Governance and Financial Statements 2018

Creating sustainable value for all

PZ Cussons is a dynamic consumer products group and innovator of some of the world's best known and loved brands.

For more than 130 years, we have operated in selected developed and emerging markets that present the greatest strategic potential for future growth. Our agile operating model and world-class supply chain and distribution networks enable us to meet consumer needs and deliver quality brands that add value and enhance everyday lives.

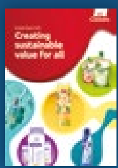
Contents

Governance

Financial Statements

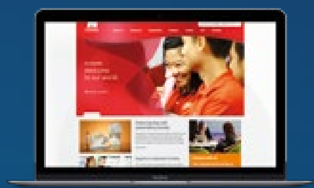
Our 2018 Report

Our Annual Report is split into two distinct reporting sections: a Strategic Report, and Governance and Financial Statements. These documents are to be read in conjunction with each other.



Strategic Report

The Strategic Report takes a strategic look at how the Group operates and provides insight into our strategy, business model, people and vision.



Governance and Financial Statements

The Governance and Financial Statements provides an in-depth analysis of the Group's annual results and governance processes.

Online

Digital, downloadable copies of the two reports are available online at:

www.pzcussons.com

Chair's letter to shareholders

"We are committed to creating sustainable value for all stakeholders. The Board is focused on the principles of good governance and being Good4Business"

Dear shareholder

These Governance and Financial Statements are intended to provide you with an in-depth analysis of our financial performance during the year and an insight into the way in which the Board ensures that the principles of good governance are observed across all parts of the Group. In particular, the governance section reports on the composition, scope and key focus areas during the year of each of the principal standing committees of the Board.

Our performance during the year

Sound corporate governance is especially important in challenging periods. Whilst the Group has delivered good profit growth in Asia and a creditable result in Europe, macro conditions in Nigeria have resulted in a sharp decline in Africa profits for the year and hence a disappointing result for the Group as a whole.

Within Africa, whilst many of our brands have strengthened their No.1 or No.2 positions during the last year, a sustained lack of liquidity at both consumer and trade level and a consequent significant contraction in the size of the market has resulted in lower volumes, prices and margins. In response, we are taking steps to optimise further our overall product portfolio and to reduce our cost base.

Within Asia, our businesses in Australia and Indonesia have made sound progress in the year, setting good foundations for growth in the years to come.

In Europe, good growth in the Group's Beauty division has helped to partially offset the more challenging trading conditions faced in the UK Washing and Bathing division.

In all our markets, we remain focused on our innovation but with a sharpened lens on fewer, bigger, higher margin product launches that will differentiate further our brands, as well as a further reduction in overheads by optimising our operating model.

Board changes

We are very pleased to have welcomed to the Board two new Non-executive Directors. Tamara Minick-Scokalo and Dariusz Kucz both joined the Board on 1 May 2018 and each brings to the Group diverse and relevant geographic and industry experience.

Dividend and outlook

The Group's Balance Sheet remains strong and we will continue to evaluate growth opportunities utilising the Group's brand portfolio and distribution capability.

Whilst we expect another challenging year ahead, the business is well placed to return to growth and consequently the Board has maintained the full year dividend.

Caroline Silver
Chair
24 July 2018

Board of Directors

Name and position	Appointed to the Board	PZC years of service	Committee memberships	Skills & experiences	Other appointments
Caroline Silver Non-executive Chair	2014	4 years	**Chair of Nomination Committee** **Good4Business Committee**	Caroline Silver joined the PZ Cussons Board as a Non-executive Director in 2014, becoming Senior Independent Director in 2016 and Chair in 2017. She has worked within the investment banking sector for over 30 years and is Partner and Managing Director at Moelis & Company. She is a chartered accountant and has previously held senior corporate finance and M&A positions at Morgan Stanley and Merrill Lynch. She has a wealth of international experience especially within African markets.	Managing Director Moelis & Company Non-executive Director of BUPA Plc Trustee of the Victoria & Albert Museum
John Nicolson Senior Independent Director	2016	2 years	**Chair of Good4Business Committee** **Audit & Risk Committee**	John Nicolson joined the PZ Cussons Board as Non-executive Director on 1 May 2016. John has significant experience of global consumer goods businesses for both developed and emerging markets, having held senior positions in the FMCG sector, including being Regional President and Executive Committee member of Heineken NV and Executive Board Director for international markets at Scottish & Newcastle.	Non-executive Chairman of A G Barr Plc Non-executive Director of Stocks Spirits Group Plc Member of the Advisory Board at Edinburgh University Business School
Jez Maiden Non-executive Director	2016	2 years	**Chair of Audit & Risk Committee** **Remuneration Committee**	Jez Maiden joined the PZ Cussons Board as a Non-executive Director on 1 November 2016. He currently holds the post of Group Finance Director at Croda International Plc, the FTSE 100 global speciality chemicals company. He has previously held similar positions at National Express Group Plc, Northern Foods Plc and British Vita Plc and was, until 2015, Senior Independent Director and Chair of the Audit Committee of Synthomer Plc.	Group Finance Director of Croda International Plc
Helen Owers Non-executive Director	2012	6 years	**Chair of Remuneration Committee** **Nomination Committee**	Helen Owers joined the PZ Cussons Board as a Non-executive Director in 2012. Prior to this she held senior roles within Thomson Reuters, including Chief Development Officer with responsibility for the company's expansion in rapidly developing economies and the implementation of the company's digital strategy, and President of Global Businesses for Thomson Reuters Legal, responsible for building new businesses in emerging markets. She also has extensive experience working as a consultant for Gemini Consulting, developing and implementing corporate and operational strategies for consumer products clients.	Non-executive Director of Informa Plc Non-executive Director of Eden Project International

Name and position	Appointed to the Board	PZC years of service	Committee memberships	Skills & experiences	Other appointments
Dariusz Kucz Non-executive Director	1 May 2018	2 months	**Remuneration Committee** **Nomination Committee**	Dariusz Kucz joined the PZ Cussons Board as Non-executive Director on 1 May 2018. Dariusz is Chief Top Line Officer of Haribo, the international confectionery company, leading its global commercial operations. He has previously held senior leadership roles at Danone S.A., where he led the baby food business in Asia Pacific, and Wrigley, where he was Regional Vice President, Central and Eastern Europe.	Chief Top Line Officer of Haribo GmbH & Co. KG
Tamara Minick-Scokalo Non-executive Director	1 May 2018	2 months	**Audit & Risk Committee** **Good4Business Committee**	Tamara Minick-Scokalo joined the PZ Cussons Board as Non-executive Director on 1 May 2018. Tamara has held senior marketing and commercial positions at consumer businesses including P&G Plc, Coca-Cola Company, Cadbury Plc and Mondelez. Until 2016, she was Regional President, Growth Markets for Pearson Plc, the FTSE 100 international publishing and education company, with responsibility for emerging markets.	Non-Executive Director of Amer Sports Non-Executive Director of Date OHorizons Non-Executive Director of Lets Go Crazy Holdings Ltd Member of the Advisory Board of Mustad HoofCare
Alex Kanellis Chief Executive Officer	2003	25 years	**Executive Committee** **Good4Business Committee**	Alex Kanellis joined PZ Cussons in 1993. He was appointed Managing Director of the Group's Thailand operations in 1998 and Managing Director of Indonesia in 2001. He joined the Board in 2003 as Regional Director of Asia before becoming Chief Executive Officer in June 2006. Alex has a PhD in mechanical engineering.	
Brandon Leigh Chief Financial Officer	2006	21 years	**Executive Committee** **Good4Business Committee**	Brandon Leigh joined PZ Cussons in 1997 and held a number of senior finance roles within the Group before being appointed to the Board in 2006. Previous to joining PZ Cussons, Brandon worked at Deloitte & Touche where he qualified as a chartered accountant.	Trustee of the Halle Concerts Society

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 and assets of the Group are listed in Note 31 of the Consolidated Financial Statements.

Results and dividends

A summary of the Group's results for the year is set out in the Financial Overview on pages 26 and 27 of the Strategic Report.

The Directors recommend a final dividend of 5.61p (2017: 5.61p) per ordinary share to be paid on 4 October 2018 to ordinary shareholders on the register at the close of business on 10 August 2018, which, together with the interim dividend of 2.67p (2017: 2.67p) paid on 4 April 2018, makes a total of 8.28p for the year (2017: 8.28p).

Scope of the reporting in this Annual Report and Accounts

The Group's statement on corporate governance can be found in the Report on Corporate Governance, which is incorporated by reference and forms part of this Report of the Directors.

The Board has prepared a separate Strategic Report, which provides an overview of the development and performance of the Company's business in the year ended 31 May 2018 and its position at the end of that year and covers likely future developments of the Company and Group.

For the purposes of compliance with DTR 4.1.5 R(2) and DTR 4.1.8 R, the required content of the Management Report can be found in the Strategic Report and this Report of the Directors, including the sections of the Annual Report and Accounts incorporated by reference.

For the purposes of LR 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

Section	Topic	Location
1	Interest capitalised	Not applicable
2	Publication of unaudited financial information	Not applicable
4	Details of long-term incentive schemes	Report on Directors' Remuneration – pages 20 to 24
5	Waiver of emoluments by a Director	Not applicable
6	Waiver of future emoluments by a Director	Not applicable
7	Non pre-emptive issues of equity for cash	Not applicable
8	Item (7) in relation to major subsidiary undertakings	Not applicable
9	Parent participation in a placing by a listed subsidiary	Not applicable
10	Contracts of significance	Not applicable
11	Provision of services by a controlling shareholder	Not applicable
12	Shareholder waivers of dividends	ESOT see Note 26
13	Shareholder waivers of future dividends	ESOT see Note 26
14	Agreements with controlling Shareholders	Report of the Directors pages 5 to 6

All the information cross-referenced above is hereby incorporated by reference into this Report of the Directors.

Directors' interests

The Directors' and connected persons' interests in the share capital of the Company at 31 May 2018, together with their interests at 1 June 2017, are detailed below:

Ordinary shares

Beneficial	2018 Number	2017 Number
Mrs C Silver	**20,000**	20,000
Mr G A Kanellis	**709,891**	709,891
Mr C G Davis	**320,966**	317,511
Ms N Edozien	**–**	–
Mr D Kucz	**–**	–
Mrs T Minick-Scokalo	**–**	–
Mr B H Leigh	**145,917**	145,917
Mr J K Maiden	**1,000**	1,000
Mr J Nicolson	**–**	–
Mrs H Owers	**1,000**	1,000
Total	**1,198,774**	1,195,319

1 The figures in the tables do not include 10,415,400 (2017: 10,379,933) ordinary shares purchased and held by the Employee Share Option Trust (ESOT) as at 31 May 2018. 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 Performance Share Plan, details 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 conditional shares granted under the PZ Cussons Plc Performance Share Plan or deferred share awards under the Senior Executive Annual Bonus Scheme.

There have been no changes in the interests of any of the Directors between 31 May 2018 and the date of this report. 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 and up to the date of this report, the Company maintained liability insurance for its Directors and officers and pension fund trustee liability insurance for Mr Kanellis and (until his retirement as a trustee on 31 December 2017) Mr Davis in their capacity as trustees of certain of the Group's pension schemes.

Other substantial interests

The Company had been notified of the following interests amounting to 3% or more of its issued share capital as at the end of the financial year and at 24 July 2018:

	As at 24 July 2018		As at 31 May 2018	
	Number of shares	**%**	Number of shares	%
Zochonis Charitable Trust	**56,298,203**	**13.13**	56,298,203	13.13
Sir J B Zochonis Will Trust	**49,320,712**	**11.50**	49,320,712	11.50
Mrs C M Green Settlement	**20,328,280**	**4.74**	20,328,280	4.74
J B Zochonis Settlement	**19,927,130**	**4.65**	19,927,130	4.65
M&G	**18,166,729**	**4.24**	18,166,729	4.24
Capital Group	**16,232,531**	**3.79**	16,756,797	3.91
Stewart Investors	**13,810,415**	**3.22**	13,807,933	3.22

No shares were issued during the year. Further information about the Company's share capital is given in Note 25 of the Consolidated Financial Statements.

The Financial Conduct Authority's Listing Rules require a premium listed company with a controlling shareholder (being a shareholder who exercises or controls, on their own or together with any person with whom they are acting in concert, 30% or more of the votes able to be cast on all or substantially all matters at a general meeting) to enter into a written and legally binding agreement that is intended to ensure that the controlling shareholder complies with certain independence provisions. These independence provisions are undertakings that transactions and arrangements with the controlling shareholder and/or any of their associates will be conducted at arm's length and on normal commercial terms; that neither the controlling shareholder nor any of its associates will take any action that would have the effect of preventing the listed company from complying with its obligations under the Listing Rules; and that neither the controlling shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution that is intended or appears to be intended to circumvent the proper application of the Listing Rules (together, 'Independence Provisions').

For the purposes of the Listing Rules, certain shareholders in the Company (principally comprising the founding Zochonis family or certain wider family groups, certain Company trusts, the Executive Directors of the Company and current or former employees) are deemed to be controlling shareholders of the Company (together, the 'Concert Party'). As at 24 July 2018, the Concert Party held 228,624,856 shares, representing approximately 53.32% of the Company's issued share capital.

Report of the Directors continued

As required by the Listing Rules, the Board confirms that the Company entered into a written relationship agreement with the Concert Party on 17 November 2014 containing the Independence Provisions and a procurement obligation (the 'Relationship Agreement'). The Board also confirms that, during the period from 17 November 2014 to 31 May 2018 (being the end of the financial year under review):

- the Company complied with the Independence Provisions in the Relationship Agreement;
- so far as the Company is aware, the Independence Provisions in the Relationship Agreement were complied with by the Concert Party and its associates; and
- so far as the Company is aware, the procurement obligation included in the Relationship Agreement was complied with by the Concert Party.

Political and charitable contributions

Charitable contributions in the UK during the year amounted to £620,000 (2017: £601,000). No political contributions were made (2017: £nil).

Research and development

The Group maintains in-house facilities for research and development in the UK, Greece, Indonesia, Thailand, Nigeria and Australia. In addition, research and development is subcontracted 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'.

Greenhouse Gas Emissions Report

Global greenhouse gas (GHG) emissions data for the year:

Financial year	Scope 1 (absolute tonnes of CO_2)	Scope 2 (absolute tonnes of CO_2)	Total (absolute tonnes of CO_2)
2017/18	**52,509**	**18,287**	**70,796**
2016/17	55,484	18,687	74,171

The Group's greenhouse gas emissions in tonnes of carbon dioxide from 1 June 2017 to 31 May 2018. The figures for the period from 1 June 2016 to 31 May 2017 have been restated to correct an error in the prior calculations.

Scope 1 – Combustion of fuel to operate our factories, facilities and offices.

Scope 2 – Electricity purchased to operate our factories, facilities and offices.

From 1 June 2017 to 31 May 2018 GHG emissions were recorded at 174kg of carbon dioxide per tonne of production.

Further details on the Group's environmental performance is contained within the Good4Business pages in the Strategic Report.

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. If any employees should become disabled during the course of their employment our policy is to oversee the continuation of their employment and to arrange training for these employees.

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 that suit their particular needs and environment, with the active encouragement of the parent organisation.

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, American and British. We are clear that we want our leadership team to reflect the diversity of the markets in which we function and for that reason we are focused on developing local talent who understand different cultures. 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.

Further details on the composition of our global workforce are set out in the table below:

	2018		2017		2016	
	No.	**%**	No.	%	No.	%
Women employees	**1,183**	**28**	1,252	28	1,354	26
Men employees	**3,003**	**72**	3,523	72	3,824	74
Women senior managers	**80**	**35**	87	34	86	33
Men senior managers	**147**	**65**	167	66	174	67
Women Group Board Directors	**3**	**38**	3	38	3	33
Men Group Board Directors	**5**	**62**	5	62	6	67
Employees with over 15 years' service	**1,297**	**31**	1,289	29	1,277	25
Employees over 50	**411**	**10**	401	9	428	8

External Auditor

Deloitte LLP has signified its willingness to continue in office as External Auditor to the Company and, in accordance with section 485 of the Companies Act 2006, a resolution for its reappointment will be proposed at the forthcoming Annual General Meeting. A statement on the independence of the External Auditor is included in the Report of the Audit & Risk Committee on page 30.

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 38 and 39 of the Strategic Report.

Annual General Meeting

The Company's 2018 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 26 September 2018. The resolutions that will be proposed at the 2018 Annual General Meeting are set out in the separate Notice of Annual General Meeting, which accompanies these Governance and Financial Statements.

Share capital

As at 31 May 2018, 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.

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 that is then payable by that member in respect of that share remains unpaid.

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, which may exercise all the powers of the Company.

Purchase of own shares

Pursuant to shareholder approval given at the 2017 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 2018 Annual General Meeting. No shares were purchased from 1 June 2017 to 24 July 2018 (2017: nil) other than the acquisitions undertaken by the ESOT (see Note 26 of the Consolidated Financial Statements).

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 Conduct Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

Directors' statement as to disclosure of information to the External 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 External Auditor is unaware; and
- each of the Directors has taken all the steps that he or she ought to have taken as Director to make himself or herself aware of any relevant audit information and to establish that the Company's External 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

S P Plant
Company Secretary
24 July 2018

Statement of the Chair of the Remuneration Committee

Introduction

On behalf of the Board, I am pleased to present our 2018 Remuneration Report.

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

During the year ended 31 May 2018, the Committee members were:

- Mrs Owers (Committee Chair)
- Mr Maiden
- Mr Kucz (with effect from his appointment to the Board on 1 May 2018)
- Mr Nicolson (until he stepped down from the Committee on 1 May 2018)
- Ms Edozien (until she retired from the Board on 27 September 2017)

The Company Secretary, Mr Plant, is Secretary to the Committee. The Chair, the Chief Executive Officer and the Global HR Director attend meetings by invitation where this is appropriate. They do not participate in any discussion regarding their own remuneration.

The Report on Directors' Remuneration (pages 17 to 25) sets out how we implemented our Remuneration Policy for the year ended 31 May 2018 and how we intend to implement it during the year ending 31 May 2019. This will be put to an advisory shareholder vote at our Annual General Meeting on 26 September 2018. There are no changes to the Remuneration Policy, which was approved by our shareholders at last year's AGM. A summary of our approved Policy is provided on pages 10 to 16 for reference.

Remuneration Policy

Our Remuneration Policy is designed to encourage the generation of long-term sustainable shareholder value by aligning the interests of our executives with those of our shareholders. The creation of shareholder value is supported by an annual bonus, which is heavily weighted towards achieving profitable growth, and improved operational performance and a long-term incentive, which only rewards for delivering long-term earnings growth. The long-term focus of our policy is strengthened through the requirement to defer part of the annual bonus into shares until our share ownership guidelines are met and the requirement to retain a portion of vested long-term incentive awards beyond the three year vesting period.

The current Remuneration Policy was approved by shareholders at the 2017 Annual General Meeting. The Remuneration Committee has considered its effectiveness, taking into account dialogue with shareholders during the year, and concluded that the Policy remains appropriate and continues to effectively align performance with reward over the long term. As a result, we are not proposing any changes to our current Policy at the 2018 AGM.

However, in light of recent developments in corporate governance, the Committee has decided to refine the way it operates the holding period that applies to shares, which vest under the Performance Share Plan. Awards that are to be granted in the current financial year will be subject to a tougher holding requirement, which will result in all vested shares (other than any shares required to be sold to meet any tax liabilities) being subject to a two year holding period as opposed to only shares with a value in excess of 100% of salary at grant. This change of approach will result in the Performance Share Plan operating with a longer-term focus (with all shares subject to a three year vesting period and then a two year holding period). It will also bring the Company into early compliance with the approach recommended for adoption in the 2018 UK Corporate Governance Code, which will apply for financial years commencing from 1 January 2019.

Remuneration earned in the year ended 31 May 2018

Whilst the Group has delivered good profit growth in Asia and a creditable result in Europe, Africa profits have declined sharply as a result of a sustained lack of liquidity in the key market of Nigeria and a consequent significant contraction in the size of the market and lower volumes, prices and margins. As a result, the Group performance as a whole was disappointing.

The objectives put in place by the Committee have focused management on continuing to optimise the Group's overall product portfolio. This has included driving the innovation pipeline, introducing higher margin products, differentiating our brands and substantially restructuring distribution channels in Nigeria and Indonesia. Good progress has also been made in the planned transformation of the global finance function and in continuing to drive down the Group's carbon emissions and water consumption. Whilst the progress made in all of these areas is not apparent in this year's financial results, we believe that the focus on these areas provides the foundations for future growth.

Taking into account performance, the key aspects of remuneration earned during the year were:

- **Salary reviews**
  - As disclosed in last year's Annual Report on Remuneration, the salary of Mr Kanellis, the Group Chief Executive Officer, increased by 2.5% on 1 September 2017, and the salary of Mr Leigh, the Group Chief Financial Officer, increased by 2% on the same date. This increase was within the range of salary increases provided to other employees elsewhere in the PZ Cussons Group.
- **Annual bonus pay-out**
  - In last year's Annual Report on Remuneration we reported that we would continue to focus executives on bonus targets primarily relating to three key financial indicators: profit before tax and exceptional items; net working capital; and operating contribution margin. The balance of the bonus would be subject to delivery against key strategic stretch objectives.

  - The required threshold level of profitability was not attained and, accordingly, no bonus payment was awarded in respect of any of the key financial indicators. Whilst good progress was made against the key strategic objectives, in light of the Group's overall financial performance the Committee used its discretion to reduce the payout under these categories from 17% of the total bonus opportunity to nil.
  - Further details of the targets set for the year ended 31 May 2018 are disclosed in this year's Report on Directors' Remuneration on page 19.
- **Long-term incentives**
  - The awards made to Executive Directors in 2015 are subject to Earnings Per Share (EPS) performance over the three year period ended 31 May 2018. These performance conditions were not achieved and, accordingly, these awards will also lapse in full as disclosed on page 20.

Our approach in the year ending 31 May 2019

The Remuneration Policy is being implemented in the year ending 31 May 2019 on broadly similar terms to the prior year. However, I would like to draw shareholders' attention to the following matters:

- Salary increases – with effect from 1 September 2018 the base salary of each of Mr Kanellis and Mr Leigh will increase by 2%. These increases reflect individual performance and are within the range of salary increases being awarded to the Group's wider UK-based employee population.
- Otherwise, no changes are being made to the quantum of remuneration.
- Incentives – the Committee has reviewed both our short- and long-term incentive plans in the year ended 31 May 2018 and has concluded that they remain appropriate.
- The annual bonus plan will continue to operate based on delivery against challenging financial targets (profit before tax and exceptional items, net working capital and operating contribution margin) and non-financial strategic targets. The choice of metrics reflects the Board's focus on delivering improved profitability, operational efficiency and the strategic changes within the business, which are detailed in the Strategic Report.
- The Performance Share Plan will remain subject to a challenging range of EPS targets. The choice of EPS continues to reflect the Board's long-term objective of delivering profitable growth and sustaining a progressive dividend policy. The awards to be granted in the 2018/19 financial year will be subject to a requirement that 100% of any vested shares (after meeting any tax liability) will be retained for a minimum period of two years from the date of vesting (i.e. a minimum of five years from the date of grant).
- The range of targets in both the annual bonus and Performance Share Plan are set with reference to both internal planning and external market expectations for the Company's performance.

Looking forward

Looking ahead to the next 12 months, we will monitor the ongoing appropriateness of our remuneration structures in light of the evolution of the Company's strategy and wider developments in corporate governance. In particular, the Remuneration Committee is considering the changes to the UK Corporate Governance Code (which will come into effect from 1 January 2019) and wider regulatory changes, with a view to taking the necessary steps to ensure that we continue to take account of best practice expectations and regulatory requirements.

I hope you will find the Report on Directors' Remuneration transparent and informative and that this statement has been helpful in setting out both how we have implemented our Remuneration Policy this year and our approach for the year ending 31 May 2019. We are committed to engaging with shareholders in respect of remuneration issues and I therefore welcome your views on the matters set out within the report.

Helen Owers
Chair of the Remuneration Committee
24 July 2018

Report on Directors' Remuneration
Directors' Remuneration Policy

This part of the report complies with the relevant provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It has also been prepared in line with the recommendations of the UK Corporate Governance Code and the requirements of the UKLA Listing Rules.

This part of the report sets out a summary of the Directors' Remuneration Policy approved by shareholders at the 2017 Annual General Meeting. The full Directors' Remuneration Policy approved by shareholders is available in the 2016/17 Annual Report (**www.pzcussons.com**).

Remuneration framework

The key components of Executive Directors' remuneration are summarised below:

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Fixed remuneration				
Base salary	To provide an appropriate level of fixed cash income to recruit and retain talent through the provision of competitively positioned base salaries.	Base salaries are normally reviewed annually taking into account: • the scope of the role and the markets in which PZ Cussons operates; • the performance and experience of the individual; • pay levels in other organisations of a similar size and complexity; and • pay increases elsewhere in the Group.	To avoid setting the expectations of Executive Directors and other employees, there is no overall maximum for salary increases under this policy. Salary increases are reviewed in the context of salary increases across the wider Group. Any increase in excess of those elsewhere in the Group would be considered very carefully by the Committee. The circumstances in which higher increases may be awarded may include but are not limited to: • an increase in the scope and/or responsibility of a role; • an increase upon promotion to Executive Director; • where a salary has fallen significantly below market positioning; or • the transition over time of a new Executive Director recruited on a below market salary to a more competitive market positioning as the Executive Director gains experience in the role.	None, although overall performance of the individual is considered by the Committee when setting and reviewing salaries.
Benefits	Recruitment and retention of senior executive talent through the provision of a competitively positioned and cost-effective benefits package. Benefits may also be provided to assist in the effective performance of an Executive Director's duties.	Benefits that may be provided include car benefits, life assurance, health insurance for the Executive Director and family, permanent health cover and personal tax advice. Executive Directors may also participate in any all-employee share or benefits plans on the same basis as any other employees. Where relevant, additional benefits may be offered if considered appropriate and reasonable by the Committee, such as assistance with the costs of relocation.	The maximum opportunity will be based on the cost of providing the benefits. This will be set at a level that the Committee considers appropriate to provide a sufficient level of benefit based on individual circumstances.	Not applicable.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Provision for retirement	Designed to enable an Executive Director to generate an income in retirement and to provide an overall remuneration package that is competitive in the market.	Participation in a defined contribution pension plan or provision of a cash allowance in lieu of a pension contribution. The defined benefit pension schemes have been closed to further accrual since 2008 and any salary linkage ceased on 31 May 2013. In respect of their past service, Executive Directors remain members of PZ Cussons Directors' Retirement Benefits Plan, PZ Cussons Plc Pension Fund and Life Assurance Scheme for Staff Employed Outside the UK and/or the Employer-Financed Retirement Benefits Schemes and are eligible to receive retirement benefits in accordance with the terms of the schemes.	A Company pension contribution of 20% of base salary in respect of each financial year into the scheme on behalf of the Executive Director, subject to a minimum employee contribution of 5% of base salary, or cash allowance of up to 20% of salary.	Not applicable.
Variable remuneration				
Annual Bonus Scheme and deferred annual bonuses	Designed to motivate Executive Directors to focus on annual goals and milestones that are consistent with the Group's longer-term strategic aims.	Measures and targets are set annually at the beginning of the relevant financial year and pay-out levels are determined by the Committee after the year end based on performance against those targets. Awards of up to 100% of base salary are payable in cash. If an annual bonus of more than 100% of base salary is earned for a year, then any excess over 100% of base salary will be deferred and awarded in PZ Cussons shares. The shares will normally vest after three years. A dividend equivalent may be payable on deferred shares that vest. The Committee may, in exceptional circumstances only, amend the bonus pay-out should this not, in the view of the Committee, reflect overall business performance or individual contribution. Recovery and withholding provisions may apply to deferred shares as set out below in the notes to this table.	The maximum annual bonus opportunity that may be earned for any year is 150% of base salary.	The performance measures and targets are set by the Committee each year. The majority of the annual bonus is based on challenging financial targets that are set in line with the Group's KPIs (for example, profit before tax and exceptional items, net working capital and operating contribution margin). In addition, a smaller element of the annual bonus may be subject to achievement against strategic and/or CSR objectives. For each financial objective set, 0% of the relevant part of the bonus becomes payable at the threshold performance level rising on a graduated scale to the maximum performance level. The structure and nature of the strategic objectives vary, such that it is not practical to specify any pre-set percentage of bonus that becomes payable for threshold performance. Maximum annual bonus will only be paid for achieving significant financial out-performance above the budget set for the year.

Report on Directors' Remuneration
Directors' Remuneration Policy continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Performance Share Plan (PSP)	Designed to motivate the Executive Directors 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 calculated as a percentage of base salary. Vesting is subject to the attainment of predetermined performance targets measured over a performance period of at least three years. The performance period normally starts at the beginning of the financial year in which the date of grant falls. Dividends accrue on shares subject to PSP awards and are paid on vesting in respect of those shares that vest. Award levels and performance conditions are reviewed before each award cycle to ensure that they remain appropriate. Subject to attainment of the performance targets, awards will normally vest, in respect of shares with a market value at grant of up to 100% of base salary, following the end of the performance period. Any shares that vest in excess of this value will normally be subject to an additional holding period and will be released in equal amounts four and five years after the date of grant. Recovery and withholding provisions apply to awards granted under the PSP as set out below in the notes to this table.	Award opportunities in respect of any financial year are limited to rights over shares with a market value determined by the Committee at grant of a maximum of 150% of base salary.	Awards to Executive Directors are subject to challenging financial targets (for example, EPS targets), measured over the performance period. Vesting does not take place until the threshold performance requirement is met (as applicable to each relevant metric) at which point 25% vests. Vesting increases on a graduated basis from threshold performance to the stretching maximum target.
Other aspects				
Shareholding guidelines	Alignment of the Executive Directors' 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 the share incentive plans until this guideline is met.	Not applicable.	Not applicable.

Recovery and withholding provisions

The Committee may, in its discretion, apply clawback to annual bonus and PSP awards in the event of a material misstatement of the Company's audited financial results, an erroneous determination of a performance metric applicable to an award, or an Executive Director's misconduct relating to the conduct or governance of any Group company or business unit or in such other circumstances the Committee considers to have a serious adverse effect on any Group member or business unit. Clawback can be applied where the event occurs between the date of grant and the second anniversary of the date the award vests/is paid. The clawback may be effected through a withholding of variable pay by reducing the size of, or imposing further conditions on, any outstanding or future awards, or by requiring the individual to return the value of the cash or shares delivered to recover the amount overpaid.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Non-executive Director				
Fees	To reflect the time commitment in preparing for and attending meetings, the duties and responsibilities of the role and the contribution expected from the Non-executive Directors.	Fees are normally reviewed every two years and amended to reflect market positioning and any change in responsibilities. The Committee recommends the remuneration of the Chair to the Board. Fees paid to Non-executive Directors are determined and approved by the Board as a whole. The Non-executive Directors do not participate in the annual bonus plan or any of the Group's share incentive plans. The Company covers the costs of attending meetings and Non-executive Directors may be provided with benefits associated with their role.	Fees are based on the level of fees paid to Non-executive Directors serving on boards of similar sized UK-listed companies and the time commitment and contribution expected for the role. Non-executive Directors receive a basic fee and an additional fee for further duties (for example, chairmanship of a committee or Senior Independent Director responsibilities). The maximum level of fees payable to the Non-executive Directors will not exceed the limit set out in the Company's Articles of Association.	Not applicable.

Setting Executive Director remuneration

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.

The Committee also receives and takes into account information from the Global Human Resources Director on pay and employment conditions applying to other Group employees, 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 that 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 that 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 charts (updated from those included in the Remuneration Policy included in the 2016/17 Annual Report to take account of the current salary levels of continuing Executive Directors) illustrate executive remuneration in specific performance scenarios. For the purposes of simplicity, no share price growth or dividend payments have been included in the values included for share-based awards.

	Minimum performance	Target performance	Maximum performance
Fixed elements of remuneration	• Base salary as at 31 May 2018 • Value of benefits as included in the 2018 single total figure of remuneration on page 17 • Pension contributions at 20% of base salary		
Annual bonus (based on implementation of Policy in 2018/19)	0%	**60% of maximum opportunity** G A Kanellis – 60% of 150% of salary B H Leigh – 60% of 125% of salary	**100% of maximum opportunity** G A Kanellis – 150% of salary B H Leigh – 125% of salary
Long-term incentive plans (based on implementation of Policy in 2018/19)	0%	**25% of award** G A Kanellis – 25% of 150% of salary B H Leigh – 25% of 125% of salary	**100% of award** G A Kanellis – 150% of salary B H Leigh – 125% of salary

Report on Directors' Remuneration
Directors' Remuneration Policy continued

Recruitment remuneration arrangements

When hiring a new Executive Director, the Committee will set the Executive Director's ongoing remuneration in a manner consistent with the Policy detailed in the table above.

To facilitate the hiring of candidates of the appropriate calibre, the Committee may make an award to buy out variable remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including the form of award, the value forfeit, any performance conditions and the time over which the award would have vested. The intention of any buy-out would be to compensate in a like-for-like manner as far as is practicable.

The maximum level of variable pay that may be awarded to new Executive Directors (excluding buy-out arrangements) in respect of their recruitment will be in line with the maximum level of variable pay that may be awarded under the annual bonus plan and PSP, i.e. a total face value opportunity of 300% of salary. The Committee will ensure that such awards are linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Appropriate costs and support will be covered if the recruitment requires relocation of the individual.

Executive Director contracts and loss of office payments

Executive Directors have one year rolling service contracts and no Executive Director has a notice period in excess of one year or containing any provision for predetermined compensation on termination exceeding one year's salary and benefits in kind. Details of each Executive Director's service contract are summarised below:

Name	Date of contract
G A Kanellis	1 June 2007
C G Davis[1]	1 June 2007
B H Leigh	1 June 2007

1 Mr Davis stepped down from the Board on 27 September 2017 and ceased employment on 31 December 2017.

Upon the termination of an Executive Director's employment, the Committee's approach to determining any payment for loss of office will normally be guided by the following principles:

- the Committee shall seek to apply the principle of mitigation where possible, as well as seeking to find an outcome that is in the best interests of the Company and shareholders as a whole, taking into account the specific circumstances;
- relevant contractual obligations, as set out above, shall be observed or taken into account;
- the Committee reserves the right to make additional exit payments where such payments are made in good faith to satisfy an existing legal obligation (or by way of damages for breach of any such obligation) or to settle or compromise any claim or costs arising in connection with the employment of an Executive Director or its termination or to make a modest provision in respect of legal costs and/or outplacement fees; and
- the treatment of outstanding variable remuneration shall be as determined by the relevant plan rules, as set out on the next page.

Performance Share Plan (PSP)

Cessation of directorship/employment within three years of date of grant:

Death	The award will normally vest as soon as practicable following death. The Committee will have sole discretion as to the extent to which the award will vest, taking into account, if the Committee considers it appropriate, time pro-rating and the extent to which the performance condition has been satisfied.
Injury, ill health, disability, sale of the participant's employing company or business out of the Group or any other reason if the Committee so decides	Awards not subject to holding period. The award will normally vest on the original vesting date, taking into account the extent to which the performance conditions have been met. Alternatively, the Committee has the discretion to allow the award to vest at the time of cessation of directorship/employment by the Group, taking into account the extent to which the performance conditions have been met up to that date. Unless the Committee determines otherwise, the Committee will reduce the award to reflect the period that has elapsed at the time of cessation.
Any other reason	The award will lapse upon cessation of directorship/employment.

Cessation of directorship/employment after three years of date of grant (i.e. in respect of shares held for a compulsory holding period):

Death	The award will vest as soon as practicable following death, taking into account the performance conditions, if the Committee considers it appropriate.
Lawful dismissal without notice by the Company	The award will lapse upon cessation of directorship/employment.
Any other reason	The award will generally be released at the end of the holding period. Alternatively, the Committee has the discretion to allow the award to be released in part, or in full, at the time of, or following, cessation of directorship/employment. The extent to which awards are released in these circumstances will be determined by the Committee taking into account the performance conditions.

Annual Bonus Scheme – cash element

The extent to which any annual bonus is paid in respect of the year of departure will be determined by the Committee (in such proportion of cash and shares as it considers appropriate) taking into account the performance metrics and whether it is appropriate to time pro-rate the award for the time served during the year.

Annual Bonus Scheme – deferred share element

Death, injury, disability, redundancy, retirement, the sale of the participant's employing company or business out of the Group or any other reason if the Committee so decides	The award will vest immediately upon cessation of directorship/employment. Alternatively, the Committee has the discretion to determine that awards should not vest, until the end of the deferral period.
Any other reason	The award will lapse upon cessation of directorship/employment.

Executive Share Option Scheme

Death, injury, ill health, disability, redundancy, retirement, the sale of the participant's employing company or business out the Group or any other reason if the Committee so decides	The award will be exercisable within the period of 12 months after cessation of directorship/employment. All options granted under the Executive Share Option Scheme have now been exercised. No future awards under the Executive Share Option Scheme are anticipated.

Retirement benefits will be received by any Executive Director who is a member of any of the Group's pension plans in accordance with the rules of such plan.

Report on Directors' Remuneration
Directors' Remuneration Policy continued

Change in control

The rules of the PSP provide that, in the event of a change of control or winding-up of the Company all awards will vest early taking into account i) the extent to which the Committee considers that the performance conditions have been satisfied at that time and ii) the pro-rating of the awards to reflect the proportion of the performance period that has elapsed, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances. Deferred bonus awards will normally vest in full on a takeover or winding-up of the Company. In the event of a special dividend, demerger or similar event, the Committee may determine that awards vest on the same basis. In the event of an internal corporate reorganisation, awards may be replaced by equivalent new awards over shares in a new holding company. Similarly, in the event of a merger of equals, the Committee may invite participants to voluntarily exchange their awards that would otherwise vest for equivalent new awards over shares in a new holding company.

The Committee may in the circumstances referred to above determine to what extent any bonus should be paid in respect of the financial year in which the relevant event takes place, taking into account the extent to which the Committee determines the relevant performance metrics have been (or would have been) met.

Statement of consideration of employment conditions elsewhere in the Company

When reviewing and setting Executive Director remuneration, the Committee takes into account the pay and employment conditions of all employees of the Group. The Group-wide pay review budget is one of the key factors when reviewing the salaries of the Executive Directors. Although the Group has not carried out a formal employee consultation regarding Board remuneration, it does comply with local regulations and practices regarding employee consultation more broadly.

Communication with shareholders

The Committee is committed to an ongoing dialogue with shareholders and seeks the views of significant shareholders when any major changes are being made to remuneration arrangements.

The Committee takes into account the views of significant shareholders when formulating and implementing the Policy.

Terms and conditions for Non-executive Directors

Non-executive Directors do not have service contracts but are appointed for an initial period of three years, normally renewable on a similar basis subject to annual re-election at the Company's Annual General Meeting. The present letters of appointment for Mr Kucz, Mr Maiden, Mrs Minick-Scokalo, Mr Nicolson, Mrs Owers and Mrs Silver expire on 30 April 2021, 31 October 2019, 30 April 2021, 30 April 2019, 26 September 2018 and 31 March 2020 respectively and subject to annual election or re-election, as the case may be, as a Director at the Company's Annual General Meeting.

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

Report on Directors' Remuneration
Annual Report on Remuneration

Information contained within the Annual Report on Remuneration has not been subject to audit unless stated.

Single total figure of remuneration (audited)

The table below sets out in a single figure the total amount of remuneration, including each element, received by each of the Executive Directors for the year ended 31 May 2018:

	Salary/fees[1]		Benefits[2]		Bonus[3]		PSP[4]		Pension[5]		Total	
	2018 (£)	2017 (£)	**2018 (£)**	2017 (£)	**2018 (£)**	2017 (£)	**2018 (£)**	2017 (£)	**2018 (£)**	2017 (£)	**2018 (£)**	2017 (£)
Executive Directors												
G A Kanellis	**591,386**	577,650	**22,414**	22,400	**–**	870,750	**–**	–	**118,277**	115,530	**732,077**	1,586,330
C G Davis[6]	**276,032**	361,425	**34,286**	16,714	**–**	454,000	**–**	–	**733,706**	72,285	**1,044,024**	904,424
B H Leigh	**362,559**	355,450	**16,914**	16,900	**–**	446,500	**–**	–	**72,512**	71,090	**451,985**	889,940
	1,229,977	1,294,525	**73,614**	56,014	**–**	1,771,250	**–**	–	**924,495**	258,905	**2,228,086**	3,380,694
Non-executive Directors												
R J Harvey	**–**	145,833	**–**	–	**–**	–	**–**	–	**–**	–	**–**	145,833
J A Arnold	**–**	30,625	**–**	1,028	**–**	–	**–**	–	**–**	–	**–**	31,653
N Edozien[7]	**35,000**	60,000	**12,355**	16,402	**–**	–	**–**	–	**–**	–	**47,355**	76,402
D Kucz[8]	**4,375**	–	**1,744**	–	**–**	–	**–**	–	**–**	–	**6,119**	–
J K Maiden	**62,500**	34,792	**2,816**	2,401	**–**	–	**–**	–	**–**	–	**65,316**	37,193
T Minick-Scokalo[9]	**4,375**	–	**1,357**	–	**–**	–	**–**	–	**–**	–	**5,732**	–
J R Nicolson	**59,583**	54,583	**5,709**	5,244	**–**	–	**–**	–	**–**	–	**65,292**	59,827
H Owers	**62,500**	62,500	**3,991**	5,517	**–**	–	**–**	–	**–**	–	**66,491**	68,017
C Silver	**250,000**	142,083	**5,283**	6,593	**–**	–	**–**	–	**–**	–	**255,283**	148,676
	478,333	530,416	**33,255**	37,185	**–**	–	**–**	–	**–**	–	**511,588**	567,601
Total	**1,708,310**	1,824,941	**106,869**	93,199	**–**	1,771,250	**–**	–	**924,495**	258,905	**2,739,674**	3,948,295

1 The amount of salary/fees payable in the period.

2 Taxable benefits comprise life assurance, healthcare insurance and car allowance. In respect of the Non-executive Directors, certain travel and accommodation expenses in relation to attending Board meetings are also treated as a taxable benefit.

3 Details of the performance measures and weightings as well as results achieved under the annual bonus arrangements in place in respect of the year are shown on pages 18 and 19.

4 The awards made under the Performance Share Plan in 2015 will wholly lapse, such that the Executive Directors will receive no value. Details of the performance measures as well as results achieved are shown on pages 20 to 24.

5 With effect from 1 June 2008, the Executive Directors became eligible for membership of the Company's defined contribution pension arrangement. Messrs Kanellis and Leigh each receive a salary supplement equivalent to 20% of base salary; these amounts are included in the column headed 'Pension'. Until his retirement on 31 December 2017, Mr Davis continued 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'.

Included in the column headed 'Pension' above for Mr Davis is the payment of a cash equivalent transfer value totalling £690,848. This relates to the Company's liability in connection with his funded and unfunded pension benefits accrued during his employment with the Company. The calculation of the value of the benefits to which he was entitled was undertaken by an independent actuary and in line with HMRC guidance. The lump sum payment was consistent with past practice at the Company with the cash equivalent transfer value discharging the Company's liability in full and having been calculated on a no gain no loss basis to the Company.

6 Mr Davis retired from the Board on 27 September 2017 and ceased employment on 31 December 2017. Included in the 'Salary/fees' column above is payment of £214,288 in respect of the period to 31 December 2017 when he retired (of which £117,556 was paid in his capacity as a Director and £96,732 paid as an employee) and a further £61,744, which is equal to two months' basic pay in lieu of notice. The Company also made a payment of £24,223 in relation to accrued but untaken holiday and agreed to provide assistance in shipping Mr Davis's family belongings back to their family home in Australia. This is included in the 'Benefits' column.

7 Ms Edozien retired from the Board on 27 September 2017.

8 Mr Kucz was appointed to the Board on 1 May 2018.

9 Ms Minick-Scokalo was appointed to the Board on 1 May 2018.

Report on Directors' Remuneration
Annual Report on Remuneration continued

Individual elements of remuneration

Base salary

Base salaries for individual Executive Directors are reviewed annually, with effect from 1 September, by the Remuneration Committee and are set with reference to the scope of the role and the markets in which PZ Cussons operates, the performance and experience of the individual, pay levels in other organisations of a similar size and complexity and pay increases elsewhere in the Group.

From 1 September 2018, the base salary of each of Mr Kanellis and Mr Leigh will increase by 2%, in line with the average UK increase in the Group. The base salaries for the year ended 31 May 2017 and the year ended 31 May 2016 are also set out below:

	01/09/2016 Base salary (£)	01/09/2017 Base salary (£)	**01/09/2018 Base salary (£)**	Increase %
G A Kanellis	580,500	595,012	**607,000**	2.0
C G Davis[1]	363,200	370,464	**n/a**	n/a
B H Leigh	357,200	364,344	**371,700**	2.0

1 Mr Davis stepped down from the Board on 27 September 2017 and ceased employment on 31 December 2017.

Non-executive Director fees

As reported in last year's report, following the biennial review of Non-executive Director fees on 1 June 2017, the annual fees payable to Mr Nicolson were increased from that date by £2,500 to reflect the time commitment and responsibilities associated with his role as Senior Independent Director. The annual fees payable to each of the other Non-executive Directors remained unchanged.

During the year, the annual fees payable to Mr Nicolson were increased by a further £5,000 to £62,500 per annum to reflect his appointment on 1 January 2018 as Chair of the Good4Business Committee. No other changes were made during the year to the fees payable to Non-executive Directors.

The current fee structure is as follows:

Role	Fee
Board Chair	£250,000
Non-executive Director base fee	£52,500
Additional fees for Committee Chair	
• Audit & Risk	£10,000
• Remuneration	£10,000
• Good4Business	£5,000
Additional fee for Senior Independent Director	£5,000

Annual bonus

Bonus for the year ended 31 May 2018

In respect of the year ended 31 May 2018, each of the Executive Directors participated in the Annual Bonus Scheme.

Under this scheme, the CEO was eligible to earn a cash bonus of up to 150% of base salary and the CFO and COO were each eligible to earn a cash bonus of up to 125% of base salary. Any bonus awards earned in excess of 100% of base salary are deferred into Company shares vesting three years after the award is determined, subject to recovery and withholding provisions and continued employment.

For the 2018 financial year, the bonus included challenging financial and strategic targets set to align the Executive Directors with delivering against the Board's approved budget and planning for the year ahead.

As in prior years, and consistent with our KPIs, the performance metrics included profit before tax and exceptional items (including separate target and stretch elements) and net working capital and operating contribution margin. Together these financial targets comprised 80% of the overall bonus opportunity. A number of strategic objectives comprised the remaining 20% of maximum bonus opportunity.

Financial targets

The targets and our performance against them are set out below:

Metric	Proportion of total bonus	Targets	Actual performance	Proportion of total bonus payable
Profit before tax and exceptional items	62%	Target: £108m Stretch target: £113.4m	£80.1m	0%
Net working capital percentage	9%	Target: 19.2%	25.2%	0%
Operating contribution percentage	9%	Target: 16.8%	14.8%	0%

Strategic targets

The 2018 strategic objectives related to launching specific strategic new product development (NPD), restructuring the distribution channels in Nigeria and Indonesia, transforming the global finance function and attaining CSR objectives related to reduction in carbon emissions and water consumption.

Metric	Proportion of total bonus	Milestones achieved	Proportion of total bonus payable
Launch strategic NPD in the Food & Nutrition and Beauty categories. Actively pursue other business development activities	6%	• Launched Being by Sanctuary, achieving all online and in-store metrics, as well as the related financial metrics. • Developed a new product line for one of our food brands in Africa, with all development and launch materials completed. Launch was delayed by regulatory issues. • Business development opportunities were identified, developed into a plan that was presented to the Board and pursued with focus.	3%
Substantial restructuring of Nigeria and Indonesia distribution channels	6%	• Substantially increased the number of common active distributors (for food and non-food) in Nigeria. • Transformed the traditional trade channel in Indonesia by establishing a substantial number of active distributors.	6%
Begin global finance function transformation	6%	• Established finance shared services in Asia, Africa and Europe, transferring one market in each region to the shared service centre. • Following the final implementation of SAP, increased finance staff capability and processes in key areas.	6%
Reduction in water and carbon. Develop and deliver an energy savings range of appliances in Nigeria	2%	• Achieved a 6.9% reduction in water and a 3% reduction in carbon. • Delivered a new energy savings range of products in the Electricals business, hitting production and energy savings design targets.	2%

Whilst these objectives were attained and would have resulted in a payment of 17% of maximum, the Committee decided to use its discretion to reduce the outcome to nil in light of the Group's overall financial performance.

As a result of the above, no bonus was payable to Mr Kanellis or Mr Leigh. Upon the retirement of Mr Davis, the former COO, on 31 December 2017, his entitlement to any bonus under the scheme wholly lapsed.

Report on Directors' Remuneration
Annual Report on Remuneration continued

2019 annual bonus framework

Executive Directors will continue to participate in the Annual Bonus Scheme in respect of the year ending 31 May 2019.

The operation of the bonus plan will broadly mirror the approach taken in the 2018 financial year. No change is to be made to the maximum opportunity and 80% of maximum bonus opportunity will continue to be subject to financial performance with the balance of 20% subject to the attainment of key strategic and CSR objectives.

The Directors consider that the Group's future targets are matters that are commercially sensitive; they could provide our competitors with insights into our business plans and expectations and should therefore remain confidential to the Company at this time (although they will be retrospectively disclosed in next year's Report on Directors' Remuneration). There has been no change to the level of opportunity available under the Scheme and the principal features of the Scheme are as follows:

- maximum opportunity remains at 150% of salary for the CEO and 125% of salary for the CFO;
- any bonus awards earned in excess of 100% of base salary will be deferred into Company shares vesting three years after the award is determined, subject to recovery and withholding provisions (as detailed below) and continued employment;
- annual bonuses will again be based on the achievement of stretching profit before tax and exceptional items (62% of the total bonus), net working capital (9% of the total bonus) and operating contribution margin performance targets (9% of the total bonus);
- the bonus award for delivering target financial performance will remain at 60% of the overall maximum opportunity;
- 20% of maximum opportunity will be available for delivering strategic objectives (with bonuses to be earned against objectives relating to key strategic drivers of growth: strategic NPD and disruptive channel strategy, transformational margin improvement projects, further organisational changes and Good4Business targets in respect of reduction in the use of plastics; and
- bonuses are payable at the discretion of the Committee and subject to a broad assessment of the Company's overall performance before individual bonus awards are determined.

Awards made under the Annual Bonus Scheme in respect of the year ending 31 May 2019 will be subject to recovery and withholding provisions that would enable the Committee to recover any value overpaid as a result of i) a material misstatement of audited results, ii) employee misconduct associated with the governance or conduct of the business or iii) an erroneous calculation of a performance condition. The ability to apply these provisions operates for a period of up to two years for awards to Executive Directors and other senior executives.

Long-term incentive plans

Performance Share Plan

Executive Directors and certain senior executives are generally eligible to participate in the Performance Share Plan, which provides for the grant of conditional rights to receive nil cost shares subject to continued employment over a three year vesting period and the satisfaction of certain performance criteria established by the Committee. The current version of the Plan, the 2014 Performance Share Plan, was approved and adopted at the 2014 Annual General Meeting.

Awards vesting in respect of the year ended 31 May 2018

The year ended 31 May 2018 represented the final year of the three year performance period for awards made under the Performance Share Plan in 2015. The overall performance during the three years was such that no proportion of the awards made to the Executive Directors will vest and they will lapse in full, as below:

EPS performance	Annual compound EPS growth	Level of vesting	Performance achieved	Resulting level of award (% of maximum opportunity)
Threshold	4%	25%	(9.2)%	0%
Maximum	12%	100%		

Awards granted in the year ended 31 May 2018 (audited)

As disclosed in last year's Report on Directors' Remuneration, and in line with the Company's Remuneration Policy, as set out on page 15, during the year ended 31 May 2018 awards were made to the Executive Directors under the Performance Share Plan over shares with a value equal to 150% of base salary for the CEO and 125% for the CFO, as set out below:

	Scheme	Basis of award	Number of shares	Face value	Percentage vesting for threshold performance	Performance period end date
G A Kanellis	2014 Performance Share Plan	150% of salary	245,400	£892,518	25%	31 May 2020
C G Davis[1]	2014 Performance Share Plan	125% of salary	127,325	£463,080	25%	31 May 2020
B H Leigh	2014 Performance Share Plan	125% of salary	125,221	£455,430	25%	31 May 2020

1 Mr Davis stepped down from the Board on 27 September 2017 and ceased employment on 31 December 2017, at which point the award to him wholly lapsed.

These awards are subject to adjusted Earnings Per Share (EPS) growth targets measured over the single three year performance period commencing on 1 June 2017.

No proportion of the awards may vest unless the Group's adjusted EPS grows by at least 3% per annum compounded over the relevant performance period. 25% of the award will vest where adjusted EPS grows by 3% per annum rising on a straight line pro-rata basis to 100%, which vests if adjusted EPS grows by 10% per annum or more, in each case compounded over the performance period.

Any awards earned in excess of 100% of salary (on grant) will vest not at the end of the three year performance period but will be deferred and vest in equal amounts four years and five years after the date of grant.

Face value has been calculated using the average mid-market closing share price on 26 July 2017 of 363.7p, which was the share price used to determine the number of shares subject to the award in accordance with the rules of the Performance Share Plan.

Awards to be granted in the year ending 31 May 2019

The Committee intends to make awards under the Performance Share Plan to Executive Directors and other senior executives during the year ending 31 May 2019 on the same basis as the prior year and in line with the Company's Remuneration Policy. Award levels remain unchanged from awards made in the prior year and the Committee proposes to continue to make awards subject to the attainment of the same growth in adjusted EPS targets as applied in the prior year. On that basis, the minimum threshold compound EPS growth target, at which 25% of awards will vest, will accordingly be compound EPS growth of 3% per annum whilst the target for maximum vesting will be compound EPS growth of 10% per annum.

The range of EPS targets was reviewed in light of both internal plans and external expectations for the Company's future performance. Setting the range to require 3% per annum EPS growth to 10% per annum EPS growth based on the results of the year ended 31 May 2018 was considered to provide a demanding range of targets, particularly at the top end of the performance range. This was on the basis of the continued retail challenges in our UK and European markets at the same time as the ongoing pressures on consumer income in Nigeria.

The Committee has considered the introduction of an additional performance measure but remains of the view that this is not currently appropriate for the Company and that EPS remains the most meaningful measure of long-term performance, providing a valuable line of sight for management and alignment with the interests of shareholders. Use of EPS growth targets is also aligned with our long-term objective of delivering profitable growth and sustaining a progressive dividend policy. The Committee will, however, continue to review its approach to metrics and target setting in respect of awards in future years.

The awards to be granted in the year ending 31 May 2019 will be subject to a two-year holding period on vested shares such that all shares (other than any shares required to be sold to meet any tax liabilities) will need to be retained for a minimum period of 5 years from grant.

In line with awards made under the Senior Executive Annual Bonus Scheme, awards made under the Performance Share Plan for the year ending 31 May 2019 will continue to include recovery and withholding provisions that would enable the Committee to recover excess value on vesting as a result of i) a material misstatement of audited results, ii) employee misconduct associated with the governance or conduct of the business or iii) an erroneous calculation of a performance condition. The provisions apply for a period of up to two years from vesting of awards made to Executive Directors and other senior executives in the event.

Report on Directors' Remuneration
Annual Report on Remuneration continued

Statement of Directors' shareholding and share interests

The Committee has established Share Ownership Guidelines that 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 annual 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 2018.

Interests in shares (audited)

The interests in the Company's shares of each of the Executive Directors as at 31 May 2018 (together with interests held by his connected persons) were:

	Ordinary shares held at 31 May 2018[1]	Interests in share incentive schemes that are not subject to any performance condition as at 31 May 2018[2]	Interests in share incentive schemes that are subject to any performance condition as at 31 May 2018[3]
G A Kanellis	709,891	131,029	755,874
C G Davis[4]	320,966	–	–
B H Leigh	145,917	25,587	386,985

1 Includes shares held by connected persons.

2 In the case of Mr Kanellis includes 14,463 shares representing that part of the bonus payable to him in respect of the year ended 31 May 2015 and 116,566 shares representing that part of the bonus payable to him in respect of the year ended 31 May 2017 that exceeded 100% of his basic salary that was deferred into shares vesting three years after the award was determined. In the case of Mr Leigh includes 25,587 shares representing that part of the bonus payable to him in respect of the year ended 31 May 2017 that exceeded 100% of his basic salary that was deferred into shares vesting three years after the award was determined.

3 Includes unvested awards under the Performance Share Plan that remain subject to performance (including the whole of the awards made in 2015).

4 Mr Davis stepped down from the Board on 27 September 2017 and ceased employment on 31 December 2017. As reported on page 23, 26,017 deferred shares (which were earned under the Annual Bonus Scheme in the year ended 31 May 2017) vested on cessation of his employment whilst all outstanding Performance Share Plan awards granted to him lapsed on cessation of employment.

There have been no changes in the Executive Directors' interests between 31 May 2018 and the date of this report.

The Non-executive Directors' shareholdings are disclosed on page 5 within the Report of the Directors.

Performance Share Plan (audited)

The outstanding awards granted to each Director of the Company under the Performance Share Plan are as follows:

	Date of award	Number of options/ awards at 1 June 2017	Granted/ allocated in year	Exercised/ vested in year	Lapsed in year	**Number of options/ awards at 31 May 2018**	Share price at date of award (£)	Share price at date of vesting (£)	Gain (£)	Vesting/ transfer date
G A Kanellis	24-Sep-14	223,135	–	–	223,135	**–**	3.70	–	–	–
	22-Jul-15[1]	241,724	–	–	–	**241,724**	3.53	–	–	22-Jul-18
	27-Jul-16	268,750	–	–	–	**268,750**	3.24	–	–	27-Jul-19
	27-Jul-17	–	245,400	–	–	**245,400**	3.637	–	–	27-Jul-20
C G Davis[2]	24-Sep-14	117,027	–	–	117,027	**–**	3.70	–	–	–
	22-Jul-15[1]	126,044	–	–	126,044	**–**	3.53	–	–	22-Jul-18
	27-Jul-16	140,123	–	–	140,123	**–**	3.24	–	–	27-Jul-19
	27-Jul-17	–	127,325	–	127,325	**–**	3.637	-.	–	27-Jul-20
B H Leigh	24-Sep-14	115,101	–	–	115,101	**–**	3.70	–	–	–
	22-Jul-15[1]	123,956	–	–	–	**123,956**	3.53	–	–	22-Jul-18
	27-Jul-16	137,808	–	–	–	**137,808**	3.24	–	–	27-Jul-19
	27-Jul-17	–	125,221	–	–	**125,221**	3.637	–	–	27-Jul-20

1 Awards made on 22 July 2015 wholly lapsed on 22 July 2018.

2 Mr Davis stepped down from the Board on 27 September 2017 and ceased employment on 31 December 2017. All unvested outstanding awards lapsed on his cessation of employment.

Deferred bonus awards (audited)

The outstanding awards granted to each Director of the Company as deferred bonus awards are as follows:

	Date of award	Number of options/ awards at 1 June 2017	Granted/ allocated in year	Exercised/ vested in year	Lapsed in year	**Number of options/ awards at 31 May 2018**	Market price at date of award (£)	Vesting date
G A Kanellis	22-Jul-15	14,463	–	–	–	**14,463**[1]	3.51	22-Jul-18
	25-Aug-17	–	116,566	–	–	**116,566**	3.49	25-Aug-20
C G Davis	25-Aug-17	–	26,017	26,017[2]	–	**–**	3.49	–
B H Leigh	25-Aug-17	–	25,587	–	–	**25,587**	3.49	25-Aug-20

Notes:

1 Awards ordinarily vest on the third anniversary of grant, conditional only on continued employment. The award made to Mr Kanellis in 2015 will be transferred to him at the earliest practicable opportunity after the Company ceases to be in a close period following the publication of its preliminary accounts for the year ended 31 May 2018.

2 Mr Davis stepped down from the Board on 27 September 2017 and ceased employment on 31 December 2017. Having been earned based on performance in the 2016/17 financial year, the 26,017 deferred shares relating to that bonus award vested on cessation of employment.

Pension benefits (audited)

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 and/or the provision of cash allowances in lieu of pension. Benefits built up in the defined benefit plans continued to receive a salary link until 31 May 2013. The pension entitlements and corresponding transfer values below relate solely to the defined benefit arrangements:

G A Kanellis	Benefits held within both the PZ Cussons Directors' Retirement Benefits Plan and the PZ Cussons Pension Fund and Life Assurance Scheme for Staff Employed Outside the UK. The total entitlement across both arrangements was calculated at 31 May 2013 as 1/30th of Final Pensionable Salary at 31 May 2013 for each year of service within the Company's defined benefit pension arrangements (ceasing on 31 May 2008). From 31 May 2013, total benefits revalue on an annual basis in line with the increase in the Consumer Prices Index (CPI) in the prior year to September (up to retirement age). All benefits are payable from age 62. In total, the sum of the deferred pensions within these two arrangements at 31 May 2018 was £342,619 per annum.
C G Davis	Benefits were held within the PZ Cussons Directors' Retirement Benefits Plan, supplemented by an unfunded contractual promise to pay benefits in excess of Inland Revenue limits. In line with past practice at the Company, and in discharge of the Company's liability, Mr Davis took a cash equivalent transfer value of benefits in the year with a value of £690,848. The calculation of the value of the benefits to which he was entitled was undertaken by an independent actuary and in line with HMRC guidance. As a result, Mr Davis had no remaining pension entitlement in the PZ Cussons defined benefit plans at 31 May 2018.

Following closure of the Company's defined benefit plans, each of the Executive Directors became eligible for membership of the Company's defined contribution pension arrangements and/or the provision of cash allowances in lieu of pension. Details of the benefits received by each in this respect are set out at Note 5 to the table on page 17.

Loss of office payments and payments to former Directors (audited)

Mr Davis stepped down from the Board on 27 September 2017 and ceased employment with the Company on 31 December 2017. For the period from stepping down from the Board until his cessation of employment Mr Davis continued to receive his salary and benefits in accordance with the terms of his contract.

Further payments made in connection with his retirement were as detailed below:

- Payment in lieu of notice: as part of an agreed retirement and orderly handover of responsibilities, a payment equal in value to two months' basic pay was made to Mr Davis. This was in lieu of the balance of his notice period, which was due to run to 27 September 2018 (i.e. 9 months), and is included in the single figure table.
- Annual bonus: no bonus was eligible to be paid in connection with the year ending 31 May 2018.
- Deferred share awards: 26,017 deferred shares (which were earned under the Annual Bonus Scheme in the 2016/17 financial year) vested on cessation of employment.
- Performance Share Plan awards: all outstanding Performance Share Plan awards lapsed on cessation of employment.
- Accrued but untaken holiday pay: a payment totalling £24,223 was made in connection with 6 days of accrued but untaken holiday.
- Other payments: the Company agreed to meet the cost of shipping personal goods and two flights for his return to his home country, Australia.
- In addition to the payments made in connection with Mr Davis's loss of office, he also received in the year a payment of £690,848. This related to the Company's liability in connection with his funded and unfunded pension benefits accrued during his employment with the Company. Further details are set out in footnote 5 to the single total figure of remuneration table on page 17.

Report on Directors' Remuneration
Annual Report on Remuneration continued

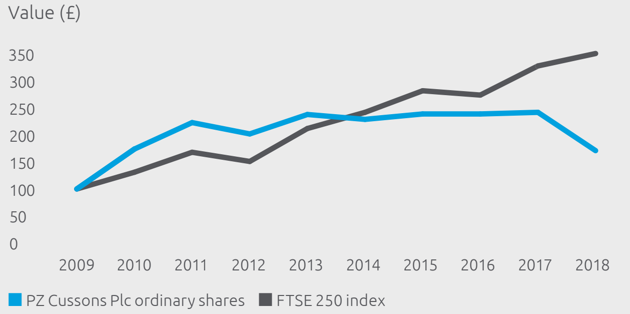
Limits on shares issued to satisfy share incentive plans

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 of 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. In respect of awards made during the year ended 31 May 2018 under the Company's share incentive plans, no new ordinary shares were issued.

Performance graph

The graph opposite illustrates the performance of PZ Cussons Plc measured by Total Shareholder Return (TSR) over the eight year period to 31 May 2018 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 the FTSE 250 index TSR



Chief Executive Officer remuneration for previous nine years

	Total remuneration (£)	Annual bonus % of maximum opportunity	LTIP % of maximum opportunity
2017/18	**732,077**	**0%**	**0%**
2016/17	1,586,330	100.0%	0%
2015/16	1,104,601	47.4%	0%
2014/15	1,463,325	72.8%	32.5%
2013/14	1,052,912	78.0%	0%
2012/13	1,104,089	69.5%	0%
2011/12	599,070	0%	0%
2010/11	1,484,017	18.0%	100.0%
2009/10	1,403,984	67.8%	n/a

Relative importance of spend on pay

The table below shows PZ Cussons distributions to shareholders and total employee pay expenditure for the financial years ended 31 May 2017 and 31 May 2018, and the percentage change:

	2018 £m	(Restated)* 2017 £m	% change
Total employee costs	**100.6**	102.1	(1.5%)
Dividends paid	**34.6**	34.2	1.2%
Profit before tax and exceptional items	**80.1**	102.0	(21.5%)

* Restated to reflect a change in accounting policy in relation to recognition of pension surpluses further described in Note 1 of the Consolidated Financial Statements.

Change in CEO remuneration and for employees as a whole over 2018

The table below shows the change in CEO annual remuneration (defined as salary, taxable benefits and annual bonus), compared to the change in employee annual remuneration for a comparator group for 2017 to 2018.

The PZ Cussons (International) Limited employee workforce was chosen as a suitable comparator group because it is considered to be the most relevant, due to the UK employment location and the structure of total remuneration (staff are able to earn an annual bonus as well as receiving a base salary and benefits).

	CEO			Average for other employees
	2018 (£)	2017 (£)	% change	% change
Salary	**591,386**	577,650	2.4%	2.5%
Benefits	**22,414**	22,400	–	–
Bonus	**–**	870,750	(100%)	(100%)

Consideration by the Directors of matters relating to Directors' remuneration

The following Directors were members of the Remuneration Committee when matters relating to the Directors' remuneration for the year were being considered:

- Mrs Owers (Chair)
- Mr Maiden
- Mr Kucz (from his appointment to the Board on 1 May 2018)
- Ms Edozien (until her retirement from the Board on 27 September 2017)
- Mr Nicolson (until his retirement from the Committee on 1 May 2018)

The Committee was advised in relation to Directors' remuneration during the year by Korn Ferry. Korn Ferry is a founder member of the Remuneration Consultants Group and has signed the voluntary Code of Practice for remuneration consultants. During the year, it has advised the Committee in relation to market data and evolving market practice and with regard to the Remuneration Policy, which was put to shareholders at the 2017 Annual General Meeting. The fees paid to Korn Ferry in respect of this work were charged on a time and materials basis and totalled £38,536 for the year. The Committee is satisfied that the advice it has received from Korn Ferry has been objective and independent.

During the year, the Committee consulted Mrs Silver (in her capacity as Non-executive Chair) on issues where it felt her experience and knowledge could benefit its deliberations and she attended meetings by invitation. The Committee also consulted Mr Kanellis (Chief Executive Officer) 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 Mr Plant (Company Secretary) who acts as Secretary to the Committee. Invitees are not involved in any decisions or discussions regarding their own remuneration.

Statement of shareholder voting

The Committee is directly accountable to shareholders and, in this context, is committed to an open and transparent dialogue with shareholders on the issue of executive remuneration. During the year, the Committee actively engaged widely with key shareholders and shareholder representative bodies in respect of the approach to executive remuneration, including the performance conditions to be applied to awards under the Performance Share Plan, and their comments were considered when agreeing the proposed approach. The Remuneration Committee Chair will be available to answer questions from shareholders regarding remuneration at the 2018 Annual General Meeting.

The votes cast by proxy at the Annual General Meeting held on 27 September 2017 in respect of resolutions relating to Directors' remuneration are shown below:

Advisory vote on the 2017 Report on Directors' Remuneration (2017 AGM):

Votes for		Votes against			
Number	%	Number	%	Votes cast	Votes withheld
345,405,837	99.68%	1,109,556	0.32%	346,515,393	3,865,380

Binding vote on the Directors' Remuneration Policy (2017 AGM):

Votes for		Votes against			
Number	%	Number	%	Votes cast	Votes withheld
345,938,029	99.84%	570,645	0.16%	346,508,674	3,872,099

By order of the Board of Directors

H Owers
Chair of the Remuneration Committee
24 July 2018

Statement of the Chair of the Nomination Committee

Introduction

On behalf of your Board, and as Chair of the Nomination Committee, I am pleased to present the Nomination Committee report for the year ended 31 May 2018.

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board, in the context of the Company's strategy, to ensure that it remains able to meet current and future needs. It is also responsible for identifying and recommending appropriate candidates for membership of the Board when vacancies arise.

During the year ended 31 May 2018, the Committee members were:

- Mrs Silver (Committee Chair)
- Mrs Owers
- Mr Kucz (with effect from his appointment to the Board on 1 May 2018)
- Mr Maiden, Mr Nicolson and Mr Kanellis (each until they stepped down from the Committee on 1 May 2018)
- Ms Edozien (until she retired from the Board on 27 September 2017)

The Company Secretary, Mr Plant, is Secretary to the Committee.

Responsibilities

The principal responsibilities of the Nomination Committee are to:

- regularly review the structure, size and composition (including the skills, knowledge, experience, diversity and independence) of the Board and make recommendations to the Board with regards to any changes;
- identify and nominate, for the approval of the Board, candidates to fill Board vacancies as and when they occur;
- evaluate the balance of skills, knowledge, experience and independence on the Board and, in the case of any vacancy, prepare a description of the role and capabilities required;
- give full consideration to succession planning for Directors and senior executives, taking account of the need to ensure progressive refreshing of the Board, challenges and opportunities facing the Company and what skills and expertise are therefore needed in the future;
- keep under review the leadership needs of the organisation, both Executive and Non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace; and
- review annually the time required from the Non-executive Directors.

Detailed responsibilities are set out in the Committee's terms of reference, which can be found on the Company's website (**www.pzcussons.com**).

Main activities and priorities in 2018

The Committee's principal activities during the year included:

- a review of the collective skills and experiences of the Directors – based on the latest Board evaluations and the Board's review of the particular skills and experience that would be required to successfully deliver the Group strategy, the Committee assessed existing expertise and experience and identified opportunities to strengthen the Board. This resulted in the recruitment of two new Non-executive Directors following the retirement of Ms Edozien at the end of her six year term and will continue to shape the Committee's approach to both succession planning and recruitment and training for the Directors;
- the appointment of Mrs Minick-Scokalo and Mr Kucz as new Non-executive Directors with effect from 1 May 2018 – a number of external search agencies were interviewed with one engaged by the Committee to identify potential candidates who met the role specification. Shortlisted candidates were interviewed by each member of the Committee, following which the Board approved their appointment and this was announced to shareholders;
- the appointment of Mr Nicolson as Chair of the Good4Business Committee in place of Ms Edozien;
- consideration of the most appropriate size and composition of each of the Board's principal standing committees, namely: the Audit & Risk Committee; the Remuneration Committee; the Nomination Committee; and the Good4Business Committee. With effect from 1 May 2018, the Committee resolved to reduce the size of each committee and to reconstitute each accordingly in order to develop deeper experience and expertise and to facilitate more rigorous review of matters within the scope of the committees;
- receipt and review of regular reports from the Executive Directors and the Group HR Director on senior executive talent management and succession planning throughout the Group – the Committee considered a talent succession development profile for members of the Executive Committee, ensuring that a healthy talent pipeline exists for future Board roles;
- consideration of diversity on the Board and throughout the Company – the Committee considers diversity to be a key factor in the Company's strategic and financial success and we believe that diversity of thought, skills, knowledge, experience, gender and ethnicity are critical to our future sustainable growth. The global review of talent undertaken by the Executive Committee and the Board aims to ensure that this is reflected in the Group's future leaders. During the year, the Company – through its Group CEO – signed up to the 30% Club, a group of FTSE 350 companies that have made a public statement that they believe gender diversity is good for their business and have set an aspirational target of 30% female representation on their senior leadership teams by 2020. Currently, 37.5% of the members of the Board are female and, notwithstanding that our current ratio of senior managers who are female is 35%, we continue to focus on increasing the number of women in leadership roles across the wider Group; and
- consideration of the time commitment of the Non-executive Directors – the Committee is satisfied that they all remain able to commit the required time for the proper performance of their duties. The Non-executive Directors are all considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

I will be available at the 2018 Annual General Meeting to respond to any questions shareholders may raise on the Committee's activities.

Caroline Silver
Chair of the Nomination Committee
24 July 2018

Report of the Audit & Risk Committee

Introduction

On behalf of the Board, and as Chair of the Audit & Risk Committee, I am pleased to present the Committee's report for the year ended 31 May 2018. This sets out how the Committee has carried out its responsibilities during the year and provides detail on the Committee's principal activities.

Committee membership

During the year ended 31 May 2018, the Committee members were:

- Mr Maiden (Committee Chair)
- Mrs Minick-Scokalo (with effect from her appointment to the Board on 1 May 2018)
- Mr Nicolson
- Mrs Owers (until she stepped down from the Committee on 1 May 2018)
- Ms Edozien (until she retired from the Board on 27 September 2017)

The Company Secretary, Mr Plant, is Secretary to the Committee.

The experience of each Committee member is summarised on pages 2 and 3. I have held a number of senior finance director roles and am Group Finance Director of Croda International Plc, the FTSE 100 speciality chemicals business. The Board considers each member of the Committee is independent within the definition of the 2016 UK Corporate Governance Code ("the Code") and they bring a broad and diverse spread of commercial experience, such that the Board is provided with assurance that the Committee has the appropriate skills and experience to ensure that it can be fully effective and meets the Code requirement that at least one member has significant, recent and relevant financial experience.

The Committee meets regularly with the External Auditor and representatives attend the meetings. The Group Head of Internal Audit and Risk also attends all Committee meetings. The Non-executive Chair and the Executive Directors are not members of the Committee but they attend meetings, where appropriate, by invitation, along with the Head of External Reporting and the Group Financial Controller.

The Committee periodically, and I more regularly, meet separately with the External Auditor, without the Executives being present. I also meet separately with the Group Head of Internal Audit and Risk before each meeting. This helps me to better understand the key issues and to ensure that sufficient time is devoted to them at the subsequent meeting.

Responsibilities

The Audit & Risk Committee assists the Board and has the following responsibilities ("business as usual"):

- **Financial Reporting:** including monitoring the integrity of the Financial Statements and announcements relating to the Group's financial performance and reviewing significant financial reporting requirements, issues and judgements;
- **Internal Control:** including reviewing the adequacy and effectiveness of the Group's systems/processes for internal financial control;
- **Internal Audit:** including reviewing the effectiveness and output of the Group's Internal Audit function and internal audit programme;
- **External Audit:** including oversight of all matters associated with the appointment, terms, remuneration and performance of the External Auditor and for reviewing the scope, results and quality of the audit and its cost effectiveness;
- **Risk Management:** including reviewing the adequacy and effectiveness of the Group's risk management systems and assessment of the principal risks facing the Group, ensuring, where possible, that appropriate action is being taken to manage and mitigate those risks. The Board as a whole conducts a robust review of the principal risks and uncertainties facing the Group and the output of this review forms the basis of the risk management work undertaken by the Committee during the year; and
- **Whistle-blowing and Fraud:** reviewing the adequacy of the Group's whistle-blowing arrangements and procedures for detecting fraud.

In addition, the Committee selects certain key focus areas each year for review, which are set out below.

More detail on the responsibilities of the Committee is set out in the Committee's terms of reference, which can be found at **www.pzcussons.com**.

Key focus areas during the year

During the year, in addition to its usual activities, the Committee looked at the following focus areas:

Key agenda item	Audit & Risk Committee input
Areas of significant financial judgement	The Committee received regular updates from management on the five areas considered to have significant financial judgement applied. These are set out below.
SAP Control Environment	The Committee reviewed the results of the design and implementation testing of SAP controls within the Group. This provided assurance over the effectiveness of the control processes, following the roll-out of SAP, and the plan to expand these over time.
Audit Transition Process	The Committee received regular updates on both the process of transition and progress of on-boarding Deloitte LLP as the External Auditor. Further information set out below.
Group Internal Audit Development and Risk Management Framework	The Committee considered the steps taken to further develop the Group's Internal Audit function, to create a more holistic risk-based programme and to manage follow-up of individual risk events.
Trade promotional spend	The Committee reviewed the control environment surrounding the accounting for and reporting of trade promotional spend, a major expenditure area for the Group.
FRC review	The Committee reviewed the results of the FRC's review of the Group's Annual Report and Accounts to 31 May 2017, as set out below.

Some of these areas are discussed in more detail below.

'Business as usual' activity

The Committee routinely reviewed the key Financial Statements and announcements of the Group. At the request of the Board, the Committee considered whether the 2018 Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for shareholders to assess the Group's position, performance, business model and strategy. The Committee was satisfied that, taken as a whole, the 2018 Annual Report and Accounts are fair, balanced and understandable.

The Committee's routine work on internal control is set out in the Report on Corporate Governance.

External Audit – the Committee reviewed and approved the external audit plan including the transition of the external audit from PricewaterhouseCoopers LLP to Deloitte LLP (see below) following the decision to change External Auditors, reported in 2017; an assessment of significant audit risks; the scope of the audit; an assessment of the key members of the external audit team; and the independence of the External Auditor (see below). The Committee also reviewed and agreed the external audit fee.

Internal Audit – during the year, the Committee approved the appointment of a new Group Head of Internal Audit and Risk and the strengthening of the Group's internal audit capability through further appointments to the team in Africa and Europe. The Committee reviewed and approved the internal audit plan for the year and, at each meeting, received a report from the Head of Internal Audit and Risk on the principal internal audit activities, issues raised and the adequacy of management's response. The Committee also approved additional assurance expertise for specific risk areas through the appointment of a co-source partner.

Risk Management – the Committee is responsible for identifying, assessing and prioritising the principal risks facing the Group and ensuring, where possible, that appropriate action is taken to manage and mitigate those risks in line with an approved framework of risk limits and risk appetite. During the year, the Committee – working with management and the Group Head of Internal Audit and Risk – reviewed its approach to risk identification and management and put in place a new Risk Management Policy and procedure that identifies material risks facing the Group, informed by both "top-down" reviews by the Group's Executive Committee and "bottom-up" reviews by business units and functions. The Committee then undertakes ongoing reviews of management's plans to eliminate, reduce or transfer risk where practicable. The Committee is also responsible for encouraging and supporting two-way communications in respect of risk issues within the business and with external stakeholders including shareholders, suppliers and customers. The key risks that the Committee reviewed are set out on pages 38 and 39 of the Strategic Report. During the year, the Board as a whole conducted a robust review of the principal risks and uncertainties facing the Group and the output of this review formed the basis of the work undertaken by the Committee during the year.

Whistle-blowing – the Committee also reviews and approves arrangements by which staff can, in confidence, raise concerns about possible improprieties in matters of ethical business practice, financial reporting or other matters. This is achieved through using a third party reporting facility that accommodates telephone, web and email contacts and allows anonymity on request. The Committee received regular reports on matters raised via this facility and on the related investigations and responses.

Report of the Audit & Risk Committee continued

External Auditor independence

During the year, the Committee reviewed its Provision of Non-Audit Services Policy to ensure its continuing suitability and effectiveness and its compliance with the Financial Reporting Council's Guidance on Audit Committees (2016) and Revised Ethical Standard (2016). The Policy recognises the criticality of the independence and objectivity of the External Auditor and the importance that this is not impaired by the provision of non-audit services. The Policy also recognises, however, that it may be beneficial for the External Auditor to provide certain services because of its existing knowledge of the business or because the information required is a by-product of the audit process. In these circumstances, the External Auditor is permitted to provide certain non-audit services where these are not, and are not perceived to be, in conflict with its independence.

The Policy identifies services that are prohibited and those that are permitted subject to formal approval. Prohibited services include those where the External Auditor participates in activities that are normally undertaken by management, is remunerated through a success fee or similar, or may be required to audit its own work (including tax services, legal services, internal audit work and internal control or risk management procedures). Other non-audit services may be undertaken by the External Auditor where it has the requisite skills and experience, it is considered to be the most appropriate to undertake such work in the best interests of the Group, the provision of such services does not impair its independence and objectivity and the related fees – both in respect of individual services and in aggregate – are not material relative to the Group external audit fee. Any services attracting a fee of more than £10,000 must first be approved by the Chair of the Audit & Risk Committee, with any services in excess of £50,000 requiring prior full Committee approval.

All assignments are monitored by the Committee. Details of the amounts paid to the External Auditor were £0.8m (2017: £1.1m) during the year, comprising £0.8m (2017: £0.8m) for audit services and £nil (2017: £0.3m) for other services as set out in Note 4 to the Consolidated Financial Statements.

In conclusion and taking into account the appointment of a new Auditor and the application of the revised Provision of Non-Audit Services Policy, the Committee is satisfied that Deloitte LLP was independent at all times during the year under review.

External Auditor effectiveness

It is the Committee's usual practice to undertake a detailed review of the performance and effectiveness of the External Auditor in performing the audit, informed by the output from a questionnaire completed by senior finance personnel across the Group. In view of the retirement of PricewaterhouseCoopers LLP and the appointment of Deloitte LLP as External Auditor, the Committee did not consider that this was necessary. The Committee however, considered the quality and key content of the reports from PricewaterhouseCoopers LLP and consulted the Chief Financial Officer and members of the Group Finance team to identify key learnings to apply going forward in respect of the relationship and ways of working with the new Auditor.

External Auditor reappointment

Taking into account the audit tender process concluded last year and the performance of Deloitte LLP in its first year as External Auditor, the Committee has recommended to the Board that Deloitte LLP be offered for reappointment at the 2018 Annual General Meeting.

FRC review of 2017 Annual Report and Accounts

In March 2018, the FRC's Corporate Reporting Review team informed the Group that its 2017 Annual Report and Accounts had been selected for review as part of the FRC's monitoring activity to stimulate improvements in the quality of corporate reporting. The Committee reviewed the correspondence between management and the FRC on the queries raised and is pleased to report that all outstanding matters are closed with no adjustments required to the Financial Statements.

The following limitation of scope was included in the letter provided to the Group:

"Scope and limitations of our review
Our review is based on your annual report and accounts and does not benefit from detailed knowledge of your business or an understanding of the underlying transactions entered into. It is, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. We support continuous improvement in the quality of corporate reporting and recognise that those with more detailed knowledge of your business, including your audit committee and auditors, may have recommendations for future improvement, consideration of which we would encourage.

This and any subsequent letters provide no assurance that your report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

Our letters are written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders."

Financial reporting and significant financial judgements

The Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. During the year, the Committee reviewed accounting papers prepared by management that provided details on the main financial reporting judgements. The Committee also reviewed reports by the External Auditors on the half year and full year results, which highlighted any issues arising from the work undertaken in respect of the half year review and year end audit. The specific areas of audit and accounting judgement reviewed by the Committee were:

Agreement of Naira exchange rate for translation: As a result of the evolution of the foreign exchange market in Nigeria, the Committee assessed the Group's move to a position where it is now predominantly accessing US Dollars at the NIFEX rate, one of the three official rates of exchange in existence in Nigeria. As a result of this shift, in May 2018 the Committee reassessed the likely rate of settlement of the Group's Nigerian US Dollar monetary assets and liabilities and concluded that it was appropriate for the Group to move from translating at the Central Bank of Nigeria (CBN) rate to the NIFEX exchange rate from 31 May 2018 onwards. The Committee agreed with the Directors' assessment.

Carrying value of goodwill and other intangible assets: The Group's goodwill and other intangible assets are a material Balance Sheet item. Impairment reviews are performed based on key judgements including forecasts and estimates of future business performance and cash generation, discount rates and long-term growth rates. The Committee reviewed management's analysis and was comfortable with the key assumptions applied and management's conclusion that no impairment was required.

Defined benefit obligations: The Group's defined benefit pension schemes are material to its financial position. The amounts shown in the Balance Sheet are highly sensitive to changes in key actuarial assumptions. The Committee reviewed and agreed the appropriateness and consistency of these assumptions with management. During the year the Group retrospectively applied a change in accounting policy with regard to the recognition of pension surpluses. The Committee reviewed and approved this change, as well as the disclosures required to reflect the change to readers of the Financial Statements.

Classification of exceptional items: The Committee discussed the treatment and disclosure of amounts included within exceptional items and noted that such items reflected the way in which they, as members of the Board, reviewed the underlying performance of the Group, were treated consistently year on year and were disclosed appropriately.

Direct tax provisions: Judgements have to be made by management on the tax treatment of a number of transactions in advance of the ultimate tax determination being known. In assessing the appropriateness of the provision recognised in respect of uncertain tax provisions, the Committee considered a report from management setting out the basis for the assumptions made. The Committee concluded that the position taken on uncertain direct tax provisions was appropriate.

Committee effectiveness

As part of the Board evaluation process, the Committee assessed its effectiveness and concluded that it was operating well, supported by good quality inputs from management. Continued improvement remains a key objective for us.

I will be available at the 2018 Annual General Meeting to respond to any questions that shareholders may have and to discuss the Committee's activities during the year.

Jez Maiden
Chair of the Audit & Risk Committee
24 July 2018

Report on Corporate Governance

The Board is committed to meeting the standards of good corporate governance as established by the Financial Reporting Council. In respect of the year ended 31 May 2018, the 2016 UK Corporate Governance Code ("the Code") applied to the Company. 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 and the separate statements from the Chairs of each of the Audit & Risk and Nomination Committees, 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 eight members comprising the Non-executive Chair, the Chief Executive Officer, the Chief Financial Officer and five other Non-executive Directors. The names of the Directors together with their biographical details are set out on pages 2 to 3.

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 that could materially interfere with the exercise of their independent judgement.

Mr Nicolson is the Senior Independent Director and in this capacity he is available to shareholders if they have concerns that contact through the normal channels of Chair, Chief Executive Officer or Chief Financial Officer has failed to resolve or for which such contact is inappropriate.

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.

As set out in the Report of the Directors, the Board has resolved to comply with the provisions of the Code and each Director seeks re-election annually. In view of the existence of a group of controlling shareholders (see the Report of the Directors on page 5), the election or re-election of independent Directors is subject to a dual shareholder vote at the Annual General Meeting, pursuant to which re-election or election must be approved by a majority vote of the shareholders of the Company and, separately, by a majority vote of the shareholders of the Company excluding the controlling shareholders.

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 the business benefits from a wide 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. The Board's approach to diversity is set out in the Statement of the Chair of the Nomination Committee on page 26, whilst further details on diversity within the business are set out in the Report of the Directors on page 6.

Performance evaluation

Effectiveness reviews of the Board and its committees, including their composition, governance and performance, are carried out annually. Following last year's externally facilitated review, the Board's performance and effectiveness has been facilitated by the Company Secretary who, in conjunction with the Chair 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 that exercise have been reviewed by the Chair of the Board and by each Board committee, discussed in a formal meeting and the recommendations recorded and acted upon.

The review process that 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 Officer (other than in respect of his own position).

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 Chair and Chief Executive Officer are acknowledged and set out in terms of reference that have been adopted by the Board. The Chair 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 Officer is responsible for coordinating 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 regularly 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 advisors.

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, 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.

As is commented upon in more detail within the Statement of the Chair of the Nomination Committee, during the year the composition of the standing Board committees was reviewed. Previously each independent Non-executive Director sat on every committee but, with effect from 1 May 2018, the membership of each committee was reduced to enable the development of deeper expertise and facilitate more rigorous review of matters brought to them. The membership of the principal standing committees is set out within the separate statements of the respective Chairs.

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, identifying and recommending appropriate candidates for membership of the Board when vacancies arise and ensuring that effective succession planning procedures are in place for senior roles.

Details of the Committee members, its responsibilities and its principal activities and priorities during the year are set out in the separate Statement of the Chair of the Nomination Committee.

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

Further details of the Committee members, its responsibilities and activities during the year and of Directors' remuneration are set out in the Statement of the Chair of the Remuneration Committee on page 8.

Audit & Risk Committee

The Audit & Risk Committee is responsible for reviewing, on behalf of the Board, the Group's accounting and financial policies, its disclosure practices, internal controls, internal audit and risk management. It is 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.

Further details of the Committee members, responsibilities and activities during the year are set out in the Report of the Audit & Risk Committee on page 28.

Report on Corporate Governance continued

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 & Risk, Remuneration and Nomination Committees during the year ended 31 May 2018, together with a record of the attendance of the current Directors who are their respective members, is detailed in the table below:

	Board		Audit & Risk 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 G A Kanellis	6	6	n/a	n/a	n/a	n/a	5	5
Mr C G Davis	2	2	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
Ms N Edozien	2	2	2	2	2	2	2	2
Mrs H Owers	6	6	5	3	4	4	5	3
Mr D Kucz	1	1	n/a	n/a	1	1	1	1
Mr J Maiden	6	6	6	6	4	4	4	4
Mrs T Minick-Skocalo	1	1	1	1	n/a	n/a	n/a	n/a
Mr J Nicolson	6	6	6	6	3	3	4	4
Mrs C Silver	6	6	n/a	n/a	n/a	n/a	5	5

Note: 'n/a' indicates that the Director is not a member of the committee.

Mr Davis and Ms Edozien retired from the Board on 27 September 2017. Mrs Minick-Skocalo and Mr Kucz were appointed to the Board on 1 May 2018, on which date the membership of Board committees was also reconstituted.

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

Good4Business (G4B) Committee

The Good4Business Committee is responsible for reviewing and developing the Company's corporate strategy to ensure that Corporate Social Responsibility (CSR) is an integral part of the strategy and that the Group's social, environmental and economic activities are aligned. The Good4Business Committee is responsible for the development of policies on all key areas of the Company's CSR programme – Good4Business – including Business Governance & Ethics, the Environment, Sourcing and Community & Charity. Further details of the Committee's terms of reference and activities during the year are set out in the Good4Business section of the Strategic Report.

During the year ended 31 May 2018, the Committee members were:

- Mr Nicolson (Committee Chair)
- Mr Kanellis
- Mr Leigh
- Mrs Minick-Scokalo (with effect from her appointment to the Board on 1 May 2018)
- Mrs Silver
- Mrs Owers and Mr Maiden (until they each stepped down from the Committee on 1 May 2018)
- Ms Edozien and Mr Davis (until they each retired from the Board on 27 September 2017)

The Company Secretary, Mr Plant, is Secretary to the Committee.

Remuneration

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

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 Strategic Report. The financial position of the Group and liquidity position are described within the Financial Review, which forms part of the Strategic Report. In addition, Note 19 to the Consolidated Financial Statements includes policies in relation to the Group's financial instruments and risk management and policies for managing credit risk, liquidity risk, market risk, foreign exchange risk, price risk, cash flow and interest rate risk and capital 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 a period of at least 12 months from the date of approving the Financial Statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. A viability statement has been prepared and approved by the Board and this is set out on page 35 of the Strategic Report.

Internal control

The Board is ultimately responsible for the Group's system of internal control 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 2018 and up to the date of the approval of the Annual Report and Consolidated Financial Statements, that it is regularly reviewed by the Board and that it accords with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting. The process includes:

- frequent communication between the Board and the Audit & Risk Committee and subsidiary management on all critical business issues;
- regular visits to operating units by the Board, head office management and Internal Audit;
- regular review of budgets, forecasts, periodic reporting and variance analysis;
- regular review by the Board and Audit & 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 & Risk 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 Consolidated 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 that come to the attention of management and the Board. The Group has ethical guidelines and a defined fraud reporting and whistle-blowing process, which are issued to all employees within the Group.

Overall no control failings or weaknesses were identified that would have a significant impact on the Group; however, recommendations were raised where necessary at specific sites to strengthen existing processes and controls and follow-up audit visits were carried out at the majority of sites to ensure that agreed corrective actions were being taken.

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 email service is available that 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 Accounts. 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. At the 2018 Annual General Meeting, voting on each resolution will be by way of a poll. 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.

The Board will also present a resolution at the 2018 Annual General Meeting in respect of an issue in respect of past dividend payments. During the year, the Board became aware of certain issues in respect of the Company's procedures for the payment of interim dividends in each of the financial years ended 31 May 2012, 2013, 2016 and 2017 (the "Relevant Dividends") that have resulted in an infringement of requirements of the Companies Act 2006.

In the circular convening the 2018 Annual General Meeting the Directors will propose a resolution that will, if passed, put all potentially affected parties so far as possible in the position that they were always intended to be had the Relevant Dividends been made in accordance with the requirements of the Act. The resolution will, among other things, seek shareholder approval for a proposed waiver of any claims that the Company may have for repayment of the Relevant Dividends received by shareholders and of any claims that the Company may have against the Directors in relation to the Relevant Dividends. Further details are set out in the circular.

Report on Corporate Governance continued

Compliance statement

The Directors consider that the Company complied fully with the provisions of the Code throughout the year ended 31 May 2018 and up to the date of this report.

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, comprising FRS 101 'Reduced Disclosure Framework' and applicable law). 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 parent Company and of the profit or loss of the Group and parent 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 that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group Financial Statements and UK Accounting Standards, comprising FRS 101, have been followed for the parent Company Financial Statements, 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 Group and parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company 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.

The Directors 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 UK governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent Company's performance and position, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 2 and 3 confirm that, to the best of their knowledge:

- the Company Financial Statements, which have been prepared in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable law), give a true and fair view of the assets, liabilities, financial position and result of the Company;
- the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the European Union, 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 and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

S P Plant
Company Secretary
24 July 2018

Financial Statements

Independent Auditor's Report
to the Members of PZ Cussons Plc

Report on the audit of the Financial Statements

Opinion

In our opinion:

- the Financial Statements of PZ Cussons Plc (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 May 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements, which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and parent Company Balance Sheets;
- the Consolidated and parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement;
- the Statement of Accounting Policies; and
- the related Notes 1 to 31.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company Financial Statements is applicable law and UK Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (UK Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • carrying value of Nutricima and five:am assets; • defined benefit obligations; • foreign exchange; and • uncertain tax positions. Within this report, any new key audit matters compared to those matters identified by PriceWaterhouseCoopers LLP (PwC), the Auditor for the prior year, are identified with and any key audit matters that are the same as those identified by PwC in the prior year identified with .
Materiality	The materiality that we used for the Group Financial Statements was £4.0m.
Scoping	The scope of our audit covered 99% of revenue, 100% of profit before tax and 100% of net assets.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in the Report of the Directors on page 34 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 35 to 39 of the Strategic Report that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 35 of the Strategic Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 35 of the Strategic Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report continued

Carrying value of Nutricima and five:am assets

Key audit matter description

At 31 May 2018, the Group recognised goodwill of £63.1m (FY17: £63.1m) as per Note 10, software of £47.5m (FY17: £44.8m) as per Note 10, property, plant and equipment (PPE) of £156.6m (FY17: £177.0m) as per Note 11 and brands/patents of £295.5m (FY17: £295.5m) as per Note 10.

Of the goodwill, intangibles and PPE recognised at 31 May 2018, £30.8m related to Nutricima, and included £4.6m goodwill, £15.5m in relation to brands and £10.7m of tangible fixed assets.

Of the goodwill, intangibles and PPE recognised at 31 May 2018, £47.9m related to five:am, and included £11.8m goodwill, £33.3m in relation to brands and £2.8m of tangible fixed assets.

There have been a number of events in the year that have constituted indicators that the risk of impairment of the Nutricima cash-generating unit's (CGU) assets is elevated this year, namely the financial performance of the CGU during the year, the continuing depressed market in Nigeria with inflation outstripping wage rises, volatility in the foreign exchange rates prevailing and levels of liquidity available, and the general uncertainty that surrounds the economy in anticipation of general elections in early 2019.

The performance of five:am has been marginally lower in the year than that anticipated by management.

Management has prepared a discounted cash flow model to assess the recoverable value of the assets attributable to the Nutricima and five:am s CGUs. The key inputs that require judgement are:

- the identification of the relevant CGU(s);
- the discount rate applied to the cash flows;
- the period of cash flows over which reliable forecasts can be derived;
- the growth rates assumed in the cash flows in relation to each of Nutricima and five:am's key brands, including the assumption as to when the decline in demand is arrested and the pace at which profitability subsequently improves; and
- the gross margins, and resultant net cash flows, that will be achieved.

We have considered the risk for potential fraud in relation to management's selection of these inputs.

Management's base case model shows headroom of £7.1m for Nutricima and £15.4m for five:am, however, reasonably possible downside sensitivities do indicate an impairment of up to £3.4m for Nutricima and £2.4m for five:am. The inputs noted above have been identified as a key source of estimation uncertainty on page 63. This area has also been considered as a matter for discussion in the report of the Audit & Risk Committee on page 31.

How the scope of our audit responded to the key audit matter

We understood management's process for identifying indicators of impairment and for performing their impairment assessment. We assessed the design and implementation of key controls relating to asset impairment models, the underlying forecasting processes and the impairment reviews performed. We evaluated and challenged the key assumptions and inputs into the impairment models, which included performing sensitivity analysis, to evaluate the impact of selecting alternative assumptions. In challenging the assumptions, we have:

- considered the appropriateness of Nutricima comprising only one CGU;
- assessed the discount rate applied. In doing so, we involved our internal valuation specialists to evaluate management's discount rates, which involved benchmarking against available market views and analysis;
- understood the extent to which forecasts can be reliably derived by the Company; and
- confirmed that forecast cash flows were consistent with Board approved forecasts and analysed reasonably possible downside sensitivities. We have also discussed the base case forecasts with our component teams in Nigeria and Australia to understand whether there are any additional matters that should be factored into the sensitivity analysis and to understand the reasonableness of the base case forecasts relative to our knowledge of Nutricima and five:am's business and of local macroeconomic factors.

We audited the integrity of the impairment models and cash flow forecasts to test arithmetical accuracy. We recalculated the headroom and agreed the balances to the underlying financial records. We considered the compliance of the impairment model with the requirements of IAS 36 'Impairment of Assets'. We reviewed the impairment disclosures against the requirements of IAS 36. We reviewed the presentation and disclosure of management's impairment assessment in the Financial Statements to assess whether the disclosure is consistent with the Group's policy and relevant accounting standards.

Carrying value of Nutricima and five:am assets continued

Key observations

We have obtained suitable audit evidence to support the base case assumptions adopted by management, and therefore concur with the conclusions of management that no impairment is required as at the date of this report.

For Nutricima and five:am, the discount rates used were outside of our expected range. We have considered the impact of this difference as part of our sensitivity analysis and a change in discount rate to 8.25%, being the bottom end of our range in relation to five:am, would significantly reduce the headroom within that CGU, though it would not result in an impairment in management's base case model. The difference in discount rate for Nutricima would increase headroom compared to management's base case scenario.

Reasonably possible scenarios would give rise to the need to record an impairment provision. Management have provided appropriately detailed disclosure in this regard to highlight these sensitivities and provide an indication of the impacts of a range of reasonably possible scenarios on the impairment review conclusions that we have concluded to be appropriate.

Defined benefit obligations

Key audit matter description

The Group participates in a number of defined benefit pension schemes, notably in the UK and Indonesia. IAS 19 'Employee Benefits' ("IAS 19") requires the net value of the defined benefit scheme's assets and liabilities to be shown on the Balance Sheet. In the case of schemes that are in a net surplus position under IAS 19, consideration must be given to whether the Company has an unconditional right to the surplus in determining whether it is appropriate to record the net surplus on the Balance Sheet.

Furthermore, highly judgemental assumptions must be made by management in valuing the scheme liabilities, including those in relation to discount rates, inflation and mortality.

As such, our audit risk has been pinpointed to:

- the assumptions underpinning the valuation of the liabilities of the Group's schemes; and
- the basis of the recognition of any net pension assets in line with IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.

At 31 May 2018, the net pension surplus on an IAS 19 basis in relation to the Expatriate plan is £57m. In respect of the Main staff plan, the net surplus is £26m. The Group revised its accounting policy for determining whether or not it has an unconditional right to a refund of any surplus in its defined pension schemes, as discussed on page 54. As a result, the surplus for the Expatriate plan has been de-recognised. This change of policy had the effect of reducing retained earnings by £38.3m at 1 June 2017.

How the scope of our audit responded to the key audit matter

We have evaluated the design and implementation of the key controls relating to the pension schemes liabilities and accounting.

In relation to the liability assumptions, we have included pensions specialists within our audit team, who have assessed the reasonableness of the assumptions adopted by management in the valuation of scheme liabilities and benchmarked those assumptions against a comparator group.

In relation to the appropriate accounting treatment for the two schemes that are showing a surplus on an IAS 19 basis, we have:

- reviewed legal opinions obtained by management in relation to the trustees' and Company's rights under the scheme rules;
- considered the guidance within IFRIC 14; and
- reviewed management's rationale and judgements applied in relation to their determination of the appropriate accounting treatment.

Key observations

We agree that the liability assumptions adopted by management are within a reasonable range.

We agree with the accounting policy change in relation to the recognition of a pension surplus. We concur that the recognition of the surplus in the Main staff plan and the de-recognition of the surplus in the Expatriate plan is appropriate.

Independent Auditor's Report continued

Foreign exchange valuation and disclosure

Key audit matter description

The Nigerian foreign exchange regime is such that there are currently three official rates of exchange. In addition, parallel market rates exist that are not independently quoted but that are accessed by the Group in the settlement of certain balances or when there is insufficient liquidity on the official markets.

Judgement is required in selecting the rate at which to translate US Dollar denominated balances held in the Group's Nigerian entities into Naira, and the results of the Nigerian businesses into Sterling for consolidation purposes. At 31 May 2017, the rate used by management was the Central Bank of Nigeria spot rate (CBN).

The key audit matter arises around:

- consideration of which of the available rates of exchange comply with the requirements of IAS 21 'The Effects of Changes in Foreign Exchange Rates' and therefore are available to be considered by management as appropriate rates for translation and remeasurement purposes;
- the selection of the most appropriate rate at which to translate the relevant balances as at the year end date;
- consideration of whether there are any specific transactions and balances that could or should be translated using a different rate due to restrictions on access to some or all of the official exchange markets for certain types of transaction; and
- the disclosure in Note 1 and the Report of the Audit & Risk Committee on page 31 of not only the rate that has been applied in the Annual Report and Accounts, but also the other key judgements that have been applied by management, including:
  - the rationale for the selection of that rate;
  - the rationale for the treatment of the impact of the change of rate as exceptional in the Income Statement;
  - the financial impact of the selection of that rate compared to other judgements that could have reasonably been taken; and
  - the actual rates at which balances and transactions are expected to be settled, including an explanation of why where there are differences between the rate at which balances have been translated and the expected settlement rate.

The Group has concluded that NIFEX is the appropriate rate to translate US Dollar denominated balances at 31 May 2018, as disclosed on page 64. An exceptional charge has been recognised in the Income Statement, as noted in Note 3.

How the scope of our audit responded to the key audit matter

We have analysed management's analysis of the rates that transactions are currently being settled at by the Group in conjunction with the requirements of IAS 21 'The Effects of Changes in Foreign Exchange Rates'. We have held discussions with management regarding the appropriateness of recognising certain transactions at other rates and understood their process for identifying the rationale for changing the rate. We have considered the appropriateness of the rate change being exceptional with reference to the exceptional items policy adopted by the Group as disclosed on page 58, and understood the reasons why balances exist that cannot be settled at NIFEX.

We have re-performed management's calculation of the rate change to verify the mechanical accuracy of the model used and agreed the figures presented to underlying transactions. We have considered the disclosure around the impact of the change in rate on page 67.

Key observations

We considered that management's conclusion to move to NIFEX from the CBN rate is reasonable.

We have reviewed the disclosures made on page 64 that summarise the impact of the judgement taken and those matters noted above and consider them to be appropriate.

Provision for uncertain tax positions

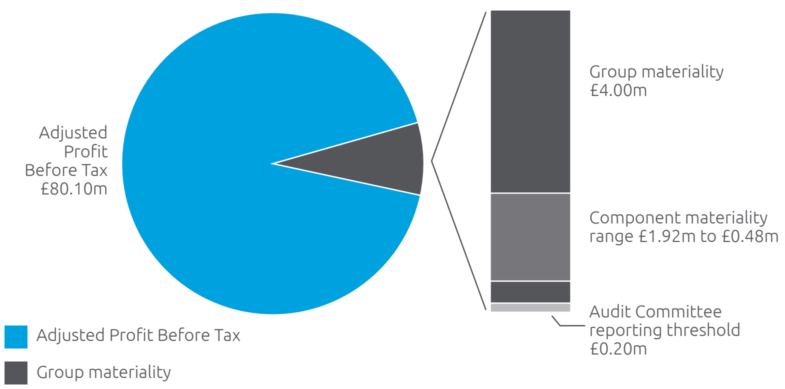
Key audit matter description	The Group operates in a number of overseas territories, including some with rapidly developing or ambiguous tax legislation, and therefore the Group can be subject to unexpected or unsubstantiated tax assessments, which have the potential to be material in nature. Given this, there is a risk around the completeness and valuation of the potential exposures and, therefore, the tax provisions and disclosures required by the Group. The accounting policy in relation to the provision at 31 May is on page 63 and the material current tax estimates of £13.5m and £6.2m are noted in Note 1 to the accounts.
How the scope of our audit responded to the key audit matter	We have evaluated the design and implementation of the key control relating to the tax provisions. Our audit team included taxation specialists across corporation tax, transfer pricing and local tax laws. In carrying out our audit, we have understood and challenged the judgements taken by management, which are based on discussions and correspondence with local authorities, third party advice obtained and from in-house, local tax knowledge. We have reviewed the disclosures made by management in Note 7 around the uncertain tax provisions.
Key observations	We have concluded that the provisions held overall appear to be reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Parent Company Financial Statements
Materiality	£4.0m	£1.6m
Basis for determining materiality	5% of adjusted pre-tax profit. The pre-tax profit figure has been adjusted for exceptional items only. This has been reconciled on page 47.	Parent Company materiality equates to 1% of net assets, which is capped at 40% of Group materiality.
Rationale for the benchmark applied	We consider an adjusted profit measure to be the most relevant measure of performance for the primary users of the accounts, being the shareholders. This is on the basis that the adjusted profit before tax better reflects the underlying nature and trading of the Group and therefore is considered to be a more representative basis upon which to determine materiality.	We consider the users of the accounts to be most interested in the net assets of the Company on the basis that they will determine the extent to which dividends can be paid.



We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £200,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

Independent Auditor's Report continued

An overview of the scope of our audit

We developed a detailed audit transition plan, designed to deliver an effective transition from the Group's predecessor Auditor, PwC. Our audit planning and transition commenced on 1 June 2017, when we confirmed our independence to the Group's Audit & Risk Committee. Our transition activities were performed across the Group, and included (but were not limited to) meeting relevant partners and senior staff from PwC, shadowing PwC in the 2017 audit close meetings, attending the July 2017 Audit & Risk Committee meeting where the final report on the 2017 audit was presented and reviewing PwC's 2017 audit work papers. In September 2017, we held an audit transition planning workshop with senior members of our component teams and members of the Group finance team in order to design our audit strategy and approach. Our transition focused on obtaining an understanding of the Group's system of internal control, evaluating the Group's accounting policies and areas of accounting judgement and meeting with management across the Group to obtain an understanding of the business.

The Group has operations in 10 countries. The most significant of the Group's operations are in the UK, Nigeria, Indonesia and Australia. We agreed with the Audit & Risk Committee that all entities that contribute to the Group result would be included within our audit scope, apart from certain highly immaterial entities where Deloitte is not the appointed statutory Auditor. This has resulted in coverage of 99% of Group revenue, 100% of Group profit before tax and 100% of Group net assets.

The materiality levels of the entities ranged from £1.92m to £0.48m depending on the contribution of the entity's operations to the Group and our assessment of risk relevant specific to each location. The components based in the UK were audited by the Group engagement team. For the overseas entities, the most significant entities, being those based in Nigeria, Australia and Indonesia, were visited throughout the year by the lead audit partner and/or Group audit director. A significant number of component teams were involved in our transition workshops and other transition activities, all of which were overseen and directed by the Group audit team. Where an entity team was not involved in the transition workshops, that team was separately briefed on matters discussed. Throughout the year, the Group audit team has been directly involved in overseeing the entity audit planning and execution, through visits, frequent conversations, team briefings, debate, challenge and review of reporting and underlying work papers. In addition to our direct interactions, we sent detailed instructions to our entity audit teams, attended audit closing meetings via conference call and reviewed their audit working papers.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the Financial Statements and our Auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, there are matters that we are specifically required to report to you as uncorrected material misstatements of the other information where it is concluded that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit & Risk Committee reporting** – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our Auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Report on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if in our opinion: • we have not received all the information and explanations we require for our audit; or • 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 are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Report on Directors' Remuneration to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Independent Auditor's Report continued

Other matters

Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were recommended by the Audit & Risk Committee for appointment at the AGM on 27 September 2017 to audit the Financial Statements for the year ending 31 May 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 1 year, covering the current financial year only.

Consistency of the audit report with the additional report to the Audit & Risk Committee

Our audit opinion is consistent with the additional report to the Audit & Risk Committee that we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Boardman BSc FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Manchester, UK

24 July 2018

Consolidated Income Statement
Year ended 31 May 2018

	Notes	Year ended 31 May 2018 Before exceptional items £m	Year ended 31 May 2018 Exceptional items (Note 3) £m	Year ended 31 May 2018 Total £m	(Restated)* Year ended 31 May 2017 Before exceptional items £m	(Restated)* Year ended 31 May 2017 Exceptional items (Note 3) £m	(Restated)* Year ended 31 May 2017 Total £m
Continuing operations							
Revenue	2	**762.6**	**–**	**762.6**	809.2	–	809.2
Cost of sales		**(477.5)**	**–**	**(477.5)**	(497.4)	–	(497.4)
Gross profit		**285.1**	**–**	**285.1**	311.8	–	311.8
Selling and distribution costs		**(123.9)**	**–**	**(123.9)**	(130.9)	–	(130.9)
Administrative expenses		**(76.9)**	**(13.8)**	**(90.7)**	(79.0)	(15.5)	(94.5)
Share of results of joint ventures	13	**1.4**	**0.3**	**1.7**	2.9	–	2.9
Operating profit/(loss)	2	**85.7**	**(13.5)**	**72.2**	104.8	(15.5)	89.3
Finance income		**0.9**	**–**	**0.9**	2.7	–	2.7
Finance costs		**(6.5)**	**–**	**(6.5)**	(5.5)	–	(5.5)
Net finance costs	6	**(5.6)**	**–**	**(5.6)**	(2.8)	–	(2.8)
Profit/(loss) before taxation		**80.1**	**(13.5)**	**66.6**	102.0	(15.5)	86.5
Taxation	7	**(22.1)**	**4.3**	**(17.8)**	(28.1)	6.7	(21.4)
Profit/(loss) for the year	4	**58.0**	**(9.2)**	**48.8**	73.9	(8.8)	65.1
Attributable to:							
Owners of the Parent	9	**56.0**	**(8.3)**	**47.7**	68.7	(6.3)	62.4
Non-controlling interests		**2.0**	**(0.9)**	**1.1**	5.2	(2.5)	2.7
		58.0	**(9.2)**	**48.8**	73.9	(8.8)	65.1
Basic EPS (p)	9			**11.41**			14.91
Diluted EPS (p)	9			**11.41**			14.91
Adjusted basic EPS (p)	9			**13.39**			16.42
Adjusted diluted EPS (p)	9			**13.39**			16.42

* See Note 1 for further details.

Consolidated Statement of Comprehensive Income
Year ended 31 May 2018

	Notes	2018 £m	(Restated)* 2017 £m
Profit for the year		**48.8**	65.1
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations	24	**26.7**	(5.0)
Deferred tax (loss)/gain on remeasurement of post-employment benefit obligations	22	**(4.5)**	1.1
Tax on items that will not be subsequently reclassified to profit or loss	22	**0.2**	0.4
Total items that will not be reclassified to profit or loss		**22.4**	(3.5)
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(25.8)**	(53.4)
Cash flow hedges – fair value gain in year		**(1.8)**	0.6
Tax on items that may be subsequently reclassified to profit or loss	22	**–**	0.7
Total items that may be subsequently reclassified to profit or loss		**(27.6)**	(52.1)
Other comprehensive expense for the year net of taxation		**(5.2)**	(55.6)
Total comprehensive income for the year		**43.6**	9.5
Attributable to:			
Owners of the Parent		**47.1**	20.7
Non-controlling interests		**(3.5)**	(11.2)

* See Note 1 for further details.

Consolidated Balance Sheet
At 31 May 2018

	Notes	31 May 2018 £m	(Restated)* 31 May 2017 £m	(Restated)* 1 June 2016 £m
Assets				
Non-current assets				
Goodwill and other intangible assets	10	**406.1**	403.4	357.1
Property, plant and equipment	11	**156.6**	177.0	227.0
Other investments	14	**0.3**	0.3	0.3
Net investments in joint ventures	13	**22.9**	23.1	31.9
Trade and other receivables	16	**0.4**	1.6	1.4
Retirement benefit surplus*	24	**33.3**	4.1	4.6
		619.6	609.5	622.3
Current assets				
Inventories	15	**132.6**	163.3	150.5
Trade and other receivables	16	**163.9**	190.3	174.5
Derivative financial assets	19	**–**	1.5	–
Current asset investments	17	**0.3**	0.3	0.3
Cash and short-term deposits	18	**102.7**	150.6	175.1
		399.5	506.0	500.4
Assets held for sale	12	**–**	2.2	–
		399.5	508.2	500.4
Total assets		**1,019.1**	1,117.7	1,122.7
Equity				
Share capital	25	**4.3**	4.3	4.3
Capital redemption reserve		**0.7**	0.7	0.7
Hedging reserve		**0.6**	2.4	1.8
Currency translation reserve		**(79.8)**	(58.6)	(19.1)
Retained earnings*		**536.4**	501.3	477.4
Attributable to owners of the Parent		**462.2**	450.1	465.1
Non-controlling interests		**29.0**	33.8	46.5
Total equity		**491.2**	483.9	511.6
Liabilities				
Non-current liabilities				
Trade and other payables	21	**1.0**	0.6	0.6
Deferred taxation liabilities*	22	**44.2**	39.4	39.8
Retirement benefit obligations	24	**12.0**	17.9	17.0
		57.2	57.9	57.4
Current liabilities				
Borrowings	19	**268.4**	294.7	322.5
Trade and other payables	20	**174.4**	248.9	198.7
Derivative financial liabilities	19	**1.1**	–	–
Current taxation payable		**25.6**	28.4	27.8
Provisions	23	**1.2**	3.9	4.7
		470.7	575.9	553.7
Total liabilities		**527.9**	633.8	611.1
Total equity and liabilities		**1,019.1**	1,117.7	1,122.7

* See Note 1 for further details.

The Financial Statements from pages 47 to 95 were approved by the Board of Directors and authorised for issue.

They were signed on its behalf by:

C Silver **G A Kanellis**
24 July 2018

Consolidated Statement of Changes in Equity

	Notes	Share capital £m	Currency translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Hedging reserve £m	Non-controlling interests £m	Total £m
		Attributable to owners of the Parent						
At 1 June 2016 (as previously reported)		4.3	(19.1)	0.7	515.7	1.8	46.5	**549.9**
Effect of change in accounting policy		–	–	–	(38.3)	–	–	**(38.3)**
At 1 June 2016 (restated)*		4.3	(19.1)	0.7	477.4	1.8	46.5	**511.6**
Profit for the year*		–	–	–	62.4	–	2.7	**65.1**
Other comprehensive income/(expense)								
Remeasurement of post-employment obligations*	24	–	–	–	(5.0)	–	–	**(5.0)**
Exchange differences on translation of foreign operations		–	(39.5)	–	–	–	(13.9)	**(53.4)**
Cash flow hedges – fair value gains in year		–	–	–	–	0.6	–	**0.6**
Deferred tax on remeasurement of post-employment obligations*	22	–	–	–	1.1	–	–	**1.1**
Deferred tax on other equity-related items	22	–	–	–	1.1	–	–	**1.1**
Total comprehensive (expense)/ income for the year*		–	(39.5)	–	59.6	0.6	(11.2)	**9.5**
Transactions with owners:								
Ordinary dividends	8	–	–	–	(34.2)	–	–	**(34.2)**
Acquisition of shares by ESOT	26	–	–	–	(1.2)	–	–	**(1.2)**
Acquisition of non-controlling interest	30	–	–	–	(0.3)	–	(0.1)	**(0.4)**
Non-controlling interests dividend paid		–	–	–	–	–	(1.4)	**(1.4)**
Total transactions with owners recognised directly in equity		–	–	–	(35.7)	–	(1.5)	**(37.2)**
At 31 May 2017 (restated)*		**4.3**	**(58.6)**	**0.7**	**501.3**	**2.4**	**33.8**	**483.9**
At 1 June 2017 (as previously reported)		**4.3**	**(58.6)**	**0.7**	**543.9**	**2.4**	**33.8**	**526.5**
Effect of change in accounting policy		**–**	**–**	**–**	**(42.6)**	**–**	**–**	**(426.6)**
At 1 June 2017 (restated)*		**4.3**	**(58.6)**	**0.7**	**501.3**	**2.4**	**33.8**	**483.9**
Profit for the year		**–**	**–**	**–**	**47.7**	**–**	**1.1**	**48.8**
Other comprehensive income/(expense)								
Remeasurement of post-employment obligations	**24**	**–**	**–**	**–**	**26.7**	**–**	**–**	**26.7**
Exchange differences on translation of foreign operations		**–**	**(21.2)**	**–**	**–**	**–**	**(4.6)**	**(25.8)**
Cash flow hedges – fair value gains in year		**–**	**–**	**–**	**–**	**(1.8)**	**–**	**(1.8)**
Deferred tax on remeasurement of post-employment obligations	**22**	**–**	**–**	**–**	**(4.5)**	**–**	**–**	**(4.5)**
Deferred tax on other equity-related items	**22**	**–**	**–**	**–**	**0.2**	**–**	**–**	**0.2**
Total comprehensive (expense)/income for the year		**–**	**(21.2)**	**–**	**70.1**	**(1.8)**	**(3.5)**	**43.6**
Transactions with owners:								
Ordinary dividends	**8**	**–**	**–**	**–**	**(34.6)**	**–**	**–**	**(34.6)**
Acquisition of shares by ESOT	**26**	**–**	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**
Acquisition of non-controlling interest	**30**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Non-controlling interests dividend paid		**–**	**–**	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Total transactions with owners recognised directly in equity		**–**	**–**	**–**	**(35.0)**	**–**	**(1.3)**	**(36.3)**
At 31 May 2018		**4.3**	**(79.8)**	**0.7**	**536.4**	**0.6**	**29.0**	**491.2**

* See Note 1 for further details.

Consolidated Cash Flow Statement
Year ended 31 May 2018

	Notes	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operations	27	**59.1**	110.9
Taxation paid		**(18.0)**	(14.3)
Interest paid	6	**(6.5)**	(5.5)
Net cash generated from operating activities		**34.6**	91.1
Cash flows from investing activities			
Interest income	6	**0.9**	2.7
Purchase of property, plant and equipment and software	10,11	**(22.2)**	(40.6)
Proceeds from sale of assets		**10.6**	0.9
Net cash used in investing activities		**(10.7)**	(37.0)
Cash flows from financing activities			
Dividends paid to non-controlling interests		**(1.3)**	(1.4)
Purchase of shares for ESOT	26	**(0.4)**	(1.2)
Dividends paid to Company shareholders	8	**(34.6)**	(34.2)
Acquisition of non-controlling interests		**–**	(0.4)
(Decrease)/increase in borrowings	18	**(7.9)**	6.3
Net cash used in financing activities		**(44.2)**	(30.9)
Net (decrease)/increase in cash and cash equivalents		**(20.3)**	23.2
Cash and cash equivalents at the beginning of the year		**116.1**	104.6
Effect of foreign exchange rates	18	**(9.6)**	(11.7)
Cash and cash equivalents at the end of the year	18	**86.2**	116.1

Notes to the Consolidated Financial Statements

General information

PZ Cussons Plc is a public limited company that is listed on the London Stock Exchange and is domiciled and incorporated in the UK under the Companies Act 2006. The address of the registered office is given on page 108.

These Financial Statements are presented in Pounds Sterling and have been presented in £m. 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 Standards Interpretations Committee (IFRS IC) 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 IFRS IC.

The preparation of Financial Statements, in conformity with IFRSs, 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. Key sources of estimation uncertainty can be found on page 63.

The Financial Statements have been prepared on a going concern basis and on a historical cost basis except for the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The Financial Statements have been prepared using consistent accounting policies except as stated below.

a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 June 2017:

- Disclosure Initiative – Amendments to IAS 7;
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12; and
- Annual Improvements to IFRSs: 2014-16 Cycle – IFRS 12 Amendments.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 May 2018 reporting period and have not been early adopted by the Group. The Group will undertake an assessment of the impact of the following new standards and interpretations in due course:

- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- IFRS 2 'Classification and Measurement of Share-based Payment Transactions';
- Amendments to IFRS 10 and IAS 28 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- IFRIC 23 'Uncertainty over Income Tax Treatments'; and
- Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures'.

The Group has undertaken an assessment of the impact of the following new standards, which is shown in the table on page 53:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from Contracts with Customers'; and
- IFRS 16 'Leases'.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Applicable standard	Key requirements or changes in accounting policy	Implementation progress and expected impact
IFRS 9 'Financial Instruments' *Effective from the year ending 31 May 2019* *The standard has been endorsed by the EU*	This standard introduces new requirements in three areas: **Classification and measurement:** Financial assets will now be classified based on 1) the objective of the Group in holding the asset and 2) an assessment of whether the contractual cash flows are solely payments of principal and interest. **Impairment:** A new expected credit loss model will be used for calculating impairment on financial assets. A loss event does not have to occur before credit losses are recognised. **Hedge accounting:** New general hedge accounting requirements will allow hedge accounting based on the Group's risk management policies.	During the year ended 31 May 2018, the Group has conducted preparations for the new requirements in IFRS 9. **Classification and measurement:** The Group will assess its quasi-equity loans in terms of the business model assessment and the SPPI (Solely Payments of Principal and Interest) tests. The results of this assessment are ongoing. The Group's investment in equities will be measured at fair value under IFRS 9, rather than at cost as they are currently. This is not anticipated to have a material impact. It is anticipated that all other assets within the scope of IFRS 9 will be measured at amortised cost, as they are held to collect contractual cash flows and pass the SPPI test. **Impairment:** For trade receivables, we will make minor refinements to our calculation methodology to be more specific about ageing. The impact of applying this will be immaterial. For other financial assets the expected impact of applying the new expected loss model is still being evaluated. **Hedge accounting:** Consistent with the non-complex nature of the Group's financial instruments, we have concluded that there will not be a material impact of IFRS 9. Our current hedge relationships will qualify as hedges on adoption of IFRS 9.
IFRS 15 'Revenue from Contracts with Customers' *Effective from the year ending 31 May 2019* *The standard has been endorsed by the EU*	The standard clarifies the accounting for bundled services and identifying each 'performance obligation' in contractual arrangements. It also provides more guidance on the measurement of revenue contracts that have discounts, rebates, payments to suppliers and consignment stock.	We have completed our review of the requirements of IFRS 15 against our existing accounting policies, in particular for trade expenditure and bad debts. For trade promotional expenditure adjustments required under IFRS 15, we expect a reduction of circa £20m to statutory reported revenue. We do not expect any material adjustments in respect of bad debts.
IFRS 16 'Leases' *Effective from the year ending 31 May 2020* *The standard has been endorsed by the EU*	This standard changes the recognition, measurement, presentation and disclosure of leases. In particular it requires lessees to record all leases on the Balance Sheet with exemptions available for low value and short-term leases.	Due to the number of countries we operate in, significant work is required to estimate the assets and liabilities that will need to be recognised on adoption of the new standard. Due to the changes in the definition of a lease term and potential embedded leases that we believe need to be identified and recognised on the Balance Sheet, it has not yet been possible to estimate the amount of right of use assets and lease liabilities that will be recognised on the Balance Sheet. We have also not yet decided which exemptions will be adopted. During the year ended 31 May 2018 we established a project team and began an initial impact assessment exercise. We expect to conclude preparations by the end of the next financial year in order to report on the impact accordingly.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

Change in accounting policy

The Group changed its accounting policy for the recognition of surpluses in its defined benefit pension schemes: in particular, the policy for determining whether or not it has an unconditional right to a refund of surpluses in its employee pension funds. Where the Group has a right to a refund, this is not deemed unconditional if pension fund trustees are able unilaterally to wind up the scheme and distribute the surplus to members. The revised accounting policy, by taking account of the powers of pension trustees in assessing the economic benefit available as a refund, provides enhanced information about the effect on the Group's financial position of its defined benefit pension schemes.

This change in accounting policy has resulted in the Group de-recognising the pension surplus in relation to the expatriate defined benefit scheme. In accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the amended policy has been applied retrospectively and prior periods restated. The impacts of the change in policy are shown in the tables below:

Consolidated Income Statement

	2018 £m			2017 £m		
	Under previous policy	Adjustment	As published	As previously reported	Adjustment	Restated
Administrative expenses	(89.4)	(1.3)	(90.7)	(93.0)	(1.5)	(94.5)
Operating profit	73.5	(1.3)	72.2	90.8	(1.5)	89.3
Profit before tax	67.9	(1.3)	66.6	88.0	(1.5)	86.5
Tax	(18.0)	0.2	(17.8)	(21.1)	(0.3)	(21.4)
Profit for the year	49.9	(1.1)	48.8	66.9	(1.8)	65.1
Profit attributable to owners of the parent	48.8	(1.1)	47.7	64.2	(1.8)	62.4

Consolidated Statement of Other Comprehensive Income

	2018 £m			2017 £m		
	Under previous policy	Adjustment	As published	As previously reported	Adjustment	Restated
Profit for the year	49.9	(1.1)	48.8	66.9	(1.8)	65.1
Remeasurement of post-employment benefit obligations	31.2	(4.5)	26.7	(1.9)	(3.1)	(5.0)
Deferred tax on remeasurement of post-employment obligations	(5.5)	1.0	(4.5)	0.5	0.6	1.1
Other comprehensive (expense) for the year net of taxation	(1.7)	(3.5)	(5.2)	(53.1)	(2.5)	(55.6)

Consolidated Balance Sheet

	2018 £m			2017 £m			2016 £m		
	Under previous policy	Adj	As published	As previously reported	Adj	Restated	As previously reported	Adj	Restated
Retirement benefit surplus	90.3	(57.0)	33.3	55.4	(51.3)	4.1	51.3	(46.7)	4.6
Total assets	1,076.1	(57.0)	1,019.1	1,169.0	(51.3)	1,117.7	1,169.4	(46.7)	1,122.7
Deferred taxation liabilities	(53.9)	9.7	(44.2)	(48.1)	8.7	(39.4)	(48.2)	8.4	(39.8)
Retained earnings	(583.7)	47.3	(536.4)	(543.9)	42.6	(501.3)	(515.7)	38.3	(477.4)
Equity attributable to owners of the parent	(509.5)	47.3	(462.2)	(492.7)	42.6	(450.1)	(503.4)	38.3	(465.1)

Consolidated Statement of Changes in Equity

	2018 £m			2017 £m		
Retained earnings	Under previous policy	Adjustment	As published	As previously reported	Adjustment	Restated
At 1 June	(543.9)	42.6	(501.3)	(515.7)	38.3	(477.4)
Profit for the year	(48.8)	1.1	(47.7)	(64.2)	1.8	(62.4)
Remeasurement of post-employment obligations	(31.2)	4.5	(26.7)	1.9	3.1	5.0
Deferred tax on remeasurement of post-employment obligations	5.5	(1.0)	4.5	(0.5)	(0.6)	(1.1)
As at 31 May	(583.7)	47.3	(536.4)	(543.9)	42.6	(501.3)

1. Accounting policies continued

The 2017 values for basic EPS and adjusted EPS have also been restated for the impact of the pension surplus de-recognition. Previously reported basic EPS 2017: 15.34p, restated basic EPS 2017: 14.91p. Previously reported adjusted EPS 2017: 16.85p, re-stated adjusted basic EPS 2017: 16.42p.

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. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

On acquisition, the assets, 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 deficit 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 as the non-controlling interest's proportion of the fair values of the assets and liabilities recognised. Comprehensive income attributable to the non-controlling interests is attributed to the non-controlling interests even if this results in the non-controlling interests recognising a deficit balance.

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.

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

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. All acquisition costs are expensed as incurred as exceptional items.

Where acquisitions are achieved in stages, commonly referred to as 'stepped acquisitions', and result in control being obtained by the Group as part of a transaction, the Group re-assesses the fair value of its existing interest in joint ventures as part of determining the fair value of consideration. In determining the fair value of the Group's existing interest, reference is given to the fair value of consideration paid to increase the Group's interest in joint ventures as well as considering the specific fair values of assets and liabilities transferred to gain control. Any increase or impairment of the Group's existing interest will be credited/charged to the Income Statement as an exceptional item.

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.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

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.

Interests in joint ventures

Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. PZ Cussons Plc has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs-to-sell.

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, trade spend, rebates and sales-related taxes but including interest receivable on sales on extended credit. Sales of goods are recognised when title has passed and the significant risks and rewards of ownership have been transferred, which is generally on receipt or collection by customers. Should management consider that the criteria for recognition are not met, revenue is deferred until such time as the consideration has been fully earned.

Trade spend, which consists primarily of customer pricing allowances, placement/listing fees and promotional allowances, are governed by agreements with our trade customers (retailers and distributors). Accruals are recognised under the terms of these agreements, to reflect the expected promotional activity and our historical experience. These accruals are reported within trade and other payables.

Trade promotions

The Group provides for amounts payable to trade customers for promotional activity. Where a promotional activity spans across the year end, an accrual is reflected in the Group accounts based on our expectation of customer and consumer uptake during the promotional period and the extent to which temporary promotional activity has occurred.

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 even when payments are not made on such a basis. 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.

1. Accounting policies continued

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 presented in Sterling, which is the functional currency of the Company, and the presentational 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, or at average rates of exchange if they represent a suitable approximation to the actual rate. 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 year. 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. 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 costs

Finance income is earned on bank deposits and finance costs are incurred on bank borrowings. Both 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.

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'.

Operating profit

Operating profit is the profit of the Group (including share of joint venture profit) before finance income, finance costs and taxation.

Retirement benefit obligations

As set out on page 54 the Group has revised its accounting policy for determining whether or not it has an unconditional right to a refund of surpluses in its employee pension funds. The change has been applied retrospectively and comparatives restated, as required by IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

The Group operates retirement benefit schemes in the UK and for most overseas countries in which it carries out business. Those in the UK 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.

The Group accounts for the defined benefit scheme under IAS 19 'Employee Benefits'.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

The deficit/surplus of the defined benefit pension schemes is recognised on the Balance Sheet (with surpluses only recognised to the extent that the Group has an unconditional right to a refund) and represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the Balance Sheet date. A full actuarial valuation is carried out at least every three years and the defined benefit obligation/surplus is updated on an annual basis, by independent actuaries, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Pension charges/income recognised in the Income Statement consists of administration charges of the scheme and a cost based on the interest/income on net pension scheme liabilities/surpluses calculated in accordance with IAS 19.

Differences between the actual return on assets and interest income, experience gains and losses and changes in actuarial assumptions are included directly in the Group's Statement of Comprehensive Income.

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

Exceptional items

The Group adopts a columnar Income Statement format to highlight significant items within the Group's results for the year. 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, but are not limited to, items such as certain foreign exchange losses, restructuring costs, acquisition related costs, material impairments of non-current assets, or, for example, receivables, material profits and losses on disposal of property, plant, equipment and brands, material pension settlements and amendments and profit or loss on disposal or termination of operations. The Directors apply judgement in assessing the particular items, which by virtue of their magnitude 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.

The Directors believe that the adjusted presentation assists shareholders by providing a more meaningful basis upon which to analyse underlying business performance and make year-on-year comparisons. The same measures are used by management for planning, budgeting and reporting purposes and for the internal assessment of operating performance across the Group. The adjusted presentation is adopted on a consistent basis for each of the half year and full year results.

Taxation

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

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 tax is calculated using tax rates that have been in effect throughout the year.

The Group makes provisions for current tax payable based on the Directors' best estimate of likely tax liabilities that may arise based on interpretations of current and expected tax legislation. Where tax legislation is not clear or is ambiguous the Directors make estimates of potential tax exposures that are reviewed and revised as additional information becomes available.

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 taxable profit nor 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.

1. Accounting policies continued

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 directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset 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.

The Group continues to believe that it has made adequate provision for the liabilities likely to arise from periods that are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with relevant tax authorities. In assessing these income tax uncertainties, management is required to make judgements in the determination of the unit of account, the evaluation of the circumstances, facts and other relevant information in respect of the tax position taken together with estimates of amounts that may be required to be paid in ultimate settlement with the tax authorities. As the Group operates in a multinational tax environment, the nature of the uncertain tax positions is often complex and subject to change. Original estimates are always refined as additional information becomes known.

Property, plant and equipment

Land and buildings held at the date of transition to IFRS 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.

Depreciation is charged 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 that 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. Land and assets in the course of construction are not depreciated.

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 year.

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

Property, plant and equipment that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Property, plant and equipment that suffer impairment are reviewed for possible reversal of the impairment at each Balance Sheet date.

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. In accordance with IAS 36 'Impairment of Assets', the brands are tested for impairment annually, and more frequently where 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

Brands currently held are not amortised as the Directors believe they have indefinite lives due to their market-leading nature. 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 renovation 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 within exceptional items.

Software development

Expenditure on research activities is recognised in the Income Statement as an expense as incurred. Expenditure on development activities directly attributable to the design and testing of identifiable software products and systems are capitalised if the product or systems meet the following criteria:

- the completion of the development is technically and commercially feasible to complete;
- adequate technical resources are sufficiently available to complete development;
- it can be demonstrated that future economic benefits are probable; and
- the expenditure attributable to the development can be measured reliably.

Development activities involve a plan or design for the production of new or substantially improved products or systems. Directly attributable costs that are capitalised as part of the software product or system include employee costs. Other development expenditures that do not meet these criteria as well as ongoing maintenance are recognised as an expense as incurred. Development costs for software are carried at cost less accumulated amortisation and are amortised over their useful lives (not exceeding ten years) at the point at which they come into use.

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 based on standard costs with material price and usage variances apportioned using the Periodic Unit Pricing 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.

Where net realisable value is lower than cost, provision for impairment is made that is charged to cost of sales in the Income Statement.

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 and is measured as the difference between carrying value and present value of estimated future cash flows. Subsequent recoveries of previously impaired trade receivables are recognised as a credit to profit.

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 deposit. Bank overdrafts are repayable on demand and form an integral part of the Group's cash management.

Where the Group has the legally enforceable right, and has settled balances on a net basis at the reporting date, bank overdrafts and cash balances are offset and presented on a net basis within the Financial Statements.

1. Accounting policies continued

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 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.

Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Balance Sheet.

(c) Available for sale financial assets

Available for sale financial assets include current asset investments, which relate to unlisted equity investments. These are held at cost because their fair value cannot be reliably measured.

Borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of direct issue costs, and are subsequently measured at amortised cost. 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 that they are not settled in the year in which they arise.

Trade payables

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

Notes to the Consolidated Financial Statements continued

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 de-recognised 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 fair value.

Investments are classified as available for sale. Subsequently, investments are measured at cost because those are investments in unquoted equities for which a fair value cannot be reliably measured. Loans to joint ventures, presented in the Balance Sheet as 'investments' are classified as loans and receivables and measured at amortised cost.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Hedging reserve

The hedging reserve represents the accumulated movements in the Group's derivative financial instruments that have been designated as hedging instruments. Amounts are transferred in and out of the reserve on the revaluation, or realisation, of identified hedging instruments.

Capital redemption reserve

Amounts in respect of the redemption of certain of the Company's ordinary shares are recognised in the capital redemption reserve.

Currency translation reserve

On translation of the Group's overseas operations from their local functional currency to the Group's presentational currency, foreign exchange differences arise, the cumulative effect of which are recognised in the currency translation reserve.

Segmental reporting

Operating segments are identified in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Board. For reporting purposes, in accordance with IFRS 8 'Operating Segments', the Board aggregates operating segments with similar economic characteristics and conditions into reporting segments, which form the basis of the reporting in the Annual Report, with the CODM identifying three reporting segments being Africa, Asia and Europe.

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.

1. Accounting policies continued

Share-based payments

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

Equity-settled share-based payments under the Executive Share Option Scheme were 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 was 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 vesting period based on the expected outcome of the performance and service 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.

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.

Accounting estimates and judgements

The Group's significant accounting policies under IFRS have been set by management with the approval of the Audit & Risk Committee. The application of these policies requires management to make assumptions and estimates about future events. The resulting accounting estimates will, by definition, differ from the actual results. Estimates and 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.

Under IFRS an estimate or judgement may be considered critical if it involves matters that are highly uncertain or where different estimation methods could reasonably have been used, or if changes in the estimate that would have a material impact on the Group's results are likely to occur from period to period.

Key sources of estimation uncertainty

Pensions

The Group's UK defined benefit pension schemes are closed to new members and future accrual. Year end recognition of the liabilities under this scheme and the return on assets held to fund these liabilities require a number of significant actuarial assumptions to be made including inflation, discount rate and mortality rates. Small changes in assumptions can have a significant impact on the expense recorded in the Income Statement and on the pension liability/asset in the Balance Sheet. See Note 24 for details of key estimates and assumptions applied in valuing the pension schemes.

Accounting for intangible assets and goodwill

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 recoverable amount through 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. The key estimates made by the Group include the discount rate, growth rates in revenue and gross margin and terminal growth rates, details of which are discussed in Note 10. Currently, the most sensitive estimates relate to the Nutricima and five:am CGUs. The sensitivity analysis in respect of the recoverable amount of those CGUs is also presented in Note 10.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

Current tax

The current tax liability/asset directly relates to the actual tax payable/receivable on the Group's profits and is determined based on tax laws and regulations that differ across the numerous jurisdictions in which the Group operates. Assumptions and judgements are made in applying these laws to the taxable profits in any given period in order to calculate the tax charge for that period. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the Income Statement in the period in which it is determined.

Included within the current tax liability of the Group are two material current tax estimates with carrying values as at 31 May 2018 of £13.5m (2017: £10.9m) and £6.2m (2017: £nil).

The tax estimate of £13.5m has arisen due to a difference in technical standpoint between PZ Cussons and a tax authority on a subjective and complex piece of legislation. This difference of opinion has led to an audit of the associated tax returns. This potential tax liability has been provided for in full due to the subjectivity of the legislation. It is expected that the range of possible outcomes could be a liability between £nil and £13.5m. A material movement to this current tax estimate is not expected within the next 12 months.

The tax estimate of £6.2m has arisen due to the risk of non-tax deductibility of a specific category of expense where it has come to light that formal government approval in the relevant jurisdiction may be required. It is expected that the range of possible outcomes could be a liability between £nil and £6.2m. A material movement may occur within the next twelve months if formal government approval is granted.

Critical areas of judgement

Foreign exchange rates in Nigeria

The Nigerian foreign exchange regime is such that there are currently three official rates of exchange: the Central Bank of Nigeria spot rate (CBN), NAFEX and NIFEX. An unofficial parallel market rate is also legally available, although not consistently publicly quoted. Judgement is required in selecting the rate at which to translate US Dollar denominated balances held in the Group's Nigerian entities into Naira, and the results of the Nigerian businesses into Sterling for consolidation purposes. At 31 May 2017, the rate used by management was the CBN rate.

After closely monitoring the profile of exchange rates accessed by the Group for settlement of transactions throughout the year, and observing a trend towards the majority of the Group's transactions being settled at NIFEX rates, which is anticipated to continue, the Group has concluded that NIFEX is the most appropriate rate to translate US Dollar denominated balances in Nigeria and the results of Nigerian operations as at 31 May 2018. An exceptional charge of £6.3m has been recognised in the Income Statement in relation to the impact of this change in accounting estimate, as documented in Note 3.

Notwithstanding the judgement highlighted above, there are certain US Dollar denominated creditor balances included in the Balance Sheet of the Group's Nigerian operating units at 31 May 2018 that will not be settled at NIFEX rates. This is due to both legal and liquidity restrictions on these particular transactions and as such the Group will be required to access US Dollars at alternative exchange rates e.g. NAFEX or parallel. These losses will crystallise as these transactions are settled in the early part of FY19, with the loss resulting from the difference between the NIFEX rate used for accounting purposes and the forecast settlement rate being anticipated to be in the region of £2m.

Basis of recognition of pension scheme surplus

Judgement is applied in the consideration of trustees' rights in relation to pension scheme surpluses. The trust deeds for the Directors' and Main staff plan provides the Group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in these two UK schemes are recognised in full. Where it is deemed that there is no such unconditional right to refund, such as in the case of the Expatriate plan, where the trustees have unilateral rights to wind up the scheme and distribute the surplus to members, no surplus is recognised. During the year, the Group made a change in accounting policy under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' in relation to the recognition of a pension surplus – see page 54 for details.

2. Segmental analysis

The Chief Operating Decision Maker (CODM) has been identified as the Executive Board, which comprises the two Executive Directors. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM has determined the operating segments based on these reports, which include an allocation of central revenue and costs as appropriate. For reporting purposes, in accordance with IFRS 8 'Operating Segments', the Board aggregates operating segments with similar economic characteristics and conditions into reporting segments, which form the basis of the reporting in the Annual Report.

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

Revenues and operating profit of the Europe and Asia segments arise from the sale of Personal Care, Home Care and Food & Nutrition products. Revenue and operating profit from the Africa segment arise from the sale of Personal Care, Home Care, Food & Nutrition and Electrical products. Sales between segments are carried out on an arm's length basis.

Reporting segments

2018	**Africa £m**	**Asia[1] £m**	**Europe[2] £m**	**Eliminations £m**	**Total £m**
Gross segment revenue	**275.6**	**225.5**	**396.6**	**(135.1)**	**762.6**
Inter-segment revenue	**–**	**(13.5)**	**(121.6)**	**135.1**	**–**
Revenue	**275.6**	**212.0**	**275.0**	**–**	**762.6**
Segmental operating profit before exceptional items and share of results of joint ventures	**4.9**	**18.6**	**60.8**	**–**	**84.3**
Share of results of joint ventures	**1.4**	**–**	**–**	**–**	**1.4**
Segmental operating profit before exceptional items	**6.3**	**18.6**	**60.8**	**–**	**85.7**
Exceptional items	**(4.7)**	**3.8**	**(12.6)**	**–**	**(13.5)**
Segmental operating profit	**1.6**	**22.4**	**48.2**	**–**	**72.2**
Finance income					**0.9**
Finance cost					**(6.5)**
Profit before taxation					**66.6**
Depreciation and amortisation	**7.9**	**3.9**	**12.7**	**–**	**24.5**
Impairment	**–**	**–**	**2.8**	**–**	**2.8**

2017	Africa £m	Asia[1] £m	(Restated)* Europe[2] £m	Eliminations £m	Total £m
Gross segment revenue	307.2	235.0	417.0	(150.0)	809.2
Inter-segment revenue	(1.6)	(12.3)	(136.1)	150.0	–
Revenue	305.6	222.7	280.9	–	809.2
Segmental operating profit before exceptional items and share of results of joint ventures	25.4	15.9	60.6	–	101.9
Share of results of joint ventures	2.9	–	–	–	2.9
Segmental operating profit before exceptional items	28.3	15.9	60.6	–	104.8
Exceptional items	(12.3)	(2.9)	(0.3)	–	(15.5)
Segmental operating profit	16.0	13.0	60.3	–	89.3
Finance income					2.7
Finance cost					(5.5)
Profit before taxation					86.5
Depreciation and amortisation	7.7	4.6	7.6	–	19.9

* See Note 1 for further details.

1 Asia segment includes revenue and profit from Australian operations.

2 Europe segmental result includes revenue and profit from US operations that are deemed to be immaterial for separate disclosure.

Notes to the Consolidated Financial Statements continued

2. Segmental analysis continued

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:

2018	UK £m	Nigeria £m	Other £m	Total £m
Revenue	184.2	238.7	339.7	762.6
Goodwill and other intangible assets	385.8	2.1	18.2	406.1
Property, plant and equipment	35.8	74.5	46.3	156.6
Pension surplus	33.3	–	–	33.3
Financial instruments	8.0	8.0	7.6	23.6

2017	UK £m	Nigeria £m	Other £m	Total £m
Revenue	191.9	270.0	347.3	809.2
Goodwill and other intangible assets	247.5	36.1	119.8	403.4
Property, plant and equipment	42.1	84.2	50.7	177.0
Pension surplus*	4.1	–	–	4.1
Financial instruments	9.0	9.4	6.6	25.0

* The 2017 pension surplus disclosure has been restated due to the de-recognition of the expatriate pension scheme surplus as disclosed in Note 1.

The Group analyses its net revenue by the following categories:

	2018 £m	2017 £m
Personal Care	435.8	431.0
Home Care	118.7	127.6
Food & Nutrition	130.1	156.5
Electricals	72.2	87.9
Other	5.8	6.2
	762.6	809.2

3. Exceptional items

Year to 31 May 2018 Exceptional items included within operating profit:	Exceptional items before taxation £m	Taxation £m	Exceptional items after taxation £m
Group structure and systems project	11.6	(2.3)	9.3
Impairment of non-operational European fixed asset	3.7	–	3.7
Sale of land relating to redundant manufacturing site in Australia	(8.1)	2.1	(6.0)
Change in Naira exchange rate for translation purposes	6.3	(1.8)	4.5
Sale of Australian brand	–	(2.3)	(2.3)
	13.5	(4.3)	9.2

Year to 31 May 2017 Exceptional items included within operating profit:	Exceptional items before taxation £m	Taxation £m	Exceptional items after taxation £m
Group structure and systems project	6.6	(1.7)	4.9
Partial recovery of trade receivable in Europe provided for in prior year	(3.1)	1.9	(1.2)
Foreign currency devaluation in Nigeria	12.0	(3.6)	8.4
Deferred tax benefit of reduction in UK corporation tax rate principally relating to acquired brands	–	(3.3)	(3.3)
	15.5	(6.7)	8.8

3. Exceptional items continued

Explanation of exceptional items

Year to 31 May 2018

Group structure and systems project
The Group has incurred exceptional costs of £11.6m relating to the project to realign the organisation design to create a more effective operating model. These represent a continuation of the same project on which exceptional costs were recognised in prior years and mainly consist of restructuring, advisory and IT system related costs.

Impairment of a non-operational European fixed asset
A decision was made to impair a non-operational European fixed asset to its latest market value, resulting in a £3.7m impairment loss being recognised.

Sale of land relating to redundant manufacturing site in Australia
In November 2017, the Group sold land relating to a redundant manufacturing site in Australia. Net proceeds of £10.3m were received against a net book value of £2.2m resulting in exceptional income before tax of £8.1m.

Change in Naira exchange rate for translation purposes
As a result of the evolution of the foreign exchange market in Nigeria, the Group has shifted over the course of the financial year to a position where it is now predominantly accessing US Dollars at the NIFEX rate, which is one of the three official rates of exchange in existence in Nigeria. As a result of this shift, in May 2018 the Directors reassessed the likely rate of settlement of the Group's Nigerian US Dollar monetary assets and liabilities and concluded that it is appropriate for the Group to move from translating both the Nigerian businesses' US Dollar denominated monetary assets and liabilities, and the Balance Sheets of its Nigerian operations, at the Central Bank of Nigeria (CBN) rate to the NIFEX exchange rate from May 2018 onwards. This change of accounting estimate resulted in an exceptional charge of £6.3m before tax as a result of translating the year end balances at the NIFEX rate rather than the CBN rate.

Sale of Australian brand
In May 2018, the Group sold a non-core Australian brand, resulting in a £2.3m tax credit.

Year to 31 May 2017

Group structure and systems project
The Group incurred exceptional costs of £6.6m relating to the project to realign the non-manufacturing organisation design to create a more effective Group operating model and to implement a new ERP system. These costs mainly consisted of restructuring, advisory and IT related costs.

Partial recovery of trade receivable in Europe provided for in prior year
A credit of £3.1m was recognised relating to the partial recovery of a trade receivable in Europe, which was fully provided for in the year ended 31 May 2016.

Foreign currency devaluation in Nigeria
During the first half of the year, transactional foreign exchange losses were recognised in Nigeria relating to long outstanding brought forward trade payables denominated in US Dollars that have been settled at higher exchange rates than originally recognised due to the introduction of the flexible exchange rate regime on 20 June 2016, which has resulted in a devaluation of the Naira of greater than 50%. The Directors have deemed this charge to be exceptional due to the nature and magnitude of this effective currency devaluation.

Deferred tax benefit of reduction in UK corporation tax rate principally relating to acquired brands
The UK corporation tax rate reduces to 17% from 1 April 2020. 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.

Notes to the Consolidated Financial Statements continued

4. Profit for the year – analysis by nature

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

	2018 £m	(Restated)* 2017 £m
Net foreign exchange losses	12.8	21.9
Research and development costs	3.5	4.1
Amortisation of government grants	0.1	0.1
Impairment of property, plant and equipment (Note 11)	2.8	–
Depreciation of property, plant and equipment (Note 11)	18.1	19.0
Amortisation of intangible assets (Note 10)	6.4	0.9
(Gain)/loss on disposal of property, plant and equipment	(7.7)	0.2
Raw and packaging materials and goods purchased for resale (Note 15)	444.0	428.9
Inventory provisions	5.3	4.5
Accounts receivable provisions	1.7	(1.5)
Operating lease rentals	1.7	1.5
Employee costs (Note 5)	100.6	102.1
Auditors' remuneration (see below)	0.8	1.1

* See Note 1 for further details.

Auditors' remuneration

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

	2018 £m	2017 £m
Fees payable to the Company's Auditor for the audit of the Company's annual Financial Statements and Consolidation	0.2	0.1
Fees payable to the Company's Auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries	0.6	0.7
Total audit fees	0.8	0.8
Fees payable to the Company's Auditor and its associates for other services:		
– Tax services	–	0.2
– Other services	–	0.1
Total fees	0.8	1.1

5. Directors and employees

Employee costs

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

	2018 Number	2017 Number
Production	2,696	1,980
Selling and distribution	1,205	1,986
Administration	575	554
	4,476	4,520

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

	2018 £m	(Restated)* 2017 £m
Wages and salaries	89.9	93.1
Social security costs	5.6	5.9
Other pension costs	5.1	3.1
	100.6	102.1

* See Note 1 for further details.

5. Directors and employees continued

The other pension costs consist of:

	2018 £m	(Restated)* 2017 £m
Defined benefit schemes (Note 24)	**0.2**	0.7
Defined contribution schemes (Note 24)	**3.9**	1.4
Overseas minor defined benefit schemes and Nigerian gratuity scheme (Note 24)	**1.0**	1.0
	5.1	3.1

* See Note 1 for further details.

Directors' remuneration

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

	2018 £m	2017 £m
Short-term employee benefits	**1.8**	3.6
Post-employment benefits	**0.2**	0.3
Total	**2.0**	3.9

Additional details are within the Report on Directors' Remuneration on pages 17 to 25.

6. Net finance costs

	2018 £m	2017 £m
Interest receivable on cash deposits	**0.9**	2.7
Interest income	**0.9**	2.7
Interest payable on bank loans and overdrafts	**(6.5)**	(5.5)
Net finance costs	**(5.6)**	(2.8)

7. Taxation

	2018 £m	(Restated)* 2017 £m
Current tax		
UK corporation tax charge for the year	**5.7**	5.3
Adjustments in respect of prior years	**0.1**	(1.1)
Double tax relief	**(2.1)**	(2.1)
	3.7	2.1
Overseas corporation tax charge for the year	**13.0**	17.7
Adjustments in respect of prior years	**–**	(2.8)
	13.0	14.9
Total current tax charge	**16.7**	17.0
Deferred tax		
Origination and reversal of temporary timing differences	**0.6**	5.9
Adjustments in respect of prior years	**(0.1)**	1.8
Effect of rate change adjustments	**0.6**	(3.3)
Total deferred tax charge/(credit)	**1.1**	4.4
Total tax charge	**17.8**	21.4

* See Note 1 for further details.

Notes to the Consolidated Financial Statements continued

7. Taxation continued

UK corporation tax is calculated at 19.00% (2017: 19.83%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Group has chosen to use a weighted average tax rate rather than the UK rate for the reconciliation of the charge for the year to the profit before taxation per the Consolidated Income Statement. The Group operates in a number of overseas jurisdictions that have tax rates in excess of the UK rate. As such, a weighted average tax rate is believed to provide more meaningful information to users of the Financial Statements. The approximate tax rate for this comparison is 23.05% (2017 restated: 25.11%).

	2018 £m	(Restated)* 2017 £m
Profit before tax	**66.6**	86.5
Tax at the weighted average tax rate of 23.05% (2017 restated: 25.11%)	**15.4**	21.7
Adjusted for:		
Tax effect of (expenses)/revenue that are not deductible/taxable	**(4.2)**	4.2
Effect of UK rate change on deferred taxation	**0.6**	(3.3)
Tax effect of share of results of joint ventures	**(0.5)**	(0.9)
Overseas withholding tax suffered on dividends	**1.8**	0.3
Adjustment to amount carried in respect of unresolved tax matters	**5.7**	2.3
Movement in deferred tax assets not recognised (Note 22)	**(0.8)**	–
Research and development relief	**(0.2)**	(0.8)
Adjustments in respect of prior periods	**–**	(2.1)
Tax charge for the year	**17.8**	21.4

* See Note 1 for further details.

The weighted average tax rate (based on where the Group has made profits and the tax rates applicable in those countries) has reduced when compared to the prior year. This reduction is primarily driven by the reduced profitability in our Africa region where tax rates are high.

The main movements in the tax reconciliation from the tax at the weighted average rate and the actual tax charge for the year are explained as follows:

- Of the £4.2m non-taxable items the key component is £2.4m relating to the disposal of assets in Australia, for which the tax base cost and accounting cost differed resulting in an accounting gain with no associated tax cost. This is due to the sale of an Australian brand that gave rise to a taxable loss offsetting the taxable gain arising on the sale of the Dandenong site.
- Changes to the UK corporation tax rates were announced on 8 July 2015. These changes were substantively enacted as part of Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A further change to reduce the UK rate from 1 April 2020 from 18% to 17% was announced on 16 March 2016. This change was substantively enacted as part of Finance Bill 2016 on 15 September 2016. The tax impact during the year ended 31 May 2018 was an increase of £0.6m.
- During the year ended 31 May 2018, a number of dividends were paid by PZ Cussons overseas entities. Under UK tax law any local withholding taxes are an irrecoverable cost. The impact of the local withholding taxes was £1.8m.
- PZ Cussons is subject to taxation in all of the countries in which it operates. The tax legislation applicable in these countries is often complex and subject to interpretation both by management and government authorities. These judgemental interpretations give rise to quantifiable risks that are provided for on the Balance Sheet. This adjustment increases the tax charge by £5.7m.
- Due to increased taxable profits in the year, together with expected future taxable profits in Poland, previously unrecognised deferred tax assets of £0.6m have now been recognised on the Group's Balance Sheet. Additionally, previously unrecognised deferred tax assets of £0.2m have been utilised in the year.

The resulting Income Statement tax charge for the year represents a post-exceptional effective tax rate of 26.73% (2017 restated: 24.74%).

7. Taxation continued

The Group continues to believe that it has made adequate provision for the liabilities likely to arise from periods that are open and not yet agreed by tax authorities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon the outcome of agreements with relevant tax authorities. In assessing these income tax uncertainties, management is required to make judgements in the determination of the unit of account, the evaluation of the circumstances, facts and other relevant information in respect of the tax position taken together with estimates of amounts that may be required to be paid in ultimate settlement with the tax authorities. As the Group operates in a multinational tax environment, the nature of the uncertain tax positions is often complex and subject to change. Original estimates are always refined as additional information becomes known.

Taxation on items taken directly to equity and other comprehensive income was a charge of £4.3m (2017 restated: £2.2m credit) and relates to deferred tax on pensions (as described in Note 22) and revalued land and buildings.

8. Dividends

	2018 £m	2017 £m
Amounts recognised as distributions to ordinary shareholders in the year comprise:		
Final dividend for the year ended 31 May 2017 of 5.61p (2016: 5.50p) per ordinary share	**23.5**	23.0
Interim dividend for the year ended 31 May 2018 of 2.67p (2017: 2.67p) per ordinary share	**11.1**	11.2
	34.6	34.2
Proposed final dividend for the year ended 31 May 2018 of 5.61p (2017: 5.61p) per ordinary share	**23.5**	23.5

The proposed final dividends for the years ended 31 May 2017 and 31 May 2018 were/are 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 2017 and 31 May 2018 respectively.

9. Earnings per share

Basic earnings per share and diluted earnings per share are calculated by dividing profit for the year attributable to owners of the Parent by the weighted average number of shares in issue:

	2018 Number 000	2017 Number 000
Basic weighted average	**418,313**	418,412
Diluted weighted average	**418,313**	418,423

The difference between the average number of ordinary shares and the basic weighted average number of ordinary shares represents the shares held by the Employee Share Option Trust, whilst the difference between the basic and diluted weighted average number of shares represents the potentially dilutive effect of the Executive Share Option Schemes and the Performance Share Plan. The average number of shares is reconciled to the basic and diluted weighted average number of shares below:

	2018 Number 000	2017 Number 000
Average number of ordinary shares in issue during the year	**428,725**	428,725
Less: weighted average number of shares held by Employee Share Option Trust	**(10,412)**	(10,313)
Basic weighted average shares in issue during the year	**418,313**	418,412
Dilutive effect of share incentive plans	**–**	11
Diluted weighted average shares in issue during the year	**418,313**	418,423

At 31 May 2018, the Employee Share Option Trust held 10,415,400 ordinary shares (2017: 10,379,933 ordinary shares).

Notes to the Consolidated Financial Statements continued

9. Earnings per share continued

Adjusted earnings per share

	2018	(Restated)* 2017
Basic earnings per share	**11.41p**	14.91p
Exceptional items	**1.98p**	1.51p
Adjusted basic earnings per share	**13.39p**	16.42p
Diluted earnings per share	**11.41p**	14.91p
Exceptional items	**1.98p**	1.51p
Adjusted diluted earnings per share	**13.39p**	16.42p

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

	2018 £m	(Restated)* 2017 £m
Profit attributable to owners of the Parent	**47.7**	62.4
Exceptional items (net of taxation effect)	**8.3**	6.3
Adjusted profit after tax	**56.0**	68.7

* See Note 1 for further details.

10. Goodwill and other intangible assets

	Goodwill £m	Software £m	Other £m	Total £m
Cost				
At 1 June 2016	62.5	–	294.6	357.1
Currency retranslation	0.6	–	0.6	1.2
Reclassifications from property, plant and equipment	–	45.7	0.3	46.0
At 31 May 2017	63.1	45.7	295.5	404.3
Currency retranslation	–	(0.3)	–	(0.3)
Additions	–	6.8	–	6.8
Reclassifications from property, plant and equipment	–	2.8	–	2.8
Revised analysis between cost and amortisation of intangible assets between categories	–	0.2	–	0.2
At 31 May 2018	**63.1**	**55.2**	**295.5**	**413.8**
Accumulated amortisation				
At 1 June 2016	–	–	–	–
Charge for the year	–	0.9	–	0.9
At 31 May 2017	–	0.9	–	0.9
Charge for the year	–	6.4	–	6.4
Reclassifications from property, plant and equipment	–	0.2	–	0.2
Revised analysis between cost and amortisation of intangible assets between categories	–	0.2	–	0.2
At 31 May 2018	**–**	**7.7**	**–**	**7.7**
Net book values				
At 31 May 2018	**63.1**	**47.5**	**295.5**	**406.1**
At 31 May 2017	63.1	44.8	295.5	403.4

Transfers from property, plant and equipment mainly represent the capitalised element of costs relating to the implementation of a new ERP system, amortised over ten years at the point that the asset comes into use. Amortisation is charged to administrative expenses in the Income Statement.

10. Goodwill and other intangible assets continued

Software includes the ERP system (SAP), the implementation and embedding of which was completed during the year ended 31 May 2018. The carrying value of this asset as at 31 May 2018 is £46.8m, with nine years of amortisation remaining.

The carrying amounts of software are reviewed at each reporting date to determine whether there is any indication of impairment.

Goodwill and other intangible assets (excluding software), which include the Group's acquired brands, all have indefinite useful lives and are subject to annual impairment testing, or more frequent testing if there are indicators of impairment. The method used is as follows:

- Intangible assets (including goodwill) are allocated to appropriate CGUs based on the smallest identifiable group of assets that generate cash inflows independently in relation to the specific intangible/goodwill.
- The recoverable amounts of the CGUs are determined through value-in-use calculations that use cash flow projections from approved budgets and plans over a period of five years, which are then extrapolated beyond the five year period based on estimated long-term growth rates.

As the Group's other intangible assets, which represent brand values, and goodwill have all arisen from previous business combinations, CGUs have been identified as the business units acquired, as they represent the smallest group of assets that independently generate cash flows. This is the case for all intangible assets and goodwill other than the Beauty division and Greece acquired brands where the CGU has been identified as the overall operating unit.

The table below summarises the allocation of goodwill and other intangible assets to each CGU:

	Goodwill 2018 £m	Goodwill 2017 £m	**Other intangible assets 2018 £m**	Other intangible assets 2017 £m
Original Source	**–**	–	**9.8**	9.8
Beauty division brands	**40.4**	40.4	**188.2**	188.2
Rafferty's Garden	**–**	–	**39.2**	39.2
Nutricima	**4.6**	4.6	**15.5**	15.5
five:am	**11.8**	11.8	**33.3**	33.3
Other[1]	**6.3**	6.3	**9.5**	9.5
Total	**63.1**	63.1	**295.5**	295.5

1 Other includes two brands acquired by the Group's Greek business in prior years.

The carrying value of each CGU as used in the value-in-use model may differ to the values disclosed above due to the inclusion of any non-current assets directly related to driving economic benefit from the brand.

Key assumptions in the budgets and plans include future revenue volume/price growth rates, associated future levels of marketing support, cost base of manufacture and supply and directly associated overheads. These assumptions are based on historical trends and future market expectations specific to each CGU and the markets and geographies in which each CGU operates.

Other key assumptions applied in determining value-in-use are:

- growth rates – short-term growth rates are based on the latest approved management forecasts. Cash flows beyond the five year period are extrapolated using the estimated long-term growth rate applicable for the geographies in which the CGUs operate;
- terminal growth rates; and
- discount rate – the base discount rate is based on a pre-tax Weighted Average Cost of Capital (WACC) for comparable companies operating in similar markets and geographies as the Group, adjusted for risks specific to each CGU.

Notes to the Consolidated Financial Statements continued

10. Goodwill and other intangible assets continued

The long-term growth rates and discount rates applied in the value-in-use calculations have been set out below:

	Pre-tax discount rate FY18	Pre-tax discount rate FY17	Long-term growth rate FY18	Long-term growth rate FY17
Original Source	**7.2%**	7.4%	**2.5%**	2.5%
Beauty division brands	**7.2%**	7.4%	**2.5%**	2.5%
Rafferty's Garden	**7.2%**	6.7%	**3.3%**	2.5%
Nutricima	**13.4%**	14.8%	**4.5%**	7.0%
five:am	**7.2%**	6.7%	**3.3%**	2.5%
Greece	**15.5%**	12.0%	**1.0%**	1.0%

The discount rates disclosed above are the pre-tax discount rates applied in the FY18 value-in-use calculations. Discount rates have been used that reflect the similar geographic and product diversification within each CGU's market and the similar risks associated with each CGU.

Long-term growth rates have been set for each CGU based on estimated long-term growth rates for the territories in which the CGUs operate. All CGUs, other than Nutricima, operate in geographies that include the UK, Australia, the US and central Europe.

Long-term growth rates have been set with reference to estimated long-term GDP growth forecasts, which have been deemed an appropriate proxy for long-term growth. The long-term growth rate for the Nutricima CGU reflects the estimated long-term growth rate in the key geography of Nigeria in which the CGU operates and, consistent with the other CGUs, has been set with reference to long-term inflation forecasts.

Having performed the annual impairment tests, no impairment has been recognised for the year ended 31 May 2018 (31 May 2017: £nil). In forming this conclusion the Directors reviewed a sensitivity analysis performed by management, which focused on the reasonably possible downsides of key assumptions, both individually and in reasonably possible combinations, and considered whether these reasonably possible downsides give rise to an impairment, with the conclusion that no reasonable possible changes in key assumptions would cause the recoverable amount of the CGU to be less than the carrying value, other than for Nutricima and five:am.

For the Nutricima CGU, the recoverable amount determined by the Directors was £37.9m. Given that this CGU is located in Nigeria where the macroeconomic environment is volatile, management have had to carefully consider the range of reasonable possible changes in assumptions when performing sensitivity analysis. The key assumption considered by the Directors, where a reasonably possible change could give rise to impairment, is the gross margin expected to be achieved in the forecast period. The average gross margin in the initial five year forecast period would need to decrease by 0.3 percentage points to eliminate the current headroom. Whilst it is not management's current expectation, should Nutricima trading results in FY19 be in line with those achieved in FY18, which is considered by the Directors to be reasonably possible given the inherent market uncertainty, this would result in an impairment of £3.4m.

For the five:am CGU, the recoverable amount determined by the Directors was £63.3m. The key assumptions considered by the Directors, where a reasonably possible change could give rise to impairment, were the revenue growth and discount factor applied to the value-in-use model. The discount factor would need to increase by 1.2 percentage points to eliminate the current headroom. Were the average revenue growth rates in the initial five year forecast period to decrease by 1.5 percentage points in combination with an increase in the discount rate to 8.25%, which, whilst not management's current expectation, is considered by the Directors to be reasonably possible, this would lead to an impairment charge of £2.4m.

11. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Assets in the course of construction £m	Total £m
Cost					
At 1 June 2016	146.9	209.3	54.2	54.1	464.5
Currency retranslation	(12.9)	(7.3)	(0.2)	(2.5)	(22.9)
Additions	0.3	0.8	0.7	38.8	40.6
Disposals	(0.4)	(5.8)	(2.6)	–	(8.8)
Reclassification to software within intangible assets or within categories	1.7	7.5	1.5	(55.8)	(45.1)
Reclassification to asset held for sale	(2.2)	–	–	–	(2.2)
At 31 May 2017	133.4	204.5	53.6	34.6	426.1
Currency retranslation	(7.7)	(9.9)	(1.6)	(1.4)	(20.6)
Additions	0.9	1.4	2.5	10.6	15.4
Disposals	(9.7)	(37.8)	(5.2)	(0.3)	(53.0)
Reclassification	3.1	11.5	18.8	(33.4)	–
Reclassification to software within intangible assets	–	–	(2.8)	–	(2.8)
Revised analysis between cost and depreciation of fixed assets within and between categories	1.8	8.7	(1.3)	2.8	12.0
At 31 May 2018	**121.8**	**178.4**	**64.0**	**12.9**	**377.1**
Accumulated depreciation and amounts written off					
At 1 June 2016	39.2	147.1	51.2	–	237.5
Currency retranslation	0.6	(0.3)	–	–	0.3
Charge for the year	2.7	11.0	5.3	–	19.0
Disposals	(0.1)	(5.1)	(2.5)	–	(7.7)
Reclassification	0.4	-	(0.4)	–	–
At 31 May 2017	42.8	152.7	53.6	–	249.1
Currency retranslation	(1.6)	(6.1)	(1.3)	–	(9.0)
Charge for the year	2.2	11.6	4.3	–	18.1
Disposals	(9.7)	(37.4)	(5.2)	–	(52.3)
Reclassification	(0.4)	–	0.4	–	–
Reclassification to software within intangible assets	–	–	(0.2)	–	(0.2)
Revised analysis between cost and depreciation of fixed assets within and between categories	1.1	9.7	1.2	–	12.0
Impairment loss	2.7	–	0.1	–	2.8
At 31 May 2018	**37.1**	**130.5**	**52.9**	**–**	**220.5**
Net book values					
At 31 May 2018	**84.7**	**47.9**	**11.1**	**12.9**	**156.6**
At 31 May 2017	90.6	51.8	–	34.6	177.0

Depreciation is charged to administrative expenses in the Income Statement. At 31 May 2018, the Group had entered into commitments for the acquisition of property, plant and equipment amounting to £1.6m (2017: £3.8m). At 31 May 2018, the Group's share in the capital commitments of the joint ventures was £nil (2017: £nil).

12. Assets held for sale

	2018 £m	2017 £m
Land	**–**	2.2
	–	2.2

As at 31 May 2017, the land relating to a redundant manufacturing site in Australia was reclassified from property, plant and equipment to assets held for sale under IFRS 5. The sale of the land completed on 29 November 2017.

Notes to the Consolidated Financial Statements continued

13. Net investments in joint ventures

Joint ventures are contractual arrangements over which the Group exercises joint control with partners and where the parties have rights to the net assets of the arrangement, irrespective of the Group's shareholding in the entity.

Net investments in joint ventures include the Group's equity investment in joint ventures, long-term loans issued to joint ventures and the Group's share of the joint ventures' net assets.

The table below reconciles the movement in the Group's net investment in joint ventures in the year:

	Equity investment in joint ventures	Long-term loans issued to joint ventures	Group's share of net assets/ (liabilities) of joint ventures	Net investments in joint ventures
Carrying value				
At 1 June 2016	–	27.4	4.5	31.9
Exchange differences on translation of overseas net assets recognised in equity	–	–	(18.4)	(18.4)
Exchange differences on translation of foreign currency loans classified as 'permanent as equity' recognised in equity	–	6.7	–	6.7
Share of result for the year taken to the Income Statement	–	–	2.9	2.9
At 31 May 2017	–	34.1	(11.0)	23.1
Exchange differences on translation of overseas net liabilities recognised in equity	–	–	(1.1)	(1.1)
Exchange differences on translation of foreign currency loans classified as 'permanent as equity' recognised in equity	–	(0.8)	–	(0.8)
Share of result for the year taken to the Income Statement	–	–	1.7	1.7
At 31 May 2018	**–**	**33.3**	**(10.4)**	**22.9**

Set out below is the summarised financial information for the consolidated PZ Wilmar joint ventures, including PZ Wilmar Limited, PZ Wilmar Food Limited and Wilmar PZ International Pte Limited, which are accounted for using the equity method:

Aggregated amounts relating to joint ventures	2018 £m	2017 £m
Assets		
Non-current assets		
Assets	**73.8**	52.3
Current assets		
Cash and cash equivalents	**15.8**	–
Other current assets	**32.5**	79.8
	48.3	79.8
Total assets	**122.1**	132.1
Liabilities		
Non-current liabilities	**(80.0)**	(81.0)
Current liabilities	**(62.8)**	(73.0)
Total liabilities	**(142.8)**	(154.0)
Net liabilities	**(20.7)**	(21.9)

Aggregated amounts relating to joint ventures	2018 £m	2017 £m
Revenues	**141.6**	156.9
Profit for the year	**5.5**	5.9
Total comprehensive income/(expense)	**1.3**	(31.0)

The above information reflects the amounts presented in the Financial Statements of the joint venture adjusted for differences in accounting policies between the Group and the joint venture and is before Wilmar International Limited's share of those amounts.

A list of the investments in joint ventures, including the name, country of incorporation and proportion of ownership interest, is given in Note 31.

14. Other investments

Non-current other investments of £0.3m (2017: £0.3m) comprise a 28% investment in Norpalm Ghana Limited, a palm oil plantation in Ghana. 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 2018 and 31 May 2017.

15. Inventories

	2018 £m	2017 £m
Raw materials and consumables	**48.5**	56.8
Work in progress	**9.6**	7.8
Finished goods and goods for resale	**74.5**	98.7
	132.6	163.3

During the year ended 31 May 2018, £5.3m (2017: £4.5m) 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 amounted to £444.0m (2017: £428.9m). Inventories are stated after provisions for impairment of £2.7m (2017: £1.2m).

16. Trade and other receivables

Receivables due within one year	2018 £m	2017 £m
Trade receivables	**140.0**	146.4
Less: provision for impairment of trade receivables	**(7.0)**	(6.2)
Net trade receivables	**133.0**	140.2
Amounts owed by joint ventures	**8.9**	7.9
Other receivables	**16.8**	31.0
Prepayments and accrued income	**5.2**	11.2
	163.9	190.3

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value due to their short-term nature.

Receivables due after more than one year	2018 £m	2017 £m
Prepayments and accrued income	**0.2**	1.3
Other receivables	**0.2**	0.3
	0.4	1.6

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

	2018 £m	2017 £m
At 1 June	**(6.2)**	(16.7)
Provision for receivables impairment[1]	**(1.7)**	1.5
Receivables written off during the year	**0.3**	7.6
Currency translation	**0.6**	1.4
At 31 May	**(7.0)**	(6.2)

[1] Included within provisions for receivables impairment is a £nil credit (2017: £3.1m credit) in relation to a specific receivable due from a European customer. This credit/charge has been recognised as an exceptional item in the Income Statement.

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 to administrative expenses in the Income Statement. Receivables are written off when all possible routes through which amounts can be recovered have been exhausted.

Notes to the Consolidated Financial Statements continued

16. Trade and other receivables continued

Trade receivables consist of a broad cross section of the international customer base for which there is no significant history of default. The credit risk of customers is assessed at a subsidiary and Group level, taking into account the customers' financial positions, past experiences and other relevant factors. Individual customer credit limits are imposed based on these factors. The credit period given on sales ranges from 14 to 90 days (2017: from 14 to 90 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:

	2018 £m	2017 £m
Sterling	**39.8**	43.8
US Dollar	**13.1**	12.6
Nigerian Naira	**24.4**	25.0
Euro	**13.6**	10.9
Polish Zloty	**2.3**	3.0
Indonesian Rupiah	**15.8**	16.9
Ghanaian Cedi	**2.2**	4.1
Australian Dollar	**16.0**	17.7
Other currencies	**5.8**	6.2
	133.0	140.2

The following table shows the age of net trade receivables at the reporting date:

	2018 £m	2017 £m
Not past due	**102.3**	114.8
Past due 0-90 days	**25.8**	19.7
Past due 90-180 days	**2.0**	3.8
Past due >180 days	**2.9**	1.9
	133.0	140.2

17. Current asset investments

	2018 £m	2017 £m
Unlisted	**0.3**	0.3
	0.3	0.3

18. Cash and cash equivalents

	1 June 2017 £m	Cash flow £m	Foreign exchange movements £m	**31 May 2018 £m**
Cash at bank and in hand	134.5	(28.0)	(8.7)	**97.8**
Short-term deposits	16.1	(10.4)	(0.8)	**4.9**
Cash and short-term deposits	150.6	(38.4)	(9.5)	**102.7**
Overdrafts	(34.5)	18.1	(0.1)	**(16.5)**
Cash and cash equivalents	116.1	(20.3)	(9.6)	**86.2**
Current asset investments	0.3	–	–	**0.3**
Loans due within one year	(260.2)	7.9	0.4	**(251.9)**
Net debt	**(143.8)**	**(12.4)**	**(9.2)**	**(165.4)**

The effective interest rate on cash and short-term deposits during the year ended 31 May 2018 was 3.5% (2017: 4.5%).

19. Financial liabilities and assets, derivative financial instruments and financial risk management

(a) Financial instrument fair value estimation

The Group holds a number of financial instruments that are held at fair value within the Financial Statements.

Fair values of financial assets and financial liabilities

Financial instruments utilised by the Group during the years ended 31 May 2018 and 31 May 2017, 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.

Derivative financial instruments

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.

In deriving the fair value, the derivative financial instruments are classified as level 1, level 2 or level 3 dependent on the valuation method applied in determining their fair value.

The different levels have been defined as follows:

Level	
1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

For both the year ended 31 May 2018 and 31 May 2017, the assets and liabilities arising from foreign currency contracts have been classified as level 2. There have been no transfers between either level 1 and 2 or level 2 and 3 in any period.

Notes to the Consolidated Financial Statements continued

19. Financial liabilities and assets, derivative financial instruments and financial risk management continued

(b) Financial liabilities and assets

Set out below is a comparison by category of the carrying values and fair values of all of the Group's financial assets and financial liabilities as at 31 May 2018 and 31 May 2017. None of the financial assets and liabilities have been reclassified during the year:

	2018 Carrying amount and fair value £m	(Restated)* 2017 Carrying amount and fair value £m
Available for sale		
Current asset investments (held at cost)	**0.3**	0.3
Non-current asset investments	**0.3**	0.3
Loans and receivables		
Cash and short-term deposits	**102.7**	150.6
Trade and other receivables	**158.7**	179.1
Fair value through profit and loss		
Derivative financial assets	**–**	1.5
Derivative financial liabilities	**(1.1)**	–
Financial liabilities at amortised cost		
Trade and other payables	**(90.9)**	(118.9)
Bank overdrafts	**(16.5)**	(34.5)
Bank loans	**(251.9)**	(260.2)

* Trade and other payables previously included accruals and deferred income, which does not meet the definition of a financial liability and as such has been excluded from this disclosure. Current and non-current asset investments have been included in this disclosure.

Included in cash and other short-term deposits is cash denominated in the Nigerian Naira of £52.3m (2017: £52.5m), which has been translated based on the NIFEX rate of exchange. The appropriateness of this exchange rate is considered a critical area of judgement as disclosed in Note 1.

Borrowings

	2018 £m	2017 £m
Overdrafts due within one year	**16.5**	34.5
Bank loans due within one year	**251.9**	260.2
	268.4	294.7

Loans due within one year includes the Group's main borrowing facility, provided by three lenders in the form of a £285m multi-currency revolving credit facility committed until 29 February 2020. The Group also has access to uncommitted working capital facilities amounting to £197.9m (2017: £201.6m). At 31 May 2018, £16.5m (2017: £14.0m) was drawn against these facilities in the form of overdrafts and short-term borrowings.

Overdrafts do not form part of the Group's main borrowing facility and arise as part of the Group's composite banking arrangements with key banking partners. Under the terms of this arrangement, cash and overdraft balances recognised by the Overdraft's Obligor Group are considered as one cash pool with the net position being monitored by the Directors and Lenders. These overdraft balances have been presented gross with a corresponding increase in cash at bank and in hand.

The terms of the Group's main facility reflect current market commercial terms and pricing for a loan of this nature for a credit score relating to PZ Cussons' standing. Drawn amounts under the facility attract a variable margin over LIBOR based on the Group's Net Debt/EBITDA ratio. Undrawn amounts attract a commitment fee. The facility is unsecured but the lenders benefit from a guarantee from the principal operating subsidiaries of the Group.

	2018 £m	2018 Interest rate %	2017 £m	2017 Interest rate %
Borrowing	**268.4**	**1.5%**	294.7	1.4

19. Financial liabilities and assets, derivative financial instruments and financial risk management continued

(c) Derivative financial instruments

Derivative financial instruments comprise all trading and hedging derivatives that include the Group's forward foreign exchange contracts. These are fair valued as level 2 derivative financial instruments.

The net valuation of the forward foreign exchange contracts at year end is:

	2018 £m	2017 £m
Assets		
Forward foreign exchange contracts	–	1.5
Liabilities		
Forward foreign exchange contracts	(1.1)	–

The full fair value of the Group's hedging derivatives is classified as a current asset or liability as the maturity of the hedged items is less than 12 months.

Foreign currency transaction risk arises on sales and purchases denominated in currencies other than the functional currency of the entity that enters into the transaction. The Group's policy is to hedge committed sale and purchase transactions in full, and to hedge a proportion of highly probable forecast sale and purchase transactions on a twelve-month rolling basis. Foreign currency transaction risk also arises on financial assets and liabilities denominated in foreign currencies and Group policy also allows for these exposures to be hedged using forward currency contracts.

At 31 May 2018, the notional principal amount of outstanding foreign currency contracts that are held to hedge the Group's transaction exposures was £96.8m (2017: £43.7m). For accounting purposes, the Group has designated the foreign currency contracts as cash flow hedges. At 31 May 2018, the fair value of the contracts was £1.1m (2017: £1.5m).

(d) 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 Audit & 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. The 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 maximum exposure to credit risk at the reporting date is the carrying value of each aforementioned class of receivables. The Group does not hold any collateral as security.

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 2020.

Notes to the Consolidated Financial Statements continued

19. Financial liabilities and assets, derivative financial instruments and financial risk management continued

An analysis of the international long-term credit ratings of counterparties where cash and cash equivalents (including overdrafts) are held is as follows:

	2018 £m	2017 £m
AA	7.1	19.2
A	18.5	38.7
B	59.1	55.1
C	1.5	3.1
Total	86.2	116.1

(ii) Liquidity risk 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.

All of the Group's financial liabilities, including derivatives, will be settled within 12 months. Foreign exchange forward contracts are settled on a gross basis.

(iii) Market risk management

Market risk is the risk that movements in market rates, including foreign exchange rates, cash flow, interest rates 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 by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant:

	2018		2017	
	Equity £m	Income statement £m	Equity £m	Income statement £m
Nigerian Naira	21.1	0.1	23.7	2.0
Euro	3.5	0.1	4.5	0.4
Indonesian Rupiah	3.5	0.5	4.1	0.7
Australian Dollar	3.1	1.2	2.1	0.5
Polish Zloty	1.5	0.1	1.6	–

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.

19. Financial liabilities and assets, derivative financial instruments and financial risk management continued

(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.

(vii) Capital risk management

The Group considers capital to be net (debt)/funds plus total equity. Net (debt)/funds 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 debt positions as at 31 May 2018 and 31 May 2017 respectively, as shown below:

	2018 £m	2017 £m
Cash at bank and in hand (see Note 18)	97.8	134.5
Short-term deposits (see Note 18)	4.9	16.1
Bank overdrafts	(16.5)	(34.5)
Cash and cash equivalents	**86.2**	116.1
Current asset investments	0.3	0.3
Loans due within one year	(251.9)	(260.2)
Net debt	**(165.4)**	(143.8)

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.

20. Trade and other payables

	2018 £m	2017 £m
Trade payables	89.9	113.4
Other taxation and social security	8.3	16.1
Other payables	1.0	5.5
Accruals and deferred income	75.2	113.9
	174.4	248.9

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The Directors consider the carrying amount of trade and other payables approximates their fair value due to their short-term nature.

21. Other non-current liabilities

	2018 £m	2017 £m
Other payables	1.0	0.6
	1.0	0.6

Notes to the Consolidated Financial Statements continued

22. Deferred tax

	Property, plant and equipment £m	Retirement benefit obligations £m	(Restated)* Revaluation of property, plant and equipment £m	Tax losses and other timing differences £m	Business combinations £m	Total £m
At 1 June 2016	(11.0)	2.3	(8.2)	7.6	(30.5)	(39.8)
(Charge)/credit to income	(6.2)	(0.8)	0.1	0.9	1.6	(4.4)
Credit/(charge) to equity	–	1.1	0.4	(0.2)	0.9	2.2
Currency retranslation	2.0	0.2	0.8	(0.4)	–	2.6
Reclassification	–	–	(1.1)	1.1	–	–
At 31 May 2017	(15.2)	2.8	(8.0)	9.0	(28.0)	(39.4)
(Charge)/credit to income	(2.9)	(1.0)	0.1	1.4	1.3	(1.1)
(Charge)/credit to equity	–	(4.5)	0.5	0.3	–	(3.7)
Currency retranslation	1.3	(0.1)	0.8	(2.0)	–	–
At 31 May 2018	**(16.8)**	**(2.8)**	**(6.6)**	**8.7**	**(26.7)**	**(44.2)**

* See Note 1 for further details.

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:

	2018 £m	(Restated)* 2017 £m
Deferred tax assets	**15.0**	15.0
Deferred tax liabilities	**(59.2)**	(54.4)
	(44.2)	(39.4)

* See Note 1 for further details.

Deferred income taxes at the Balance Sheet date have been measured at the tax rate expected to be applicable at the date the deferred income tax assets and liabilities are realised. For UK deferred income tax, management has performed an assessment, for all material deferred income tax assets and liabilities, to determine the period over which the deferred tax assets and liabilities are forecast to be realised. This resulted in a UK deferred income tax rate of 17.0% being used to measure all deferred tax balances as at 31 May 2018 (2017: 17.0%).

Unremitted earnings may be liable to overseas withholding taxes if distributed as dividends. No deferred tax liability has been provided for unremitted earnings of Group companies overseas as these are considered indefinitely reinvested outside the UK. The aggregate amount of temporary differences associated with investment in subsidiaries and joint ventures for which deferred tax liabilities have not been recognised totalled approximately £16.6m as at 31 May 2018 (2017: £18.3m).

Deferred income tax assets are recognised for tax losses brought forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At the Balance Sheet date, the Group had £6.4m recognised unused tax losses (2017: £nil).

23. Provisions

	Restructuring and warranty provisions £m
At 1 June 2016	4.7
Charged to the Income Statement	1.2
Currency retranslation	(0.7)
Used during year	(1.3)
At 31 May 2017	3.9
Charged to the Income Statement	0.6
Currency retranslation	(0.2)
Used during year	(3.1)
At 31 May 2018	**1.2**

Provisions as at 31 May 2018 relate to restructuring costs in connection with the Group structure and systems project (2018: £0.6m, 2017: £2.7m), long-term employee provisions (2018: £0.2m, 2017: £nil) and warranty costs in relation to the Africa Electricals division (2018: £0.4m, 2017: £1.2m). The majority of provisions are expected to be utilised in the next 12 months.

24. Retirement benefits

The Group operates retirement benefit schemes for most of its UK and overseas subsidiaries. The defined benefit scheme associated obligations have all been measured in accordance with IAS 19 (revised).

Summary of Group retirement schemes

UK retirement benefits

The UK operates a defined contribution scheme for current employees. The UK's defined benefit schemes were closed to future accrual on 31 May 2008. The following four defined benefit schemes are the UK's main schemes:

- Main staff plan – for all historically 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
- Unfunded plan – unfunded unapproved retirement scheme

Current and past 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. In relation to the unfunded plan, the Group made payments during the year to former Directors of £172,208 (2017: £168,300).

Overseas retirement benefits

Outside of the UK the Group operates a number of defined benefit and defined contribution schemes. Included within 'Overseas retirement benefits and similar obligations' below are the unfunded retirement benefit obligations relating to certain of the Group's overseas subsidiaries and other employee-related provisions for long service and sick leave.

Basis of recognition of pension scheme surplus

The trust deeds for the Directors' and Main staff plan provides the Group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the trustee has no rights to unilaterally wind up, or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in these two UK schemes are recognised in full.

The trust deed for the Expatriate plan provides the trustees with an unconditional right to wind up the scheme and distribute the surplus to members. The surplus on the expatriate scheme has been de-recognised in the current financial year, due to a change in accounting policy under IAS 8, as documented on page 54.

Notes to the Consolidated Financial Statements continued

24. Retirement benefits continued

Summary of Group defined benefit schemes (as recorded on the Balance Sheet)

	2018			2017 (Restated)*		
	Surplus £m	**Deficit £m**	**Total £m**	Surplus £m	Deficit £m	Total £m
Expatriate plan	**57.0**	**–**	**57.0**	51.3	–	51.3
Directors' plan	**7.0**	**–**	**7.0**	4.1	–	4.1
Main staff plan	**26.3**	**–**	**26.3**	–	(2.5)	(2.5)
Unfunded plan	**–**	**(4.2)**	**(4.2)**	–	(5.3)	(5.3)
Other overseas units	**–**	**(7.8)**	**(7.8)**	–	(10.1)	(10.1)
	90.3	**(12.0)**	**78.3**	55.4	(17.9)	37.5
Restriction due to asset ceiling (see Note 1)	**(57.0)**	**–**	**(57.0)**	(51.3)	–	(51.3)
Defined benefit asset/(liability) per Group accounts	**33.3**	**(12.0)**	**21.3**	4.1	(17.9)	(13.8)

* 2017 comparatives have been restated due to the de-recognition of the expatriate scheme surplus. Further information regarding this change in accounting policy can be found in Note 1.

UK schemes risk review

The UK's main schemes expose the Group to actuarial risks such as investment risk, interest rate risk and longevity risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan assets is below this rate, it will create a plan deficit.
Interest risk	A decrease in the bond interest rate will increase the plan liability but this will be partially offset by an increase in the return on the plan's debt investments.
Longevity risk	The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after employment. An increase in life expectancy of the plan participants will increase the plan's liability.

The movements in the schemes each year are as follows:

	Overseas retirement benefits and similar obligations £m	UK retirement benefits and similar obligations £m	Total £m
At 1 June 2016*	(8.5)	(3.9)	(12.4)
Currency retranslation	(1.3)	–	(1.3)
Interest expense and administrative expenses	(1.0)	(0.7)	(1.7)
Contributions paid	–	6.2	6.2
Utilised in the year	0.3	–	0.3
Remeasurement gains	0.4	(5.3)	(4.9)
At 31 May 2017*	(10.1)	(3.7)	(13.8)
Currency retranslation	1.0	–	1.0
Interest income/(expense) and administrative expenses	0.2	(0.4)	(0.2)
Contributions paid	–	6.5	6.5
Utilised in the year	1.0	–	1.0
Gain on settlement	–	0.2	0.2
Remeasurement gains	0.1	26.5	26.6
At 31 May 2018	**(7.8)**	**29.1**	**21.3**

* 2017 comparatives have been restated due to the de-recognition of the expatriate scheme surplus. Further information regarding this change in accounting policy can be found in Note 1.

24. Retirement benefits continued

Funding and contributions by the Group

A recovery plan for the Main staff plan was agreed between the trustee and the employer on 29 June 2016. Under the recovery plan, it was agreed that the employer would pay shortfall correction contributions of £6.0m per annum until 31 May 2019, the date that the plan's funding deficit was expected to be eliminated. These arrangements were formalised in a schedule of contributions, which the scheme actuary certified on 29 June 2016.

Overseas retirement benefits and similar obligations measurement and assumptions used

The most significant overseas scheme as at 31 May 2018 is the Indonesian post-retirement benefit scheme. The obligations have been measured in accordance with IAS 19 (revised) and a discount rate of 7.5% (2017: 7.5%) and salary inflation rate of 8.0% (2017: 8.0%) have been used. The scheme is unfunded and provision for future obligations included in the above table is £7.5m (2017: £9.2m).

UK retirement benefits and similar obligations measurement and assumptions used

The last triennial actuarial valuations of the schemes administered in the UK were performed by independent professional actuaries at 1 June 2016 using the projected unit method of valuation.

For the purposes of IAS 19 (revised) the actuarial valuation as at 1 June 2016, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 May 2018. There have been no changes in the valuation methodology adopted for this year’s disclosures compared to the prior year’s disclosures.

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

	2018	2017
Rate of increase in retirement benefits in payment	2.85%	3.05%
Discount rate	2.80%	2.45%
Inflation assumption	3.00%	3.10%

The mortality assumptions used were as follows:

	2018 Years	2017 Years
Weighted average life expectancy on post-retirement mortality table used to determine benefit obligations		
– Member age 65 (current life expectancy)	24.4	23.6
– Member age 40 (life expectancy at age 65)	26.5	25.8

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

	Assets 2018 £m	Assets 2017 £m
1 June	408.4	344.6
Interest income	9.9	11.3
Return of plan assets (excluding interest income)	(9.6)	60.1
Employer contribution	6.5	6.2
Administrative expenses	(0.4)	(0.7)
Benefits paid	(17.8)	(13.1)
31 May	397.0	408.4

Notes to the Consolidated Financial Statements continued

24. Retirement benefits continued

The assets in the schemes were:

	2018 £m	2017 £m	2016 £m
Equities	52.3	56.4	77.6
Bonds	288.6	291.9	250.9
Property	9.6	6.0	5.6
Cash and other	46.5	54.1	10.5
Total fair value of scheme assets	397.0	408.4	344.6
Present value of scheme liabilities	(310.9)	(360.8)	(301.8)
Funded status	86.1	47.6	42.8
Restriction due to asset ceiling (see Note 1)	(57.0)	(51.3)	(46.7)
Retirement benefit surplus/(liability)	29.1	(3.7)	(3.9)
Related deferred tax (liability)/asset	(4.9)	0.6	0.7
Net retirement benefit surplus/(liability)	24.2	(3.1)	(3.2)

Equities and bond assets are quoted with all other assets being unquoted.

The UK schemes investment strategy is set by the trustee after taking appropriate advice from its investment consultant. The trustee's primary objective is to invest the plan's assets in the best interest of the members and beneficiaries. Within this framework the trustee has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various investment risks to which the plan is exposed.

Reconciliation of asset ceiling

	2018 £m	2017 £m
Restriction due to asset ceiling at beginning of period	51.3	46.7
Interest on asset restriction	1.3	1.5
Other changes in asset restriction	4.4	3.1
Restriction due to asset ceiling at end of period	57.0	51.3

The movements documented above have been included when reconciling the total assets and obligations of the schemes; however, they have been excluded when reconciling the opening to closing Group Balance Sheet position as the surplus on the scheme has been de-recognised.

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

	Obligations 2018 £m	Obligations 2017 £m
1 June	(360.8)	(301.8)
Interest expense	(8.6)	(9.7)
Settlement gain	0.2	–
Remeasurement gain due to changes in demographic assumptions	13.3	–
Remeasurement gain/(loss) due to changes in financial assumptions	27.2	(62.4)
Benefits paid	17.8	13.1
31 May	(310.9)	(360.8)
Plans that are wholly or partly funded	(306.7)	(355.5)
Plans that are wholly unfunded	(4.2)	(5.3)
	(310.9)	(360.8)

24. Retirement benefits continued

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

	2018 £m	2017* £m
Net interest on net defined benefit schemes	–	–
Gain on settlements	0.2	–
Administration expenses paid by the scheme	(0.4)	(0.7)
Net retirement benefit income before taxation	(0.2)	(0.7)

* 2017 comparatives have been restated due to the de-recognition of the expatriate scheme surplus. Further information regarding this change in accounting policy can be found in Note 1.

The 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:

	2018 £m	2017* £m
Retirement benefit deficit at beginning of year	(3.7)	(3.9)
Net pension interest income	–	–
Administration expenses paid by the scheme	(0.4)	(0.7)
Contributions paid	6.5	6.2
Gain on settlements	0.2	–
Remeasurement gain due to changes in demographic assumptions	10.4	–
Remeasurement gain/(loss) due to changes in financial assumptions	21.5	(49.4)
(Loss)/return on scheme assets (excluding interest income)	(5.4)	44.1
Net surplus/(deficit) at end of year	29.1	(3.7)
Analysed between:		
Retirement benefit surplus	33.3	4.1
Retirement benefit obligation	(4.2)	(7.8)
	29.1	(3.7)

* 2017 comparatives have been restated due to the de-recognition of the expatriate scheme surplus. Further information regarding this change in accounting policy can be found in Note 1.

Remeasurement gains and losses are recognised directly in the Statement of Comprehensive Income.

The sensitivities on the key actuarial assumptions as at the end of the period were:

	Change in assumption	Change in defined benefit obligation
Discount rate	Decrease of 0.25%	Increase of 4.6%
Rate of inflation	Increase of 0.25%	Increase of 4.3%
Rate of mortality	Increase in life expectancy of 1 year	Increase of 3.5%

The sensitivities shown above are approximate. Each sensitivity considers each change in isolation and is calculated using the same methodology as used for the calculation of the defined benefit obligation at the end of the period. The inflation sensitivity includes the impact of changes to the assumptions for the revaluation and pension increases. In practice it is unlikely that the changes would occur in isolation.

During the year ending 31 May 2019 the Group expects to make cash contributions of £6.0m (2018: £6.0m) to funded defined benefit plans.

The amount recognised as an expense in the Consolidated Income Statement in relation to defined contribution schemes is £3.9m (2017: £1.4m).

Notes to the Consolidated Financial Statements continued

25. Share capital

	2018		2017	
	Number 000	Amount £m	Number 000	Amount £m
Allotted, issued 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

26. Employee Share Option Trust

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

The ESOT purchases shares to fund the Executive Share Option Scheme and the Performance Share Plan, details of which are provided in the Report on Directors' Remuneration. At 31 May 2018, the trust held 10,415,400 (2017: 10,379,933) ordinary shares with a book value of £40.1m (2017: £40.0m). The market value of these shares as at 31 May 2018 was £24.8m (2017: £35.9m). During the year the ESOT purchased 116,489 shares of the Company at a cost of £0.4m (2017: 289,887 at a cost of £1.2m) representing 0.03% of issued share capital. The trust has waived any entitlement to dividends in respect of all the shares it holds.

The cost of buying own shares is charged to the profit and loss reserve within retained earnings.

27. Reconciliation of profit before tax to cash generated from operating activities

	2018 £m	(Restated)* 2017 £m
Profit before tax	**66.6**	86.5
Adjustment for net finance costs	**5.6**	2.8
Operating profit	**72.2**	89.3
Depreciation (Note 11)	**18.1**	19.0
Amortisation (Note 10)	**6.4**	0.9
Impairment of fixed asset	**2.8**	–
(Profit)/loss on sale of tangible fixed assets	**(7.7)**	0.2
Difference between pension charge and cash contributions	**(6.5)**	(5.7)
Share of results from joint ventures	**(1.7)**	(2.9)
Operating cash flows before movements in working capital	**83.6**	100.8
Movements in working capital:		
Inventories	**16.2**	(27.9)
Trade and other receivables	**20.9**	(8.6)
Trade and other payables	**(59.0)**	47.1
Provisions	**(2.6)**	(0.5)
Cash generated from operating activities	**59.1**	110.9

* See Note 1 for further details.

28. 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 properties, which fall due as follows:

	2018 £m	2017 £m
Within one year	**2.1**	1.6
In the second to fifth years inclusive	**5.5**	5.0
Over five years	**1.7**	2.7

The Group leases a number of premises. These are subject to review on dates ranging from 2016 to 2023.

29. Share-based payments

Share-based payments are made to senior executives and other selected key individuals throughout the organisation. These are the Performance Share Plan and the Executive Share Option Scheme. The total credit in the year relating to the two schemes was £nil (2017: £nil).

Performance Share Plan

The Group operates a Performance Share Plan (PSP) for 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 a single three year period. The fair value of the award is taken as the share price at the date of grant.

In the current year, 1,233,868 awards were made under the PSP scheme (2017: total awards of 1,321,710). The number of shares exercised in the year was nil (2017: nil). In addition, the number of lapsed share options totalled 606,297 (2017: 1,104,456). The number of awards outstanding but not yet exercisable is 3,142,455 at 31 May 2018 (2017: 3,573,590). The total credit included in operating profit in relation to these awards was £nil (2017: £nil).

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. Under this scheme 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 (2017: £nil).

No options have been granted during the current or prior year under the Executive Share Option Scheme and it is not expected that any further awards will be made.

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 31 May 2017	–	–
Exercisable at 31 May 2017	–	–
Lapsed	–	–
Exercised	–	–
Outstanding at 31 May 2018	–	–
Exercisable at 31 May 2018	–	–

Notes to the Consolidated Financial Statements continued

29. Share-based payments continued

	Price/share £	Weighted average exercise price £
Range of prices:		
31 May 2018	**–**	**–**
31 May 2017	1.7	1.7

	Number of share options	Weighted average contract term (years)
Weighted average contractual remaining life:		
31 May 2018	**–**	**–**
31 May 2017	–	–

There were no options outstanding at 31 May 2018 or 31 May 2017 that are outside of the scope of IFRS 2 'Share-based Payments'.

30. Related party transactions

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 2018 the outstanding loan balance receivable from PZ Wilmar Limited was £25.5m (2017: £26.1m) and from PZ Wilmar Food Limited was £7.8m (2017: £8.0m). These receivables relate to long-term loan investments that have been made by both joint venture partners.
- The value of certain raw materials and services the Group sourced and then sold to PZ Wilmar Limited was £4.7m (2017: £0.5m). At 31 May 2018 the outstanding trade receivable balance from PZ Wilmar Limited was £3.9m (2017: £0.5m) and from PZ Wilmar Food Limited was £0.1m (2017: £nil). The outstanding trade receivable balance from the Group to PZ Wilmar Food Limited at 31 May 2018 was £nil (2017: £nil).
- At 31 May 2018 the outstanding other receivable balance from PZ Wilmar Limited was £1.1m (2017: £4.0m) and from PZ Wilmar Food Limited was £nil (2017: £nil). The outstanding other receivable balance from the Group to PZ Wilmar Food Limited at 31 May 2018 was £nil (2017: £nil). These receivables relate to short-term loan investments that have been made by the Group's Nigeria subsidiaries.

All trading balances will be settled in cash. There were no provisions for doubtful related party receivables at 31 May 2018 (2017: £nil) and no charge to the Income Statement in respect of doubtful related party receivables (2017: £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 2018 the outstanding other receivable balance from Wilmar PZ International Pte Limited was £3.9m (2017: £3.4m). The outstanding other receivable balance from the Group to Wilmar PZ International Pte Limited at 31 May 2018 was £nil (2017: £nil). These receivables relate to services provided by subsidiary companies to Wilmar PZ International Pte Limited.

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

Details of the Group's subsidiaries at 31 May 2018 are as follows:

Company	Operation	Incorporated in	Parent Company's interest	Proportion of voting interest	Registered office address
Five AM Life Pty Limited	Dormant	Australia	†100%	†100%	Building A, Level 1, 13-15 Compark Circuit, Mulgrave, Victoria, 3170
PZ Cussons (Holdings) Pty Limited	Holding company	Australia	†100%	†100%	Building A, Level 1, 13-15 Compark Circuit, Mulgrave, Victoria, 3170
PZ Cussons Australia Pty Limited	Manufacturing	Australia	†100%	†100%	Building A, Level 1, 13-15 Compark Circuit, Mulgrave, Victoria, 3170
PZ Cussons Beauty Australia (Holdings) Pty Limited	Holding company	Australia	†100%	†100%	Building A, Level 1, 13-15 Compark Circuit, Mulgrave, Victoria, 3170
Rafferty's Garden Pty Limited	Dormant	Australia	†100%	†100%	Building A, Level 1, 13-15 Compark Circuit, Mulgrave, Victoria, 3170
United Laboratories Limited	Dormant	Australia	†100%	†100%	Building A, Level 1, 13-15 Compark Circuit, Mulgrave, Victoria, 3170
Beauty Source Limited	Dormant	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
Bronson Holdings Limited	Holding company	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
Charles Worthington Hair Accessories Limited	Dormant	England	*100%	*100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
Milk Ventures (UK) Limited	Holding company	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
PZ Cussons (Holdings) Limited	Holding company	England	*100%	*100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
PZ Cussons (International Finance) Limited	Provision of services to Group companies	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
PZ Cussons (International) Limited	Provision of services to Group companies	England	*100%	*100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
PZ Cussons (UK) Limited	Manufacturing	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
PZ Cussons Beauty LLP	Distribution & Holding partnership	England	†100%	†100%	14 Upper St. Martin's Lane, Covent Garden, London, WC2H 9FB
Seven Scent Limited	Manufacturing	England	†100%	†100%	Agecroft Commerce Park, Lamplight Way, Swinton, Manchester, M27 8UJ
St. Tropez Acquisition Co. Limited	Holding company	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
St. Tropez Holdings Limited	Holding company	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
The Sanctuary at Covent Garden Limited	Dormant	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
Thermocool Engineering Company Limited	Dormant	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG

* Shares held by the parent Company.

† Shares held by a subsidiary.

Notes to the Consolidated Financial Statements continued

31. Subsidiaries, joint ventures and non-current asset investments continued

Company	Operation	Incorporated in	Parent Company's interest	Proportion of voting interest	Registered office address
PZ Cussons Ghana Limited	Distribution	Ghana	†90%	†90%	Plot 27/3-27/7, Sanyo Road, Tema, PO Box 628
Minerva SA	Manufacturing	Greece	*100%	*100%	165 Tatoiou & Odysseos Str, 14452, Metamorphosis, Attiki
Parnon (Hong Kong) Limited	Provision of services to Group companies	Hong Kong	†100%	†100%	1/F., Hing Lung Comm. Bldg., 68-74 Bonham Strand, Sheung Wan
PZ Cussons (Hong Kong) Limited	Dormant	Hong Kong	†100%	†100%	Level 54, Hopewell Centre, 183 Queen's Road East
PZ Cussons India PVT Limited	Provision of services to Group companies	India	†100%	†100%	1407, Real Tech Park, 14th Floor, Plot No. 39/2, Sector – 30/A, Vashi, Navi Mumbai, 400705
PT PZ Cussons Indonesia	Manufacturing	Indonesia	†100%	†100%	RDTX Tower 5th Floor JL Prof Satrio KAV E IV/6, Mega Kuningan Jakarta Selatan 12940 Indonesia
Cussons and Company Limited	Dormant	Kenya	†100%	†100%	PO Box 48597, 00100 GPO, Nairobi
PZ Cussons East Africa Limited	Manufacturing	Kenya	†100%	†100%	PO Box 48597, 00100 GPO, Nairobi
PZ Cussons (New Zealand) Limited	Distribution	New Zealand	†100%	†100%	71-77 Richard Pearse Drive, Mangere, Auckland, 2150
Food For Life International Limited	Dormant	Nigeria	†100%	†100%	45/47 Town Planning Way, Ilupeju, Lagos
Harefield Industrial Nigeria Limited	Distribution	Nigeria	†100%	†100%	45/47 Town Planning Way, Ilupeju, Lagos
HPZ Limited[1]	Manufacturing	Nigeria	†55%	†55%	45/47 Town Planning Way, Ilupeju, Lagos
Nutricima Limited	Manufacturing	Nigeria	†100%	†100%	45/47 Town Planning Way, Ilupeju, Lagos
PZ Coolworld Limited	Retail	Nigeria	†100%	†100%	45/47 Town Planning Way, Ilupeju, Lagos
PZ Cussons Nigeria Plc	Manufacturing	Nigeria	†73%	†73%	45/47 Town Planning Way, Ilupeju, Lagos
PZ Cussons Polska SA	Distribution	Poland	†100%	†100%	Ul. Chocimska 17, 00-791 Warszawa
Food For Life Singapore Pte Limited	Dormant	Singapore	†100%	†100%	61 Robinson Road, #08-02 Robinson Centre, Singapore
PZ Cussons Singapore Private Limited	Provision of services to Group companies	Singapore	†100%	†100%	61 Robinson Road, #08-02 Robinson Centre, Singapore
Guardian Holdings Company Limited	Provision of services to Group companies	Thailand	†49%	†49%	35 Moo 4 Tessamphan Road, Banchang, Muang, Pathumthani 12000
PZ Cussons (Thailand) Limited	Manufacturing	Thailand	†100%	†100%	35 Moo 4 Tessamphan Road, Banchang, Muang, Pathumthani 12000
PZ Cussons Middle East and South Asia FZE	Distribution	UAE	†100%	†100%	JAFZA – 14, 14422, PO Box 17233, Jebel Ali, 17233, Dubai
St. Tropez Inc.	Distribution	USA	†100%	†100%	140 Broadway, 22nd Floor, Suite 2240, New York

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.

31. Subsidiaries, joint ventures and non-current asset investments continued

Joint venture companies	Operation	Incorporated in	Parent Company's interest	Registered office address
PZ Wilmar Food Limited	Manufacturing	Nigeria	†51%	45/47 Town Planning Way, Ilupeju, Lagos
PZ Wilmar Limited	Manufacturing	Nigeria	†49%	45/47 Town Planning Way, Ilupeju, Lagos
Wilmar PZ International Pte Limited	Provision of services to joint venture companies	Singapore	†50%	56 Neil Road, Singapore

† Shares held by a subsidiary.

Other investments	Operation	Incorporated in	Parent Company's interest	Registered office address
Norpalm Ghana Limited	Manufacturing	Ghana	†28%	BOX MC, 1249, Takoradi

† Shares held by a subsidiary.

- All subsidiary entities have a year end of 31 May.
- No subsidiaries of the Group have taken the exemption from audit under Section 479A of the Companies Act 2006.

Company Balance Sheet
At 31 May 2018

	Notes	31 May 2018 £m	(Restated)* 31 May 2017 £m	1 June 2016 £m
Fixed assets				
Investments	4	**106.3**	116.8	119.1
		106.3	116.8	119.1
Current assets				
Debtors	5	**296.9**	321.9	292.0
Investments	6	**0.3**	0.3	0.3
Cash at bank and in hand		**0.5**	0.8	3.0
		297.7	323.0	295.3
Creditors – amounts falling due within one year	7	**(257.4)**	(400.7)	(380.3)
Net current liabilities		**40.3**	(77.7)	(85.0)
Total assets less current liabilities		**146.6**	35.6	34.1
Net assets		**146.6**	39.1	34.1
Capital and reserves				
Called-up share Capital	8	**4.3**	4.3	4.3
Capital redemption reserve		**0.7**	0.7	0.7
Profit and loss account		**141.6**	34.1	29.1
Total shareholders' funds		**146.6**	39.1	34.1

* See Note 1 for details.

PZ Cussons Plc reported a profit for the financial year ended 31 May 2018 of £142.5m (2017 restated*: £43.4m).

The Company Balance Sheet for 2016 has been disclosed in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' due to a prior year error as described in Note 1.

The Financial Statements from pages 96 to 105 were approved by the Board of Directors and authorised for issue. They were signed on its behalf by:

C Silver **G A Kanellis**
24 July 2018

PZ Cussons Plc

Registered number 00019457

Company Statement of Changes In Equity

	Called-up share capital £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 June 2016	**4.3**	**0.7**	**29.1**	**34.1**
Profit for the financial year (as previously reported)	–	–	39.9	39.9
Adjustment due to prior year error	–	–	3.5	3.5
Profit for the financial year (restated)*	–	–	43.4	43.4
Acquisition of shares for ESOT	–	–	(1.2)	(1.2)
Waiver of intercompany balances	–	–	(3.0)	(3.0)
Ordinary dividends	–	–	(34.2)	(34.2)
At 31 May 2017	**4.3**	**0.7**	**34.1**	**39.1**
At 1 June 2017 (as previously reported)	4.3	0.7	30.6	35.6
Adjustment due to prior year error	–	–	3.5	3.5
At 1 June 2017 (restated)*	**4.3**	**0.7**	**34.1**	**39.1**
Profit for the financial year	–	–	142.5	142.5
Acquisition of shares for ESOT	–	–	(0.4)	(0.4)
Ordinary dividends	–	–	(34.6)	(34.6)
At 31 May 2018	**4.3**	**0.7**	**141.6**	**146.6**

* See Note 1 for details.

Notes to the Company Financial Statements

1. Accounting policies

Basis of preparation

The Company Financial Statements of PZ Cussons Plc Limited have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Financial Statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

As permitted by Section 408(3) of the Companies Act 2006, the Income Statement of the parent Company is not presented with these Financial Statements. The retained profit of the parent Company is shown in the statement of changes in equity. Details of dividends paid are included in Note 8 of the Consolidated Financial Statements.

The entity satisfies the criteria of being a qualifying entity as defined in FRS 101. Its Financial Statements are consolidated into the Group Financial Statements of PZ Cussons Plc, which are included within this Annual Report. The Shareholders of the Company were notified of the exemptions to be taken by way of an RNS announcement on 4 July 2016 and the Shareholders have not objected to the use of the exemptions taken.

The preparation of Financial Statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed below.

The following exemptions from the requirements of IFRS have been applied in the preparation of these Financial Statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payments' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7 'Financial Instruments: Disclosures';
- Paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
- Paragraph 38 of IAS 1 'Presentation of Financial Statements' comparative information requirements in respect of:
  (i) paragraph 79(a)(iv) of IAS 1;
  (ii) paragraph 73(e) of IAS 16 'Property, Plant and Equipment';
  (iii) paragraph 118(e) of IAS 38 'Intangible Assets' (reconciliations between the carrying amount at the beginning and end of the period);
- The following paragraphs of IAS 1 'Presentation of Financial Statements':
  (i) 10(d) (statement of cash flows);
  (ii) 16 (statement of compliance with all IFRS);
  (iii) 38A (requirement for minimum of two primary statements, including cash flow statements);
  (iv) 38B-D (additional comparative information);
  (v) 111 (cash flow statement information); and
  (vi) 134-136 (capital management disclosures);
- IAS 7 'Statement of Cash Flows';
- Paragraph 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective);
- Paragraph 17 of IAS 24 'Related Party Disclosures' (key management compensation);
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group.

1. Accounting policies continued

Restatement

The prior year restatement relates to a prior year error of an overstatement of administrative expenses of £3.5m, with a corresponding overstatement of creditors due within one year. This has been recognised as a prior year error in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' with the Financial Statements restated as appropriate. The impact of the prior year adjustment is shown in the tables below:

Consolidated Balance Sheet

	2017 £m			2016 £m		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
Creditors – amounts falling due within one year	(404.2)	3.5	(400.7)	(380.3)	–	(380.3)
Net assets	35.6	3.5	39.1	34.1	–	34.1
Profit and loss account	30.6	3.5	34.1	29.1	–	29.1
Total shareholders' funds	35.6	3.5	39.1	34.1	–	34.1

Consolidated Statement of Changes in Equity

	2017 £m		
Profit and loss account	As previously reported	Adjustment	Restated
At 1 June	29.1	–	29.1
Profit for the year	39.9	3.5	43.4
As at 31 May	**30.6**	**3.5**	**34.1**

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. The Company's functional currency is Sterling as this is the functional currency of the principal operating environment of the Company. The Company Financial Statements have been presented in Sterling and have been rounded to £0.1 of a million.

Current tax

The current tax liability/asset directly relates to the actual tax payable/receivable on the Company's profits and is determined based on tax laws and regulations in effect at the year end date. Assumptions and judgements are made in applying these laws to the taxable profits in any given period in order to calculate the tax charge for that period. Where the eventual tax paid or reclaimed is different to the amounts originally estimated, the difference will be charged or credited to the profit and loss account in the period in which it is determined.

Deferred tax

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 taxable profit nor 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 directly to equity, in which case the deferred tax is also dealt with in equity.

Notes to the Company Financial Statements continued

1. Accounting policies continued

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

Financial instruments

Financial assets and financial liabilities are recognised on the Company Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial instruments utilised by the Company during the years ended 31 May 2018 and 31 May 2017, together with information regarding the methods and assumptions used to calculate fair values, can be summarised as follows:

Current asset investments

In accordance with IAS 39 '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.

Borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of direct issue costs, and are subsequently measured at amortised cost. 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 that they are not settled in the year in which they arise.

Intercompany debtors

Intercompany debtors 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 intercompany debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors and is measured as the difference between carrying value and present value of estimated future cash flows. Subsequent recoveries of previously impaired intercompany debtors are recognised as a credit to profit.

Intercompany creditors

Intercompany creditors are not interest bearing and are initially stated at fair value and subsequently measured at amortised cost.

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.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

1. Accounting policies continued

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 investments in subsidiaries are adjusted to reflect this capital contribution.

The carrying amounts of the Company's investments are reviewed annually to determine whether there is any indicator of impairment. If any such indicator exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell or its value-in-use.

An impairment loss is recognised whenever the carrying amount of the investment, or its cash-generating unit, exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account.

An impairment loss is reversed when there is an indication that the impairment may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Borrowing costs

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

Own shares held by ESOT

Transactions of the Company-sponsored Employee Share Option Trust (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 distributions to the Company's Shareholders are 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.

Share-based payments

The Company operates 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 social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the change will be treated as a cash-settled transaction.

Notes to the Company Financial Statements continued

1. Accounting policies continued

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.

In the course of preparing the Company's Financial Statements, no key source of estimation uncertainty has been identified. The critical judgements required when preparing the Company's Financial Statements are as follows:

Carrying value of investments in subsidiaries

Annually the Directors consider whether there are any indicators of impairment that may suggest that the recoverable amount of the Company's investments in subsidiaries is less than their carrying amount. The assessment of impairment indicators requires management to apply judgement in assessing current and forecast trading performance as well as assessing the impact of principal risks and uncertainties specific to the investments it holds. Details of the Company's investments are set out in Note 4 and in the current year the Directors have concluded that no indicators of impairment existed.

2. Directors' emoluments

	2018 £m	2017 £m
Aggregate amount of Directors' emoluments	2.0	3.9
Emoluments of the highest paid Director	0.7	1.6

For the year ended 31 May 2018 the highest paid Director received Company pension contributions of £0.1m (2017: £0.1m). This information can be found in Note 5 of the Consolidated Financial Statements.

Additional information on Directors' emoluments, including details of gains or losses made on the exercise of share options in the year and the Directors' interests in the Group, have been included in the Report on Directors' Remuneration on page 17.

3. Dividends

	2018 £m	2017 £m
Amounts recognised as distributions to ordinary shareholders in the year comprise:		
Final dividend for the year ended 31 May 2017 of 5.61p (2016: 5.50p) per ordinary share	23.5	23.0
Interim dividend for the year ended 31 May 2018 of 2.67p (2017: 2.67p) per ordinary share	11.1	11.2
	34.6	34.2
Proposed final dividend for the year ended 31 May 2018 of 5.61p (2017: 5.61p) per ordinary share	23.5	23.5

The proposed final dividends for the years ended 31 May 2017 and 31 May 2018 were/are 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 2017 and 31 May 2018 respectively.

4. Investments in subsidiaries

	Shares £m	Loans £m	Total £m
Cost at 1 June 2016	120.7	3.0	123.7
Disposals in the year to 31 May 2017	(2.3)	–	(2.3)
Provisions	(4.6)	–	(4.6)
Net book value at 31 May 2017	113.8	3.0	116.8
Cost at 1 June 2017	**113.8**	**3.0**	**116.8**
Disposals in the year	**(10.5)**	**–**	**(10.5)**
Net book value at 31 May 2018	**103.3**	**3.0**	**106.3**

In the current and prior year the Company's Greek business, Minerva SA, executed a return of capital through a share buy-back. This has been shown as a disposal in the current year that reduces the Company's investment in that subsidiary by £10.5m (2017: £1.6m).

Details of the Company's direct subsidiaries at 31 May 2018 are shown below. For full listing of all Company subsidiaries see Note 31 in the Group's consolidated Financial Statements:

Subsidiary companies	Operation	Incorporated in	Parent Company's interest	Proportion of voting interest
Charles Worthington Hair Accessories Limited	Dormant	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

	2018 £m	2017 £m
Amounts owed by Group companies	**293.2**	317.4
Other receivables	**3.7**	4.5
	296.9	321.9

£291.1m (2017: £312.3m) of amounts owed by Group companies are interest bearing and are based on market rates of interest. £2.1m (2017: £5.1m) of amounts owed by Group companies are non-interest bearing. All of the balances are unsecured and are repayable on demand.

Notes to the Company Financial Statements continued

6. Current asset investments

	2018 £m	2017 £m
Unlisted	0.3	0.3

7. Creditors

Due within one year	2018 £m	(Restated)* 2017 £m
Bank loans and overdrafts	252.0	253.5
Amounts owed to Group companies	5.0	146.8
Accruals and deferred income	0.4	0.4
	257.4	400.7

* See Note 1 for details.

£0.9m (2017 restated*: £146.8m) of amounts owed to Group companies are interest bearing and are based on market rates of interest. Amounts owed to Group companies are unsecured 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.

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. Called-up share capital

	2018		2017	
Allotted, called up and fully paid:	Number 000	Amount £m	Number 000	Amount £m
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

9. Employee Share Option Trust

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

The ESOT purchases shares to fund the Executive Share Option Scheme and the Performance Share Plan, details of which are provided in the Report on Directors' Remuneration. At 31 May 2018, the trust held 10,415,400 (2017: 10,379,933) ordinary shares with a book value of £40.1m (2017: £40.0m). The market value of these shares as at 31 May 2018 was £24.8m (2017: £35.9m). During the year the ESOT purchased 116,489 shares of the Company at a cost of £0.4m (2017: 289,887 at a cost of £1.2m) representing 0.03% of issued share capital. The trust has waived any entitlement to dividends in respect of all the shares it holds.

The cost of buying own shares is charged to the profit and loss reserve within retained earnings.

10. Share-based payments

Share-based payments are made to senior executives and other selected key individuals throughout the Company. These are the Performance Share Plan and the Executive Share Option Scheme. The total credit in the year relating to the two schemes was £nil (2017: £nil).

Performance Share Plan

The Company operates a Performance Share Plan (PSP) for 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 a single three year period. The fair value of the award is taken as the share price at the date of grant.

In the current year, 1,233,868 awards were made under the PSP scheme (2017: total awards of 1,321,710). The number of shares exercised in the year was nil (2017: nil). In addition the number of lapsed share options totalled 606,297 (2017: 1,104,456). The number of awards outstanding but not yet exercisable is 3,142,455 at 31 May 2018 (2017: 3,344,030). The total credit included in operating profit in relation to these awards was £nil (2017: £nil).

11. 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 2018 was £252.0m (2017: £253.5m).

In addition the Company is party to cross-company guarantee arrangements relating to an overdraft facility for certain Group UK entities at Barclays Bank Plc. The maximum exposure at 31 May 2018 was £5.0m (2017: £5.0m).

Further statutory and other information

Health & 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 & Safety specialists and, where appropriate, provides on-site medical facilities for employees.

The Company continues to monitor and increase standards of Health & 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 resources 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, with additional contributions made through staff time and gifts in kind. PZ Cussons continues to provide assistance and donations to significant global fundraising 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

Deloitte 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 2018 comprises this page and the information contained in the Report of the Directors on pages 4 to 7.

Registered office

Manchester Business Park
3500 Aviator Way
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M22 5TG

Registered number

Company registered number 00019457

Registrars

Computershare Investor Services Plc
The Pavilions
Bridgwater Road
Bristol
BS13 8AE

Company Secretary

S P Plant

Five year financial record (unaudited)

Year to 31 May	2018 £m	(Restated)* 2017 £m	(Restated)* 2016 £m	2015 £m	2014 £m
Operating profit before exceptional items	**85.7**	104.8	108.5	114.4	116.4
Net finance expense	**(5.6)**	(2.8)	(5.5)	(5.6)	(1.4)
Profit before taxation and exceptional items	**80.1**	102.0	103.0	108.8	115.0
Exceptional items	**(13.5)**	(15.5)	(19.3)	(24.8)	8.7
Profit before taxation	**66.6**	86.5	83.7	84.0	123.7
Taxation	**(17.8)**	(21.4)	(14.0)	(26.1)	(25.0)
Profit for the year	**48.8**	65.1	69.7	57.9	98.7
Attributable to:					
Owners of the parent	**47.7**	62.4	67.7	52.4	91.4
Non-controlling interests	**1.1**	2.7	2.0	5.5	7.3
Net assets attributable to owners of the parent	**462.2**	450.1	465.1	453.2	484.0
Net (debt)/funds	**(165.4)**	(143.8)	(147.1)	(157.4)	(29.4)
Per ordinary share:					
Basic earnings	**11.41p**	14.91p	16.16p	12.45p	21.52p
Adjusted basic earnings	**13.39p**	16.42p	17.22p	17.94p	17.96p
Dividend (interim and final declared post year end)	**8.28p**	8.28p	8.11p	8.00p	7.76p
Times cover – after exceptional items	**1.4**	1.8	2.0	1.6	2.8
Times cover – before exceptional items	**1.6**	2.0	2.1	2.2	2.3
Net assets	**107.81p**	104.99p	108.48p	105.71p	112.90p

* 2017 and 2016 comparatives have been restated due to the de-recognition of the expatriate scheme surplus. Further information regarding this change in accounting policy can be found in Note 1 of the Consolidated Financial Statements.

Shareholder information and contacts

Annual General Meeting

The Annual General Meeting will be held at 10.30am on Wednesday 26 September 2018 at:

PZ Cussons Plc
Manchester Business Park
3500 Aviator Way
Manchester
M22 5TG

Financial calendar

The key dates for PZ Cussons' financial calendar are available on our website: **www.pzcussons.com**

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Tel: 0161 435 1000

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Registered number

Company registration number – 00019457

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Company Secretary

S P Plant

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