**13,450**	13,450
Mr C G Davis	**269,077**	258,515
Ms N Edozien	**–**	–
Mr S J N Heale	**8,000**	8,000
Mr B H Leigh	**86,022**	86,022
Mrs H Owers	**1,000**	–
Mr J T J Steel	**37,500**	37,500
	901,016	846,033

Notes:
1 The figures in the tables do not include 3,833,866 (2012: 334,856) Ordinary Shares held by the Employee Share Option Trust (ESOT) at 31 May 2013. The ESOT is a discretionary trust under which the class of beneficiaries who may benefit comprises certain employees and former employees of the Company and its subsidiaries including members of such employees and former employees' immediate families. Some or all of the shares held in the ESOT may be the subject of awards to Executive Directors of the Company under the PZ Cussons Plc Deferred Annual Share Bonus Scheme, the PZ Cussons Plc Executive Share Option Scheme and/or the PZ Cussons Plc Performance Share Plan, details of each of which are given in the Report on Directors' Remuneration. Accordingly, those Executive Directors are included in the class of beneficiaries and are deemed to have a beneficial interest in all the shares acquired by the ESOT.
2 The figures in the tables do not include options granted to Executive Directors over Ordinary Shares under the PZ Cussons Plc Executive Share Option Scheme, conditional shares granted under the PZ Cussons Plc Performance Share Plan or deferred shares granted (but not yet transferred to participants) under the PZ Cussons Plc Deferred Annual Share Bonus Scheme as at 31 May 2013.

There have been no changes in the interests of any of the Directors between 31 May 2013 and the date of this report save that Mr Harvey purchased on 28 June 2013 an additional 3,603 shares pursuant to a trading plan. The register recording the Directors' interests will be open for inspection at the 2013 Annual General Meeting. No Director had any beneficial interest during the year in shares or debentures of any subsidiary company. Save for their service contracts or letters of appointment, there were no contracts of significance subsisting during or at the end of the financial year with the Company or any of its subsidiaries in which a Director of the Company was materially interested.

During the year, the Company maintained liability insurance for its Directors and officers and pension fund trustee liability insurance for Mr Kanellis, Mr Davis and Mr Leigh in their capacity as trustees of certain of the Group's pension funds.

Other substantial interests

The register maintained by the Company under section 808 of the Companies Act 2006 disclosed the following interests in the shares of the Company held at 23 July 2013:

	Number of shares	%
J B Zochonis	60,619,580	14.14
Zochonis Charitable Trust	50,135,040	11.69
M&G	49,602,473	11.57
Mrs C M Green Settlement	20,328,280	4.74
J B Zochonis Settlement	19,927,130	4.65

No shares were issued during the year. Further information about the Company's share capital is given in note 24 of the consolidated financial statements.

Political and charitable contributions

Charitable contributions during the year amounted to £474,000 (2012: £253,000). No political contributions were made (2012: nil).

Research and development

The Group maintains in-house facilities for research and development in the United Kingdom, Poland, Indonesia, West Africa and Australia; in addition, research and development is sub-contracted to approved external organisations. Currently all such expenditure is charged against profit in the year in which it is incurred, as it does not meet the criteria for capitalisation under IAS 38 'Intangible assets'. During the current financial year the expenditure charged against profit is £3.1 million (2012: £3.5 million).

Payment of suppliers

The Group does not follow any code or statement on payment practice. It is the responsibility of the management of each operating unit within the Group to agree appropriate terms of business with suppliers upon entering into binding contracts and to adhere to these payment terms provided the relevant goods or services have been supplied in accordance with contractual obligations. The creditor days are disclosed in note 19 of the consolidated financial statements.

Employment of disabled persons

During the year the Group has maintained its policy of providing equal opportunities for the appropriate employment, training and development of disabled persons. Further information regarding the Company's policies in this respect are set out within the CSR report on page 33.

Where employees become disabled, every practical effort is made to allow them to continue in their jobs or to provide retraining in suitable alternative work.

Employee information

The Group recognises the benefits of keeping employees informed of the progress of the business and of involving them in their company's performance. The methods of achieving such involvement are different in each company and country and have been developed over the years by local management working with local employees in ways which suit their particular needs and environment, with the active encouragement of the parent organisation.

Auditor

PricewaterhouseCoopers LLP has signified its willingness to continue in office as Auditor to the Company and, in accordance with section 485 of the Companies Act 2006, a resolution for its appointment will be proposed at the forthcoming Annual General Meeting.

Enhanced business review

A review of the functional performance of the Group is provided on pages 14 to 21.

Principal risks and uncertainties facing the Group

The Group's business activities, financial condition and results of operations could be affected by a variety of risks or uncertainties. These are summarised in the Principal Risks and Uncertainties section on pages 22 to 23.

Report of the Directors continued

Corporate governance

The Group's statement on corporate governance can be found in the Report on Corporate Governance on pages 50 to 54 of these financial statements. The Report on Corporate Governance forms part of this Report of the Directors and is incorporated by cross reference.

Annual General Meeting

The Company's 2013 Annual General Meeting will be held at the Company's Registered Office, Manchester Business Park, 3500 Aviator Way, Manchester M22 5TG at 10.30am on 25 September 2013. The resolutions which will be proposed at the 2013 Annual General Meeting are set out in the separate Notice of Annual General Meeting which accompanies this Annual Report and Financial Statements.

Share capital

As at 31 May 2013, the Company's issued share capital consisted of 428,724,960 Ordinary Shares of 1p each.

Rights and obligations attaching to shares

Subject to applicable statutes and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or, if there is no such resolution or so far as it does not make specific provision, as the Board may decide.

Powers of Directors

Subject to the Company's Memorandum and Articles of Association, the Companies Acts and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

Purchase of own shares

Pursuant to shareholder approval given at the 2012 Annual General Meeting, the Company is authorised to make market purchases of its own Ordinary Shares. The Directors intend to seek renewal of this authority at future Annual General Meetings including the 2013 Annual General Meeting. No shares were purchased from 1 June 2012 to 23 July 2013 (2012: nil) (other than the acquisitions undertaken by the ESOT (see note 25)).

Directors insurance and indemnities

The Directors benefit from the indemnity provision in the Company's Articles of Association. Each individual, who is an Officer of the Company and/or of any company within PZ Cussons at any time on or after 28 July 2009, benefits from a deed poll of indemnity in respect of the costs of defending claims against him or her and third party liabilities. Directors' and Officers' liability insurance cover was maintained throughout the year at the Company's expense.

Restrictions on the transfer of securities

There are no restrictions on the transfer of securities in the Company except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's Ordinary Shares.

Post balance sheet event

On 4 July 2013, the Group completed the acquisition of Australian baby food brand Rafferty's Garden. The entire issued share capital of Rafferty's Garden Pty Ltd was acquired from Australian private equity firm Anacacia for £42.2 million in cash.

Directors' statement as to disclosure of information to the Auditor

In the case of each of the persons who were Directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined by the Companies Act 2006) of which the Company's Auditor is unaware
- each of the Directors has taken all the steps that he ought to have taken as Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information

This information is given and should be interpreted in accordance with the provision of section 418(2) of the Companies Act 2006.

By order of the Board of Directors

Mr S P Plant
Company Secretary

23 July 2013

Report on Directors' Remuneration

Foreword

The Remuneration Committee is responsible for overseeing the remuneration of the Executive Directors and the Chairman. It is also responsible for the operation of senior management incentive schemes throughout the Group.

Remuneration policy

The principal aim of our remuneration policy is to drive the generation of long-term sustainable shareholder value by aligning the interests of our executives with those of our shareholders. We are committed to rewarding our executives fairly, based on their role, performance and contribution to the business. We also seek, when designing incentive structures, to set challenging targets and reward sustainable performance but avoid inadvertently encouraging risky or irresponsible behaviour.

Remuneration in 2012/13

- Bonus pay-out of 69.5% of salary – We again focused the annual bonus on performance against three key indicators: profit before tax and exceptional items, net working capital and operating contribution margin. Company performance has been strong against all three measures. In particular, in relation to our primary measure of profit before tax, performance was between target and stretch levels. As a result the Executive Directors qualified for annual bonuses of 69.5% of salary.
- No vesting under 2010 Performance Share Plan (PSP) awards – Despite delivering strong results in this, the final year of the three year performance period for our long-term PSP awards made in 2010, overall performance during the three years was such that the minimum earnings per share performance threshold was not met. As a result, and for the second year running, none of the awards made to Directors in 2010 in respect of the three years ending 31 May 2013 will vest. These awards will now lapse.

Changes in remuneration policy in 2013/14

We believe the Group's remuneration policy is appropriate and serving the Group well. While no major revisions are envisaged in 2013/14, we have made some minor adjustments:

- Salary increases of 5% – The Committee has decided that Executive Directors' base salaries will be increased by 5% from 1 September reflecting the Directors' strong performance during the year and the outstanding 2% balance of a planned increase originally to have been phased in over two years but subsequently spread over three years. The 5% rise compares with an average 3% salary increase for the Group's wider UK workforce.
- Introduction of non-financial objectives into the bonus scheme – The on-target element of the Group's annual bonus scheme remains firmly focused on the delivery of financial targets. Subject to the achievement of target profit however, we have decided to use part of the stretch element of the 2013/14 bonus to introduce certain non-financial strategic and Corporate Social Responsibility (CSR) stretch targets.
- Incorporation of absolute EPS growth targets within the 2013 PSP awards – In order to increase transparency and improve the motivational effect of the awards, the Committee expects to make new PSP awards this year subject to the attainment of absolute adjusted earnings per share growth targets of 6% to 12% p.a., compounded over a three year period, rather than the RPI linked growth targets used previously. The Committee believes that the new targets offer a similar level of challenge to those applying to past awards.

Review next year

During the course of 2013/14, the Remuneration Committee intends to review the Group's remuneration framework to ensure that it remains aligned with our strategy. We will report back our findings to shareholders next year when, in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, we will also be putting our Directors' remuneration policy to the vote.

I hope you will find the Report on Directors' Remuneration clear, transparent and informative. As always, we remain committed to ongoing dialogue with our shareholders and take an active interest in your views and voting on the remuneration report.

James Steel
Remuneration Committee Chairman

Report on Directors' Remuneration continued

Introduction

This report on Directors' remuneration has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The report also satisfies the requirements of the Listing Rules of the Financial Services Authority and describes how the Board has complied with the principles and provisions of the UK Corporate Governance Code published in September 2012 relating to remuneration matters. A resolution to approve the report will be proposed at the 2013 Annual General Meeting.

The information on pages 47 to 49 relating to Directors' interests in shares under incentive arrangements, remuneration during the year ended 31 May 2013 and Directors' pension benefits constitutes audited information.

Remuneration Committee

Role

The Remuneration Committee of the Board ('the Committee') is responsible for determining and agreeing with the Board the remuneration policy for Executive Directors. The Committee is also responsible for determining within such policy the remuneration packages of individual Executive Directors, for determining the remuneration packages of the Chairman and the Company Secretary and for approving the design and operation of all incentive schemes for the Executive Directors and senior management.

The Committee meets at least twice a year and met on four occasions during the year ended 31 May 2013. The Committee's current Terms of Reference, which are reviewed annually and were last revised in May 2013, are available on the Company's website (www.pzcussons.com).

Membership

The members of the Committee during the year were all Non-executive Directors and comprised James Steel (Committee Chairman), Professor John Arnold, Ngozi Edozien, Simon Heale, Helen Owers and, until his retirement from the Board on 19 September 2012, Derek Lewis. All are independent of management and have no conflicts of interest or any day-to-day involvement in running the business.

The remuneration of the Non-executive Directors (with the exception of Richard Harvey as Non-executive Chairman) is determined by the Board of Directors.

No Director is involved in any decisions on the level or composition of his or her own remuneration nor is any person present when his or her own remuneration is under discussion.

Advisers

The Committee was advised generally in relation to Directors' remuneration during the year by Deloitte LLP. Deloitte LLP also provided advisory services to the Group during the year relating to tax, operating model design and enterprise resource planning. Deloitte is a founder member of the Remuneration Consultants Group and has signed the voluntary Code of Practice for remuneration consultants.

During the year, the Committee consulted Richard Harvey (Chairman) on issues where it felt his experience and knowledge could benefit its deliberations and Mr Harvey attended meetings by invitation. The Committee also consulted Alex Kanellis (Chief Executive) on proposals relating to the remuneration of members of the Group's senior management team and he too attended meetings by invitation. The Global Human Resources Director also attended meetings by invitation. The Committee is supported by Sam Plant (Company Secretary) who acts as Secretary to the Committee.

Policy on Executive Directors' remuneration

Key principles

The Group's policy is that the remuneration arrangements for Executive Directors should:

- align the interests of Executive Directors and shareholders;
- be sufficient to recruit, motivate and retain executives of the calibre required;
- be aligned with the generation of sustainable shareholder value;
- provide a competitive level of remuneration against companies of similar size and complexity;
- be structured such that an appropriate proportion of the remuneration package links reward to corporate and individual performance over the short, medium and long-term;
- recognise the long-term ambitions of and risks inherent to the Company; and
- reference both conditions elsewhere in the organisation and shareholder views.

Remuneration framework

The following table summarises the main elements of the Executive Directors' current remuneration packages:

Element	Purpose and link to strategy	Operation in 2012/13 and changes in 2013/14
Fixed remuneration		
Salary and benefits	Recruitment and retention of talent through the provision of competitively positioned base salaries and benefits.	Basic salary varies by individual and will increase by 5% with effect from 1 September 2013. Benefits include life assurance, health insurance and car benefits.
Pension benefits	Designed to be competitive in the market.	Company contribution of 20% of salary to a defined contribution pension scheme (or receipt of cash in lieu). Membership of a defined benefit pension scheme closed to further accrual since 2008 with a salary linkage which ceased on 31 May 2013.
Variable remuneration		
Annual Bonus Scheme	Designed to motivate the executives to focus on annual financial goals which are consistent with the Group's longer-term strategic aims.	Maximum opportunity of 100% of salary with 60% of salary payable for on-target performance. Payable in cash. During 2012/13 the Annual Bonus Scheme was focused on the achievement of profit before taxation, net working capital and operating contribution margin targets. In 2013/14 the on-target element of the Annual Bonus Scheme will remain focused on profit before taxation, net working capital and operating contribution margin targets. Subject to achieving target profit, the stretch element of the Annual Bonus Scheme will be focused partly on profit out-performance and partly on certain non-financial strategic and CSR stretch objectives.
Performance Share Plan	Designed to motivate the executives to focus on the generation of sustained shareholder value over the longer term and align their interests with those of the Group's shareholders.	Annual awards of rights over shares worth 100% of salary, with vesting subject to the attainment of predetermined targets in respect of growth in adjusted earnings per share over a three year performance period. In order to increase transparency and improve the motivational effect of the awards, the Committee expects to make PSP awards in 2013/14 subject to the attainment of absolute earnings per share growth targets of 6% to 12% p.a., compounded over a three year period, rather than the RPI-linked growth targets used previously. The Committee believes that the new targets offer a similar level of challenge to those applying to past awards.
Other aspects		
Shareholding guidelines	Alignment of the Executives' interests with those of the Group's shareholders.	Requirement over time to build up interests in the Company's shares worth 150% of salary and to reinvest half of any after-tax bonus or gain arising from share incentive plans until this guideline is met.
Service contracts	Provide reasonable assurance of continuity of service to the Group.	One year rolling service contracts.

Report on Directors' Remuneration continued

Policy on Executive Directors' remuneration continued

Competitive positioning

When considering how to position the remuneration packages for the Executive Directors, the Committee considers market data from UK listed companies of a similar size and complexity. This data is provided by Deloitte LLP as independent advisors to the Committee.

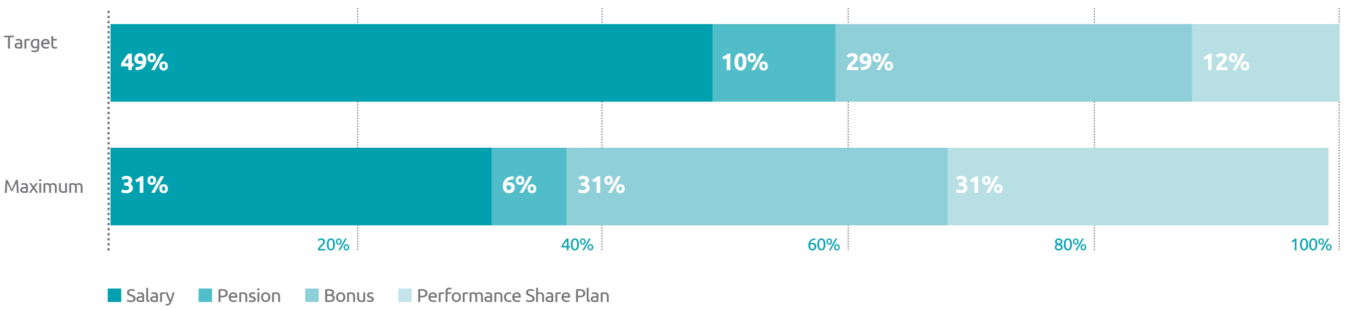
The Committee also receives and takes into account information from the Global HR Director on pay and employment conditions applying to other Group employees when setting Executive Directors' remuneration, consistent with the Group's general aim of seeking to reward all employees fairly according to the nature of their role, their performance and market forces.

In designing an appropriate incentive structure for the Executive Directors and other senior management, the Committee seeks to set challenging performance criteria which are aligned with the Group's business strategy and the generation of sustained shareholder value. The Committee is also mindful of the need to avoid inadvertently encouraging risky or irresponsible behaviour including behaviour which could raise environmental, social or governance issues.

Balance of fixed versus variable remuneration

The Committee believes that an appropriate proportion of the executive remuneration package should be variable and performance-related in order to encourage and reward superior corporate and individual performance. The following chart illustrates the balance between fixed and variable remuneration for Executive Directors, based on the policy for 2013/14:

Balance of fixed versus variable pay



Basic salary and benefits

Executive Directors' salaries are normally reviewed annually, with effect from 1 September, to ensure the ongoing effectiveness of remuneration arrangements. Reviews take account of various factors including individual performance, remuneration levels in companies of similar size and complexity and pay conditions elsewhere in the Group.

As mentioned in the Foreword, the Committee has decided that Executive Directors' base salaries will be increased by 5% from 1 September 2013.

As also mentioned in the Foreword the Committee will undertake an overall review of executive remuneration during 2013/14 and report back its findings and any proposals to shareholders in line with the new disclosure regime.

Details of the Executive Directors' revised salaries (effective from 1 September 2013) are set out in the notes to the table on Directors' remuneration on page 48.

Pension benefits

Since 1 June 2008 Executive Directors have participated in a defined contribution pension scheme under which the Group pays a contribution of 20% of salary into the scheme on their behalf subject to a minimum employee contribution of 5% of salary. Executive Directors whose pension benefits have exceeded or are forecast to exceed the annual or lifetime allowances established by HM Revenue & Customs are eligible, at the discretion of the Committee, to receive a cash payment of 20% of salary in lieu of employer pension contributions.

Up to 31 May 2008 Executive Directors participated in a defined benefit pension scheme which provided benefits of up to two thirds of final salary subject to a scheme-specific earnings cap. With effect from 1 June 2008 no further benefits accrued under the defined benefit scheme although the benefits payable remained linked to salary until 31 May 2013 (or, in the case of Mr Pantelireis, 31 March 2013, being the date upon which he retired from the Board and his employment with the Company ended) in line with arrangements pertaining to all members of the scheme when it was closed to future accrual. With effect from 1 June 2013, no salary link applies. Further detail on Executive Directors' benefits under the defined benefit pension scheme are set out in the table on page 49.

Annual bonus scheme

Senior Executive Annual Bonus Scheme

Executive Directors and key senior executives are generally eligible to participate in an annual bonus scheme providing for the payment of cash bonuses of up to 100%[1] of salary. In respect of the year ended 31 May 2013, each of the Executive Directors participated in the Senior Executive Annual Bonus Scheme. Under this scheme they were eligible to earn a cash bonus of up to 100% of basic salary (with 60% of salary payable for on-target performance) dependent upon the achievement of profit before taxation, net working capital and operating contribution margin targets. These targets and bonus levels were established by the Committee at the beginning of the year; no changes were made during the year.

Company performance has been strong against all three measures. In particular, in relation to our primary measure of profit before tax, performance was between target and stretch levels. As a result the Executive Directors qualified for total bonus payments equivalent to 69.5% of their salaries in respect of the year. Further details are set out in the table on page 48. The bonus payable to Mr Pantelireis has been pro-rated to reflect his retirement part way through the year.

Executive Directors will continue to participate in the Senior Executive Annual Bonus Scheme in respect of the year ending 31 May 2014. The on-target element of the annual bonus representing 60% of salary will remain dependent upon the achievement of certain profit before taxation, net working capital and operating contribution margin targets for the Group. Subject to achieving target profit, however, the stretch element of the annual bonus will be split equally between the achievement of additional profit before taxation and the delivery of certain non-financial strategic and CSR stretch objectives. The overall maximum bonus payable to the Executive Directors in respect of the year to 31 May 2014 will remain at 100% of basic salary.

1 The maximum bonus opportunity available under the Senior Executive Annual Bonus Scheme may be exceeded in exceptional cases at the discretion of the Committee. The maximum bonus opportunity was not exceeded during the year ended 31 May 2013.

Deferred Annual Share Bonus Scheme

Prior to the introduction of the Senior Executive Annual Bonus Scheme on 1 June 2010, the Executive Directors had participated in the Deferred Annual Share Bonus Scheme. Under that earlier scheme, awards of deferred shares were made to the Executive Directors following the attainment of pre-determined annual financial targets. Vesting of such deferred shares was then subject to three years continuing employment.

During the year ended 31 May 2013 each Executive Director received certain shares which had been the subject of earlier deferred share awards in respect of performance for the year ended 31 May 2009, each having satisfied the related conditions in respect of such awards.

Sufficient shares to satisfy deferred share awards had generally been purchased in the market and retained in an employee benefit trust pending their transfer to participants. Further details regarding the employee benefit trust are given in note 25 of the consolidated financial statements.

Performance Share Plan

Executive Directors and certain key executives are also generally eligible to participate in the Performance Share Plan which provides for the grant of conditional rights to receive shares subject to continued employment over a three year vesting period and the satisfaction of certain performance criteria established by the Committee. Annual awards to any participant are limited to rights over shares with a market value at the time of grant equal to 100% of basic salary[1].

The year ended 31 May 2013 represented the final year of the three year performance period for awards made under the Performance Share Plan in 2010. Despite delivering strong results this year, the overall performance during the three years was such that the minimum performance threshold was not met. As a result, none of the awards made to the Executive Directors in 2010 in respect of the three years ending 31 May 2013 will vest and these awards will now lapse.

During the year ended 31 May 2013 new awards were made to the Executive Directors over shares with a value equal to 100% of basic salary. These awards are subject to adjusted earnings per share growth targets measured over the single three year performance period commencing on 1 June 2012. Further details of these performance conditions are set out in the notes to the table setting out Director's interests in shares under incentive arrangements on page 47.

The Committee intends to make further awards to Executive Directors during the year ending 31 May 2014. In order to increase transparency for participants and improve the motivational effect of the awards, the Committee expects any new awards to be subject to the attainment of absolute rather than RPI-linked earnings per share growth targets. The Committee expects 25% of any award to vest where adjusted earnings per share grows by 6% per annum rising on a straight line pro rata basis to 100% vesting where adjusted earnings per share grows by 12% per annum or more, in each case compounded over a three year performance period commencing on 1 June 2013. The Committee believes that these targets offer a similar level of challenge to those which have applied to past awards.

The Committee did consider whether to apply additional or alternative performance measures. However, it continues to believe that growth in adjusted earnings per share remains the most appropriate measure for the Group, being an important indicator of the Group's underlying financial performance and providing a clear line of sight for executives between their performance and potential reward.

1 This percentage may be increased to 150% in exceptional cases at the discretion of the Committee.

Report on Directors' Remuneration continued

Annual bonus scheme continued

Executive Share Option Scheme

Prior to the adoption by the Company of the Performance Share Plan in 2008, Executive Directors and certain other senior executives were generally eligible for the grant of options under the PZ Cussons Plc Executive Share Option Scheme. There have been no grants of options under the Executive Share Option Scheme since the introduction of the Performance Share Plan and it is not expected that any further awards will be made under this scheme.

All options granted under the Executive Share Option Scheme have now either vested (and are capable of exercise) or have lapsed.

Limits on shares issued to satisfy share incentive plans

The Company's share incentive plans may operate over new issued Ordinary Shares, treasury shares or Ordinary Shares purchased in the market. In relation to all the Company's share incentive plans, the Company may not, in any ten year period, issue (or grant rights requiring the issue of) more than 10% of the issued Ordinary Share capital of the Company to satisfy awards to participants nor more than 5% of the issued Ordinary Share capital for executive share plans.

Shareholding guidelines for Directors

The Committee has established Shareholding Ownership Guidelines which require Executive Directors:

- to build up and retain holdings of shares (and/or deferred shares net of tax) worth 150% of salary from time to time; and
- until this share ownership threshold is met, to invest 50% of any after-tax bonus into the Company's shares. They are also required to retain shares with a value equal to 50% of the net gain after tax arising from the acquisition of shares pursuant to any of the Company's share incentive plans, again until the share ownership threshold is met.

All Executive Directors have complied with the above guidelines in respect of the year ended 31 May 2013.

Richard Harvey (Chairman) is also required under his letter of appointment to invest 20% of his fees each year in the purchase of shares in the Company and to retain such shares during the term of his appointment which he has complied with during the current financial year.

Non-executive Directors

There were no changes in the fees payable to the Non-executive Directors during the year; details of the fees paid during the period are set out in the table on Directors' remuneration on page 48. Non-executive Directors' fees are generally reviewed every two years, although the last such review was deferred from 1 July 2012 and took place with effect from 1 June 2013.

At that review, the Committee decided to leave the Chairman's fees unchanged. Separately, the Board decided to make small increases in the annual fees payable to Mr Steel and Professor Arnold with effect from 1 June 2013 to reflect their chairmanships of the Remuneration and Audit Committees respectively; details of the revised annual fees payable to each are set out in the notes to the table on Director's Remuneration on page 48. The annual fees payable to the other Non-executive Directors will remain unchanged.

Director’s interests in shares under incentive arrangements

Details of awards at 1 June 2012 and 31 May 2013 to Executive Directors are as follows:

	Date of award	Number of options/ awards at 1 June 2012	Granted/ allocated in year	Exercised/ vested in year	Lapsed in year	Number of options/ awards at 31 May 2013	Option exercise price (£)	Market price at date of award (£)	Earliest date of exercise	Expiry date	Vesting/ transfer date
G A Kanellis	08 Sep 2005[1]	184,900	–	–	–	184,900	1.298	–	08 Sep 08	08 Sep 15	–
	31 Aug 2006[1]	213,210	–	–	–	213,210	1.407	–	31 Aug 09	31 Aug 16	–
	06 Aug 2007[1]	197,309	–	–	–	197,309	1.6725	–	06 Aug 10	06 Aug 17	–
	28 Jul 2009[2]	192,170	–	–	192,170	–	–	2.2375	–	–	–
	30 Jul 2010[2]	131,633	–	–	–	131,633	–	3.43	–	–	29 Jul 13
	28 Jul 2011[2]	127,320	–	–	–	127,320	–	3.77	–	–	28 Jul 14
	26 Jul 2012[2]	–	163,672	–	–	163,672	–	3.11	–	–	26 Jul 15
	14 Aug 2009[3]	60,840	–	60,840	–	–	–	2.229	–	–	–
	02 Aug 2010[3]	85,380	–	–	–	85,380	–	3.498	–	–	02 Aug 13
C G Davis	31 Aug 2006[1]	71,070	–	–	–	71,070	1.407	–	31 Aug 09	31 Aug 16	–
	06 Aug 2007[1]	131,539	–	–	–	131,539	1.6725	–	06 Aug 10	06 Aug 17	–
	28 Jul 2009[2]	122,900	–	–	122,900	–	–	2.2375	–	–	–
	30 Jul 2010[2]	84,184	–	–	–	84,184	–	3.43	–	–	29 Jul 13
	28 Jul 2011[2]	80,900	–	–	–	80,900	–	3.77	–	–	28 Jul 14
	26 Jul 2012[2]	–	104,000	–	–	104,000	–	3.11	–	–	26 Jul 15
	14 Aug 2009[3]	38,220	–	38,220	–	–	–	2.229	–	–	–
	02 Aug 2010[3]	54,600	–	–	–	54,600	–	3.498	–	–	02 Aug 13
B H Leigh	28 Jul 2009[2]	120,670	–	–	120,670	–	–	2.2375	–	–	–
	30 Jul 2010[2]	82,653	–	–	–	82,653	–	3.43	–	–	29 Jul 13
	28 Jul 2011[2]	79,570	–	–	–	79,570	–	3.77	–	–	28 Jul 14
	26 Jul 2012[2]	–	102,295	–	–	102,295	–	3.11	–	–	26 Jul 15
	14 Aug 2009[3]	37,440	–	37,440	–	–	–	2.229	–	–	–
	02 Aug 2010[3]	53,610	–	–	–	53,610	–	3.498	–	–	02 Aug 13
J Pantelireis	08 Sep 2005[1]	138,670	–	–	–	138,670	1.298	–	08 Sep 08	31 Mar 14	–
	31 Aug 2006[1]	132,190	–	–	–	132,190	1.407	–	31 Aug 09	31 Mar 14	–
	06 Aug 2007[1]	117,189	–	–	–	117,189	1.6725	–	06 Aug 10	31 Mar 14	–
	28 Jul 2009[2]	105,020	–	–	105,020	–	–	2.2375	–	–	Aug 13
	30 Jul 2010[2]	71,939	–	–	–	71,939	–	3.43	–	–	Aug 13
	28 Jul 2011[2]	69,360	–	–	–	69,360	–	3.77	–	–	Aug 13
	26 Jul 2012[2]	–	89,160	–	–	89,160	–	3.11	–	–	Aug 13
	14 Aug 2009[3]	34,320	–	34,320	–	–	–	2.229	–	–	–
	02 Aug 2010[3]	46,660	–	–	–	46,660	–	3.498	–	–	02 Aug 13

1 Awarded under the PZ Cussons Executive Share Option Scheme. All awards have now vested and are capable of exercise. Pursuant to the rules of the PZ Cussons Executive Share Option Scheme, the awards previously granted to John Pantelireis remain exercisable by him for the period of 12 months following his retirement on 31 March 2013.

2 Awarded under the PZ Cussons Performance Share Plan. The vesting of each award is dependent upon the extent to which an adjusted earnings per share growth target is achieved over a single three year performance period. No proportion of an award may vest unless the Company’s adjusted earnings per share grows by at least RPI + 4% per annum compounded over the relevant performance period. 25% of the award will vest where adjusted earnings per share grows by RPI + 4% per annum rising on a straight line pro rata basis to 100% vesting where adjusted earnings per share grows by RPI + 10% per annum or better compounded over the performance period. Where awards vest, participants will also receive a payment (in cash and/or shares as determined by the Remuneration Committee) on or shortly following vesting of an amount equivalent to the dividends which would have been paid on those shares between the time when the awards were granted and the time when they vest. The minimum performance conditions relating to the awards made in 2010 in respect of the three years ended 31 May 2013 have not been attained with the result that the awards will lapse in their entirety. Following the retirement of John Pantelireis on 31 March 2013, the Remuneration Committee exercised its discretion pursuant to the rules of the PZ Cussons Performance Share Plan to allow him to retain the time served proportion of the awards which had been made to him previously under the Plan. As stated above, the minimum performance conditions relating to the award made to him in 2010 were not attained and this award will wholly lapse, as will the award made to him in 2011; a proportion of the award made in 2012, reflecting the proportion of the corresponding three year performance period during which Mr Pantelireis was employed and partial achievement of the performance conditions, will vest.

3 Awarded under the Deferred Annual Share Bonus Scheme following the attainment of pre-determined financial targets. Deferred shares will normally be received by participants following, and conditional only upon, three years of continuing employment from the date of the grant of the award. The last awards were made under the Deferred Annual Share Bonus Scheme in 2010 and no further deferred shares will be received by the Executive Directors. Following the retirement of John Pantelireis on 31 March 2013, the Remuneration Committee exercised its discretion pursuant to the rules of the Deferred Annual Share Bonus Scheme, to retain his entitlement to receive the deferred shares awarded to him.

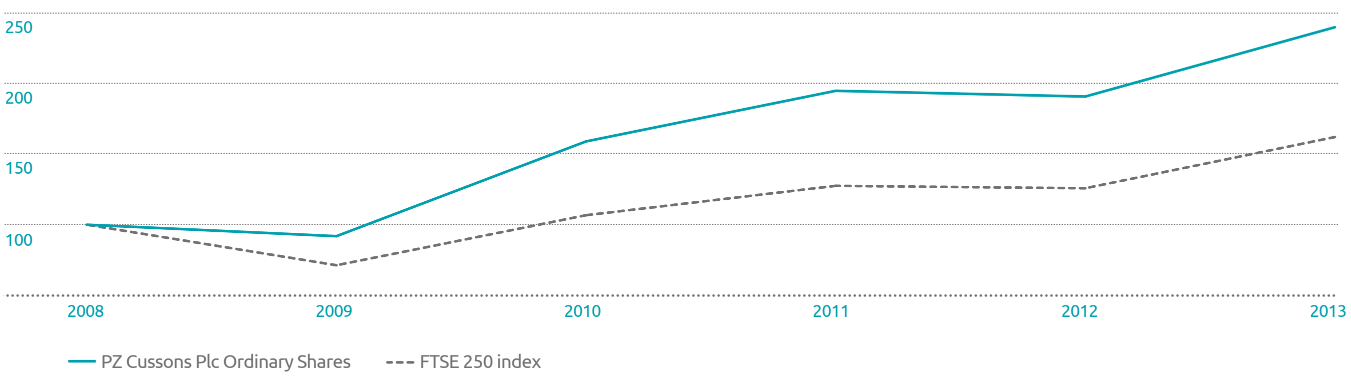
The aggregate gross gains made by the Directors during the year on the vesting of the Performance Share Plan award made in 2009 was nil as the vesting conditions for the shares were not met.

The market value of the Company’s shares at 31 May 2013 was £3.74 per share. The range during the year was £2.97 to £4.16.

Report on Directors' Remuneration continued

Performance graph
The graph below illustrates the performance of PZ Cussons Plc measured by Total Shareholder Return (TSR) over the five year period to 31 May 2013 against the TSR of a holding of shares in the FTSE 250 index over the same period, based on an initial investment of £100. The FTSE 250 index has been chosen as PZ Cussons Plc is a constituent of that index.

PZ Cussons Plc TSR vs FTSE 250 Index TSR
(Value £)



Remuneration during the year ended 31 May 2013

The following table shows the remuneration of individual Directors for the year ended 31 May 2013:

	Salary/ fees	Bonus	Taxable benefits	**2013 Remuneration**	Pension contributions[1]	**2013 Total[2]**	2012 Total
Executive Directors[3]							
G A Kanellis	494,400	347,063	21,014	**862,477**	98,880	**961,357**	597,036
C G Davis	314,150	220,530	17,140	**551,820**	63,701	**615,521**	376,324
B H Leigh	309,000	216,914	17,140	**543,054**	61,800	**604,854**	372,123
J Pantelireis[4]	224,018	157,564	14,473	**396,055**	44,804	**440,859**	326,447
Non-executive Directors[5]							
R J Harvey	250,000	–	–	**250,000**	–	**250,000**	250,000
J A Arnold	52,500	–	–	**52,500**	–	**52,500**	52,500
N Edozien	52,500	–	–	**52,500**	–	**52,500**	21,875
S J N Heale	52,500	–	–	**52,500**	–	**52,500**	52,500
D W Lewis[6]	17,500	–	–	**17,500**	–	**17,500**	52,500
H Owers	52,500	–	–	**52,500**	–	**52,500**	21,875
J T J Steel	52,500	–	–	**52,500**	–	**52,500**	52,500
	1,871,568	942,071	69,767	**2,883,406**	269,185	**3,152,591**	2,175,680

1 With effect from 1 June 2008, the Executive Directors became eligible for membership of the Company's new defined contribution pension arrangement. Messrs Kanellis, Leigh and, until his retirement from the Board on 31 March 2013, Pantelireis each elected, with the permission of the Committee, to receive instead a salary supplement equivalent to 20% of base salary; these amounts are included in the column headed 'Pension Contributions'. Mr Davis continues to participate in the defined contribution pension arrangement but as the amount of Company contributions was less than 20% of his salary, the difference between those contributions and 20% of his base salary was paid as a salary supplement. Both the pension contributions and the salary supplement are included in the column headed 'Pension Contributions'.

2 In addition to the above, Executive Directors received the following cash payments during the year in lieu of dividends on the award of deferred shares made in 2010 under the Deferred Annual Share Bonus Scheme which had not yet vested: Mr Kanellis: £8,567; Mr Davis: £5,448; Mr Leigh: £5,345; and Mr Pantelireis: £4,730.

3 As reported on page 44 above, the annual salaries of the Executive Directors will be revised with effect from 1 September 2013. The following annual salaries will apply: Mr Kanellis: £524,160; Mr Davis: £333,060; and Mr Leigh: £327,600.

4 Mr Pantelireis retired from the Board and his employment terminated on 31 March 2013. The annual bonus payment received by Mr Pantelireis is calculated at ten twelfths of the amount which he would have received had he been employed for the whole of the year, that being the proportion of the year during which he was employed. The Company has re-engaged Mr Pantelireis with effect from 1 June 2013 under a consultancy arrangement at a rate of £100,000 for the first 100 days work per annnum and £2,000 per day for each day worked thereafter. The arrangement is subject to a minimum period of one year and is capable of extension if mutually agreed.

5 As reported on page 46, the annual fees of Mr Steel and Professor Arnold have been reviewed with effect from 1 June 2013 and increased in each case to £57,500. The annual fees of the other Non-executive Directors remain unchanged.

6 Mr Lewis retired from the Board on 19 September 2012.

Directors' pension benefits

The following Executive Directors were members of the defined benefit pension arrangements provided by the Company. All of these defined benefit plans were closed to future accrual on 31 May 2008 and replaced by defined contribution arrangements. Benefits built up in the defined benefit plans continued to receive a salary link until 31 May 2013 (or, in the case of Mr Pantelireis, 31 March 2013, being the date upon which he retired from the Board and his employment with the Company terminated). With effect from 1 June 2013, no further salary link applies. The pension entitlements and corresponding transfer values below relate solely to the defined benefit arrangements.

	Gross increase/ (decrease) in accrued pension £ pa	Increase/ (decrease) in accrued pension net of inflation (a) £ pa	Total accrued pension at 31 May 13 £ pa	Value of net increase/ (decrease) in pension over period (b) £	Value of accrued pension at 31 May 12 £	Value of accrued pension at 31 May 13 £	Total change in value during period (c) £
A G Kanellis	13,812	5,658	317,240	129,900	4,896,000	7,229,000	2,333,000
C G Davis	1,064	413	25,307	8,000	444,000	490,000	46,000
B H Leigh	4,703	1,854	110,725	27,200	1,448,000	1,622,000	174,000
J Pantelireis	(21,249)	(24,939)	116,071	(721,000)	3,802,000	3,349,000	(453,000)

Notes:
1. Pension accruals shown are the amounts which would be paid annually on retirement based on service to the plan closure date (31 May 2008) and pensionable salaries at 31 May 2013.
2. Transfer values relating to benefits accrued in the Directors and expatriate pension plans have been calculated in accordance with the method and basis determined by the Trustee of each plan, on the advice of their Actuary, to be consistent with current legislation and the rules of the plans. Transfer values relating to unfunded pension benefits (see note 6) have been calculated using a method and basis consistent with those used for the funded plans.
3. The value of net increase (b) represents the incremental value to the Director of his increase in pension over the year, calculated on the assumption that he left employment with the Company at the year end. It is based on the accrued pension increase (a).
4. The change in the transfer value (c) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors. Such factors include the transfer value assumptions (which were revised during the year for the expatriate pension plan, by the Trustee of that plan, resulting in an increase in the value of benefits in that plan) and gilt yield movements.
5. The Company provides unfunded, unapproved pension benefits for Messrs Leigh and Davis as their benefits would have been subject to the Inland Revenue earnings cap, introduced by the Finance Act 1989 had the earnings cap not been abolished by the Finance Act 2004. The funded benefits payable to these Directors remain subject to a scheme specific earnings cap, which increases each year and is calculated in a similar manner to the abolished statutory earnings cap. The above figures include both the funded and unfunded pension benefits.
6. Mr Pantelireis started drawing his pension on 31 March 2013. The above figures are based on the change to Mr Pantelireis' accrued benefits between 31 May 2012 and 31 March 2013, but valued using his age at 31 May 2013. On drawing his pension, Mr Pantelireis received an annual pension of £116,071 p.a. and a cash lump sum of £765,362; the total accrued pension and the value of the accrued pension at 31 May 2013 excludes the cash lump sum figure. Mr Pantelireis' total accrued pension at 31 May 2013 is lower than the previous year as Mr Pantelireis' exchanged part of his pension for a cash lump sum at retirement.
7. The figures for Mr Pantelireis also include a restatement of his accrued pension entitlement under the Rules of the defined benefits plans as at 31 May 2012 following a review of the data underpinning the benefits. As a result of this restatement, the value of accrued pension at 31 May 2012 above does not match the figure of £3,214,000 disclosed last year.
8. Messrs Pantelireis and Kanellis are former members of the expatriate pension plan operated by the Company and additional benefits are provided through that plan, as their benefits would have been subject to the Inland Revenue earnings cap, introduced by the Finance Act 1989 had the earnings cap not been abolished by the Finance Act 2004. The above figures are inclusive of the expatriate pension plan benefits.
9. The Company operates a defined contribution pension arrangement for current service. Participation in the arrangement is optional and only Mr Davis chose to participate during the year. The contributions paid to the arrangement during the year by the Company in respect of Mr Davis were £41,509. These contributions are included in the Pensions Contributions column of the table on Directors' remuneration on page 48.
10. As Messrs Pantelireis, Leigh and Kanellis chose not to participate in the defined contribution arrangement during the year, they received a salary supplement equivalent to 20% of base salary in lieu of pension provision. As the amount of contributions paid to the defined contribution arrangement by the Company in respect of Mr Davis were less than 20% of his salary, the difference between those contributions and 20% of his base salary was paid as a salary supplement. These contributions are also included in the Pensions Contributions column of the table on Directors' remuneration on page 48.
11. Voluntary contributions paid by Directors and resulting benefits are not shown.

Service contracts

Executive Directors have one year rolling service contracts. No Executive Director has a service contract with a notice period in excess of one year or containing any provision for pre-determined compensation on termination exceeding one year's salary and benefits in kind.

Non-executive Directors do not have service contracts but are appointed for initial periods of three years, normally renewable on a similar basis. The present letters of appointment for Professor Arnold, Ms Edozien, Mr Heale, Mr Harvey, Mrs Owers and Mr Steel will expire on 31 December 2015, 31 December 2014, 31 December 2013, 31 December 2015, 31 December 2014 and 30 September 2014 respectively.

By order of the Board of Directors

James Steel
Chairman of the Remuneration Committee

23 July 2013

Report on Corporate Governance

The Board is committed to meeting the standards of good corporate governance as established by the Financial Reporting Council from time to time. In respect of the year ended 31 May 2013, the UK Corporate Governance Code published in June 2010 (the Code) applied to the Company (although the Board has also been cognisant of the changes introduced by the 2012 UK Corporate Governance Code which will apply to the Company with effect from the year ending 31 May 2014). The Code is publicly available on the Financial Reporting Council's website (www.frc.org.uk).

This report, together with the Report on Directors' Remuneration in respect of remuneration matters, describes how the Board applied the Code during the year under review.

Board evaluation

Composition and independence

The size of the Board allows individuals to communicate openly and to make a personal contribution through the exercise of their individual skills and experience. As at the date of this report, the Board of Directors has nine members comprising the Non-executive Chairman, the Chief Executive, two other Executive Directors and five other Non-executive Directors. The names of the Directors together with their biographical details are set out on page 36. During the year, John Pantelireis and Derek Lewis each retired from the Board.

The Non-executive Directors have been appointed for their specific experience and expertise and are all considered to be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment. Mr Harvey is a Non-executive Director of Jardine Lloyd Thompson Plc, which acts as insurance broker to the Company, but the level of fees payable to Jardine Lloyd Thompson Plc is not material and Mr Harvey does not participate in any way in the provision of services on which basis the Board is wholly satisfied that it is appropriate to designate Mr Harvey as independent. In addition, in order that his independence is not compromised, if at any time the Board or a Committee of the Board is considering any matter concerning Jardine Lloyd Thompson Plc, it has been agreed that Mr Harvey will withdraw from that meeting until such matters have been dealt with.

Mr Steel is the Senior Independent Non-executive Director (having assumed this role upon the retirement from the Board on 19 September 2012 of Mr Lewis) and in this capacity he is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Chief Finance Officer has failed to resolve or for which such contact is inappropriate.

Executive Directors and Non-executive Directors may serve on the boards of other companies provided that this does not involve a conflict of interest and that the appointment does not restrict their ability to discharge their duties to the Company in any way.

The Executive Directors' service contracts and the letters setting out the terms of appointment of the Non-executive Directors are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

Diversity

The Company supports the Code provision that Boards should consider the benefits of diversity, including gender, when making appointments and is committed to ensuring diversity not just at Board level but also across the Company's senior management team, not least because it believes that business benefits from the widest range of perspectives and backgrounds. The Company's aim as regards the composition of the Board is that it should have a balance of experience, skills and knowledge to enable each Director and the Board as a whole to discharge their duties effectively. Whilst the Company agrees that it is entirely appropriate that it should seek to have diversity on its Board, it does not consider that this can be best achieved by establishing specific quotas and targets and appointments will continue to be made based wholly on merit.

Further details on diversity within the business are set out in the CSR report on page 33.

Performance evaluation

Effectiveness reviews of the Board and its committees are carried out annually. The 2013 review has been facilitated by the Company Secretary who, in conjunction with the Chairman of the Board, prepared a detailed questionnaire relating to the composition, governance and performance of the Board for completion by the Directors. The results of the 2013 review have been reviewed by the Chairman of the Board or of the relevant Board Committee, discussed in a formal meeting and the recommendations recorded and acted upon.

The review process which was undertaken during the year concluded that all Directors continue to contribute effectively and with proper commitment, devoting adequate time to carry out their duties. The performance of the Non-executive Directors is evaluated separately by the Executive Directors. The Remuneration Committee reviews Executive Directors' performance with guidance from the Chief Executive (other than in respect of his own position).

The Board is committed to the Code principle that evaluation of the Board should be externally facilitated at least every three years. The last such external review was conducted in 2011 by Boardroom Review Limited; the Board has engaged Boardroom Review Limited to carry out a fresh review later this year and will report on the conclusions next year.

Operation of the Board

The Board is responsible for the Group's strategic development, monitoring its business objectives and maintaining a system of effective corporate governance.

Six formal meetings of the Board were scheduled during the year and the Directors met on a number of further occasions as necessary to consider specific matters arising and to review and develop the Company's corporate strategy.

The differing roles of the Chairman and Chief Executive are acknowledged and set out in Terms of Reference which have been adopted by the Board. The Chairman is primarily responsible for the running of the Board and ensuring that it is supplied in a timely manner with sufficient information to enable it to discharge its duties. The Chief Executive is responsible for co-ordinating the running of the business and implementing Group strategy.

All Directors communicate with each other on a regular basis and have regular and ready access to members of the Group's management team. Senior executives are invited to attend Board meetings to make presentations on specific matters or projects. Board papers are prepared and issued to all Directors in good time prior to each Board meeting to enable Directors to give due consideration to all matters in advance of the meeting. During the year, the Board has maintained an understanding of the views of major shareholders through periodic face to face meetings and briefings from the Company's brokers.

The Board has adopted formal procedures for Directors to take independent professional advice where necessary at the Company's expense and each Director has full access to the services of the Company Secretary who is also responsible for ensuring that Board procedures and all applicable rules and regulations are followed.

The Board has an approved and documented schedule of matters reserved for its decision, including approval of the Group's strategy, annual budgets, material agreements and major capital expenditure and acquisitions, the approval of financial arrangements, and the monitoring of performance, health, safety and environmental matters and risk management procedures.

The Board has also adopted a formal induction process for Directors including visits to principal sites and meetings with operating management. Training sessions have been organised during the year for the Board on matters considered relevant to the discharge of the Directors' duties and Directors may take additional training where necessary as part of their continuing development at the expense of the Company.

Committees of the Board

The Board has established a number of standing committees to which various matters are delegated according to defined Terms of Reference. The Terms of Reference of the Committees are available on the Company's website (www.pzcussons.com) and will also be available at the Annual General Meeting. Details of the principal standing Committees of the Board are set out as follows:

Nomination Committee

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. During the year ended 31 May 2013, the Committee members were Mr Harvey (Committee Chairman), Professor Arnold, Ms Edozien, Mr Heale, Mr Kanellis, Mrs Owers, Mr Steel and, until his retirement from the Board on 19 September 2012, Mr Lewis. The Company Secretary is secretary to the Committee.

During the year the Committee considered and recommended the reappointment of Mr Harvey and Professor Arnold as Non-executive Directors upon the expiry of their terms of appointment and also considered the composition of the Board and allocation of responsibilities in the light of the retirements of Messrs Lewis and Pantelireis.

Remuneration Committee

The Remuneration Committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors and senior executives, which the Board as a whole is responsible for approving. The Committee members are Mr Steel (Committee Chairman), Professor Arnold, Ms Edozien, Mr Heale, Mrs Owers and, until his retirement from the Board on 19 September 2012, Mr Lewis. The Company Secretary is secretary to the Committee.

The Remuneration Committee is responsible for evaluating the performance and determining specific remuneration packages for each Executive Director, the Chairman and the Company Secretary. With the exception of the Non-executive Chairman, the fees of the Non-executive Directors are determined by the Executive Directors.

Further details of the Committee's responsibilities and activities during the year are set out in the Report on Directors' Remuneration on pages 41 to 49.

Audit Committee

The Audit Committee is responsible for reviewing, on behalf of the Board, the Group's accounting and financial policies and its disclosure practices, internal controls, internal audit and risk management. It is also responsible for overseeing all matters associated with the appointment, terms, remuneration and performance of the external auditor and for reviewing the scope and results of the audit and its cost effectiveness. These responsibilities are discharged at the Audit Committee meetings and through regular reports from the internal audit function. The Audit Committee comprises Professor Arnold (Committee Chairman), Ms Edozien, Mr Heale, Mrs Owers, Mr Steel and, until his retirement from the Board on 19 September 2012, Mr Lewis. The Committee meets regularly with the external auditor. Professor Arnold, a qualified chartered accountant, brings recent and relevant financial experience to the Audit Committee. The Company Secretary is secretary to the Committee.

Report on Corporate Governance continued

As indicated above, whilst the Audit Committee has not adopted a formal policy in respect of the rotation of the external auditor, one of its principal duties is to make recommendations to the Board in relation to the appointment of the external auditor. Various factors are taken into account by the Committee in this respect. These include the quality of the reports provided to the Audit Committee and the Board and the level of understanding demonstrated of the Group's business. This year, the Committee considered, as usual, whether to retain PwC as auditor and concluded that, in view of the quality of the service provided, the cost effectiveness of the work carried out and the firm's capacity to provide service across all of the Group's global operations, it was appropriate to retain them. The Committee last tendered the audit in 2008.

The Group has a policy governing the conduct of non-audit work by the auditor. The auditor is permitted to provide non-audit services which are not, and are not perceived to be, in conflict with auditor independence, providing it has the skill, competence and integrity to carry out the work and is considered to be the most appropriate to undertake such work in the best interests of the Group. Assignments with a value of £50,000 or more must be submitted to the Audit Committee and activities which may be perceived to be in conflict with the role of the external auditor must be submitted to the Committee for approval prior to engagement, regardless of the amounts involved. All assignments are monitored by the Committee. Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 4 to the financial statements.

Attendance at meetings

The number of scheduled meetings of the Board (excluding such ad hoc meetings as were necessary during the year to address specific matters arising) and of each of the Audit, Remuneration and Nomination Committees during the year ended 31 May 2013, together with a record of the attendance of the current Directors who are their respective members, is detailed in the table below:

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
Mr R Harvey	6	6	n/a	n/a	n/a	n/a	3	3
Mr G A Kanellis	6	6	n/a	n/a	n/a	n/a	3	3
Mr C G Davis	6	6	n/a	n/a	n/a	n/a	n/a	n/a
Mr B H Leigh	6	6	n/a	n/a	n/a	n/a	n/a	n/a
Mr J Pantelireis	5	5	n/a	n/a	n/a	n/a	n/a	n/a
Mr D W Lewis	1	1	1	1	1	1	–	–
Prof J A Arnold	6	6	4	4	4	4	3	3
Ms N Edozien	6	5	4	4	4	4	3	3
Mr S J N Heale	6	6	4	4	4	4	3	3
Mrs H Owers	6	6	4	4	4	4	3	3
Mr J T J Steel	6	6	4	4	4	4	3	3

Notes:
'n/a' indicates that the Director is not a member of the Committee.

No Director participates in meetings when matters relating to him are being discussed.

Group Risk Committee

The Group Risk Committee is responsible for identifying, assessing and prioritising all material risks facing the Group and ensuring, where possible, that appropriate action is taken to manage and mitigate those risks. The risk areas which the Committee reviews include general business risk, including risk arising out of the external financial environment, product safety risk, physical asset risk, including factory, health and safety and environmental risks, IT and infrastructure risks.

The Group Risk Committee's principal function is one of supervision, oversight and monitoring of the Group's risk mitigation plans. The Committee is responsible for developing and supporting the activities necessary to convert an approved framework of risk limits and risk appetite policies into an effective plan for implementation across the Group. In addition, the Group Risk Committee monitor the extent to which risk related strategies, frameworks, plans and policy requirements have been embedded throughout PZ Cussons: this is achieved by regular ongoing review of the risks we face at both an Operating Unit and Group level to develop, implement and monitor plans to eliminate, reduce or transfer risk where practicable. Management and the Group Risk committee also identify emerging risks on a pro-active basis.

The Group Risk Committee comprises Professor Arnold (Committee Chairman), Ms Edozien, Mr Harvey, Mr Heale, Mrs Owers, Mr Steel, Mr Kanellis, Mr Leigh and Mr Davis. The Company Secretary is secretary to the Committee. It reports formally to the Board after each meeting. It has authority to obtain external advice as considered appropriate and the Board has resolved that it should be provided with sufficient resources to undertake fully its responsibilities.

The Board undertakes annually a formal review of material risks, the risk management process, and the performance of the Group Risk Committee.

Corporate Social Responsibility (CSR) Committee

The CSR Committee is responsible for reviewing and developing the Company's corporate strategy to ensure that CSR is an integral part of the strategy and that the Group's social, environmental and economic activities are aligned. The CSR Committee is also responsible for the development of policies on all key areas of CSR including the environment, health and safety, consumer safety, business conduct and ethics, employees and local community and charity. Further details of the Committee's Terms of Reference and activities during the year are set out in the CSR report on pages 24 to 35.

The CSR Committee comprises Mr Heale (Committee Chairman), Professor Arnold, Mr Davis, Ms Edozien, Mr Harvey, Mr Kanellis, Mr Leigh, Mrs Owers, Mr Steel and, until their retirement from the Board on 19 September 2012 and 31 March 2013 respectively, Mr Lewis and Mr Pantelireis. The Company Secretary is secretary to the CSR Committee. The Committee reports formally to the Board after each meeting. It has authority to obtain external advice as considered appropriate and the Board has resolved that it should be provided with sufficient resources to undertake fully its responsibilities.

Remuneration

Details of Directors' remuneration are set out in the Report on Directors' Remuneration.

Restrictions on voting

Unless the Board decides otherwise, no member shall be entitled to vote at any meeting in respect of any shares held by that member if any call or other sum which is then payable by that member in respect of that share remains unpaid.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review. The financial position of the Group and liquidity position are described within the Financial Review. In addition, note 18 to the financial statements includes policies in relation to the Group's financial instruments and risk management and policies for managing credit risk, liquidity, market risk, foreign exchange risk, price risk and interest rate risk.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and financial statements.

Internal control

The Board is responsible for the Group's system of internal control (excluding joint ventures) and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board is of the view that there is an ongoing process for identifying, evaluating and managing the Group's significant risks, that it has been in place for the year ended 31 May 2013 and up to the date of the Annual Report and financial statements, that it is regularly reviewed by the Board and that it accords with the Turnbull guidance for Directors on the Code.

The process includes:

- frequent communication between the Board and the Group Risk Committee and subsidiary management on all critical business issues;
- regular visits to operating units by the Board, head office management and internal audit;
- a detailed system of budgeting, reporting and forecasting;
- regular review by the Board and Group Risk Committee of risk throughout the Group and the risk management processes in place; and
- taking necessary action to remedy any significant weaknesses found as part of the review of the effectiveness of the internal control system.

Throughout the year, the Board has carried out assessments of internal control by considering documentation from the Executive Directors, Audit Committee and internal audit function as well as taking into consideration events since the year end. The internal controls extend to the financial reporting process and the preparation of consolidated accounts. The basis for the preparation of consolidated accounts is as set out in note 1 to the financial statements.

The Group continues to take steps to embed internal control and risk management further into the operations of the business and to deal with areas for improvement which come to the attention of management and the Board. The Group has ethical guidelines and a defined fraud reporting and whistleblowing process which are issued to all employees within the Group.

Report on Corporate Governance continued

Relations with shareholders

In its financial reporting to shareholders the Board aims to present a balanced and understandable assessment of the Group's financial position and prospects.

The Company maintains a corporate website, (www.pzcussons.com), containing a wide range of information of interest to institutional and private investors and a subscription e-mail service is available which enables access to Company notifications and news releases.

The Company has periodic discussions with institutional shareholders on a range of issues affecting the Group's performance. The Board is also kept informed of investors' views through regular discussion of analysts' and brokers' briefings and investor opinion feedback.

All shareholders, including private investors, have an opportunity to present questions to the Board at the Annual General Meeting and the Directors make themselves available to meet informally with shareholders after the meeting.

General meetings of shareholders

The business to be conducted at the Annual General Meeting of the Company is set out in the separate Notice of Annual General Meeting which accompanies the Annual Report and financial statements. Resolutions put before shareholders at the Annual General Meeting will usually include resolutions for the appointment of Directors, approval of the Report on Directors' Remuneration, declaration of the final dividend and authorisation for the Board to allot and repurchase shares. Voting at the Annual General Meeting is on a show of hands and after each show of hands, details of all proxy votes lodged for and against each resolution and the number of abstentions are disclosed.

At each Annual General Meeting there is an update on the progress of the business over the last year and also on current trading conditions.

Compliance statement

The Directors consider that the Company complied with the provisions of section 1 of the Code with the following exception:

Code Provision E.1.1: the Code specifies that the Senior Independent Director should attend sufficient meetings with a range of major shareholders to develop a balanced understanding of the issues and concerns of major shareholders. The Senior Independent Director met a limited number of shareholders during the year but shareholders are afforded the opportunity to meet or consult with him at their discretion in the event that they have any questions, comments or concerns and he is available to speak to all shareholders at the Company's Annual General Meeting.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, the Report on Directors' Remuneration and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB). Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates which are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and IFRSs issued by IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Report on Directors' Remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website, (www.pzcussons.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on page 36, confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties which it faces.

By order of the Board

Mr S P Plant
Company Secretary

23 July 2013

Independent Auditors' Report to the Members of PZ Cussons Plc

We have audited the Group financial statements of PZ Cussons Plc for the year ended 31 May 2013 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement on page 55, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 May 2013 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the lAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Report of the Directors for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements
- the information given in the Corporate Governance Statement set out on pages 50 to 54 in the Annual Report and Accounts with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 53, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of PZ Cussons Plc for the year ended 31 May 2013 and on the information in the Report on Directors' Remuneration that is described as having been audited.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

23 July 2013

Consolidated Income Statement
Year ended 31 May 2013

	Notes	Year ended 31 May 2013 Before exceptional items £m	Year ended 31 May 2013 Exceptional items (note 3) £m	Year ended 31 May 2013 Total £m	Year ended 31 May 2012 Before exceptional items £m	Year ended 31 May 2012 Exceptional items (note 3) £m	Year ended 31 May 2012 Total £m
Continuing operations							
Revenue	2	**883.2**	**–**	**883.2**	858.9	–	858.9
Cost of sales		**(548.9)**	**–**	**(548.9)**	(549.7)	–	(549.7)
Gross profit		**334.3**	**–**	**334.3**	309.2	–	309.2
Selling and distribution costs		**(133.6)**	**–**	**(133.6)**	(134.0)	–	(134.0)
Administrative expenses		**(90.2)**	**(12.7)**	**(102.9)**	(81.6)	(43.8)	(125.4)
Share of results of joint ventures	12	**(2.1)**	**–**	**(2.1)**	(0.2)	–	(0.2)
Operating profit/(loss)	2	**108.4**	**(12.7)**	**95.7**	93.4	(43.8)	49.6
Finance income		**2.7**	**–**	**2.7**	2.5	–	2.5
Finance costs		**(3.6)**	**–**	**(3.6)**	(3.6)	–	(3.6)
Net finance expense	6	**(0.9)**	**–**	**(0.9)**	(1.1)	–	(1.1)
Profit/(loss) before taxation		**107.5**	**(12.7)**	**94.8**	92.3	(43.8)	48.5
Taxation	7	**(28.5)**	**4.7**	**(23.8)**	(24.9)	14.4	(10.5)
Profit/(loss) for the year	4	**79.0**	**(8.0)**	**71.0**	67.4	(29.4)	38.0
Attributable to:							
Equity holders of the Company	9	**71.1**	**(8.0)**	**63.1**	63.1	(28.7)	34.4
Non-controlling interests		**7.9**	**–**	**7.9**	4.3	(0.7)	3.6
		79.0	**(8.0)**	**71.0**	67.4	(29.4)	38.0
Basic EPS (p)	9			**14.75**			8.03
Diluted EPS (p)	9			**14.70**			7.99
Adjusted basic EPS (p)	9			**16.62**			14.74
Adjusted diluted EPS (p)	9			**16.56**			14.65

Consolidated Statement of Comprehensive Income
Year ended 31 May 2013

	Notes	2013 £m	2012 £m
Profit for the year		**71.0**	38.0
Other comprehensive expense			
Actuarial gains/(losses) on defined benefit pension schemes	23	**0.4**	(11.5)
Exchange differences on translation of foreign operations		**11.5**	2.1
Cash flow hedges – fair value gain/(loss) in year		**0.5**	(0.7)
Taxation on items taken directly to equity		**(0.2)**	2.8
Other comprehensive income/(expense) for the year net of taxation		**12.2**	(7.3)
Total comprehensive income for the year		**83.2**	30.7
Attributable to:			
Equity holders of the Company		**73.5**	23.3
Non-controlling interests		**9.7**	7.4

Consolidated Balance Sheet
At 31 May 2013

	Notes	31 May 2013 £m	31 May 2012 £m
Assets			
Non-current assets			
Goodwill and other intangible assets	10	**248.7**	248.4
Property, plant and equipment	11	**214.9**	209.5
Other investments	13	**0.5**	0.5
Long-term loans receivable from joint ventures	12	**46.9**	41.7
Receivables	15	**3.8**	1.0
Retirement benefit surplus	23	**38.9**	39.1
		553.7	540.2
Current assets			
Inventories	14	**168.4**	173.6
Trade receivables and other receivables	15	**176.3**	141.0
Investments	16	**10.4**	7.0
Cash and cash equivalents	17	**93.0**	65.9
Current taxation receivable		**9.5**	5.8
		457.6	393.3
Total assets		**1,011.3**	933.5
Equity			
Share capital	24	**4.3**	4.3
Capital redemption reserve		**0.7**	0.7
Hedging reserve		**0.3**	(0.1)
Currency translation reserve		**38.1**	28.4
Retained earnings		**437.3**	425.0
Equity attributable to owners of the Parent Company		**480.7**	458.3
Non-controlling interests		**65.6**	61.2
Total equity		**546.3**	519.5
Liabilities			
Non-current liabilities			
Borrowings	18	**85.0**	–
Other liabilities	20	**0.5**	0.9
Deferred taxation liabilities	21	**46.6**	50.6
Retirement benefit obligations	23	**31.3**	37.1
Investment in joint ventures – share of net liabilities	12	**4.6**	3.0
		168.0	91.6
Current liabilities			
Borrowings	18	**15.0**	90.8
Trade and other payables	19	**232.3**	192.0
Current taxation payable		**36.5**	22.7
Provisions	22	**13.2**	16.9
		297.0	322.4
Total liabilities		**465.0**	414.0
Total equity and liabilities		**1,011.3**	933.5

The financial statements from pages 57 to 87 were approved by the Board of Directors and authorised for issue.

They were signed on its behalf by:

R Harvey **G A Kanellis**

23 July 2013

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company						
	Share capital £m	Currency translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Hedging reserve £m	Non-controlling interests £m	Total £m
At 1 June 2011	4.3	30.1	0.7	438.6	0.3	61.1	535.1
Profit for the year	–	–	–	34.4	–	3.6	38.0
Actuarial losses on defined benefit pension schemes	–	–	–	(11.5)	–	–	(11.5)
Exchange differences on translation of foreign operations	–	(1.7)	–	–	–	3.8	2.1
Cash flow hedges – fair value losses in year	–	–	–	–	(0.7)	–	(0.7)
Cash flow hedges – tax on fair value losses	–	–	–	–	0.3	–	0.3
Deferred tax on actuarial losses on defined benefit pension schemes	–	–	–	2.5	–	–	2.5
Total comprehensive income/(expense) for the year	–	(1.7)	–	25.4	(0.4)	7.4	30.7
Transactions with owners:							
Ordinary dividends	–	–	–	(28.8)	–	–	(28.8)
Acquisition of shares for ESOT	–	–	–	(2.8)	–	–	(2.8)
Share-based payments credit	–	–	–	(0.5)	–	–	(0.5)
Deferred tax on share-based payments	–	–	–	(1.4)	–	–	(1.4)
Acquisition of non-controlling interests	–	–	–	(5.5)	–	(3.1)	(8.6)
Non-controlling interests dividend paid	–	–	–	–	–	(4.2)	(4.2)
At 31 May 2012	**4.3**	**28.4**	**0.7**	**425.0**	**(0.1)**	**61.2**	**519.5**
At 1 June 2012	**4.3**	**28.4**	**0.7**	**425.0**	**(0.1)**	**61.2**	**519.5**
Profit for the year	**–**	**–**	**–**	**63.1**	**–**	**7.9**	**71.0**
Actuarial gains on defined benefit pension schemes	**–**	**–**	**–**	**0.4**	**–**	**–**	**0.4**
Exchange differences on translation of foreign operations	**–**	**9.7**	**–**	**–**	**–**	**1.8**	**11.5**
Cash flow hedges – fair value gains in year	**–**	**–**	**–**	**–**	**0.5**	**–**	**0.5**
Cash flow hedges – tax on fair value gains	**–**	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Deferred tax on actuarial gains on defined benefit pension schemes	**–**	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**
Total comprehensive income for the year	**–**	**9.7**	**–**	**63.4**	**0.4**	**9.7**	**83.2**
Transactions with owners:							
Ordinary dividends	**–**	**–**	**–**	**(29.3)**	**–**	**–**	**(29.3)**
Acquisition of shares for ESOT	**–**	**–**	**–**	**(15.0)**	**–**	**–**	**(15.0)**
Share-based payments credit	**–**	**–**	**–**	**(0.6)**	**–**	**–**	**(0.6)**
Deferred tax on share-based payments	**–**	**–**	**–**	**0.4**	**–**	**–**	**0.4**
Acquisition of non-controlling interests	**–**	**–**	**–**	**(6.6)**	**–**	**(2.9)**	**(9.5)**
Non-controlling interests dividend paid	**–**	**–**	**–**	**–**	**–**	**(2.4)**	**(2.4)**
At 31 May 2013	**4.3**	**38.1**	**0.7**	**437.3**	**0.3**	**65.6**	**546.3**

Consolidated Cash Flow Statement
Year ended 31 May 2013

	Notes	2013 £m	2012 £m
Operating activities			
Cash generated from operations	26	**119.2**	57.5
Taxation paid		**(16.1)**	(21.6)
Net cash generated from operating activities		**103.1**	35.9
Cash flows from investing activities			
Investment income received		**2.7**	2.5
Purchase of property, plant and equipment	11	**(23.1)**	(18.9)
Proceeds from sale of property, plant and equipment		**1.0**	2.4
Purchase of intangible assets	10	**–**	(0.1)
Acquisition of non-controlling interests	29	**(9.5)**	(8.6)
Acquisition of business		**–**	(26.3)
(Advance)/repayment of short-term deposits to joint ventures	16	**(3.4)**	3.6
Loans granted to joint ventures	12	**(5.2)**	(16.8)
Net cash used in investing activities		**(37.5)**	(62.2)
Financing activities			
Interest paid		**(3.6)**	(3.6)
Dividends paid to non-controlling interests		**(2.4)**	(4.2)
Purchase of shares for ESOT	25	**(15.0)**	(2.8)
Dividends paid to Company shareholders	8	**(29.3)**	(28.8)
Repayment of term loan	18	**(3.8)**	(15.0)
Increase in borrowings	18	**13.0**	59.4
Net cash (used in)/generated from financing activities		**(41.1)**	5.0
Net increase/(decrease) in cash and cash equivalents		**24.5**	(21.3)
Cash and cash equivalents at the beginning of the year	17	**65.9**	87.6
Effect of foreign exchange rates		**2.6**	(0.4)
Cash and cash equivalents at the end of the year	17	**93.0**	65.9

Notes to the Consolidated Financial Statements

General information

PZ Cussons Plc is a public limited company which is listed on the London stock exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 95.

These financial statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 1.

1. Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union (EU), including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the Companies Act 2006 applicable to Companies reporting under IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by the IFRIC.

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The financial statements have been prepared on a historical cost basis except for the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through the income statement.

The financial statements have been prepared using consistent accounting policies except as stated below.

Standards and interpretations

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 June 2012 and have not been early adopted:

- Amendment to IAS 1,'Presentation of financial statements' on OCI (effective 1 July 2012)
- Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012 and endorsed 1 January 2013)
- IFRS 13, 'Fair value measurement' (effective 1 January 2013)
- IAS 19 (revised 2011), 'Employee benefits' (effective 1 January 2013)
- Amendment to IFRS 1,'First time adoption' on government grants (effective 1 January 2013)
- Amendments to IFRS 7 on Financial instruments asset and liability offsetting (effective 1 January 2013)
- IFRS 9, 'Financial instruments' (effective 1 January 2015, not EU endorsed)
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013 and endorsed 1 January 2014)
- IFRS 11, 'Joint arrangements'(effective 1 January 2013 and endorsed 1 January 2014)
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2013 and endorsed 1 January 2014)
- IAS 27 (revised 2011), 'Separate financial statements' (effective 1 January 2013 and endorsed 1 January 2014)
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013 and endorsed 1 January 2014)
- Amendments to IFRS 10, 11 and 12 on transition guidance (effective 1 January 2013 and endorsed 1 January 2014)
- Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities (effective 1 January 2014, not EU endorsed)
- Amendments to IAS 32 on Financial instruments asset and liability offsetting (effective 1 January 2014)
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures (effective 1 January 2014, not EU endorsed)
- IFRIC 21, 'Levies' (effective 1 January 2014, not EU endorsed)

None of the above are expected to have a significant effect on the financial statements of the Group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of PZ Cussons Plc and entities controlled by PZ Cussons Plc (its subsidiaries) made up to 31 May each year. Control is achieved where the Company has the ability to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the fair value of consideration over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition.

The total profits or losses of subsidiaries are included in the consolidated income statement and the interest of non-controlling interests is stated at the non-controlling interest's proportion of the fair values of the assets and liabilities recognised. Subsequently, losses applicable to the non-controlling interest in excess of the non-controlling interest's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses. The interest of non-controlling interests in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Where non-controlling interests are acquired, the excess of cost over the value of the non-controlling interest acquired is recorded in equity.

1. Accounting policies continued

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, the accounts of overseas subsidiaries are adjusted to conform to the Group's accounting policies. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Operating profit

Operating profit is the profit of the Group before finance income, finance costs and taxation.

Exceptional items

The Group adopts a columnar income statement format to highlight significant items within the Group results for the period. Such items are considered by the Directors to be exceptional in nature rather than being representative of the underlying trading of the Group, and may include such items as restructuring costs, acquisition related costs, material impairments of non-current assets, material profits and losses on disposal of property, plant and equipment, profit or loss on disposal or termination of operations and material pension settlements and amendments. The Directors apply judgement in assessing the particular items, which by virtue of their scale and nature should be disclosed in a separate column of the income statement and notes to the financial statements as 'Exceptional items'. The Directors believe that the separate disclosure of these items is relevant to an understanding of the Group's financial performance.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The fair value of consideration of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', which are recognised and measured at the lower of the assets' previous carrying value and fair value less costs to sell.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control. Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method of accounting. Under IAS 28 'Investments in associates' and IAS 31 'Interests in joint ventures', a single figure for post-tax results is presented as a separate item on the face of the income statement as part of profit before tax within operating profit. Long-term loans which are considered to be permanent as equity are combined with the Group's share of net assets/liabilities and shown on a single line within non-current assets.

Intangible assets

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Goodwill also includes amounts to reflect deferred tax liabilities established in relation to acquisitions in accordance with IFRS 3 'Business Combinations'. Goodwill is initially recognised as an asset and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

An acquired brand is only recognised on the balance sheet where it is supported by a registered trademark, where brand earnings are separately identifiable and the brand could be sold separately from the rest of the business. Brands acquired as part of a business combination are recorded in the balance sheet at fair value at the date of acquisition. Trademarks, patents and purchased brands are recorded at purchase cost. Brands currently held are not amortised as the Directors believe they have indefinite lives due to their market leading nature. In accordance with IAS 36 'Impairment of assets', the brands are tested for impairment annually, and whenever there is an indication that the asset may be impaired. Any impairment is recognised immediately in the income statement.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

Applying indefinite lives to certain acquired brands is appropriate due to the stable long-term nature of the business and the enduring nature of the brands. A core element of the Group's strategy is to invest in building its brands through an ongoing programme of product innovation and sustained and rising marketing (particularly media) investment. A brand typically comprises an assortment of base products and more innovative products. Both contribute to the enduring nature of the brand. The base products establish the long-term positioning of the brand while a succession of innovations attracts ongoing consumer interest and attention. Indefinite life brands are allocated to the cash generating units to which they relate and are tested annually for impairment.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately as income. Profit or losses on disposal of brands are included within operating profit.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, rebates and sales related taxes but including interest receivable on sales on extended credit and income from the provision of technical services and agreements. Sales of goods are recognised when title has passed and the significant risks and rewards of ownership have been transferred.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the actual rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Foreign exchange gains and losses arising from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Cumulative foreign currency translation differences arising on the translation and consolidation of foreign operations' income statements and balance sheets denominated in foreign currencies are recorded as a separate component of equity. Applying the exemption under IFRS 1 'First time adoption of International Financial Reporting Standards', the Group has set the currency reserve to zero at 1 June 2004, the date of transition to IFRS and measured and recorded separately in that currency reserve all cumulative foreign currency translation differences arising after that date. On disposal of a foreign operation the cumulative translation differences will be transferred to the income statement in the period of the disposal as part of the gain or loss on disposal.

Finance income and expense

Finance income and expense are recognised in the income statement in the period in which they are incurred.

Government grants

Government grants related to property, plant and equipment are reflected in the balance sheet as deferred income and credited to the income statement over the useful lives of the assets concerned. Government grants relating to income are reflected in the balance sheet as deferred income and credited to the income statement over the period to which the grant relates.

Employee benefits

Retirement benefit obligations

The Group operates retirement benefit schemes in the United Kingdom and for most overseas countries in which it carries on business. Those in the United Kingdom are defined benefit schemes and defined contribution schemes; overseas schemes vary in detail depending on local practice. The UK defined benefit schemes were closed to future accrual on 31 May 2008.

1. Accounting policies continued

In respect of the defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with full actuarial valuations being carried out every three years or more frequently should a material change occur in any of the schemes. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits have already vested, and otherwise amortised on a straight-line basis over the average period until the benefits become vested. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan. All components of the pension cost are included within operating profit.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Share-based payments

The Group operates a Deferred Annual Share Bonus Scheme, a Performance Share Plan and an Executive Share Option Scheme for senior executives, all of which involve equity-settled share-based payments.

Equity-settled share-based payments under the Executive Share Option Scheme are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period. Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The awards under the Performance Share Plan are measured at the fair value at the date of grant and are expensed over the period to which the performance relates based on the expected outcome of the vesting conditions. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The awards under the Deferred Annual Share Bonus Scheme are measured at fair value at the date of grant and are expensed over the period to which the performance relates.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current and deferred tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax liabilities on a net basis.

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administration purposes, are stated in the balance sheet at deemed cost at the date of transition to IFRS less accumulated depreciation and any accumulated impairment losses. All other assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued
Depreciation is charged so as to write off the cost or valuation of assets, other than land, over their estimated useful lives, using the straight-line method, on the following basis:

Freehold buildings at rates not less than	2%
Leasehold buildings at rates which will reduce the book value to nil on or before the termination of the leases with a minimum of	2%
Plant and machinery not less than	8%
Fixtures, fittings and vehicles not less than	20%

In the case of major projects depreciation is provided from the date the project in question is brought into use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement for the period.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Inventories
Inventories are stated at the lower of cost and estimated net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the FIFO method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Research and development
Research and development expenditure is charged against profits in the year in which it is incurred, unless it meets the criteria for capitalisation set out in IAS 38 'Intangible assets'.

Cash, cash equivalents and bank overdrafts
Cash, cash equivalents and bank overdrafts includes cash at bank and in hand plus short-term deposits less overdrafts. Short-term deposits have a maturity of less than three months from the date of acquisition. Bank overdrafts are repayable on demand and form an integral part of the Group's cash management.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derivative financial instruments
The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and to fluctuations in interest rates. The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions. The Group uses derivative financial instruments (primarily interest rate swaps) to hedge a proportion of the exposure to floating interest rate fluctuations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles in the use of financial derivatives consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value at the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income, and any ineffective portion is recognised immediately in the income statement.

Borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis through the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise.

Trade payables
Trade payables are not interest bearing and are stated at fair value and subsequently measured at amortised cost.

1. Accounting policies continued

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Investments

Investments (other than interests in joint ventures) are recognised and derecognised on a trade date when a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held-to-maturity, held-for-trading, loans and receivables or available-for-sale. Held-to-maturity investments and loans and receivables are measured at amortised cost. Held-for-trading and available-for-sale investments are measured at subsequent reporting dates at fair value. Where securities are held-for-trading purposes, gains and losses arising from changes in fair value are included in the income statement for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Board.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. In respect of interim dividends these are recognised once paid.

Critical accounting policies and key sources of estimation uncertainty

Estimates and accounting judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of financial statements under IFRS requires management to make assumptions and estimates about future events. The resulting accounting estimates will, by definition, differ from the actual results. The assumptions and estimates that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

Accounting for intangible assets

The Group records all intangible assets acquired as part of a business combination at fair value. Intangible assets are deemed to have indefinite lives and as such are not amortised but are subject, as a minimum, to annual tests for impairment. Determining whether intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which the intangible asset has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of key estimates are discussed in note 10.

Revenue recognition

The Group recognises revenue generally at the time of delivery, which represents the point at which the significant risks and rewards of ownership are transferred to the customer, and when collection of the resulting consideration for those goods is reasonably assured. Should management consider that the criteria for recognition are not met, revenue is deferred until such time as the consideration has been fully earned. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable net of discounts, rebates and sales-related taxes but including interest receivable on sales on extended credit and income from the provision of technical services and agreements. Dividend income from investments is recognised when the right to receive payment is established.

2. Segmental analysis

The chief operating decision-maker has been identified as the Executive Board which comprises the three Executive Directors.

The Executive Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports which include an allocation of central revenue and costs as appropriate.

The Executive Board considers the business from a geographic perspective, with Africa, Asia and Europe being the reporting segments. The Executive Board assesses the performance based on operating profit before any exceptional items. Other information provided, except as noted below, to the Executive Board is measured in a manner consistent with that of the financial statements.

Sales between segments are carried out on an arms length basis.

Notes to the Consolidated Financial Statements continued

2. Segmental analysis continued

Business segments

2013	Africa £m	Asia[2] £m	Europe[1] £m	Eliminations £m	Total £m
Total gross segment revenue	**366.7**	**191.5**	**489.2**	**(164.2)**	**883.2**
Inter segment revenue	**(4.0)**	**(16.6)**	**(143.6)**	**164.2**	**–**
Revenue	**362.7**	**174.9**	**345.6**	**–**	**883.2**
Segmental operating profit before exceptional items and share of results of joint ventures	**39.5**	**18.4**	**52.6**	**–**	**110.5**
Share of results of joint ventures	**(2.1)**	**–**	**–**	**–**	**(2.1)**
Segmental operating profit before exceptional items	**37.4**	**18.4**	**52.6**	**–**	**108.4**
Exceptional items	**(0.6)**	**(3.3)**	**(8.8)**	**–**	**(12.7)**
Segmental operating profit	**36.8**	**15.1**	**43.8**	**–**	**95.7**
Finance income					**2.7**
Finance cost					**(3.6)**
Profit before taxation					**94.8**
Depreciation	**8.3**	**3.4**	**8.6**	**–**	**20.3**

2012	Africa £m	Asia[2] £m	Europe[1] £m	Eliminations £m	Total £m
Total gross segment revenue	375.2	174.1	509.7	(200.1)	858.9
Inter segment revenue	(13.0)	(12.5)	(174.6)	200.1	–
Revenue	362.2	161.6	335.1	–	858.9
Segmental operating profit before exceptional items and share of results of joint ventures	33.7	8.8	51.1	–	93.6
Share of results of joint ventures	(0.2)	–	–	–	(0.2)
Segmental operating profit before exceptional items	33.5	8.8	51.1	–	93.4
Exceptional items	(6.1)	(30.1)	(7.6)	–	(43.8)
Segmental operating profit	27.4	(21.3)	43.5	–	49.6
Finance income					2.5
Finance cost					(3.6)
Profit before taxation					48.5
Depreciation	8.4	5.8	8.3	–	22.5

1 Europe segmental result includes revenue and profit from US that is deemed to be immaterial for separate disclosure.
2 The Asia result now includes the Beauty Division Australia result, where previously this was included within Europe.

The Group's Parent Company is domiciled in the UK. The split of revenue from external customers and non-current assets between the UK, Nigeria and rest of the world (Other) is:

2013	UK and Beauty £m	Nigeria £m	Other £m	Total £m
Revenue	**192.5**	**313.7**	**377.0**	**883.2**
Goodwill and other intangible assets	**238.4**	**–**	**10.3**	**248.7**
Property, plant and equipment	**46.5**	**104.9**	**63.5**	**214.9**
Other non-current assets	**85.8**	**3.1**	**1.2**	**90.1**

2012	UK and Beauty £m	Nigeria £m	Other £m	Total £m
Revenue	188.4	316.7	353.8	858.9
Goodwill and other intangible assets	238.4	–	10.0	248.4
Property, plant and equipment	47.7	102.5	59.3	209.5
Other non-current assets	80.8	0.4	1.1	82.3

3. Exceptional items

Year to 31 May 2013

Exceptional items included within operating profit:	Exceptional items before taxation £m	Taxation £m	Exceptional items after taxation £m
Supply chain optimisation	**8.9**	**(2.4)**	**6.5**
Boutique spas closure	**3.8**	**(0.9)**	**2.9**
Deferred tax benefit of reduction in UK Corporation tax rate principally relating to brands	**–**	**(1.4)**	**(1.4)**
	12.7	**(4.7)**	**8.0**

Year to 31 May 2012

Exceptional items included within operating profit:	Exceptional items before taxation £m	Taxation £m	Exceptional items after taxation £m
Supply chain optimisation	27.5	(9.7)	17.8
Pension scheme de-risking charge	0.3	(0.1)	0.2
Beauty division formation costs	6.3	(1.6)	4.7
Australian Home Care brand impairment	9.7	–	9.7
Deferred tax benefit of reduction in UK Corporation tax rate principally relating to brands	–	(3.0)	(3.0)
	43.8	(14.4)	29.4

Explanation of exceptional items

Year to 31 May 2013

Supply chain optimisation

The Group has incurred exceptional costs of £8.9 million relating to continuing restructuring costs associated with the supply chain optimisation project that was initiated in the year to 31 May 2012. This includes some initial costs in relation to the Group structure and systems project.

Boutique spas closure

The Group has decided to close the boutique spas to concentrate on product sales within the Beauty division. The exceptional costs include a £1.6 million impairment of boutique spa related assets with the remainder consisting of restructuring costs.

Deferred tax benefit of reduction in UK Corporation tax rate principally relating to brands

The UK corporation tax rate reduced to 23% from 24% on 1 April 2013. As a result of this change, the deferred tax balances relating to UK assets and liabilities were reduced to take account of the substantively enacted rate change. The largest single effect of the rate change was in relation to the deferred tax liabilities recognised when the Sanctuary, St Tropez and Charles Worthington brands were acquired and this is disclosed as an exceptional item due to its size and the fact that it relates to previous acquisitions.

Year to 31 May 2012

Supply chain optimisation

The Group initiated the implementation of a supply chain optimisation project to significantly reduce the overhead footprint of the Group's manufacturing activities. The main activities involved in this project related to the closure of manufacturing facilities in Australia and Ghana, in addition to other optimisation projects in Africa and Asia. Exceptional costs principally relating to the write down of manufacturing facilities and certain other restructuring costs were therefore incurred.

Pension scheme de-risking charge

The Group finalised the de-risking exercise that was commenced in the year to 31 May 2011 in relation to the enhanced transfer value exercise for deferred members of the main UK defined benefit pension scheme.

Beauty division acquisition & integration costs

The Group incurred £1.1 million of acquisition and related costs for the purchase of the Fudge hair care brand and associated inventory. In addition, charges totalling £3.2 million were incurred in integrating the Fudge business selling and logistics activities into the Beauty division. Further costs totalling £2.0 million were also incurred rationalising the activities of the Beauty division post Fudge integration.

Australian Home Care brand impairment

A decision was made to fully impair the Group's value dish-care brand in Australia, Trix.

Deferred tax benefit of reduction in UK Corporation tax rate principally relating to brands

The UK corporation tax rate reduced to 24% from 26% on 1 April 2012. As a result of this change, the deferred tax balances relating to UK assets and liabilities were reduced to take account of the substantively enacted rate change. The largest single effect of the rate change was in relation to the deferred tax liabilities recognised when the Sanctuary, St Tropez and Charles Worthington brands were acquired and this was disclosed as an exceptional item due to its size and the fact that it related to previous acquisitions.

Notes to the Consolidated Financial Statements continued

4. Profit for the year – analysis by nature

Profit for the year has been arrived at after charging/(crediting):

	2013 £m	2012 £m
Net foreign exchange losses/(gains)	**0.6**	(2.3)
Research and development costs	**3.1**	3.5
Amortisation of government grants	**(0.3)**	(0.3)
Impairment loss on intangible assets (note 10)	**–**	9.7
Impairment loss on tangible fixed assets (note 11)	**1.6**	12.4
Depreciation of property, plant and equipment	**20.3**	22.5
Profit on disposal of property, plant and equipment	**(0.2)**	(0.5)
Loss on disposal of intangible asset	**–**	0.1
Raw and packaging materials and goods purchased for resale (note 14)	**457.2**	445.6
Operating lease rentals	**1.9**	2.9
Employee costs (note 5)	**110.4**	111.2
Auditors' remuneration (see below)	**1.2**	1.1

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

	2013 £m	2012 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts and consolidation	**0.1**	0.1
Fees payable to the Company's auditors and their associates for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	**0.5**	0.5
Total audit fees	**0.6**	0.6
Fees payable to the Company's auditors and its associates for other services		
– Tax services pursuant to legislation	**0.2**	0.2
– Other tax services	**0.3**	0.2
– Other services	**0.1**	0.1
Total fees	**1.2**	1.1

5. Directors and employees

Employee costs

The average monthly number of employees (including Executive Directors) was as follows:

	2013 Number	2012 Number
Production	**2,895**	3,891
Selling and distribution	**2,538**	2,653
Administration	**692**	792
	6,125	7,336

The costs incurred in respect of the above were as follows:

	2013 £m	2012 £m
Wages and salaries	**99.4**	101.3
Social security and other costs	**7.3**	7.8
Other pensions costs	**4.3**	2.6
Share-based payments credit (note 28)	**(0.6)**	(0.5)
	110.4	111.2

The other pensions costs consist of:

	2013 £m	2012 £m
Defined benefit schemes (note 23)	**–**	(1.0)
Defined contribution schemes (note 23)	**3.4**	2.8
Overseas minor defined benefit schemes and Nigerian gratuity scheme (note 23)	**0.9**	0.8
	4.3	2.6

5. Directors and employees continued

Directors' remuneration

The costs incurred in respect of the Directors, who are regarded as the key management personnel, were as follows:

	2013 £m	2012 £m
Fees to Non-executive Directors	**0.5**	0.5
Short-term employee benefits wages and salaries	**2.4**	1.4
Post-employment benefits	**0.3**	0.3
Share-based payments	**(0.3)**	(0.2)
Total	**2.9**	2.0

Additional details are within the Report on Directors' Remuneration on pages 41 to 49.

6. Net finance expense

	2013 £m	2012 £m
Net investment gains	**0.1**	0.5
Interest receivable	**2.6**	2.0
Net interest income	**2.7**	2.5
Interest payable on bank loans and overdrafts	**(3.6)**	(3.6)
Net finance expense	**(0.9)**	(1.1)

7. Taxation

	2013 £m	2012 £m
Current tax		
UK corporation tax charge for the year	**5.1**	8.3
Adjustments in respect of prior periods	**(0.7)**	(2.4)
	4.4	5.9
Overseas corporation tax charge for the year	**21.9**	12.3
Adjustments in respect of prior periods	**(0.2)**	(0.4)
	21.7	11.9
Total current tax charge	**26.1**	17.8
Deferred tax		
Temporary differences – origination and reversal	**(2.5)**	(7.3)
Adjustments in respect of prior periods	**0.2**	–
Total deferred tax (note 21)	**(2.3)**	(7.3)
Total tax charge	**23.8**	10.5

UK corporation tax is calculated at 23.83% (2012: 25.69%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Taxation on items taken directly to equity was a credit of £0.2 million (2012: £1.4 million credit) and relates to deferred tax on actuarial gains, on share option schemes and on financial derivatives recognised in the hedging reserve.

Notes to the Consolidated Financial Statements continued

7. Taxation continued

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2013 £m	2012 £m
Profit before tax	**94.8**	48.5
Tax at the UK corporation tax rate of 23.83% (2012: 25.69%)	**22.6**	12.5
Tax effect of revenue/expenses that are not taxable/deductible	**0.1**	3.9
Effect of different tax rates of subsidiaries in overseas jurisdictions	**1.3**	(2.0)
Effect of UK rate change on deferred taxation	**(1.4)**	(3.0)
Tax effect of share of results of joint ventures	**0.4**	0.1
Overseas withholding tax suffered on dividends	**1.5**	1.8
Prior period adjustment	**(0.7)**	(2.8)
Tax charge for the year	**23.8**	10.5

The main rate of corporation tax in the UK reduced from 24% to 23% from 1 April 2013. All deferred tax assets/liabilities have been remeasured at 23% as at the balance sheet date. The change in deferred tax has resulted in a reduction in deferred tax liabilities of £1.5 million of which £1.4 million has been recognised in the income statement as an exceptional income and £0.1 million direct to equity.

A reduction in the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 was announced in the Budget on 20 March 2013 and was substantively enacted on 2 July 2013 as part of the Finance Bill 2013.

8. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to Ordinary Shareholders in the year comprise:		
Final dividend for the year ended 31 May 2012 of 4.487p (2011: 4.487p) per Ordinary Share	**19.2**	19.2
Interim dividend for the year ended 31 May 2013 of 2.35p (2012: 2.23p) per Ordinary Share	**10.1**	9.6
	29.3	28.8
Proposed final dividend for the year ended 31 May 2013 of 5.04p (2012: 4.487p) per Ordinary share	**21.6**	19.2

The proposed final dividends for the years ended 31 May 2012 and 31 May 2013 were subject to approval by shareholders at the Annual General Meeting and hence have not been included as liabilities in the financial statements at 31 May 2012 and 31 May 2013 respectively.

At 31 May 2013, the Employee Share Option Trust held 3,833,866 Ordinary Shares (2012: 334,856 Ordinary Shares). The trust waived any entitlement to the dividends on these shares.

9. Earnings per share

	2013	2012
Profit attributable to Ordinary Equity Shareholders (£ million)	**63.1**	34.4
Basic earnings per share	**14.75p**	8.03p
Diluted earnings per share	**14.70p**	7.99p

Basic earnings per share and diluted earnings per share are calculated by dividing profit for the period attributable to equity holders by the weighted average number of shares in issue.

	2013 Number 000	2012 Number 000
Basic weighted average	**427,735**	428,195
Diluted weighted average	**429,291**	430,629

The difference between the basic and diluted weighted average number of shares represents the dilutive effect of the Deferred Annual Share Bonus Scheme, the Executive Share Option Scheme and the Performance Share Plan. The weighted average number of shares can be reconciled to the weighted average number of shares including dilutive shares as follows:

9. Earnings per share continued

	2013 Number 000	2012 Number 000
Basic weighted average Ordinary Shares in issue during the year	**427,735**	428,195
Dilutive effect of share incentive plans	**1,556**	2,434
Diluted weighted average	**429,291**	430,629

Adjusted earnings per share

	2013	2012
Basic earnings per share	**14.75p**	8.03p
Exceptional items	**1.87p**	6.71p
Adjusted basic earnings per share	**16.62p**	14.74p
Diluted earnings per share	**14.70p**	7.99p
Exceptional items	**1.86p**	6.66p
Adjusted diluted earnings per share	**16.56p**	14.65p

Adjusted basic and diluted earnings per share figures are calculated by dividing adjusted profit for the year by the weighted average number of shares in issue (as above). The adjusted profit for the year is as follows:

	2013 £m	2012 £m
Profit attributable to Ordinary Equity Shareholders	**63.1**	34.4
Exceptional items (net of taxation effect)	**8.0**	28.7
Adjusted profit after tax	**71.1**	63.1

10. Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 June 2011	45.8	188.1	233.9
Acquired during the year	–	24.6	24.6
Additions	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
Impairment loss	–	(9.7)	(9.7)
Currency retranslation	–	(0.4)	(0.4)
At 31 May 2012	45.8	202.6	248.4
Currency retranslation	–	0.3	0.3
At 31 May 2013	**45.8**	**202.9**	**248.7**

Other intangible assets include the Group's acquired brands which are deemed to have indefinite lives.

Goodwill and other intangible assets, which all have indefinite useful lives, are subject to annual impairment testing, or more frequent testing if there are indicators of impairment.

Intangible assets (including goodwill) are allocated to the appropriate cash-generating units (CGUs) based on the smallest identifiable group of assets that generates cash inflows independently in relation to the specific intangible/goodwill. The recoverable amounts of the CGUs are determined from value-in-use calculations that use cash flow projections from approved budgets and plans over a period of five years. Key assumptions in the budgets and plans include future revenue volumes, growth rates and prices, associated future levels of marketing support, cost-base of manufacture and supply and directly associated overheads and tax. Cash flows beyond the five-year period are extrapolated using the estimated long-term growth rate of 3% (2012: 2.3%). Management has assessed the appropriate discount rate for each individual CGU, using a Weighted Average Cost of Capital (WACC) for comparable companies operating in similar markets and geographies as the Group as the base discount rate, adjusted for risks specific to each CGU. Due to the similar geographic and product diversification of their respective markets and risks associated with each CGU, a pre-tax discount rate of 8.8% was deemed appropriate for all reviewed CGUs.

Notes to the Consolidated Financial Statements continued

10. Goodwill and other intangible assets continued

The net book value of goodwill and other intangible assets by CGUs was as follows:

	Goodwill 2013 £m	Goodwill 2012 £m	**Other intangible assets 2013 £m**	Other intangible assets 2012 £m
Original Source	**–**	–	**9.8**	9.8
Beauty division brands	**40.4**	40.4	**188.2**	188.2
Other	**5.4**	5.4	**4.9**	4.6
	45.8	45.8	**202.9**	202.6

A sensitivity analysis has been performed around the base assumptions with the conclusion that no reasonable possible changes in key assumptions would cause the recoverable amount of the goodwill and other intangible assets to be less than the carrying value.

11. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Assets in course of construction £m	Total £m
Cost					
At 1 June 2011	146.0	196.0	49.6	5.5	397.1
Currency retranslation	(0.6)	(1.7)	(0.9)	–	(3.2)
Additions	0.3	1.7	1.5	15.4	18.9
Disposals	(0.1)	(2.1)	(4.1)	(0.2)	(6.5)
Reclassifications	1.6	7.0	4.6	(13.2)	–
At 31 May 2012	147.2	200.9	50.7	7.5	406.3
Currency retranslation	3.7	5.4	0.7	0.3	10.1
Additions	0.3	1.1	1.0	20.7	23.1
Disposals	(0.3)	(1.3)	(0.7)	–	(2.3)
Reclassifications	1.6	6.1	3.3	(11.0)	–
At 31 May 2013	**152.5**	**212.2**	**55.0**	**17.5**	**437.2**
Accumulated depreciation and amounts written off					
At 1 June 2011	19.1	119.4	32.9	–	171.4
Currency retranslation	(0.5)	(3.4)	(0.9)	–	(4.8)
Charge for the year	9.7	5.4	7.4	–	22.5
Disposals	–	(1.7)	(3.0)	–	(4.7)
Impairment loss	–	12.4	–	–	12.4
At 31 May 2012	28.3	132.1	36.4	–	196.8
Currency retranslation	0.6	3.7	0.8	–	5.1
Charge for the year	2.5	11.1	6.7	–	20.3
Disposals	(0.2)	(0.6)	(0.7)	–	(1.5)
Impairment loss	1.6	–	–	–	1.6
At 31 May 2013	**32.8**	**146.3**	**43.2**	**–**	**222.3**
Net book values					
At 31 May 2013	**119.7**	**65.9**	**11.8**	**17.5**	**214.9**
At 31 May 2012	118.9	68.8	14.3	7.5	209.5

At 31 May 2013, the Group had entered into commitments for the acquisition of property, plant and equipment amounting to £4.9 million (2012: £1.5 million). At 31 May 2013, the Group's share in the capital commitments of the joint ventures was nil (2012: £3.0 million).

The impairment loss of £1.6 million in the current financial year is in relation to the closure of the boutique spas whilst during the year to 31 May 2012 an impairment of certain plant and machinery assets was made under the supply chain optimisation project.

12. Investments in joint ventures

	£m
Carrying value	
At 1 June 2011	(4.1)
Exchange differences on translation of overseas net liabilities recognised in equity	1.3
Share of result for the year taken to the income statement	(0.2)
At 31 May 2012	(3.0)
Exchange differences on translation of overseas net liabilities recognised in equity	0.5
Share of result for the year taken to the income statement	(2.1)
At 31 May 2013	**(4.6)**

	2013 £m	2012 £m
Aggregated amounts relating to joint ventures		
Non-current assets	**78.8**	57.2
Current assets	**112.6**	43.0
Non-current liabilities	**(105.1)**	(83.3)
Current liabilities	**(95.6)**	(23.2)
Net liabilities	**(9.3)**	(6.3)
Revenues	**94.2**	90.2
Loss after taxation	**(4.1)**	(0.5)

The Group accounts for joint ventures using the equity method. A list of the investments in joint ventures, including the name, country of incorporation and proportion of ownership interest is given in note 33.

The net investment in joint ventures is broken down as follows:

	2013 £m	2012 £m
Investment in joint ventures – share of net liabilities	**(4.6)**	(3.0)
Long-term loans receivable from joint ventures	**46.9**	41.7
	42.3	38.7

The long-term loans receivable from the joint ventures are considered to be part of the Group's net investment in the joint ventures.

13. Other investments

Non-current asset investments of £0.5 million (2012: £0.5 million) comprise a 31% investment in Norpalm Ghana Limited, a palm oil plantation in Ghana (note 33). The Group does not exercise significant influence over the affairs of this company as it does not have the ability to participate in the financial and operating policies of the entity, and it is therefore not treated as an associated company. The Directors consider the historical cost of the investment to be representative of its fair value at both 31 May 2013 and 31 May 2012.

14. Inventories

	2013 £m	2012 £m
Raw materials and consumables	**62.7**	67.7
Work in progress	**7.5**	7.5
Finished goods and goods for resale	**98.2**	98.4
	168.4	173.6

During the year ended 31 May 2013, £2.5 million (2012: £1.7 million) was charged to the income statement for slow moving and obsolete inventories. The cost of the inventories recognised as an expense and included in cost of sales amounts to £457.2 million (2012: £445.6 million).

15. Trade receivables and prepayments

Receivables due within one year

	2013 £m	2012 £m
Trade receivables	**139.5**	121.1
Less: provision for impairment of trade receivables	**(8.4)**	(7.0)
Net trade receivables	**131.1**	114.1
Amounts owed by joint ventures	**12.1**	4.8
Other receivables	**21.6**	14.8
Prepayments and accrued income	**11.5**	7.3
	176.3	141.0

Notes to the Consolidated Financial Statements continued

15. Trade receivables and prepayments continued

Receivables due after more than one year

	2013 £m	2012 £m
Prepayments and accrued income	**0.6**	0.6
Other receivables	**3.2**	0.4
	3.8	1.0

Movements in the Group provision for impairment of trade receivables are as follows:

	2013 £m	2012 £m
At 1 June	**(7.0)**	(5.1)
Provision for receivables impairment	**(2.4)**	(2.0)
Receivables written off during the year	**0.3**	–
Unused amounts reversed	**0.8**	0.1
Currency translation	**(0.1)**	–
At 31 May	**(8.4)**	(7.0)

Provisions are estimated by management based on past default experience and their assessment of the current economic environment. The creation and release of provisions for receivables is charged/(credited) to administrative expenses in the income statement.

Trade receivables consist of a broad cross section of our international customer base for whom there is no significant history of default. The credit risk of customers is assessed at a subsidiary and Group level, taking into account their financial positions, past experiences and other relevant factors. Individual customer credit limits are imposed based on these factors.

The credit period taken on sales ranges from 4 to 100 days (2012: 15 to 100 days) due to the differing nature of trade receivables in the Group's geographical segments.

No other receivables have been deemed to be impaired.

The carrying amount of the Group's net trade receivables are denominated in the following currencies:

	2013 £m	2012 £m
Sterling	**33.3**	26.6
US Dollar	**11.4**	6.0
Nigerian Naira	**26.0**	25.8
Euro	**17.5**	18.8
Polish Zloty	**11.6**	8.8
Indonesian Rupiah	**11.6**	10.5
Ghana Cedi	**7.2**	5.7
Australian Dollar	**8.7**	7.2
Other minor currencies	**3.8**	4.7
	131.1	114.1

The following table shows the age of trade receivables at the reporting date for which no allowance for impairment of trade receivables has been recognised:

	2013 £m	2012 £m
Not past due	**100.5**	94.7
Past due 0–90 days	**29.9**	18.6
Past due 90–180 days	**0.6**	0.6
Past due > 180 days	**0.1**	0.2
	131.1	114.1

16. Current asset investments

	2013 £m	2012 £m
Unlisted	**0.3**	0.3
Short-term deposits with joint ventures	**10.1**	6.7
	10.4	7.0

17. Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	**42.3**	34.2
Short-term deposits	**50.7**	31.7
Cash and cash equivalents	**93.0**	65.9

The effective interest rate on cash and cash equivalents during the year ended 31 May 2013 was 4.7% (2012: 2.9%).

18. Financial liabilities, financial instruments and financial risk management

(a) Financial liabilities

	2013 £m	2012 £m
Bank loans due within one year	**15.0**	90.8
Bank loans due between two and five years	**85.0**	–
	100.0	90.8

In July 2012 the Group refinanced its UK borrowing facilities to secure an amortising £45 million term loan and a £90 million revolving credit facility with a syndicate of leading international banks. These facilities are committed until 2016. As at 31 May 2013 £100 million was drawn.

The Group's borrowings are all denominated in Sterling. At 31 May 2013, the Group had total undrawn facilities of £109.9 million (2012: £101.7 million) available to it. All borrowings are at floating rate and the applicable weighted average interest rates are as follows:

	2013 £m	2013 Interest rate (%)	2012 £m	2012 Interest rate (%)
Borrowing	**100.0**	**2.0**	90.8	1.7

(b) Financial instruments

Fair values of financial assets and financial liabilities

Financial instruments utilised by the Group during the years ended 31 May 2013 and 31 May 2012, together with information regarding the methods and assumptions used to calculate fair values, can be summarised as follows:

Current and non-current investments

In accordance with IAS 39 'Financial instruments: Recognition and Measurement', unlisted investments are held in the Group's balance sheet at cost because their fair value cannot be measured reliably due to the lack of quoted market prices.

Current assets and liabilities

Financial instruments included within current assets and liabilities (excluding cash and borrowings) are generally short-term in nature and accordingly their fair values approximate to their book values.

Borrowings and cash

The carrying values of cash and short-term borrowings approximate to their fair values because of the short-term maturity of these instruments.

The financial instruments held by the Group do not, either individually or as a class, create a potentially significant exposure to market, credit, liquidity or cash flow interest rate risk.

Set out below is a comparison by category of the carrying values and fair values of all the Group's financial assets and financial liabilities as at 31 May 2013 and 31 May 2012. None of the financial assets and liabilities has been reclassified during the year.

	2013 Carrying amount and fair value £m	2012 Carrying amount and fair value £m
Loans and receivables		
Cash and short-term deposits	**93.0**	65.9
Trade and other receivables	**164.8**	133.7
Short-term deposit with joint ventures	**10.1**	6.7
Loans to joint ventures	**46.9**	41.7
Financial liabilities		
Trade and other payables	**(223.4)**	(182.6)
Bank loans	**(100.0)**	(90.8)
Financial derivative liabilities	**(0.6)**	(0.8)
Amounts owed to joint ventures	**–**	(3.4)

Notes to the Consolidated Financial Statements continued

18. Financial liabilities, financial instruments and financial risk management continued

The short-term deposit of £10.1 million (2012: £6.7 million) is a repayable on-demand balance, split between Nutricima Limited £4.8 million (2012: £6.7 million) and PZ Wilmar Limited £5.3 million (2012: nil) both joint venture companies. The balance earns interest at a rate of 13% (2012: 11%).

The fair value of trade receivables and payables is considered to be equal to the carrying amount of these items due to their short-term nature.

Derivative financial instruments

	2013		2012	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Forward foreign exchange contracts – cash flow hedges	**–**	**(0.6)**	–	(0.8)
	–	**(0.6)**	–	(0.8)

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

Forward foreign exchange contracts

The net notional principal amounts of the outstanding forward foreign exchange contracts at 31 May 2013 were £26.7 million (2012: £39.6 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 May 2013 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. This is generally within 12 months from the balance sheet date unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset.

Interest rate swaps

An interest rate swap was in place at year end. The notional principal amounts of the outstanding interest rate swap contracts as at 31 May 2013 was £45 million.

(c) Financial risk management

The Group's operations expose it to a variety of financial risks that include the effects of changes in exchange rates, credit risk, liquidity and interest rates. The Group's treasury function reports to the Board at least annually with reference to the application of the Group treasury policy. The policy addresses issues of liquidity, funding and investment as well as interest rate, currency and commodity risks.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up-to-date systems. The Group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The Group Risk Committee, under authority delegated by the Board, formulates the high level Group risk management policy, monitors risk and receives reports that allow it to review the effectiveness of the Group's risk management policies.

(i) Credit risk management

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. Group has dedicated standards, policies and procedures to control and monitor all such risks. Although the Group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through credit rating and equity price reviews of the counterparties and by limiting the total amount of exposure to any one party. The Group does not believe it is exposed to any material concentrations of credit risk. As an example the Group's borrowings are arranged with a syndicate of major banks and are committed until 2016.

An analysis of the international long-term credit ratings of counterparties where cash and short-term deposits are held is as follows:

	2013 £m	2012 £m
AA	**14.1**	26.4
A	**23.9**	8.6
B	**55.0**	30.0
C	**–**	0.9
	93.0	65.9

(ii) Liquidity management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

18. Financial liabilities, financial instruments and financial risk management continued

(iii) Market risk management

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates, equity and commodity prices will reduce the Group's income. The management of market risk is undertaken by the operating unit Finance Directors under delegated authority using risk limits approved by the Board.

(iv) Foreign exchange risk management

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates. Subsidiary undertakings must ensure that all transactional exposures arising from commitments in a currency other than their functional currency are identified and monitored. The Group uses foreign currency forward contracts to manage these exposures.

The below sensitivity analysis was conducted by modelling a 10% weakening (based on average annual fluctuations) of Sterling against the following currencies at 31 May which would have increased equity and increased/(decreased) profit/(loss) by the following amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2013		2012	
	Equity £m	**Income statement £m**	Equity £m	Income statement £m
Nigerian Naira	**20.6**	**2.1**	18.7	1.1
Euro	**4.7**	**0.1**	4.3	0.2
Indonesian Rupiah	**3.5**	**0.7**	3.9	0.7
Australian Dollar	**1.4**	**0.4**	2.0	(2.5)
Polish Zloty	**2.4**	**0.2**	2.2	0.3

A 10% strengthening of Sterling against the above currencies would have had the equal and opposite effect on equity and profit by the amounts shown above, on the basis that all other variables remain constant.

(v) Price risk management

Due to the nature of the business, the Group is exposed to commodity price risk. The Group does take measures to protect against short-term impacts of these fluctuations, however, failure to recover higher costs could have a negative impact on profits.

(vi) Cash flow and interest rate risk

The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. The Group has reduced its exposure to this by entering into interest rate swaps.

(vii) Capital risk management

The Group considers capital to be net funds/(debt) plus total equity. Net funds/(debt) is defined as cash, short-term deposits and current asset investments less borrowings. Total equity includes share capital, reserves and retained earnings as shown in the consolidated balance sheet.

The Group had net funds/(debt) positions as at 31 May 2013 and 31 May 2012 respectively, as shown below:

	2013 £m	2012 £m
Cash at bank and in hand (see note 17)	**42.3**	34.2
Short-term deposits (see note 17)	**50.7**	31.7
Cash and cash equivalents	**93.0**	65.9
Current asset investments	**10.4**	7.0
Bank loans due within one year	**(15.0)**	(90.8)
Bank loans due between two and five years	**(85.0)**	–
Net funds/(debt)	**3.4**	(17.9)

The objectives for managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an efficient capital structure to optimise the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's capital is not restricted.

Notes to the Consolidated Financial Statements continued

19. Trade and other payables

	2013 £m	2012 £m
Trade payables	**122.1**	104.0
Amounts owed to joint ventures	**–**	3.4
Other taxation and social security	**8.3**	5.2
Other payables	**8.5**	9.4
Financial derivative liabilities (note 18)	**0.6**	0.8
Accruals and deferred income	**92.8**	69.2
	232.3	192.0

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 61 days (2012: 56 days). The Directors consider the carrying amount of trade and other payables approximates their fair value.

20. Other non-current liabilities

	2013 £m	2012 £m
Other payables	**0.5**	0.9
	0.5	0.9

21. Deferred tax

	Property, plant and equipment £m	Retirement benefit obligations £m	Revaluation of property, plant and equipment £m	Tax losses and other timing differences £m	Business combinations £m	Share-based payments £m	Total £m
At 1 June 2011	(13.4)	0.6	(12.7)	0.3	(37.5)	4.0	(58.7)
Credit/(charge) to income	(1.3)	(2.8)	(0.1)	10.0	2.9	(1.4)	7.3
Credit/(charge) to equity	–	2.5	–	0.3	–	(1.4)	1.4
Currency translation	(0.3)	–	(0.5)	(0.8)	–	–	(1.6)
Other	–	–	–	1.0	–	–	1.0
At 31 May 2012	(15.0)	0.3	(13.3)	10.8	(34.6)	1.2	(50.6)
Credit/(charge) to income	2.2	(1.9)	(0.2)	1.1	1.4	(0.3)	2.3
Credit/(charge) to equity	–	(0.1)	–	(0.1)	–	0.4	0.2
Currency translation	–	–	1.4	0.1	–	–	1.5
At 31 May 2013	**(12.8)**	**(1.7)**	**(12.1)**	**11.9**	**(33.2)**	**1.3**	**(46.6)**

Certain deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income taxes'. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2013 £m	2012 £m
Deferred tax assets	**13.2**	10.7
Deferred tax liabilities	**(59.8)**	(61.3)
	(46.6)	(50.6)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At the balance sheet date, the Group recognised £6.1 million in respect of unused tax losses (2012: £8.1 million) available against future profits. None of the recognised losses are expected to expire. Temporary differences arising in connection with interests in associates and joint ventures are not significant.

22. Provisions

	Restructuring and warranty provisions £m
At 1 June 2011	3.7
Currency retranslation	(0.6)
Income statement	13.8
Utilised in the year	–
At 31 May 2012	16.9
Currency retranslation	0.1
Income statement	4.6
Utilised in the year	(8.4)
At 31 May 2013	**13.2**

22. Provisions continued

Provisions as at 31 May 2013 relate to warranty costs and restructuring costs in connection with the Boutique spas closure and the supply chain optimisation project. Warranty costs account for £1.2 million (2012: £0.9 million) of the total and are expected to be utilised over a three year period. Restructuring provisions are expected to be utilised in the next 12 months.

23. Retirement benefits

The Group operates retirement benefit schemes for most of its United Kingdom and overseas subsidiaries. These obligations have been measured in accordance with IAS 19 and are as follows:

	2013			2012		
	Surplus £m	**Deficit £m**	**Total £m**	Surplus £m	Deficit £m	Total £m
Expatriate plan	**38.9**	**–**	**38.9**	39.1	–	39.1
Directors plan	**–**	**(6.6)**	**(6.6)**	–	(4.3)	(4.3)
Main staff plan	**–**	**(15.7)**	**(15.7)**	–	(25.9)	(25.9)
Other overseas units	**–**	**(9.0)**	**(9.0)**	–	(6.9)	(6.9)
	38.9	**(31.3)**	**7.6**	39.1	(37.1)	2.0

The movements in the year are as follows:

	Overseas retirement benefits and similar obligations £m	UK retirement benefits and similar obligations £m	Total £m
At 1 June 2011	(5.4)	2.8	(2.6)
Currency retranslation	0.3	–	0.3
Income statement	(0.8)	1.0	0.2
Contributions paid	–	15.3	15.3
Utilised in the year	0.3	–	0.3
Actuarial movement	(1.3)	(10.2)	(11.5)
At 31 May 2012	(6.9)	8.9	2.0
Currency retranslation	0.2	–	0.2
Income statement	(0.9)	–	(0.9)
Contributions paid	–	6.4	6.4
Utilised in the year	(0.5)	–	(0.5)
Actuarial movement	(0.9)	1.3	0.4
At 31 May 2013	**(9.0)**	**16.6**	**7.6**

Overseas retirement benefits and similar obligations

Included within 'Overseas retirement benefits and similar obligations' are unfunded retirement benefit obligations relating to certain of the Group's overseas subsidiaries and other employee related provisions for long service and sick leave. These obligations have been measured in accordance with IAS 19.

The most significant overseas scheme as at 31 May 2013 is the Indonesian post-retirement benefit scheme. The obligations have been measured in accordance with IAS 19 and a discount rate of 6.25% (2012: 6.75%) and salary inflation rate of 8.0% (2012: 8.0%) have been used. The scheme is unfunded and provision for future obligations included in the above table is £7.3 million (2012: £5.5 million).

UK retirement benefits and similar obligations

Overview

The following three defined benefit schemes are the Group's main schemes, which are based and administered in the UK:

- Main staff plan – for all eligible UK based staff, excluding PZ Cussons Plc Executive Directors
- Directors plan – for PZ Cussons Plc Executive Directors
- Expatriate plan – for all eligible expatriate staff based outside the UK.

On 31 May 2008 the three defined benefit schemes in the UK were closed to future accrual.

Employees within these schemes are provided with defined benefits based on service and final salary. The assets of the schemes are administered by trustees and are held in trust funds independent of the Group.

The Group also operates an unfunded, unapproved retirement benefit scheme. The cost of the unfunded, unapproved retirement benefit scheme is included in the total pension cost, on a basis consistent with IAS 19 'Employee benefits' and the assumptions set out below. In accordance with these unfunded arrangements, the Group made payments during the year to former Directors of £154,296 (2012: £147,534).

Notes to the Consolidated Financial Statements continued

23. Retirement benefits continued

The last triennial actuarial valuations of the schemes administered in the UK were performed by independent professional actuaries at 31 May 2012 using the projected unit method of valuation.

For the year to 31 May 2013 the total defined benefit pension credit arising from the three schemes amounted to nil (2012: credit of £1.0 million).

The major financial assumptions used by the actuary were as follows:

	2013	2012
Rate of increase in salaries	**N/A**	3.90%
Rate of increase in retirement benefits in payment	**3.25%**	2.90%
Discount rate	**4.35%**	4.60%
Inflation assumption	**3.35%**	2.90%

The mortality assumptions used were as follows:

	2013 Years	2012 Years
Weighted average life expectancy on post-retirement mortality table used to determine benefit obligations		
– Member age 65 (current life expectancy)	**23.5**	22.5
– Member age 40 (life expectancy at age 65)	**25.8**	25.6

The assets in the schemes and the expected rates of return were:

		2013 £m		2012 £m		2011 £m
Equities	**7.05%**	**112.1**	6.60%	120.0	7.60%	121.0
Bonds	**3.20%**	**125.7**	2.85%	99.8	4.10%	96.9
Property	**4.40%**	**50.0**	4.90%	43.7	5.65%	38.8
Cash and other	**0.50%**	**15.1**	0.50%	9.8	0.50%	5.2
Total fair value of scheme assets		**302.9**		273.3		261.9
Present value of scheme liabilities		**(286.3)**		(264.4)		(259.1)
Surplus in the schemes		**16.6**		8.9		2.8
Related deferred tax liability		**(3.8)**		(2.1)		(0.7)
Net retirement benefit surplus		**12.8**		6.8		2.1

To develop the expected long-term rate of return on assets assumptions, the Group considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset class in which the portfolio is invested, and the expectations for future returns of each class of asset. The expected return for each class of asset was then weighted based on the actual asset allocation to develop the expected long-term return on assets assumption for the portfolio. The actual gain on plan assets was £33.9 million (2012: £16.5 million).

The net retirement benefit income before taxation recognised in the income statement in respect of the defined benefit schemes is summarised as follows:

	2013 £m	2012 £m
Expected return on scheme assets	**11.9**	14.1
Interest cost	**(11.9)**	(13.1)
Net retirement benefit income before taxation	**–**	1.0

All above amounts are recognised in the Group's income statement in arriving at operating profit.

The reconciliation of the opening and closing balance sheet position is as follows:

	2013 £m	2012 £m
Surplus at beginning of year	**8.9**	2.8
Income recognised in the consolidated income statement	**–**	1.0
Contributions paid	**6.4**	15.3
Actuarial gain/(losses)	**1.3**	(10.2)
Net surplus at end of year	**16.6**	8.9
Analysed between:		
Retirement benefit surplus	**38.9**	39.1
Retirement benefit obligation	**(22.3)**	(30.2)

Actuarial gains and losses are recognised directly in the consolidated statement of comprehensive income. At 31 May 2013, cumulative pre-tax actuarial losses of £36.3 million (2012: £37.6 million) was recorded directly in the consolidated statement of comprehensive income.

23. Retirement benefits continued

Movements in the fair value of plan assets were as follows:

	Assets 2013 £m	Assets 2012 £m
1 June	**273.3**	261.9
Expected return on assets	**11.9**	14.1
Actuarial gains	**22.0**	2.4
Employer contribution	**6.4**	15.3
Benefits paid	**(10.7)**	(20.4)
31 May	**302.9**	273.3

Movements in the present value of the defined benefit obligations were as follows:

	Obligations 2013 £m	Obligations 2012 £m
1 June	**(264.4)**	(259.1)
Interest cost	**(11.9)**	(13.1)
Actuarial losses	**(20.7)**	(12.6)
Benefits paid	**10.7**	20.4
31 May	**(286.3)**	(264.4)
Plans that are wholly or partly funded	**(282.2)**	(260.3)
Plans that are wholly unfunded	**(4.1)**	(4.1)
	(286.3)	(264.4)

The history of the plan for the current and prior years is as follows:

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Defined benefit obligation	**286.3**	264.4	259.1	243.8	196.1
Plan assets	**302.9**	273.3	261.9	236.4	191.8
Benefit/(deficit)	**16.6**	8.9	2.8	(7.4)	(4.3)
Experience adjustments on plan assets	**22.0**	2.4	14.6	36.8	(42.0)
Experience adjustments on plan liabilities	**(20.7)**	(12.6)	(17.4)	(44.0)	61.5
Total actuarial gains and losses recognised in consolidated statement of changes in equity and losses:	**1.3**	(10.2)	(2.8)	(7.2)	19.5

During the year ending 31 May 2014 the Group expects to make cash contributions of £6.5 million (2013: £6.5 million) to funded defined benefit plans. A further £3.4 million (2013: £2.8 million) is expected to be contributed to defined contribution plans.

The amount recognised as an expense in the consolidated income statement in relation to defined contribution schemes is £3.4 million (2012: £2.8 million).

24. Share capital

	2013		2012	
	Number 000	Amount £m	Number 000	Amount £m
Allotted, called up and fully paid:				
Ordinary Shares of 1p each	**428,725**	**4.3**	428,725	4.3
Total called up share capital	**428,725**	**4.3**	428,725	4.3

25. Employee Share Option Trust

Included within retained earnings is the Employee Share Option Trust (ESOT).

The ESOT purchases shares to fund the Deferred Annual Share Bonus Scheme, the Executive Share Option Scheme and the Performance Share Plan, details of which are provided in the report on Directors' Remuneration. At 31 May 2013, the trust held 3,833,866 (2012: 334,856) Ordinary Shares with a book value of £15.2 million (2012: £1.2 million). The market value of these shares as at 31 May 2013 was £14.5 million (2012: £1.1 million). During the year the ESOT purchased 3,921,889 shares of the Company at a cost of £15.0 million (2012: 854,383 at a cost of £2.8 million). The trust has waived any entitlement to dividends in respect of all the shares it holds.

Notes to the Consolidated Financial Statements continued

26. Reconciliation of profit before tax to cash generated from operations

	2013 £m	2012 £m
Profit before tax	**94.8**	48.5
Adjustment for net finance expense	**0.9**	1.1
Operating profit	**95.7**	49.6
Depreciation	**20.3**	22.5
Impairment loss on intangible assets – exceptional	**–**	9.7
Impairment loss of tangible fixed assets – exceptional	**1.6**	12.4
Profit on sale of tangible fixed assets	**(0.2)**	(0.5)
Pension scheme contributions paid	**(6.4)**	(15.3)
Net pension charge/(credit) for the year	**0.9**	(0.2)
Share of results from joint ventures	**2.1**	0.2
Share-based payment credit	**(0.6)**	(0.5)
Operating cash flows before movements in working capital	**113.4**	77.9
Movements in working capital:		
Inventories	**8.6**	(18.3)
Receivables	**(35.0)**	12.2
Payables	**37.3**	(26.1)
Provisions	**(5.1)**	11.8
Cash generated from operations	**119.2**	57.5

27. Operating lease commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases over certain of its office properties, which fall due as follows:

	2013 £m	2012 £m
Within one year	**3.5**	2.8
In the second to fifth years inclusive	**10.4**	9.1
Over five years	**5.4**	7.5

The Group leases a number of premises. These are subject to review on dates ranging from 2013 to 2023.

28. Share-based payments

The Group makes share-based payments to senior executives and other selected key individuals throughout the organisation. The three major schemes under which these awards are made are the Performance Share Plan; Deferred Annual Share Bonus Scheme; and the Executive Share Option Scheme. The total credit in the year relating to the three schemes was £0.6 million (2012: credit £0.5 million).

Executive Share Option Scheme

The Group operates a share option scheme for senior executives. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the dealing day before the option is granted. Options are forfeited if the employee leaves the Group for any reason outside of the scheme rules. Options under the scheme are exercisable in a period beginning no earlier than three years from the date of grant and are subject to performance conditions.

Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model according to the relevant measures of performance. The model includes adjustments, based on management's best estimate, for the effects of exercise restrictions, behavioural considerations and expected dividend payments. The option life is derived by the models based on these assumptions and other assumptions identified below.
The total expense included within operating profit in respect of the share option scheme was nil (2012: nil).

No options have been granted during the current or previous year under the Executive Share Option Scheme.

28. Share-based payments continued

The movement in total outstanding options in respect of the Executive Share Option Scheme is provided below:

	Number of share options	Weighted average exercise price £
Outstanding at 1 June 2011	1,735,714	1.4
Lapsed	(26,837)	1.1
Exercised	(234,091)	1.3
Outstanding at 31 May 2012	1,474,786	1.5
Exercisable at 31 May 2012	1,474,786	1.5
Lapsed	(17,110)	1.1
Exercised	(125,950)	1.4
Outstanding at 31 May 2013	**1,331,726**	**1.5**
Exercisable at 31 May 2013	**1,331,726**	**1.5**

	Price/ share £	Weighted average exercise price £
Range of prices:		
31 May 2013	**0.7–1.7**	**1.5**
31 May 2012	0.7–1.7	1.5

	Number of share options	Weighted average contract term (years)
Weighted average contractual remaining life:		
31 May 2013	**1,331,726**	**3.0**
31 May 2012	1,474,786	4.0

There were no options outstanding at 31 May 2013 or 31 May 2012 that are outside of the scope of IFRS 2 'Share-based payments'.

Performance Share Plan

The Group operates a Performance Share Plan (PSP) for the main Board Executive Directors and certain key senior executives. The extent to which such awards vest will depend upon the Group's performance over the three year period following the award date. The Group's performance is measured by reference to the growth of adjusted earnings per share over the retail price index over a single three year period. The fair value of the award is taken as the share price at the date of grant.

On 1 August 2012, the Group made 1,185,681 awards under the PSP scheme and a further 18,778 awards on 1 September 2012 (2012: total awards of 1,038,070). The number of shares exercised in the year was nil (2012: 1,399,482) at a market value of nil (2012: £4,719,665) based on the market price at the date of exercise. In addition the number of lapsed share options totalled 1,087,490 (2012: 56,572). The number of awards outstanding but not yet exercisable is 3,164,200 at 31 May 2013 (2012: 3,029,109). The total credit included in operating profit in relation to these awards was £0.6 million (2012: credit £0.5 million). The credit relates to the movement in the cumulative charge for the awards in issue based on expected vesting.

29. Acquisitions

2013

Cost of acquisitions	£m
1.6% of share capital of PZ Cussons Nigeria Plc	9.5

i) Acquisition of 1.6% of share capital of PZ Cussons Nigeria Plc

Throughout the year to 31 May 2013, the Group has acquired additional share capital of its existing subsidiary PZ Cussons Nigeria Plc, increasing the Group's stake from 68.8% to 70.4%. The consideration for these additional shares was £9.5 million, resulting in the acquisition of a non-controlling interest of £2.9 million and an amount debited to retained earnings through the consolidated statement of changes in equity of £6.6 million.

ii) Acquisition of Fudge hair-care brand and related inventory

No fair value adjustments have been made in the current year in relation to the prior year acquisition of the Fudge hair-care brand. The fair values of assets and liabilities acquired, which were disclosed as provisional in the prior year financial statements, are now final.

Notes to the Consolidated Financial Statements continued

30. Disposal of businesses

Disposal of Polish Home Care brands

On 20 February 2013 the Group announced the exchange of contracts for the sale of its local Polish Home Care brands to Henkel for a consideration of £46.6 million in cash. Completion is subject to merger control clearances in Poland and Ukraine, processes that are progressing in line with expectations and which are anticipated to be completed within the next few months.

The results of the Polish Home Care brands business for the 12 months ended 31 May 2013 are included within continuing operations as these brands do not represent a separate operating segment. As the brands are held on the balance sheet at zero cost there is no requirement to disclose the assets as held for sale.

31. Subsequent Events

Acquisition of Rafferty's Garden Pty Limited

On 4 July 2013 the Group completed the acquisition of the Australian baby food brand Rafferty's Garden. The entire issued share capital of Rafferty's Garden Pty Ltd was acquired on a cash and debt free basis from the Australian private equity firm Anacacia for £42.2 million. Revenue and EBITDA for the year ended 30 June 2012 were £22.5 million and £3.5 million respectively.

Given the timing of the completion of acquisition and its proximity to the issuance of this report, a provisional fair value exercise over assets and liabilities acquired has yet to be undertaken. This will be completed over the next 12 months with provisional fair values being reported in the interim financial statements as at 30 November 2013.

32 Related party transactions

Milk Ventures (UK) Limited and Nutricima Limited

The following related party transactions were entered into by subsidiary companies during the year under the terms of a joint venture agreement with Glanbia Plc:

At 31 May 2013 the outstanding balance receivable from Milk Ventures (UK) Limited was £23.7 million (2012: £23.7 million). The Group received interest from Milk Ventures (UK) Limited of £0.1 million (2012: £0.1 million).

The Group sourced and then sold fixed assets, power and raw materials to Nutricima Limited to the value of £36.2 million (2012: £41.2 million). In addition the Group received distribution fee income of £4.2 million (2012: £5.0 million) from Nutricima Limited. At 31 May 2013 the amount outstanding from Nutricima Limited was £7.1 million (2012: £4.4 million). The amount outstanding from the Group at 31 May 2013 was nil (2012: nil).

The Group has advanced a short-term deposit to Nutricima Limited. This is repayable on demand and interest is charged at market rates. As at 31 May 2013 the outstanding balance was £4.8 million (2012: £6.7 million).

All trading balances will be settled in cash.

There were no provisions for doubtful related party receivables at 31 May 2013 (2012: nil) and no charges to the income statement in respect of doubtful related party receivables (2012: nil).

PZ Wilmar Limited and PZ Wilmar Food Limited

The following related party transactions were entered into by subsidiary companies during the year under the terms of a joint venture agreement with Singapore based Wilmar International Limited:

At 31 May 2013 the outstanding balance receivable from PZ Wilmar Limited was £16.8 million (2012: £13.2 million) and from PZ Wilmar Food Limited was £6.4 million (2012: £4.8 million).

The Group sourced and then sold certain raw materials to PZ Wilmar Limited to the value of £0.9 million (2012: £0.4 million). At 31 May 2013 the amount outstanding from PZ Wilmar Limited was £3.7 million (2012: nil) and from PZ Wilmar Food Limited was £0.3 million (2012: £0.5 million). The amount outstanding from the Group to PZ Wilmar Food Limited at 31 May 2013 was nil (2012: £3.3 million).

The Group has advanced a short-term deposit to PZ Wilmar Limited. This is repayable on demand and interest is charged at market rates. As at 31 May 2013 the outstanding balance was £5.3 million (2012: nil).

All trading balances will be settled in cash.

There were no provisions for doubtful related party receivables at 31 May 2013 (2012: nil) and no charges to the income statement in respect of doubtful related party receivables (2012: nil).

Wilmar PZ International Pte Limited

The following related party transactions were entered into by subsidiary companies during the year under the terms of a joint venture agreement with Singapore based Wilmar International Limited:

At 31 May 2013 the amount outstanding from Wilmar PZ International Pte Limited was £0.9 million (2012: nil). The amount outstanding from the Group at 31 May 2013 was nil (2012: nil).

33. Subsidiaries, joint ventures and non-current asset investments

Details of the Company's principal subsidiaries at 31 May 2013 are as follows:

Company	Operation	Incorporated in:	Parent Company's interest	Proportion of voting interest
PZ Cussons Australia Pty Limited	Manufacturing	Australia	†100%	†100%
PZ Cussons Middle East and South Asia FZE	Distribution	Dubai	†100%	†100%
Seven Scent Limited	Manufacturing	England	†100%	†100%
PZ Cussons (Holdings) Limited	Holding company	England	*100%	*100%
PZ Cussons (International) Limited	Provision of services to Group companies	England	*100%	*100%
PZ Cussons (UK) Limited	Manufacturing	England	†100%	†100%
The Sanctuary Spa Holdings Limited	Holding company	England	†100%	†100%
PZ Cussons Ghana Limited	Manufacturing	Ghana	†90%	†90%
Minerva SA	Manufacturing	Greece	*100%	*100%
PT PZ Cussons Indonesia	Manufacturing	Indonesia	†100%	†100%
PZ Cussons East Africa Limited	Manufacturing	Kenya	†100%	†100%
HPZ Limited[1]	Manufacturing	Nigeria	†51%	†51%
PZ Cussons Nigeria Plc	Manufacturing	Nigeria	†70%	†70%
Harefield Industrial Nigeria Limited	Distribution	Nigeria	†100%	†100%
PZ Power Company Limited	Power generation	Nigeria	†70%	†70%
PZ Tower Limited	Manufacturing	Nigeria	†70%	†70%
PZ Cussons Polska SA	Manufacturing	Poland	†99%	†99%
PZ Cussons (Thailand) Limited	Manufacturing	Thailand	†100%	†100%

PZ Cussons (Holdings) Limited has a 100% interest in PZ Cussons Beauty LLP as the Corporate member. PZ Cussons Beauty LLP brings together the Charles Worthington, Sanctuary, St Tropez and Fudge businesses and as such its principal operations are the marketing and distribution of beauty products. PZ Cussons Beauty LLP has a 100% interest in St Tropez Inc., a US beauty product distribution company.

Joint venture companies	Operation	Incorporated in:	Parent Company's interest
Milk Ventures (UK) Limited	Holding company	England	†50%
Nutricima Limited	Manufacturing	Nigeria	†50%
PZ Wilmar Food Limited	Manufacturing	Nigeria	†51%
PZ Wilmar Limited	Manufacturing	Nigeria	†49%
Wilmar PZ International Pte Limited	Manufacturing	Nigeria	†50%

Other investments	Operation	Incorporated in:	Parent Company's interest
Norpalm Ghana Limited	Manufacturing	Ghana	†31%

1 HPZ Limited is 74.99% owned by PZ Cussons Nigeria Plc and is therefore consolidated.
* Shares held by the Parent Company
† Shares held by a subsidiary

Five Year Financial Record

Year to 31 May	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Operating profit before exceptional items	**108.4**	93.4	108.1	101.4	90.6
Net finance (expense)/income	**(0.9)**	(1.1)	0.8	0.4	(1.8)
Profit before taxation and exceptional items	**107.5**	92.3	108.9	101.8	88.8
Exceptional items	**(12.7)**	(43.8)	(0.8)	–	(4.4)
Profit before taxation	**94.8**	48.5	108.1	101.8	84.4
Taxation	**(23.8)**	(10.5)	(28.2)	(29.1)	(24.0)
Profit for the year	**71.0**	38.0	79.9	72.7	60.4
Attributable to:					
Equity holders of the Company	**63.1**	34.4	70.4	63.7	49.6
Non-controlling interests	**7.9**	3.6	9.5	9.0	10.8
Net assets attributable to equity owners of the Company	**480.7**	458.3	474.0	454.8	389.9
Nets funds/(debt)	**3.4**	(17.9)	51.8	86.5	23.2
Per Ordinary Share:					
Basic earnings	**14.75p**	8.03p	16.48p	14.89p	11.64p
Adjusted basic earnings	**16.62p**	14.74p	16.20p	14.89p	12.39p
Dividend (interim and final declared post year end)	**7.39p**	6.717p	6.61p	5.90p	5.27p
Times cover – after exceptional items	**2.0**	1.2	2.5	2.5	2.2
Times cover – before exceptional items	**2.2**	2.2	2.5	2.5	2.4
Net assets	**112.13p**	106.90p	110.56p	106.08p	90.94p

Independent Auditors' Report to the Members of PZ Cussons Plc

We have audited the Parent Company financial statements of PZ Cussons Plc for the year ended 31 May 2013 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 55, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 May 2013
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report of Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Report of Directors' Remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Consolidated financial statements of PZ Cussons Plc for the year ended 31 May 2013.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

23 July 2013

Company Balance Sheet
At 31 May 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Investments:			
Subsidiary companies	4	**123.2**	123.4
		123.2	123.4
Current assets			
Debtors	5	**201.7**	131.2
Investments	6	**0.3**	0.3
		202.0	131.5
Creditors – amounts falling due within one year	7	**(231.3)**	(218.8)
Net current liabilities		**(29.3)**	(87.3)
Total assets less current liabilities		**93.9**	36.1
Creditors – amounts falling due after one year	7	**(36.2)**	(6.2)
Net assets		**57.7**	29.9
Capital and reserves			
Called up Share capital	8	**4.3**	4.3
Capital redemption reserve	9	**0.7**	0.7
Profit and loss account	9	**52.7**	24.9
Total shareholders' funds		**57.7**	29.9

The financial statements from pages 90 to 94 were approved by the Board of Directors and authorised for issue.

They were signed on its behalf by:

R Harvey **G A Kanellis**

23 July 2013

PZ Cussons Plc
Registered number 19457

Notes to the Company Financial Statements

1. Accounting policies

The principal accounting policies applied under UK GAAP are detailed below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

The accounts have been prepared in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice (UK GAAP), under the historical cost convention. As permitted by section 408 of the Companies Act 2006, an entity profit and loss account is not included as part of the published consolidated financial statements of PZ Cussons Plc. The profit for the financial year dealt with in the accounts of the Parent Company is £72.9 million (2012: £31.7 million).

No cash flow statement has been included as the cash flows of the Company are included in the consolidated financial statements of PZ Cussons Plc which are publicly available. The consolidated financial statements of PZ Cussons Plc have been prepared in accordance with International Financial Reporting Standards.

Amounts paid to the Company's auditors in respect of the statutory audit were £6,000 (2012: £6,000).

Foreign currencies

Assets and liabilities are translated at exchange rates prevailing at the date of the Company balance sheet. Exchange gains or losses are recognised in the profit and loss account.

Taxation and deferred taxation

Current tax including UK corporation tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets, nor on unremitted earnings where there is no binding commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Borrowing costs

Borrowing costs are not capitalised; they are recognised in profit or loss in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis through the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent they are not settled in the period in which they arise. The Company has not entered into any transactions involving derivative instruments.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Current asset investments

Investments (other than interests in joint ventures) are recognised and derecognised on a trade date when a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Own shares held by ESOT

Transactions of the Company-sponsored ESOT are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the trust's purchases and sales of shares in the Company are debited and credited directly to equity.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. In respect of interim dividends these are recognised once paid.

Investments in subsidiaries

Investments in subsidiaries are held at cost, less any provision for impairment. Where equity settled share-based payments are granted to the employees of subsidiary companies, the fair value of the award is treated as a capital contribution by the Company and the investment in subsidiaries are adjusted to reflect this capital contribution.

Notes to the Company Financial Statements continued

2. Directors emoluments

	2013 £m	2012 £m
Aggregate amount of Directors' emoluments	**2.9**	2.0
Emoluments of the highest paid Director	**0.9**	0.6

For the year ended 31 May 2013 the highest paid Director received Company pension contributions of £99,000 (2012: £95,000).

3. Dividends

	2013 £m	2012 £m
Amounts recognised as distributions to Ordinary Shareholders in the year comprise:		
Final dividend for the year ended 31 May 2012 of 4.487p (2011: 4.487p) per Ordinary Share	**19.2**	19.2
Interim dividend for the year ended 31 May 2013 of 2.35p (2012: 2.23p) per Ordinary Share	**10.1**	9.6
	29.3	28.8
Proposed final dividend for the year ended 31 May 2013 of 5.04p (2012: 4.487p) per Ordinary share	**21.6**	19.2

The proposed final dividends for the years ended 31 May 2012 and 31 May 2013 were subject to approval by shareholders at the Annual General Meeting and hence have not been included as liabilities in the financial statements at 31 May 2012 and 31 May 2013 respectively.

At 31 May 2013, the Employee Share Option Trust held 3,833,866 Ordinary Shares (2012: 334,856 Ordinary Shares). The trust waived any entitlement to the dividends on these shares.

4. Investments in subsidiaries

	Shares £m	Loans £m	Total £m
Cost at 1 June 2012	125.0	3.0	128.0
Capital contribution	(0.2)	–	(0.2)
Cost at 31 May 2013	124.8	3.0	127.8
Provisions at 1 June 2012 and 31 May 2013	(4.6)	–	(4.6)
Net book value at 31 May 2013	**120.2**	**3.0**	**123.2**
Net book value at 1 June 2012	120.4	3.0	123.4

Details of the Company's direct subsidiaries at 31 May 2013 are as follows:

Subsidiary companies

	Operation	Incorporated in:	Parent Company's interest	Proportion of voting interest
Charles Worthington Hair & Beauty Limited	Holding Company	England	100%	100%
PZ Cussons (Holdings) Limited	Holding Company	England	100%	100%
PZ Cussons (International) Limited	Provision of services to Group companies	England	100%	100%
Minerva SA	Manufacturing	Greece	100%	100%

5. Debtors

	2013 £m	2012 £m
Amounts owed by Group companies	**200.3**	130.7
Deferred taxation	**1.4**	0.5
	201.7	131.2

£12.2 million (2012: £19.7 million) of amounts owed by Group companies are interest bearing and are based on market rates of interest. £188.1 million (2012: £111.0million) of amounts owed by Group companies are non-interest bearing. All of the balances are unsecured, and are repayable on demand.

6. Current asset investments

	2013 £m	2012 £m
Unlisted	**0.3**	0.3

7. Creditors

	2013 £m	2012 £m
Due within one year		
Bank loans	**111.9**	89.4
Amounts owed to Group companies	**113.2**	123.7
United Kingdom corporation taxation payable	**5.6**	5.6
Accruals and deferred income	**0.6**	0.1
	231.3	218.8

	2013 £m	2012 £m
Due after one year		
Bank loans	**30.0**	–
Amounts owed to Group companies	**6.2**	6.2
	36.2	6.2

Amounts owed to Group companies are unsecured, non-interest bearing and have no fixed date of repayment.

Financial instruments and risk management

The Company is exposed to financial risks arising from changes in interest rates. Other financial risks are not considered significant.

Financial instruments utilised by the Company during the years ended 31 May 2013 and 31 May 2012, together with information regarding the methods and assumptions used to calculate fair values, can be summarised as follows:

Current asset investments

In accordance with FRS 25 'Financial instruments: recognition and measurement', unlisted investments are held in the Company's balance sheet at cost because their fair value cannot be measured reliably due to the lack of quoted market prices.

Current assets and liabilities

Financial instruments included within current assets and liabilities (excluding cash and borrowings) are generally short-term in nature and accordingly their fair values approximate to their book values.

Borrowings

The carrying values of cash and short-term borrowings and current asset investments approximate to their fair values because of the short-term maturity of these instruments.

The financial instruments held by the Company do not, either individually or as a class, create a potentially significant exposure to market, credit, liquidity or cash flow interest rate risk.

8. Share capital

	2013		2012	
	Number 000	Amount £m	Number 000	Amount £m
Allotted, called up and fully paid:				
Ordinary Shares:				
Ordinary Shares of 1p each	**428,725**	**4.3**	428,725	4.3
Total called up share capital	**428,725**	**4.3**	428,725	4.3

Notes to the Company Financial Statements continued

9. Reserves and movements in shareholders' funds

	Called up share capital £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 June 2011	4.3	0.7	25.0	30.0
Profit for the financial year	–	–	31.7	31.7
Acquisition of shares for ESOT	–	–	(2.8)	(2.8)
Share-based payments	–	–	(0.2)	(0.2)
Dividends paid	–	–	(28.8)	(28.8)
At 31 May 2012	4.3	0.7	24.9	29.9
At 1 June 2012	4.3	0.7	24.9	29.9
Profit for the financial year	–	–	72.9	72.9
Acquisition of shares for ESOT	–	–	(15.0)	(15.0)
Share-based payments	–	–	(0.8)	(0.8)
Dividends paid	–	–	(29.3)	(29.3)
At 31 May 2013	**4.3**	**0.7**	**52.7**	**57.7**

10. Employee Share Option Trust

Included within retained earnings is the Employee Share Option Trust (ESOT).

The ESOT purchases shares to fund the Deferred Annual Share Bonus Scheme, the Executive Share Option Scheme and the Performance Share Plan, details of which are provided in the Report on Directors' Remuneration. At 31 May 2013, the trust held 3,833,866 (2012: 334,856) Ordinary Shares with a book value of £15.2 million (2012: £1.2 million). The market value of these shares as at 31 May 2013 was £14.5 million (2012: £1.1 million). During the year the ESOT purchased 3,921,889 shares of the Company at a cost of £15.0 million (2012: 854,383 at a cost of £2.8 million). The trust has waived any entitlement to dividends in respect of all the shares it holds.

11. Share-based payments

The Company makes share-based payments to senior executives under a Performance Share Plan and until 31 May 2010 a Deferred Annual Share Bonus Scheme. The total credit in the year relating to the two schemes was £0.6 million (2012: £0.3 million).

Performance Share Plan

The Company operates a Performance Share Plan (PSP) for the main Board Executive Directors and certain key senior executives. The extent to which such awards vest will depend upon the Company's performance over the three year period following the award date. The Company's performance is measured by reference to the growth of adjusted earnings per share over the retail price index over a single three year period. The fair value of the award is taken as the share price at the date of grant.

On 1 August 2012, the Company made 1,185,681 awards under the PSP scheme and a further 18,778 awards on 1 September 2012 (2012: total awards of 1,038,070). The number of shares exercised in the year was nil (2012: 1,399,482) at a market value of nil (2012: £4,719,665) based on the market price at the date of exercise. In addition the number of lapsed share options totalled 1,087,490 (2012: 56,572). The number of awards outstanding but not yet exercisable is 3,164,200 at 31 May 2013 (2012: 3,029,109). The total credit included in operating profit in relation to these awards was £0.6 million (2012: credit £0.3 million). The credit relates to the movement in the cumulative charge for the awards in issue based on expected vesting.

12. Contingent liabilities and guarantees

The Company is a guarantor to a borrowing facility relating to loans provided to certain Group UK entities. The amount borrowed under this agreement at 31 May 2013 was £100.0 million (2012: £82.0 million).

In addition the Company is party to cross guarantee arrangements relating to an overdraft facility for certain Group companies' accounts at Barclays Bank Plc. The maximum exposure at 31 May 2013 was £5.0 million (2012: £10.0 million).

Further Statutory and Other Information

Health and safety

PZ Cussons aims to maintain a safe workplace at all locations in which it operates. We continue to ensure that our business activities are undertaken in a responsible manner and in accordance with the relevant statutory legislation and that employees at all levels participate in the development, promotion and maintenance of a safe and healthy working environment for employees, visitors and the public. The Company employs health and safety specialists and, where appropriate, provides on-site medical facilities for employees.

The Company continues to monitor and increase standards of health and safety at work through risk assessment, safety audits, formal incident investigation and training. Our investment in plant and equipment enables us to modernise designs and operate safer and more efficient processes.

Employment and staff development

As an international group, and particularly bearing in mind our operations in developing countries, we focus resource on the employment and development of local staff with the intention of assisting both our operations in those countries and the local community. Employees are involved at all levels of decision-making throughout the Group with effective communication via regular consultation groups and briefings. Training is vital to ensuring continuous improvements in performance and over the past year employees of all grades have received training through a wide range of courses.

The employment policies of the Group embody the principles of equal opportunity, training and development and rewards appropriate to local markets which are tailored to meet the needs of its businesses and the areas in which they operate. This includes procedures to support the Group's policy that disabled persons shall be considered for appropriate employment and subsequent training and career development. The Company continues to share valuable experience and best practice within the Group through employee secondment.

Community and charity

We support a range of charitable causes, both in the UK and overseas, mainly through a UK based shareholding trust and additional contributions are made through staff time and gifts in kind. PZ Cussons continues to provide assistance and donations to significant global fund-raising initiatives and recognises its responsibility to the communities in which it operates. We are committed to establishing and maintaining strong relationships with community groups, particularly in developing markets.

Auditor

PricewaterhouseCoopers LLP has signified its willingness to continue in office and a resolution for its appointment will be proposed at the forthcoming Annual General Meeting.

Directors' report of PZ Cussons Plc

For the purposes of section 234 of the Companies Act 2006, the report of the Directors of PZ Cussons Plc for the year ended 31 May 2013 comprises this page and the information contained in the Report of the Directors on pages 38 to 40.

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Company registered number 19457

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Notes

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