Welcome to the PZ Cussons Governance and Financial Statements 2017

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Governance and Financial Statements 2017

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.

Calling on over 130 years of expertise, we operate internationally in carefully selected developed and emerging markets which present the greatest strategic potential for future growth. Our world-class supply chain and distribution networks enable us to meet global consumer needs and deliver quality brands which add value and enhance everyday lives.

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Our 2017 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 provides an overview of 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

I am pleased to report the Group has delivered a solid set of results for the year ended 31 May 2017, with profits before tax moving slightly ahead of prior year at £103.5m. These results have been achieved despite a significant year-on-year currency devaluation in the Group's largest market Nigeria and general tough trading conditions in most of our operating markets.

The Group's strategy of ongoing brand innovation and renovation continues to underpin our ability to maintain or grow our market share throughout all of the Group's major operating markets. In Nigeria, our experience and flexibility to ensure our products are sold in the right sizes and at the right price points has enabled us to deliver a creditable result against the backdrop of a weaker currency and poor liquidity.

Key highlights for the year include the successful on time completion of the three year project to implement a standard SAP solution across the Group. This marks an important step towards completion of the transformation agenda and positions the Group well to deliver future growth.

Our Board

During the year there were a number of Board changes: in December 2016 our former Chair Richard Harvey and Non-executive Director Professor John Arnold each retired, whilst we welcomed Jez Maiden to the Board in November as a Non-executive Director and appointed him Chair of the Audit & Risk Committee in January 2017.

On 25 July 2017, we announced the impending retirements of Chris Davis, Group Chief Operating Officer, and Non-executive Director Ngozi Edozien. Both will retire from the Board at the 2017 Annual General Meeting.

The Board wishes to express its thanks to Chris for his significant contribution to PZ Cussons over the past 24 years and for the leading role he played in the Company's recent business transformation programme. On retirement, Chris will be returning to his native Australia and, on behalf of the Board and the wider business, I would like to wish him a long and happy retirement.

The Board would also like to extend its appreciation to Ngozi for the input and wise counsel which she has given to the Board since 2012, both in respect of Nigeria but also more broadly, given her extensive international business experience. We wish her well in the future and thank her for her commitment to PZ Cussons.

The Board is committed to the principles of good governance, particularly as set out in the Financial Reporting Council's 2014 UK Corporate Governance Code. This provides an effective framework for how the Board should discharge its responsibilities in respect of leadership effectiveness, remuneration, accountability and communication with Shareholders and how the business is governed through the principal standing committees. The following pages discuss in more detail the Board's various activities during the year, explaining the different roles of the committees and how we govern our business.

Proposed change of auditor

During the year we initiated a formal competitive tender process for our external audit engagement. At our Annual General Meeting in September 2017, the Board will propose that Deloitte LLP will replace PricewaterhouseCoopers LLP as the Group's statutory external auditor. Full details of this process can be found on page 31.

Dividend & outlook

The Board is pleased to declare a final dividend of 5.61p, marking 44 consecutive years that we have increased our dividend year-on-year. Despite consumer confidence remaining fragile in most markets, the Group remains well placed to deliver full year expectations and, with a strong balance sheet, to pursue growth opportunities as they arise.

Caroline Silver
Chair
25 July 2017

Board of Directors

Name and position	Appointed to the Board	PZC length of service	Committee memberships	Skills and experiences	Other appointments
Alex Kanellis Chief Executive Officer	2003	24 years	**Executive Committee** **Nomination 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	20 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 as Chief Financial Officer in 2006. Previous to joining PZ Cussons, Brandon worked at Deloitte & Touche where he qualified as a chartered accountant.	
Chris Davis Chief Operating Officer	2006	24 years	**Executive Committee** **Good4Business Committee**	Chris Davis joined PZ Cussons in 1993. After holding various senior posts, he was appointed as Managing Director of the Group's Australian operations. In 2006 he joined the Board as Regional Director of Africa and in 2008 moved into the role of Group Commercial Director. Chris was appointed to his present position in 2013. Previous to joining PZ Cussons, Chris worked in senior sales and marketing roles in various consumer goods companies including BTR Nylex Group.	
Caroline Silver Non-executive Chair	2014	3 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 25 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.	Partner and Managing Director Moelis & Company Trustee of the Victoria & Albert Museum
Ngozi Edozien Non-executive Director	2012	5 years	**Nomination Committee** **Remuneration Committee** **Audit & Risk Committee** **Chair of Good4Business Committee**	Ngozi Edozien joined PZ Cussons in 2012. She has a background in financial services (investment banking and private equity), management consulting and general management. She held senior positions as an Associate at JP Morgan (NY) and Associate Principal at McKinsey & Co. (UK, France) where she advised businesses predominantly in the consumer products and healthcare sectors. She has also held roles as Head/Chief Executive Officer at Actis West Africa, a leading private equity investor in emerging markets based in the UK and as VP Strategic Planning and Business Development for Pfizer Inc. in the New York headquarters and subsequently Regional Director East, West and Central Africa. She is currently Managing Director of InVivo Partners, a principal investments and advisory firm in Nigeria.	Non-executive Director of Stanbic IBTC Holdings (Standard Bank, Nigeria) Non-executive Director of Guinness/Diageo (Nigeria) Non-executive Director of Barloworld Plc (South Africa)

Name and position	Appointed to the Board	PZC length of service	Committee memberships	Skills and experiences	Other appointments
Jez Maiden Non-executive Director	1 November 2016	9 months	**Chair of the Audit & Risk Committee** **Nomination Committee** **Remuneration Committee** **Good4Business 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	5 years	**Nomination Committee** **Chair of Remuneration Committee** **Audit & Risk Committee** **Good4Business 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 Wragge Lawrence Graham & Co. LLP Non-executive Director of the Eden Project
John Nicolson Senior Independent Director	2016	1 year	**Nomination Committee** **Remuneration Committee** **Audit & Risk Committee** **Good4Business Committee**	John Nicolson joined the PZ Cussons Board as a 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 Non-executive Director of North American Breweries Inc. Member of the Advisory Board at Edinburgh University Business School

Report of the Directors

Principal activities

The principal activities of the Group are the manufacture and distribution of soaps, detergents, toiletries, beauty products, pharmaceuticals, electrical goods, edible oils, fats and spreads and nutritional products. The subsidiary undertakings and joint ventures principally affecting the profits, liabilities or assets of the Group are listed in note 32 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 (2016: 5.50p) per Ordinary Share to be paid on 5 October 2017 to Ordinary Shareholders on the register at the close of business on 11 August 2017 which, together with the interim dividend of 2.67p (2016: 2.61p) paid on 4 April 2017, makes a total of 8.28p for the year (2016: 8.11p).

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 2017 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 21 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 2017, together with their interests at 1 June 2016 are detailed below:

Ordinary Shares

Beneficial	2017 Number	2016 Number
Mrs C Silver	**20,000**	–
Mr R Harvey	**–**	91,667
Mr G A Kanellis	**709,891**	709,891
Prof J A Arnold	**–**	13,450
Mr C G Davis	**317,511**	317,511
Ms N Edozien	**–**	–
Mr B H Leigh	**145,917**	145,917
Mr J K Maiden	**1,000**	–
Mr J Nicolson	**–**	–
Mrs H Owers	**1,000**	1,000
Total	**1,195,319**	1,279,436

Notes:

[1] The figures in the tables do not include 10,379,933 (2016: 10,143,164) Ordinary Shares purchased and held by the Employee Share Option Trust (ESOT) as at 31 May 2017. 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 2017 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 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 as at 25 July 2017:

	As at 25 July 2017		As at 31 May 2017	
	Number of shares	%	Number of shares	%
Zochonis Charitable Trust	**56,121,769**	**13.09**	56,121,769	13.09
Sir J B Zochonis Will Trust	**49,320,712**	**11.50**	49,320,712	11.50
M&G	**21,506,280**	**5.02**	21,904,861	5.11
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
Capital Group	**16,975,332**	**3.96**	18,370,482	4.28

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 which 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 which 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 its 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 which 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 which 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 25 July 2017, the Concert Party held 228,578,455 shares, representing approximately 53.3% 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 2017 (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 United Kingdom during the year amounted to £601,000 (2016: £854,000). No political contributions were made (2016: £nil).

Research and development

The Group maintains in-house facilities for research and development in the United Kingdom, Greece, Indonesia, Thailand, Nigeria and Australia; in addition, research and development is sub-contracted to approved external organisations. Currently all such expenditure is charged against profit in the year in which it is incurred, as it does not meet the criteria for capitalisation under IAS 38 'Intangible assets'.

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)
2016/17	**54,306**	**18,675**	**72,981**
2015/16	60,598	20,124	80,722

The Group's greenhouse gas emissions in tonnes of carbon dioxide from 1 June 2016 to 31 May 2017.

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

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

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

Payment of suppliers

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

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 which 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 which 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:

	2017 Number	**%**	2016 Number	%
Women employees	**1,252**	**28**	1,354	26
Men employees	**3,253**	**72**	3,824	74
Women senior managers	**87**	**34**	86	33
Men senior managers	**167**	**66**	174	67
Women Group Board Directors	**3**	**38**	3	33
Men Group Board Directors	**5**	**62**	6	67
Employees with over 15 years' service	**1,289**	**29**	1,277	25
Employees over 50	**401**	**9**	428	8

Auditor

Following a competitive tender process PricewaterhouseCoopers LLP will stand down as external auditor following the 2017 year end audit. A resolution to appoint Deloitte LLP as independent external auditor will be proposed at the 2017 Annual General Meeting, together with the authority for the Audit & Risk Committee to determine their remuneration. A statement on the independence of the external auditor is included in the Report of Corporate Governance on page 31.

Enhanced Business Review
A review of the functional performance of the Group including performance against Key Performance Indicators is provided in the Strategic Report.

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 in the Strategic Report.

Annual General Meeting
The Company's 2017 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 27 September 2017. The resolutions which will be proposed at the 2017 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 2017, 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 which 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 who may exercise all the powers of the Company.

Purchase of own shares
Pursuant to Shareholder approval given at the 2016 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 2017 Annual General Meeting. No shares were purchased from 1 June 2016 to 25 July 2017 (2016: 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 auditor
In the case of each of the persons who were Directors of the Company at the date when this report was approved:

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

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

By order of the Board of Directors

S P Plant
Company Secretary
25 July 2017

Statement of the Chair of the Remuneration Committee

Introduction

On behalf of the Board, I am pleased to present our 2017 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.

The 2017 Report is divided into two sections:

- the Directors' Remuneration Policy (pages 10 to 17) which contains details of our Remuneration Policy. This updates the Policy which was approved by Shareholders in 2014; and
- the Annual Report on Remuneration (pages 18 to 26) which sets out how we implemented our Remuneration Policy for the year ended 31 May 2017 and how we intend to implement our Policy during the year ending 31 May 2018.

Both sections will be presented for Shareholder approval at our Annual General Meeting on 27 September 2017:

- the Remuneration Policy will be put to a binding Shareholder vote; and
- the Annual Report on Remuneration will be put to an advisory Shareholder vote.

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 through 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 (above 100% of salary worth of shares at grant) beyond the three year vesting period.

The current Remuneration Policy requires renewal at the 2017 Annual General Meeting. During the year the Remuneration Committee has therefore considered its effectiveness and concluded that the Policy has aligned performance and reward over the long term. As a result, no substantive changes to the current Remuneration Policy are being proposed at this year's Annual General Meeting (i.e. incentive quantum and structures will remain the same).

The amendments we are making to the Remuneration Policy with effect from the 2017 Annual General Meeting include:

- the clawback provisions introduced in 2015 to the Annual Bonus Scheme and to Performance Share Plan awards will now form part of the Policy;
- references to Performance Share Plan awards granted prior to September 2014 have been removed as there are no longer unvested awards outstanding under the 2008 plan;
- the scenario charts have been updated to reflect current salary levels; and
- we have made other minor wording changes to ensure the Policy retains appropriate flexibility to enable the Committee to respond to changed circumstances throughout the three year Policy period and to aid understanding.

In line with our commitment to ongoing dialogue with Shareholders, the Committee has consulted with leading Shareholders in respect of the Policy and taken account of their comments.

Remuneration earned in 2016/17

This year has again seen tough trading conditions in most of the Group's markets. However, despite the challenging environment and, specifically, significant year-on-year currency devaluation in the Group's largest market Nigeria, the Group has delivered a solid result with profit before tax slightly ahead of the previous year.

A strategy of ongoing brand innovation and renovation enabled the Group to maintain or grow our market shares; while, in the key market of Nigeria, the business focus on ensuring that products are sold in the right sizes and at the right price points delivered a creditable result against the backdrop of a weaker currency and poor liquidity. The Group also performed strongly in respect of the operational efficiency targets established at the beginning of the year. As a result, the Board was able to declare a further increase in the full year dividend, marking 44 consecutive years over which the dividend has been increased year-on-year.

As well as focusing the Executive Directors on delivery of financial performance, the Committee set a number of short-term strategic objectives for the year which were important to the delivery of our longer-term business strategy. The successful on time completion of the three year project to implement a standard SAP solution across the Group marks an important step towards completion of the recent transformation agenda and positions the Group well to deliver growth efficiently into the future. The year has also seen the continued progression of the Personal Care growth agenda with expansion into margin accretive, scale category segments and the development of a globally consistent brand marketing approach. A focus on the Group's Corporate Social Responsibility (CSR) strategy has embedded Good4Business throughout the business and resulted in significant reductions in water consumption, waste and carbon emissions.

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

- **Salary reviews** – as disclosed in last year's report, the salary of each of the Executive Directors was increased by 2% on 1 September 2016. This increase was within the range of salary increases provided to other employees elsewhere in the PZ Cussons Group.

- **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 and CSR stretch objectives. Financial targets were set around the budget approved for the year in May 2016, against a background of pressures on consumer income as well as significant levels of currency volatility and lack of liquidity in Nigeria which existed at the time, but with an extra stretch element built into part of the profit before tax and exceptional item element.

  Notwithstanding the challenging macroeconomic environment detailed above, we performed strongly against our key annual financial performance metrics. With profit before tax and exceptional items slightly ahead of the previous year at £103.5m, we improved our net working capital percentage to 21.3% and, through a relentless focus on brand innovation and renovation, achieved an operating contribution margin of 17.5%. In addition, we delivered against our strategic and CSR targets which resulted in bonuses paying out at maximum levels for the Executive Directors. The Committee was comfortable that bonus awards at this level were appropriate given the solid overall performance delivered by the Group during the year across the range of the Group's KPIs, achievements against our strategic objectives and, more particularly, the way in which the executives managed the very significant challenges which the business faced in Nigeria.

  Further details of the targets set for 2016/17 are disclosed retrospectively in this year's Annual Report on Remuneration on pages 19 to 20.
- **Long-term incentives** – as reported last year, Earnings Per Share (EPS) performance over the three year period ended 31 May 2016 did not meet the required threshold level and the awards made to Executive Directors in 2013 under the Performance Share Plan wholly lapsed in July 2016. Details are included in the tables within the Annual Report on Remuneration.
- The awards made to Executive Directors in 2014 are also subject to EPS performance over the three year period ended 31 May 2017. These performance conditions were not achieved and, accordingly, these awards will also shortly wholly lapse.

Our approach in 2017/18

As detailed above, the Remuneration Policy is to be renewed on broadly similar terms to the Policy which has operated since the 2014 Annual General Meeting. However, in terms of the application of Policy for 2017/18, I would like to draw to the attention of Shareholders the following matters:

- **Long-term incentives** – the Committee has reviewed the performance targets which will apply to the Performance Share Plan awards to be made to Executive Directors in the 2017/18 financial year. We have concluded that EPS remains the most closely aligned metric to our long-term objective of delivering profitable growth and sustaining a progressive dividend policy. However, we are proposing to refine the range of EPS targets for the 2017/18 awards to better reflect the current macroeconomic environment which includes currency liquidity constraints and pressure on consumer income in our core Nigerian business as well as challenging trading conditions in most of our markets. In light of this context, 25% of 2017/18 awards will vest where adjusted EPS grows by 3% per annum rising to 100% vesting if adjusted EPS grows by 10% per annum or more, in each case compounded over a three year performance period. This range reflects a reduction from the range operated last year (i.e. annual EPS growth of 4% to 12%) but the Committee considers the range to be similarly challenging when account is taken of current market conditions and market expectations of the Company's future performance.
  The Committee has a history of setting demanding targets (noting only a single vesting event in the past seven years) and intends to continue to set challenging targets each year.
- **Salary increases** – the Committee has decided, with effect from 1 September 2017, the base salary of Mr Kanellis will increase by 2.5% and the base salary of Mr Davis and Mr Leigh will increase by 2.0%. These increases are based on individual performance and are within the range of salary increases being awarded to the Group's wider UK-based employee population.

Appointment of new advisors to the Committee

The proposed appointment of Deloitte LLP as Group external auditor with effect from 1 June 2017 has necessitated their resignation as advisor to the Committee to satisfy the rules on auditor independence. Deloitte had performed this role since 2009 and the Committee thanks them for their advice and support over that period.

During the year, the Committee ran a tender process to identify a new advisor. A number of short-listed candidates were interviewed, culminating in the appointment with effect from 1 June 2017 of Korn Ferry Hay.

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 in 2016/17 and our approach for the 2017/18 financial year. 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

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 the Directors' Remuneration Policy which will be subject to a binding vote at the 2017 Annual General Meeting and take effect from the date of the 2017 Annual General Meeting. The policy is determined by the Remuneration Committee (the Committee).

Changes to the Remuneration Policy

The key changes between this Policy and the Policy which was approved by Shareholders at our 2014 Annual General Meeting are:

- the clawback provisions introduced in 2015 to the Annual Bonus Scheme and Performance Share Plan awards will now form part of the Policy;
- references to Performance Share Plan awards granted prior to September 2014 have been removed as there are no longer unvested awards outstanding under the 2008 plan;
- the scenario charts have been updated to reflect the new Policy; and
- other minor wording changes to ensure the Policy retains appropriate flexibility to enable the Committee to respond to changed circumstances through the three year Policy period and to aid understanding.

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 Director gains experience in the role.	None, although overall performance of the individual is considered by the Committee when setting and reviewing salaries.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
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 which 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 which the Committee considers appropriate to provide a sufficient level of benefit based on individual circumstances.	Not applicable.
Provision for retirement	Designed to enable an Executive Director to generate an income in retirement and to provide an overall remuneration package which 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 United Kingdom 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 which 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 which 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 annual bonus is based on challenging financial targets which are set in line with the Group's KPIs (for example profit before taxation, 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 which 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 which vest. Award levels and performance conditions are reviewed before each award cycle to ensure 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 which 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.

Annual Bonus Scheme (including deferred share bonus awards) and PSP

The Committee will operate the annual bonus (including the deferred share element) and PSP according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these arrangements. These include the following (plan limits and performance targets are restricted to the descriptions detailed in the preceding policy table):

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of an award and/or payment;
- share award structures (i.e. awards may be granted in the form of conditional share awards, nil-cost options or other arrangements having the same economic effect);
- whether employees will receive a dividend equivalent payment (which may assume the reinvestment of these dividends in the Company's shares on a cumulative basis) on shares which vest;
- the determination of vesting (including the conclusion of an applicable holding period);
- dealing with a change of control (e.g. the timing of testing performance targets) or restructuring;
- determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends);
- the annual review of performance conditions, including metrics and weightings, for the annual bonus and PSP.

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus and to adjust targets for the PSP if events occur (e.g. material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy.

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.

Choice of performance measures and approach to target setting

The performance metrics which are used for annual bonus and long-term incentive plans are a subset of the Group's KPIs.

Under the annual bonus plan in the 2017/18 financial year, profit before tax and exceptional items will be used as the primary performance metric, supplemented by net working capital and operating contribution margin. These metrics are to be used in tandem to provide a balance between incentivising delivery against the core objective of achieving profitable growth whilst effectively managing our working capital and achieving targeted rates of return on our sales. The financial objectives are complemented by incentivising delivery against targeted strategic and/or CSR improvements set for the year. Other metrics based on the Group's KPIs may be used in the future where it is considered that they provide clear alignment with the strategy of the Company.

In terms of long-term performance targets, PSP awards will vest subject to challenging financial targets (e.g. EPS growth) which are informed by the long-term levels of growth targeted by the Group which support our progressive dividend policy. Financial targets are set, where possible, based on sliding scales that take account of internal planning and external market expectations for the Group. Only modest rewards are available for delivering threshold performance levels with maximum rewards requiring substantial out-performance of the challenging plans approved at the start of each year.

Further details of the annual bonus metrics to be used for the current financial year are set out in the Annual Report on Remuneration. The targets for awards to be granted under the PSP in the current financial year are consistent with the Policy set out above and are also set out in the Annual Report on Remuneration.

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 or time commitment. 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 Chair 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.

Report on Directors' Remuneration
Directors' Remuneration Policy continued

Legacy awards
The Committee may make any remuneration payments and/or payments for loss of office, notwithstanding that they are not in line with the Policy, where the terms of the payment were agreed:

- before the 2014 Annual General Meeting (the date the Company's first Shareholder approved Directors' Remuneration Policy came into effect);
- before the Policy came into effect, provided that the terms of the payment were consistent with the Shareholder approved Directors' Remuneration Policy in force at the time they were agreed; or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes, the term 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted. For the avoidance of doubt, the Committee's discretion includes discretion to determine, in accordance with the rules of the PSP, the extent to which awards under that plan may vest in the event of a change of control or in a 'good leaver' circumstance.

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

The Committee may make minor changes to this Policy, which do not have a material advantage to Directors, to aid in its operation or implementation, taking into account the interests of Shareholders but without the need to seek Shareholder approval.

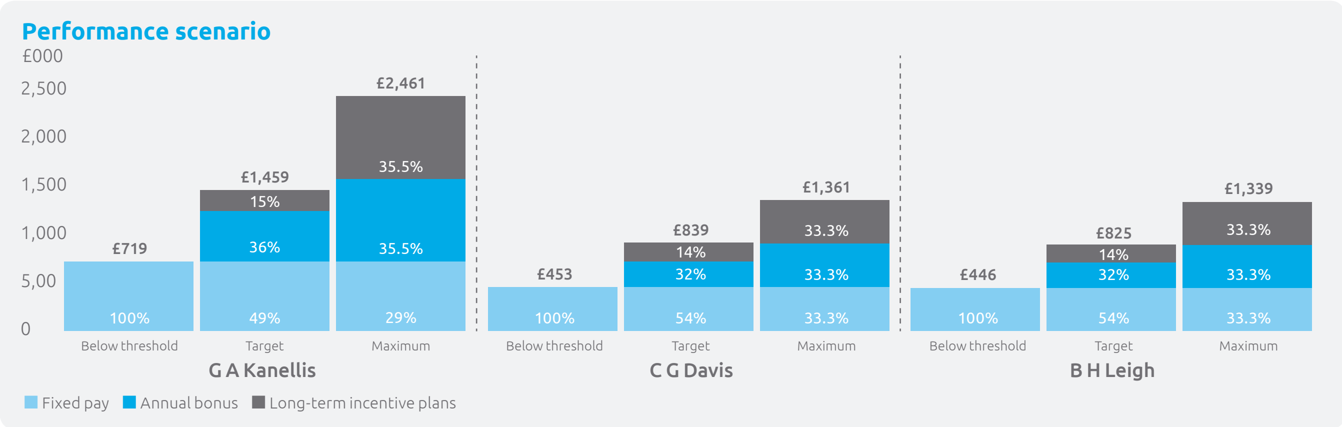
Setting Executive Director remuneration
When considering how to position the remuneration packages for the Executive Directors, the Committee considers market data from UK-listed companies of a similar size and complexity.

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 which are aligned with the Group's business strategy and the generation of sustained Shareholder value. The Committee is also mindful of the need to avoid inadvertently encouraging risky or irresponsible behaviour including behaviour which could raise environmental, social or governance issues.

Balance of fixed versus variable remuneration
The Committee believes that an appropriate proportion of the executive remuneration package should be variable and performance related in order to encourage and reward superior corporate and individual performance. The following charts 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 2017 – Value of benefits as included in the 2017 single total figure of remuneration on page 18 – Pension contributions at 20% of base salary		
Annual bonus (based on implementation of Policy in 2017/18)	0%	**60% of maximum opportunity**	**100% of maximum opportunity**
		G A Kanellis – 60% of 150% of salary	G A Kanellis – 150% of salary
		C G Davis – 60% of 125% of salary	C G Davis – 125% of salary
		B H Leigh – 60% of 125% of salary	B H Leigh – 125% of salary
Long-term incentive plans (based on implementation of Policy in 2017/18)	0%	**25% of award**	**100% of award**
		G A Kanellis – 25% of 150% of salary	G A Kanellis – 150% of salary
		C G Davis – 25% of 125% of salary	C G Davis – 125% of salary
		B H Leigh – 25% of 125% of salary	B H Leigh – 125% of salary



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 which 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. 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 which 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:

Report on Directors' Remuneration
Directors' Remuneration Policy continued

Performance Share Plan

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 which 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.

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 initial periods 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 Ms Edozien, Mr Maiden, Mr Nicolson, Mrs Owers and Mrs Silver expire on 31 December 2017, 31 October 2019, 30 April 2019, 31 December 2017 and 31 March 2020 respectively and subject, in each case, to annual re-election as a Director at the Company's Annual General Meeting. Ms Edozien will retire from the Board at the 2017 Annual General Meeting and will not stand for re-election.

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 Directors for the year ended 31 May 2017.

	Salary/fees[1]		Benefits[2]		Bonus[3]		PSP[4]		Pension[5]		Total	
	2017 (£)	2016 (£)	**2017 (£)**	2016 (£)	**2017 (£)**	2016 (£)	**2017 (£)**	2016 (£)	**2017 (£)**	2016 (£)	**2017 (£)**	2016 (£)
Executive Directors												
G A Kanellis	**577,650**	564,425	**22,400**	22,490	**870,750**	404,801	**–**	–	**115,530**	112,885	**1,586,330**	1,104,601
C G Davis	**361,425**	353,675	**16,714**	16,792	**454,000**	211,078	**–**	–	**72,285**	70,735	**904,424**	652,280
B H Leigh	**355,450**	347,825	**16,900**	16,990	**446,500**	207,581	**–**	–	**71,090**	69,565	**889,940**	641,961
	1,294,525	1,265,925	**56,014**	56,272	**1,771,250**	823,460	**–**	–	**258,905**	253,185	**3,380,694**	2,398,842
Non-executive Directors												
R J Harvey[6]	**145,833**	250,000	**–**	–	**–**	–	**–**	–	**–**	–	**145,833**	250,000
J A Arnold[7]	**30,625**	59,791	**1,028**	–	**–**	–	**–**	–	**–**	–	**31,653**	59,791
N Edozien	**60,000**	60,000	**16,402**	–	**–**	–	**–**	–	**–**	–	**76,402**	60,000
J K Maiden[8]	**34,792**	–	**2,401**	–	**–**	–	**–**	–	**–**	–	**37,193**	–
J R Nicolson[9]	**54,583**	4,375	**5,244**	–	**–**	–	**–**	–	**–**	–	**59,827**	4,375
H Owers	**62,500**	62,500	**5,517**	–	**–**	–	**–**	–	**–**	–	**68,017**	62,500
C Silver[10]	**142,083**	57,708	**6,593**	–	**–**	–	**–**	–	**–**	–	**148,676**	57,708
	530,416	494,374	**37,185**	–	**–**	–	**–**	–	**–**	–	**567,601**	494,374
Total	**1,824,941**	1,760,299	**93,199**	56,272	**1,771,250**	823,460	**–**	–	**258,905**	253,185	**3,948,295**	2,893,216

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

2 Taxable benefits comprise life assurance, healthcare insurance and car allowance. We have also been advised that for Non-executive Directors, certain travel and accommodation expenses in relation to attending Board meetings should be 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 the pages 19 to 20.

4 The awards made under the Performance Share Plan in 2014 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 21 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'. Mr Davis continues to participate in the defined contribution pension arrangement but as the amount of Company contributions was less than 20% of his salary, the difference between those contributions and 20% of his base salary was paid as a salary supplement. Both the pension contributions and the salary supplement are included in the column headed 'Pension'.
The Company provides unfunded, unapproved pension benefits for Mr Davis as his benefits would have been subject to the Inland Revenue earnings cap introduced by the Finance Act 1989 had the earnings cap not been abolished by the Finance Act 2004.

6 Mr Harvey retired from the Board on 31 December 2016.

7 Professor Arnold retired from the Board on 31 December 2016.

8 Mr Maiden was appointed to the Board on 1 November 2016.

9 Mr Nicolson was appointed to the Board on 1 May 2016.

10 Mrs Silver was appointed Chair on 1 January 2017.

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 2017, the base salary of Mr Kanellis will increase by 2.5% and the base salary of Mr Davis and Mr Leigh will increase by 2.0%, this being within the range of salary increases across the Group. The base salaries for the year ended 31 May 2016 and the year ended 31 May 2015 are also set out below:

	01/09/2015 Base salary (£)	01/09/2016 Base salary (£)	**01/09/2017 Base salary (£)**	Increase %
G A Kanellis	569,113	580,500	**595,012**	2.5
C G Davis	356,100	363,200	**370,464**	2.0
B H Leigh	350,240	357,200	**364,344**	2.0

Non-executive Director fees

During the year, the annual fees payable to Mrs Silver increased to £250,000 to reflect her appointment on 1 January 2017 as Non-executive Chair. The annual fees payable to Mr Nicolson increased by £5,000 to £57,500 to reflect his appointment as Senior Independent Director from the same date. No other changes were made during the year to the fees payable to Non-executive Directors.

Non-executive Director fees are reviewed every other year and, with effect from the biennial review conducted on 1 June 2017, the annual fees payable to Mr Nicolson were increased by a further £2,500 after considering the time commitment associated with the role. The annual fees payable to each of the other Non-executive Directors remain unchanged.

Annual bonus

Bonus for the year ended 31 May 2017

In respect of the year ended 31 May 2017, each of the Executive Directors participated in the Senior Executive 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 2017 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. A number of strategic objectives were also set, with payment subject to achieving a threshold level of profitability for the year. To reflect the organisation's focus during 2017 on implementing a standard SAP solution on time and in a cost-effective manner and reflecting the need to effectively manage exceptional volatility in the Nigerian economy, there was a higher weighting applied to the strategic objectives in the annual bonus relative to the previous financial year (30% of the total bonus from 20%) with financial targets determining the balance (at 70% of the total bonus).

The Board's approved budget and the targets set took into account, at the time the budget was approved in May 2016, the pressure on consumer income, particularly in Nigeria, as well as the significant level of currency volatility and lack of liquidity in the key Nigerian market and the consequent significant on-costs. In light of this and the overall levels of risk to be managed, the Group profit before tax target of £90m was a challenging target, particularly in a period during which SAP was being deployed in the region. Throughout the year, management put in place mechanisms to respond rapidly to changes in the market, continually deploying initiatives and tactics to manage and lessen the impact of the volatility. This included changing pricing and sizing across all product categories. These proactive and innovative approaches resulted in a better performance against target.

Report on Directors' Remuneration
Annual Report on Remuneration continued

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

Financial targets

Metric	Proportion of total bonus	Targets	Actual performance	Proportion of total bonus payable
Profit before tax and exceptional items	52%	Target: £90m Stretch target: £94.5m	£103.5m	52%
Net working capital percentage	9%	Target: 21.5%	21.3%	9%
Operating contribution percentage	9%	Target: 15.8%	17.5%	9%

Strategic targets

The 2017 strategic objectives related to streamlining operations in line with the new business operating model, returning the key Nigerian business to a sustainable cost base, completion of the deployment of SAP and attainment of CSR objectives related to, amongst other things, reduction in carbon emissions and water consumption. These objectives were fully attained as detailed in the table below:

Metric	Proportion of total bonus	Milestones achieved	Proportion of total bonus payable
Streamlining operations	9%	• Integrating business units in Nigeria • Re-engineered global functions • Streamlining the Australia and New Zealand business unit • Achieved notable growth in targeted areas (e.g. Personal Care and Food & Nutrition)	9%
Returning Nigerian business to a sustainable cost base	7.5%	• Closing depots and opening a state of the art distribution centre in Abuja • Delivered targeted business consolidation and reduced headcount against plan • Simplified SKUs (reduction of more than 50%) • Effectively managed costs through period of escalating input prices	7.5%
Completion and deployment of SAP	9%	• Delivered SAP within the global transformation plan on time and on budget	9%
CSR	4.5%	• Embedded updated Good4Business plan • Exceeded carbon and water reduction targets (3% reduction targets for each with performance being 16% and 9.7% respectively)	4.5%

As a result of the above, each of the Executive Directors qualified for his maximum bonus opportunity. In the case of Mr Kanellis, this resulted in a total bonus payment equivalent to 150% of his annual basic salary whilst Messrs Davis and Leigh each qualified for a total bonus payment equivalent to 125% of his annual basic salary. The Committee was satisfied that bonus awards of this level were appropriate given the solid overall performance delivered by the Group during the year, achievements against our strategic objectives and, more particularly, the way in which the executives managed the very significant challenges which the business faced in Nigeria.

In accordance with the Remuneration Policy, that part of each Director's bonus which exceeded in value 100% of annual basic salary will be deferred into Company shares vesting three years after the award was determined.

2018 annual bonus framework

Executive Directors will continue to participate in the Senior Executive Annual Bonus Scheme in respect of the year ending 31 May 2018.

The operation of the bonus plan will broadly mirror the approach taken in the 2017 financial year. No change is to be made to the maximum opportunity. However, following the successful implementation of SAP within our global transformation plan we will reduce the proportion of the annual bonus subject to strategic objectives from the 30% of total bonus opportunity to 20%. Taking the weighting on strategic objectives back down to 20% of the total bonus opportunity mirrors the approach we took prior to the 2017 financial year.

The Directors consider that the Group's future targets are matters which 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 the Report on Directors' Remuneration for 2018). However, 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 and COO;
- 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 four categories relating to key strategic drivers of growth, route to market enhancement, streamlining of operations and Good4Business); 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 Senior Executive Annual Bonus Scheme in respect of the year ending 31 May 2018 will be subject to recovery and withholding provisions which 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 2017

The year ended 31 May 2017 represented the final year of the three year performance period for awards made under the Performance Share Plan in 2014. 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 wholly lapse, as below:

EPS performance	Targets	Level of vesting	Performance achieved	Resulting level of award (% of maximum opportunity)
Threshold	6%	25%	(2.1%)	0%
Maximum	12%	100%		

Awards granted in the year ended 31 May 2017 (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 12, during the year ended 31 May 2017 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 COO and 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	268,750	£870,750	25%	31 May 2019
C G Davis	2014 Performance Share Plan	125% of salary	140,123	£453,999	25%	31 May 2019
B H Leigh	2014 Performance Share Plan	125% of salary	137,808	£446,498	25%	31 May 2019

These awards are subject to adjusted Earnings Per Share (EPS) growth targets measured over the single three year performance period commencing on 1 June 2016.

Report on Directors' Remuneration
Annual Report on Remuneration continued

No proportion of the awards may vest unless the Group's adjusted EPS grows by at least 4% per annum compounded over the relevant performance period. 25% of the award will vest where adjusted EPS grows by 4% per annum rising on a straight line pro-rata basis to 100% which vests if adjusted EPS grows by 12% 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 2016 of 324p 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 2018
The Committee intends to make awards under the Performance Share Plan to Executive Directors and other senior executives during the year ending 31 May 2018 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 previous year. The Committee proposes to continue to make awards subject to the attainment of targets related to growth in adjusted EPS but will refine the range of EPS targets to better reflect the current macroeconomic environment and market consensus. The minimum threshold compound EPS growth target, at which 25% of awards will vest, will accordingly be compound EPS growth of 3% per annum (from 4%), whilst the target for maximum vesting will be compound EPS growth of 10% per annum (from 12%). The Committee considers that the targets remain similarly challenging to the range set last year taking into account current market conditions and consensus and, in particular, the unique challenges we face as a result of managing exceptional volatility in our Nigerian business. The Committee has a history of setting demanding targets (noting only a single vesting event in the past seven years) and intends to continue to set similarly challenging targets each year following a review of expectations for future performance before each year's award.

The Committee has considered the introduction of an additional performance measure but has concluded 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.

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 2018 will continue to include recovery and withholding provisions which 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.

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

All options granted under the Executive Share Option Scheme have now been exercised.

Statement of Directors' shareholding and share interests
The Committee has established Shareholding Ownership Guidelines which require Executive Directors:
- to build up and retain holdings of shares (and/or deferred shares net of tax) worth 150% of salary from time to time; and
- until this share ownership threshold is met, to invest 50% of any after-tax 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 2017.

Interests in shares (audited)

The interests in the Company's shares of each of the Executive Directors as at 31 May 2017 (together with interests held by his connected persons) were:

	Ordinary Shares held at 31 May 2017[1]	Interests in share incentive schemes which are not subject to any performance condition as at 31 May 2017[2]	Interests in share incentive schemes which are subject to any performance condition as at 31 May 2017[3]
G A Kanellis	709,891	14,463	733,609
C G Davis	317,511	–	383,194
B H Leigh	145,917	–	376,865

[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 which exceeded 100% of his basic salary which was deferred into shares vesting three years after the award was determined.
[3] Includes unvested awards under the Performance Share Plan which remain subject to performance (including the whole of the awards made in 2014).

There have been no changes in the Executive Directors' interests between 31 May 2017 and the date of this Report. The Non-executive Directors' shareholdings are disclosed on page 5 within the Report of the Directors.

Executive Share Option Scheme (audited)

The outstanding awards granted to each Director of the Company under the Executive Share Option Scheme have now been exercised as follows:

	Date of award	Number of options/ awards at 1 June 2016	Granted/ allocated in year	Exercised/ vested in year	Lapsed in year	**Number of options/ awards at 31 May 2017**	Option exercise price (£)	Share price at date of exercise (£)	Gain (£)	Earliest date of exercise	Expiry date	Exercise/ transfer date
C G Davis	06-Aug-07	65,769	–	65,769	–	**–**	1.6725	3.397	113,419	06-Aug-10	06-Aug-17	01-Aug-16

Note: All awards have now been exercised.

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[1]	Number of options/ awards at 1 June 2016	Granted/ allocated in year	Exercised/ vested in year	Lapsed in year	**Number of options/ awards at 31 May 2017**	Share price at date of award (£)	Share price at date of vesting (£)	Gain (£)	Vesting/ transfer date
G A Kanellis	24-Jul-13	132,833	–	–	132,833	**–**	3.95	–	–	–
	24-Sep-14	223,135	–	–	–	**223,135**	3.70	–	–	24-Sep-17
	22-Jul-15	241,724	–	–	–	**241,724**	3.53	–	–	22-Jul-18
	27-Jul-16	–	268,750	–	–	**268,750**	3.24	–	–	27-Jul-19
C G Davis	24-Jul-13	84,404	–	–	84,404	**–**	3.95	–	–	–
	24-Sep-14	117,027	–	–	–	**117,027**	3.70	–	–	24-Sep-17
	22-Jul-15	126,044	–	–	–	**126,044**	3.53	–	–	22-Jul-18
	27-Jul-16	–	140,123	–	–	**140,123**	3.24	–	–	27-Jul-19
B H Leigh	24-Jul-13	83,021	–	–	83,021	**–**	3.95	–	–	–
	24-Sep-14	115,101	–	–	–	**115,101**	3.70	–	–	24-Sep-17
	22-Jul-15	123,956	–	–	–	**123,956**	3.53	–	–	22-Jul-18
	27-Jul-16	–	137,808	–	–	**137,808**	3.24	–	–	27-Jul-19

[1] Awards made on 24 September 2014 will wholly lapse on 24 September 2017.

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 2016	Granted/ allocated in year	Exercised/ vested in year	Lapsed in year	**Number of options/ awards at 31 May 2017**	Market price at date of award (£)	Vesting/ transfer date
G A Kanellis	22-Jul-15	–	14,463	–	–	**14,463**	3.51	22-Jul-18

Note: All awards will ordinarily vest on the third anniversary of grant, conditional only on continued employment.

Report on Directors' Remuneration
Annual Report on Remuneration continued

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 United Kingdom. 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 previous year to September. All benefits are payable from age 62. In total, the sum of the deferred pensions within these two arrangements at 31 May 2017 was £332,785 per annum.
C G Davis	Benefits held within the PZ Cussons Directors' Retirement Benefits Plan, supplemented by an unfunded contractual promise payable by the Company. 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 previous year to September. All benefits are payable from age 62. In total, the sum of the deferred pensions within these two arrangements at 31 May 2017 was £26,547 per annum.

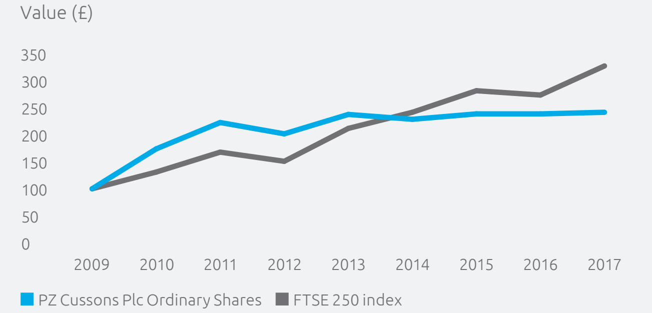
Following closure of the Company's defined benefit plans, each of the Executive Directors became eligible for membership of the Company's defined contribution pension arrangements and/or the provision of cash allowances in lieu of pension. Details of the benefits received by each in this respect are set out at note 5 to the table on page 18.

Loss of office payments (audited)
No payments for loss of office were made during the year.

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 2017 under the Company's share incentive plans, no new Ordinary Shares were issued.

Performance graph
The graph below illustrates the performance of PZ Cussons Plc measured by Total Shareholder Return (TSR) over the eight year period to 31 May 2017 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 eight years

	Total remuneration (£)	Annual bonus % of maximum opportunity	LTIP % of maximum opportunity
2016/17	**1,586,330**	**100.0%**	**0%**
2015/16	1,104,601	47.4%	0%
2014/15	1,463,325	72.85%	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 2016 and 31 May 2017, and the percentage change:

	2017 £m	2016 £m	% change
Total employee costs	**100.5**	96.9	3.7%
Dividends paid	**34.2**	33.3	2.7%
Profit before tax and exceptional items	**103.5**	103.0	0.5%

Change in CEO remuneration and for employees as a whole over 2017

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 2016 to 2017.

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			
	2017 £	2016 £	% change	Average for other employees % change
Salary	**577,650**	564,425	2.3%	1.5%
Benefits	**22,400**	22,490	(0.4%)	0%
Bonus	**870,750**	404,801	115.1%	148%

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)
- Ms Edozien
- Mr Nicolson
- Mr Maiden (with effect from his appointment to the Committee on 1 November 2016)
- Mrs Silver (until her appointment as Non-executive Chair on 1 January 2017)
- Prof Arnold (until his retirement on 31 December 2016)

The Committee was advised in relation to Directors' remuneration during the year by Deloitte LLP and Korn Ferry Hay.

Deloitte LLP is a founder member of the Remuneration Consultants Group and has signed the voluntary Code of Practice for remuneration consultants. It acted as principal advisor to the Committee until, following the firm's proposed appointment as the Group's external auditor with effect from 1 June 2017, it retired as remuneration advisor to comply with audit independence rules.

Report on Directors' Remuneration
Annual Report on Remuneration continued

During the year, Deloitte LLP provided advice on market data and assisted with the Committee's review of executive remuneration matters. The fees paid to Deloitte LLP in respect of this work were charged on a time and expenses basis and totalled £25,500 for the year. Deloitte LLP also provided advisory services to the Group during the year relating to tax advice in addition to other consulting services totalling £165,737.

In light of Deloitte's retirement and following an independent tender process, the Committee appointed Korn Ferry Hay as new remuneration advisor. Korn Ferry Hay was appointed because of its expertise and experience across a range of remuneration matters. Korn Ferry Hay is also a founder member of the Remuneration Consultants Group and has signed the voluntary Code of Practice for remuneration consultants. Korn Ferry Hay has advised the Committee in relation to market data and evolving market practice and in respect of its review of the Remuneration Policy.

The Committee is satisfied that the advice it has received from both Deloitte LLP and Korn Ferry Hay has been objective and independent.

During the year, the Committee consulted both Mr Harvey and Mrs Silver (in their capacity as, at different times, Non-executive Chair) on issues where it felt their experience and knowledge could benefit its deliberations and both 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 2017 Annual General Meeting.

The votes cast by proxy at the Annual General Meeting held on 28 September 2016 in respect of resolutions relating to Directors' remuneration are shown below.

Advisory vote on the Report on Directors' Remuneration:

Votes for		Votes against			
Number	%	Number	%	Votes cast	Votes withheld
330,992,126	97.98%	6,832,415	2.02%	337,824,541	3,959,848

By order of the Board of Directors

H Owers
Chair of the Remuneration Committee
25 July 2017

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 2017, the 2014 UK Corporate Governance Code ('the Code') applied to the Company but the Board has also taken appropriate account of the changes introduced by the new 2016 UK Corporate Governance Code which will apply to the Company for the first time in respect of the year ending 31 May 2018. The Code is publicly available on the Financial Reporting Council's website **www.frc.org.uk**.

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

Board evaluation

Composition and independence

The size of the Board allows individuals to communicate openly and to make a personal contribution through the exercise of their individual skills and experience. As at the date of this report, the Board of Directors has eight members comprising the Non-executive Chair, the Chief Executive Officer, two other Executive Directors and four 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 which could materially interfere with the exercise of their independent judgement.

Mr Nicolson is the Senior Independent Non-executive Director (a position which he assumed in January 2017) and in this capacity he is available to Shareholders if they have concerns which 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 the widest range of perspectives and backgrounds. The Company's aim, as regards the composition of the Board, is that it should have a balance of experience, skills and knowledge to enable each Director, and the Board as a whole, to discharge their duties effectively. Whilst the Company agrees that it is entirely appropriate that it should seek to have diversity on its Board, it does not consider that this can be best achieved by establishing specific quotas and targets and appointments will continue to be made based wholly on merit.

Further details on diversity within the business are set out in the 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. In compliance with good corporate governance practices, the 2017 review has been facilitated externally. The review was conducted by Ffion Hague of Independent Board Review who was appointed following an interview selection process carried out by the Chair in conjunction with the Company Secretary. The review was undertaken on the basis of one-to-one interviews conducted with each of the Directors, the Secretary and other frequent participants in Board meetings and observation of meetings of the Board and each of the principal standing committees. Items addressed included agenda setting and the effective use of Board time; Board composition; interaction with the broader management team; and the provision of information to the Board.

The results of the effectiveness review have been reviewed by the Chair and the Chair of each Board committee and discussed in a formal meeting of the Board. The Chair has taken responsibility, with the support of the Company Secretary, for implementing agreed recommendations.

The review process 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).

Report on Corporate Governance continued

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 which 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. Details of the principal standing committees of the Board are set out as follows:

Nomination Committee

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board and identifying and recommending appropriate candidates for membership of the Board when vacancies arise. During the year ended 31 May 2017, the Committee members were Mrs Silver (Committee Chair with effect from 1 January 2017), Ms Edozien, Mr Kanellis, Mr Nicolson, Mrs Owers, Mr Maiden (with effect from his appointment to the Board on 1 November 2016) and Professor Arnold and Mr Harvey (each up until his retirement from the Board on 31 December 2016). The Company Secretary, Mr Plant, is secretary to the Committee.

The Committee's principal activities during the year included:

- the appointment of a new Non-executive Chair following the retirement from the Board of Mr Harvey which culminated in the appointment of Mrs Silver with effect from 1 January 2017. In considering this appointment, the Nomination Committee evaluated the skills, knowledge, experience and personal characteristics demanded by the role and agreed a detailed role description. External search agencies were engaged to identify potential candidates and Mrs Silver was interviewed by each member of the Board, following which the Board approved her appointment and this was announced to Shareholders in June 2016. The Committee also considered and recommended the appointment of Mrs Silver as Chair of the Nomination Committee with effect from 1 January 2017.
- the identification of a new independent Non-executive Director, who would in time assume the Chair of the Audit & Risk Committee, which culminated in the appointment to the Board of Mr Maiden on 1 November 2016. In considering this appointment, the Nomination Committee evaluated the balance of skills, knowledge and experience on the Board and prepared a description of the role and capabilities required. External search agencies were engaged and a number of short-listed candidates were then invited to interview with members of the Committee. Other members of the Board were then given the opportunity of meeting with short-listed candidates, following which the Board approved the appointment of Mr Maiden as a Non-executive Director and, with effect from 1 January 2017, new Chair of the Audit & Risk Committee.
- the Nomination Committee recommended that Mr Nicolson be appointed Senior Independent Director in place of Mrs Silver with effect from 1 January 2017.
- receipt and review of regular reports from the Executive Directors and the Group Human Resources Director on senior executive talent management and succession planning throughout the Group.

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. During the year ended 31 May 2017, the Committee members were Mrs Owers (Committee Chair), Ms Edozien, Mr Nicolson, Mr Maiden (with effect from his appointment to the Board on 1 November 2016), Professor Arnold (until his retirement from the Board on 31 December 2016) and Mrs Silver (until her appointment as Chair on 1 January 2017). The Company Secretary, Mr Plant, is secretary to the Committee.

The Remuneration Committee 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's responsibilities and activities during the year and of Directors' remuneration are set out in the Report on Directors' Remuneration.

Audit & Risk Committee

Responsibilities of the Audit & Risk Committee

The Audit & Risk Committee is responsible for reviewing, on behalf of the Board, the following key areas:

- Financial Reporting: including monitoring the integrity of the Financial Statements and announcements relating to the Group's financial performance and reviewing significant financial reporting 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; and
- 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.

The Committee also reviews and approves whistleblowing arrangements by which staff can, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. This is achieved through using a third party reporting facility which accommodates telephone, web and email contacts and allows anonymity on request.

Further detail on the above areas and certain other responsibilities can be found in the Audit & Risk Committee Terms of Reference which are posted on the Group's corporate website **www.pzcussons.com**.

Composition of the Audit & Risk Committee

The membership of the Committee is usually made up of four Non-executive Directors. During the year ended 31 May 2017, the members of the Audit & Risk Committee were Mr Maiden (with effect from his appointment to the Board on 1 November 2016 and as Chair of the Committee with effect from 1 January 2017), Ms Edozien, Mr Nicolson, Mrs Owers, Professor Arnold (until his retirement from the Board on 31 December 2016) and Mrs Silver (until her appointment as Chair of the Board on 1 January 2017). Mr Maiden brings relevant financial experience to the Audit & Risk Committee, having held a number of senior financial roles, and currently as Group Finance Director of Croda International Plc. The Chair of the Board, the Executive Directors, the Head of Group Internal Audit, the Group Financial Controller and the Head of External Reporting and representatives from the external auditors regularly attend meetings by invitation. The Company Secretary is secretary to the Committee. The Committee or its Chair meet periodically with the External Auditor and Head of Group Internal Audit without the executives being present.

How the Audit & Risk Committee discharges its responsibilities

Five formal meetings of the Committee were scheduled during the year and the members of the Committee met on a number of further occasions as necessary to consider specific matters arising. To discharge its responsibilities, the Committee receives and reviews presentations and reports from the Group's senior management, Group Internal Audit and the External Auditor.

Report on Corporate Governance continued

Key focus areas for 2016/2017

In addition to the Committee's core responsibilities the following focus areas have also been specifically considered during the period under review:

Key focus area	Audit & Risk Committee review
SAP Control Environment	With the introduction of the SAP system across the Group during the year, the Committee reviewed changes to the system, control environment and effectiveness of internal control
Nigeria Foreign Exchange Impact	The Committee reviewed the accounting for, and risk impact of, the devaluation of the Nigerian currency and limited liquidity of US Dollars in Nigeria
Cyber Security Risk	The Committee reviewed the Group's protection against, and action plans to mitigate, the risk of cyber attack
Audit Tender Process	The Committee oversaw the process to tender the External Audit (further information is set out on page 31)
Group Internal Audit Development	The Committee considered the steps taken to further develop the Group's Internal Audit function, to create a more holistic programme and to manage follow up of individual risk events
Viability Statement	The Committee reviewed developments in viability statement reporting since its introduction in the previous year, the Group's disclosure and its process of scenario testing

Financial reporting and significant financial judgements

The Audit & Risk Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee reviews papers prepared by management which provide details on the principal financial reporting judgements. The Committee also reviews reports by the External Auditor on the half year and full year results which highlight 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:

1. The carrying value and recognition of goodwill and intangible assets

The Group's goodwill and intangible assets principally relate to brands and are a material balance sheet item. Annual impairment reviews are performed for goodwill and other intangible assets with indefinite lives which use key judgements including forecasts and estimates of future business performance and cash generation, discount rates and long-term growth rates. The Committee has reviewed management's analysis and is comfortable with the key assumptions applied and management's conclusion that no impairment is required.

2. Pensions including obligations and assumptions

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 has reviewed and agreed the appropriateness and consistency of these assumptions with management. Full disclosures around the Group's defined benefit pension schemes are provided in note 24 to the Consolidated Financial Statements.

3. Direct tax provisions

The global nature and operating model of the Group means that it is periodically involved in restructuring activities (e.g. acquisitions, disposals and reorganisations). These activities can have complex tax related consequences in a number of jurisdictions around the world where the approach of the tax authorities can be difficult to predict. Where appropriate, provisions are made using management's judgement. The Committee has reviewed the key judgements with management and considers the tax provisioning levels to be appropriate.

4. Customer rebates, discounts and promotional trade spend

Trade spend is a significant expense for the Group, with the main judgement relating to trade promotions and specifically the timing and extent to which temporary promotional activity has occurred and requires accrual. The Committee has reviewed with management its assessment of the control environment and the findings of Internal Audit relating to trade spend activities and accounting. It is the Committee's view that management operates an appropriate control environment which minimises the risks in this area.

5. Exceptional items

The Committee has considered the presentation of the Consolidated Financial Statements, and, in particular, the presentation of exceptional items and the items included within such measures. The Committee has periodically reviewed with management and agreed that the presentation provides meaningful information to Shareholders about the underlying performance of the Group and that the items presented as exceptional items have been treated in accordance with the Group's accounting policy.

6. Foreign exchange

The Group's Nigerian subsidiaries and joint ventures have experienced considerable foreign currency volatility and uncertainty during the year. The Committee has reviewed and considered the financial reporting implications in terms of the exchange rates used for transactional and translation purposes and considers the accounting treatment and disclosures to be appropriate.

At the request of the Board, the Committee considered whether the 2017 Annual Report and Accounts were fair, balanced and understandable and whether they provided the necessary information for Shareholders to assess the Group's financial position, performance, business model and strategy. The Committee was satisfied that, taken as a whole, the 2017 Annual Report and Accounts are fair, balanced and understandable.

External Auditor effectiveness
During the year, the Committee assessed the effectiveness of PricewaterhouseCoopers LLP as the Group's External Auditor. To assist in the assessment, the Committee reviewed a summary prepared by the Group Finance function, based on feedback formally sought from Operating Unit Finance teams on PricewaterhouseCoopers LLP's effectiveness in carrying out the audit for the year to 31 May 2016. This feedback included an assessment of:

- quality of planning, execution and completion of the audit;
- understanding of the Group and its business and the ability to make effective recommendations;
- quality, knowledge and experience of the audit team;
- effectiveness of communications between management and the audit team; and
- robustness of the audit, including the audit team's ability to challenge management as well as demonstrate professional scepticism and independence.

The Committee also considered the quality of reports from PricewaterhouseCoopers LLP and the additional insights provided by the audit team, particularly at director and partner level. It took account of the views of the CFO and senior members of the Group Finance function, who had met local audit partners when visiting the Group's businesses, to gauge the quality of the team and their knowledge and understanding of the business. The Committee considered how well the auditors assessed key accounting and audit judgements and the way they applied constructive challenge and professional scepticism in dealing with management.

Following the review, the Committee concluded that the external audit was effective.

External Auditor independence
Whilst the Audit & Risk Committee has not adopted a formal policy in respect of the rotation of the External Auditor, one of its principal duties is to make recommendations to the Board in relation to the appointment of the External Auditor. Various factors are taken into account by the Committee in this respect. These include the quality of the reports provided to the Committee and the Board and the level of understanding of the Group's business demonstrated.

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

Going forward the Committee will continue to review the proposed provision of non-audit services against the backdrop of UK and EU prohibitions regarding the provision of non-audit services, which first applies to the Group for the financial year beginning on 1 June 2017, to ensure the Group complies with all restrictions and requirements applicable to it.

External audit tender
In last year's report it was noted that the Committee last tendered the external audit in 2008 and would conduct a competitive tender process during the year ending 31 May 2017. This process commenced in December 2016 and an audit tender selection panel (the 'Selection Panel') was established comprising the Chair of the Board, the Audit & Risk Committee Chair, the Chief Financial Officer and senior members of the Group Finance team.

With input from the Committee, the Selection Panel prepared the scope of the tender process which included an initial exercise to identify a shortlist of firms which would be invited to take part in the process based on certain criteria including knowledge/understanding of the Group's business and global reach and experience. Three firms (including PricewaterhouseCoopers LLP) were then invited to join the tender process which involved meeting with Group and overseas management and Selection Panel members, submission of a full proposal and formal presentations to the Selection Panel.

Attendees at the presentations reported back to the Committee with their thoughts on each firm against the initial criteria and other factors such as cultural fit, technical expertise, local presence, audit approach and planning, regulator experience and enthusiasm. Following consideration of the presentation by each firm, the Committee identified two audit firms for potential appointment and that Deloitte LLP was the preferred candidate and recommended their appointment as External Auditor to the Board. The Board accepted the recommendation and a resolution to appoint Deloitte LLP as the Group's new statutory External Auditor will be put to shareholders at the 2017 Annual General Meeting. Work is already underway to ensure a seamless transition with the team already identified and preparatory work completed. The Committee is grateful to PricewaterhouseCoopers LLP for its delivery of high quality audit services over the last ten years.

The Committee confirms that it has complied with the requirements of the CMA Order 2014 as regards audit tendering, auditor appointment, negotiation and agreement of audit fees and approval of non-audit services.

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 2017, 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 Kanellis	6	6	n/a	n/a	n/a	n/a	2	2
Mr C Davis	6	6	n/a	n/a	n/a	n/a	n/a	n/a
Mr B Leigh	6	6	n/a	n/a	n/a	n/a	n/a	n/a
Mrs C Silver	6	6	n/a	n/a	n/a	n/a	2	2
Ms N Edozien	6	6	5	5	4	4	2	1
Mr J Maiden	4	4	4	4	3	3	1	1
Mrs H Owers	6	6	5	5	4	4	2	2
Mr J Nicolson	6	6	5	3	4	2	2	1
Mr R Harvey	3	3	n/a	n/a	n/a	n/a	1	1
Prof J Arnold	3	3	2	1	1	1	1	1

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

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

Good4Business (G4B) Committee

The G4B 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 G4B Committee is responsible for the development of policies on all key areas of the Company's CSR programme – G4B – including Business Governance and Ethics, the Environment, Sourcing and Community and Charity. Further details of the Committee's terms of reference and activities during the year are set out in the G4B section of the Strategic Report.

During the year, the members of the G4B Committee were Ms Edozien (Committee Chair), Mr Davis, Mr Kanellis, Mr Leigh, Mr Nicolson, Mrs Owers, Mrs Silver, Mr Maiden (with effect from his appointment to the Board on 1 November 2016) and Professor Arnold and Mr Harvey (each up until his retirement from the Board on 31 December 2016). The Company Secretary, Mr Plant, is secretary to the G4B Committee. It has authority to obtain external advice as considered appropriate and the Board has resolved that it should be provided with sufficient resources to undertake fully its responsibilities.

Remuneration

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

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 2017 and up to the date of the approval of the Annual Report and 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 which come to the attention of management and the Board. The Group has ethical guidelines and a defined fraud reporting and whistleblowing process which are issued to all employees within the Group.

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 which enables access to Company notifications and news releases.

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

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

General meetings of Shareholders

The business to be conducted at the Annual General Meeting of the Company is set out in the separate Notice of Annual General Meeting which accompanies the Annual Report and 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 2017 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.

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 2017 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 FRS101 '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 which are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS101, 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 United Kingdom 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS101 '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 which it faces.

By order of the Board

S P Plant
Company Secretary
25 July 2017

Financial Statements

Independent Auditors' Report
to the Members of PZ Cussons Plc

Report on the Group Financial Statements

Our opinion

In our opinion, PZ Cussons Plc's Group Financial Statements (the 'Financial Statements'):

- give a true and fair view of the state of the Group's affairs as at 31 May 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

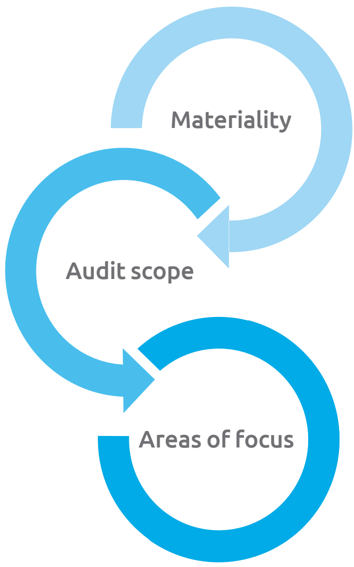
The Financial Statements, included within the Strategic Report 2017 and the Governance and Financial Statements 2017 (together the 'Annual Report'), comprise:

- the Consolidated Balance Sheet at 31 May 2017;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the Financial Statements. These are cross-referenced from the Financial Statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the Financial Statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach – Overview



- Overall Group materiality: £5m which represents approximately 5% of profit before tax and exceptional items.

- We conducted audit work in the six countries in which the Group has significant operations.
- The reporting units we audited accounted for 75% of Group revenue and 88% of Group profit before tax and exceptional items.
- The Group engagement team visited the Group's largest overseas component, Nigeria, to discuss the audit approach and findings with the local audit team and local management as well as attending the audit clearance meetings.

- Goodwill and intangible asset impairment assessment.
- Accounting for, and presentation of, exceptional items.
- Accounting for customer rebates, discounts and other trade promotional spend.
- Determination of direct tax provisions.
- Selection of assumptions in relation to defined benefit pension scheme obligations.
- Implementation of SAP.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the Financial Statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Goodwill and intangible asset impairment assessment Refer to page 30 of the Report on Corporate Governance, page 51 of the statement of accounting policies and note 10 of the Consolidated Financial Statements. The Group has goodwill of £63.1m and other intangible assets with an indefinite life of £295.5m as at 31 May 2017 which are required to be tested for impairment on an annual basis. The directors have allocated these assets to individual cash generating units ('CGUs'). There is further judgement around the determination of the recoverable amount of the CGUs, being the higher of value-in-use and fair value less costs to dispose. We focused on this area because the determination of the recoverable amounts involves judgements and estimates based on the Directors' assessment of the future results and prospects of the CGUs, the appropriate discount rates and other key assumptions, including profit and cash flow growth rates in the short and long term, to be applied and specific risk factors applied to each CGU. As the Group's CGUs relate to different geographies, including the UK, Nigeria, Greece and Australia, specific consideration needs to be given to macroeconomic and CGU specific risks in determining the most appropriate assumptions to adopt. Specific risk factors in Nigeria include currency risk, inflation differentials and country risk premium due to the trading environment in Nigeria.	We evaluated the process by which the Directors prepared their cash flow forecasts and compared them against the latest Board approved forecasts and found them to be consistent. We evaluated the historical accuracy of forecasts by comparing the forecasts used in the prior year value-in-use models to the actual performance of the CGUs in the current year. These procedures enabled us to determine the accuracy of the Directors' forecasting process. When comparing the prior year forecasts to the actual performance in FY17, we considered why some forecasts were not met and factored this into other areas of our work. We evaluated the assumptions used in the profit and cash flow forecasts included in the Directors' value-in-use calculations. We compared forecast growth rates with historical performance as well as gaining an understanding of key factors and judgements applied in determining the future growth rates. We inspected detailed forecasts for each CGU which provided evidence of the key drivers for growth included within the profit and cash flow forecasts. We assessed the appropriateness of the Directors' discount rates by comparing the rate used for each CGU to our own independently determined range of what we would consider to be acceptable. For Nutricima, Rafferty's Garden and five:am, the discount rates used were slightly outside of our expected range. We have considered the impact of this through our own sensitivity analysis, and whilst using a discount rate that we would consider to be more appropriate for Nutricima, Rafferty's Garden and five:am would reduce the headroom within each CGU, it would not result in an impairment. We challenged the Directors on the appropriateness of their sensitivity calculations and also applied our own sensitivity analysis to the forecast cash flows and long-term growth rates to ascertain the extent to which reasonable adverse changes would, either individually, or in aggregate, require the impairment of goodwill and other intangible assets. On this basis we concluded that the Directors' assessment that no impairment was required to be appropriate.

Independent Auditors' Report
to the Members of PZ Cussons Plc continued

Area of focus	How our audit addressed the area of focus
Accounting for, and presentation of, exceptional items Refer to page 30 of the Report on Corporate Governance, page 50 of the statement of accounting policies and note 3 of the Consolidated Financial Statements. In recent years the Group has had significant levels of exceptional items which are disclosed separately within the Income Statement and are excluded from the Directors reporting of the underlying performance of the Group. The nature and reporting of these exceptional items is explained within the Group accounting policy and includes restructuring costs, gains or losses arising on acquisitions or disposals and gains and losses resulting from non-recurring and one off events. This year the Group identified, before taxation, £15.5m of exceptional costs which relate to: • £6.6m of costs incurred as part of the Group's structure and systems improvement programmes; • a one off foreign exchange loss in Nigeria, of £12.0m, due to imposed currency restrictions; and • a part reversal of a previously written off bad debt in respect of a major European customer, which resulted in a credit of £3.1m. We focused on this area, specifically to assess whether the items identified by the Directors meet the definition within the Group's accounting policy and have been treated consistently, because the identification of such items requires judgement by the Directors. Also, consistency in the identification and presentation of these items is important to ensure comparability of year-on-year reporting.	We challenged the Directors' rationale for the designation of certain items as 'exceptional' and assessed such items against the Group's accounting policy and consistency of treatment with prior periods. We considered the items identified to materially meet the Group's definition of exceptional items and specifically considered the nature of the systems and structure costs and considered them to be exceptional in nature given the overall scale and magnitude of costs incurred. The partial recovery of a trade receivable in Europe was agreed as exceptional as this is consistent with where the original impairment charge was recognised in the prior year. The foreign exchange loss suffered in Nigeria arose as a result of a change in the government controlled exchange rate regime which caused a revaluation of US Dollar denominated liabilities and required the Group to acquire US Dollars from secondary markets. Given the restrictions in place and the magnitude of the loss, we agree with the Directors' conclusion that the loss met the Group's definition of an exceptional cost. We considered whether there were items that were recorded within underlying profit that we determined to be 'exceptional' in nature and should have been included within 'exceptional items' and found no such items.
Accounting for customer rebates, discounts and other trade promotional spend Refer to page 30 of the Report on Corporate Governance, page 58 of the statement of accounting policies. As is industry practice, in each country in which the Group operates, but primarily in the UK and Australia, there are numerous types of complex commercial arrangements ('trade spend promotions') with retailers and other customers that have a range of terms (such as promotions, rebates and discounts). Estimates of the obligations at a reporting date in connection with these arrangements ('trade spend accruals') are material and can be judgemental. The judgements applied impact the reported results of the reporting unit, its operating segment and the Group, and in particular impact the calculation of revenue and reporting unit operating profit. Trade spend promotions have varying terms, some of which are supported by annual contracts, and others which are based on shorter-term arrangements entered into during the year. In addition, the level and timing of promotions varies from period to period, and activity can span over a year end. We focused on this area due to the complexity and level of judgement required in order to derive the estimates; for example the date of shipment to the retailer and period over which the promotion will run may differ, and details of the retailers' EPOS data may be required in order to determine the proportion of trade spend actually committed at the reporting date. Accordingly, our focus included whether the accruals were complete, whether relevant spend was recorded in the correct period and how the accruals and income statement charges were valued.	Our audit procedures included understanding and evaluating the controls and systems related to the trade spend process and selectively testing those controls we identified as being key and on which we planned to rely. Testing of controls included checking appropriate authorisation for promotions and rebates and controls over the matching of customer claims against accrued amounts. No significant control deficiencies were identified. As part of our involvement in component teams' work, the Group engagement team was specifically involved in determining the audit approach in this area to be satisfied that sufficient focus was placed on the more judgemental areas. As a result of this involvement we were satisfied that, whilst complex, the area was well understood and sufficient focus was placed on this area of risk. Audit procedures performed by individual component audit teams included the following testing on a sample basis: • evaluating the accuracy of the prior year trade accruals balances by comparing the historic accruals to actual spend incurred. The testing performed highlighted no material differences; • agreeing key elements of the estimates to supporting documentation such as promotion and rebate agreements and EPOS data. Testing performed found that estimates were supported by appropriate supporting evidence; • testing trade spend transactions around the year end to determine whether they had been recognised in the appropriate period. Testing performed found no material amounts had been recognised in the incorrect period; • testing of post year end claims from customers and post year end credit notes raised and agreeing that where claims/credit notes related to pre year end promotions, they had been adequately accrued. Testing performed did not identify any material un-provided for amounts; and • testing aged customer receivable balances to identify any amounts that remained unpaid as trade spend deductions had been taken. Where identified, the amounts were tested to check that corresponding accruals existed. Testing performed did not identify any material un-provided for amounts.

Area of focus	How our audit addressed the area of focus
Determination of direct tax provisions Refer to page 30 of the Report on Corporate Governance, page 54 of the statement of accounting policies and note 7 of the Consolidated Financial Statements. The Group operates in a number of overseas territories, including some with rapidly developing or highly ambiguous tax legislation, and regularly undertakes transactions with potentially complex or subjective tax implications. This includes, but is not limited to, acquisitions, disposals, reorganisations and inter-group cross border trading arrangements. Where the amount of tax payable or receivable is uncertain, the Group establishes provisions based on the Directors' best estimates of the probable amount payable, or receivable. We focused on the judgements made by the Directors in assessing the quantification and likelihood of these potential exposures and therefore the level of provisions required against them.	We obtained a detailed understanding of the Group's tax strategy and assessed key tax risks related to business and legislative developments. We understood material and one off transactions undertaken by the Group, in conjunction with our tax experts, to assess any potential tax risk not identified and provided for by the Directors, and none were identified. We obtained explanations from the Directors and obtained corroborative evidence, including communication with local tax authorities (where available) and copies of tax advice obtained from its external tax advisors, regarding the tax treatment applied to material transactions and the corresponding provisions recorded. We challenged the key underlying assumptions, particularly in territories where structuring transactions have occurred; having due regard to correspondence between the Group and local tax authorities. We considered the direct tax provisions in place to be appropriate on the basis of the Directors' best estimate of the information available, and the territories in which the Group operates.
Selection of assumptions in relation to defined benefit pension scheme obligations Refer to page 30 of the Report on Corporate Governance, page 57 of the statement of accounting policies and note 24 of the Consolidated Financial Statements. The Group operates material defined benefit pension plans in the UK and certain overseas territories, principally Indonesia. A net overall surplus of £37.5m is recognised in the Financial Statements. The Group employs independent actuarial specialists in calculating the valuation of scheme liabilities. We focused on this area because the magnitude of the gross pension plan liabilities is significant in the context of both the overall Balance Sheet and the results of the Group. Measurement of the pension plan liabilities requires a significant level of judgement and technical expertise in choosing appropriate assumptions. Changes in key assumptions can have a material impact on the gross liability recorded.	For the UK and Indonesian defined benefit pension plans, we challenged the reasonableness of key actuarial assumptions as follows: • we compared the discount and inflation rates to our internally developed benchmarks based on market conditions and expectations at the Balance Sheet date; and • we assessed other assumptions, including pension increases, salary increases and mortality, based on market conditions and comparison across the wider pensions industry. We also tested whether the methods used by the Directors to determine key assumptions had been consistently applied year-on-year and evaluated the rationale for any changes in approach. We tested the reconciliation of the opening to closing liability for accuracy, taking into account the movements in key assumptions over the year and any changes made to benefits provided within the plans. The results of our audit work indicated that the financial and demographic assumptions used by the Directors were within a reasonable range.
Implementation of SAP The Group began the implementation of SAP as its new Global ERP system in 2015 and the roll out of SAP to all of the Group's operating units was substantially complete as at 31 May 2017. During the year ended 31 May 2017 the Group operating units in Nigeria, Ghana and Kenya transitioned to SAP, with the Group's operating units in Indonesia, Thailand and MESA having transitioned in the prior year. The continued rollout of SAP gives rise to a heightened risk over financial reporting as a result of the increased complexity of the system, changes in business and accounting process and the need to ensure stringent access and segregation of duties controls. The risk identified was in respect of the following areas: • the risk that data is not accurately migrated between the legacy system and SAP, resulting in incorrect opening financial information; and • the risk that access rights and segregation of duties are not appropriately controlled such that changes to data could be made inaccurately or in error. These areas of risk could result in the inaccurate reporting of financial information.	We performed testing over the design and operating effectiveness of IT general controls in place over SAP which focused on controls covering system changes, user access and segregation of duties. Testing over the controls identified certain areas where we amended our audit approach accordingly to increase the level of substantive testing being performed in the effected operating units. We obtained an understanding of the process and controls in place over the migration of data from the legacy systems to SAP and identified no control deficiencies. We performed substantive testing to ensure data from the legacy system had been accurately migrated to SAP, which included agreeing closing financial data from the legacy system to the opening financial data loaded into SAP, and did not identify any discrepancies. We performed increased levels of journal entry testing, with a specific assessment of the users posting journal entries, and whether these were in line with our understanding of their role, as well as testing the journal entries back to supporting documentation, with no exceptions identified. We tailored our audit approach so that increased levels of substantive testing were performed across all Income Statement and Balance Sheet line items, focused on tests of detail and agreeing transactions and balances back to supporting documentation, with no material matters identified.

Independent Auditors' Report
to the Members of PZ Cussons Plc continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group has operations in a range of different geographies and is structured across three main regions being Africa (Nigeria, Kenya and Ghana), Europe (defined by the Group as the UK, Poland, Greece and USA) and Asia (Indonesia, Australia, Thailand, MESA and Singapore).

Each country within the aforementioned geographical regions consists of a number of management reporting units which are consolidated by the Group. The Financial Statements are a consolidation of a number of reporting units representing the Group's operating businesses within these geographic-based segments and the centralised functions.

The reporting units vary in size and we identified thirteen reporting units from across the three geographical regions which required an audit of their complete financial information due to their individual size or risk characteristics. These reporting units accounted for 75% of the Group's profit before tax and exceptional items and 88% of the Group's revenue.

Nine of the thirteen reporting units are audited by five component Auditor teams, with the remaining four audited by the Group engagement team. The Group engagement team visited one of the five local component teams, being the largest overseas component, Nigeria, to meet with local management, discuss the audit approach and findings with the local audit team, as well as attending the audit clearance meetings. For those countries not visited, we attended the audit clearance meetings via conference call and had regular communication with the local teams during their audit. Our attendance at the clearance meetings, review and discussion of reporting received from local component teams, together with the work performed at a Group level, gave us the evidence we needed for our opinion on the Consolidated Financial Statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual Financial Statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the Financial Statements as a whole.

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

Overall Group materiality	£5m (2016: £5m).
How we determined it	Approximately 5% of profit before tax and exceptional items.
Rationale for benchmark applied	Profit before tax and exceptional items was selected as this provides us with a consistent year-on-year basis for determining materiality and, we believe, is the metric most commonly used by Shareholders as a body in assessing Group performance.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above £250,000 (2016: £250,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' Statement, set out on page 32, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' Statement about whether they considered it appropriate to adopt the going concern basis in preparing the Financial Statements. We have nothing material to add or to draw attention to.

As noted in the Directors' Statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the Financial Statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

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

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

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

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

- the information given in the Report on Corporate Governance set out on page 33 with respect to internal control and risk management systems and about share capital structures is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Report on Corporate Governance set out on page 27 with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Report on Corporate Governance. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• information in the Annual Report is: – materially inconsistent with the information in the audited Financial Statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 34, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on pages 29 to 31, as required by provision C.3.8 of the Code, describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee.	We have no exceptions to report.

Independent Auditors' Report
to the Members of PZ Cussons Plc continued

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group
Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

• the Directors' confirmation on page 29 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 32 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' Statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' Statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received
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. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Report on Corporate Governance relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the Financial Statements and the audit
Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of Financial Statements involves

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Report of the Directors and Report on Corporate Governance, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Company Financial Statements of PZ Cussons Plc for the year ended 31 May 2017 and on the information in the Directors' Remuneration Report that is described as having been audited.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
25 July 2017

Consolidated Income Statement

Year ended 31 May 2017

		Year ended 31 May 2017			Year ended 31 May 2016		
	Notes	Before exceptional items £m	Exceptional items (note 3) £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
Continuing operations							
Revenue	2	809.2	–	809.2	821.2	–	821.2
Cost of sales		(497.4)	–	(497.4)	(510.1)	–	(510.1)
Gross profit		311.8	–	311.8	311.1	–	311.1
Selling and distribution costs		(130.9)	–	(130.9)	(134.1)	–	(134.1)
Administrative expenses		(77.5)	(15.5)	(93.0)	(71.7)	(19.3)	(91.0)
Share of results of joint ventures	13	2.9	–	2.9	3.2	–	3.2
Operating profit/(loss)	2	106.3	(15.5)	90.8	108.5	(19.3)	89.2
Finance income		2.7	–	2.7	0.6	–	0.6
Finance costs		(5.5)	–	(5.5)	(6.1)	–	(6.1)
Net finance costs	6	(2.8)	–	(2.8)	(5.5)	–	(5.5)
Profit/(loss) before taxation		103.5	(15.5)	88.0	103.0	(19.3)	83.7
Taxation	7	(27.8)	6.7	(21.1)	(26.3)	12.3	(14.0)
Profit/(loss) for the year	4	75.7	(8.8)	66.9	76.7	(7.0)	69.7
Attributable to:							
Owners of the Parent	9	70.5	(6.3)	64.2	72.1	(4.4)	67.7
Non-controlling interests		5.2	(2.5)	2.7	4.6	(2.6)	2.0
		75.7	(8.8)	66.9	76.7	(7.0)	69.7
Basic EPS (p)	9			15.34			16.16
Diluted EPS (p)	9			15.34			16.15
Adjusted basic EPS (p)	9			16.85			17.22
Adjusted diluted EPS (p)	9			16.85			17.21

Consolidated Statement of Comprehensive Income

Year ended 31 May 2017

	Notes	2017 £m	2016 £m
Profit for the year		**66.9**	69.7
Other comprehensive (expense)/income			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefit obligations	24	**(1.9)**	9.4
Deferred tax gain/(loss) on remeasurement of post-employment benefit obligations	22	**0.5**	(1.2)
Tax on items that will not be subsequently reclassified to profit or loss	22	**0.4**	–
Total items that will not be reclassified to profit or loss		**(1.0)**	8.2
Items that may be subsequently reclassified to profit or loss			
Exchange differences on translation of foreign operations		**(53.4)**	15.2
Cash flow hedges – fair value gain in year		**0.6**	0.7
Tax on items that may be subsequently reclassified to profit or loss	22	**0.7**	(0.1)
Total items that may be subsequently reclassified to profit or loss		**(52.1)**	15.8
Other comprehensive (expense)/income for the year net of taxation		**(53.1)**	24.0
Total comprehensive income for the year		**13.8**	93.7
Attributable to:			
Owners of the Parent		**25.0**	88.5
Non-controlling interests		**(11.2)**	5.2

Consolidated Balance Sheet

At 31 May 2017

	Notes	31 May 2017 £m	31 May 2016 £m
Assets			
Non-current assets			
Goodwill and other intangible assets	10	**403.4**	357.1
Property, plant and equipment	11	**177.0**	227.0
Other investments	14	**0.3**	0.3
Net investments in joint ventures	13	**23.1**	31.9
Trade and other receivables	16	**1.6**	1.4
Retirement benefit surplus	24	**55.4**	51.3
		660.8	669.0
Current assets			
Inventories	15	**163.3**	150.5
Trade and other receivables	16	**190.3**	174.5
Derivative financial assets	19	**1.5**	–
Current asset investments	17	**0.3**	0.3
Cash and short-term deposits	19	**150.6**	175.1
		506.0	500.4
Assets held for sale	12	**2.2**	–
		508.2	500.4
Total assets		**1,169.0**	1,169.4
Equity			
Share capital	25	**4.3**	4.3
Capital redemption reserve		**0.7**	0.7
Hedging reserve		**2.4**	1.8
Currency translation reserve		**(58.6)**	(19.1)
Retained earnings		**543.9**	515.7
Attributable to owners of the Parent		**492.7**	503.4
Non-controlling interests		**33.8**	46.5
Total equity		**526.5**	549.9
Liabilities			
Non-current liabilities			
Trade and other payables	21	**0.6**	0.6
Deferred taxation liabilities	22	**48.1**	48.2
Retirement benefit obligations	24	**17.9**	17.0
		66.6	65.8
Current liabilities			
Borrowings	19	**294.7**	322.5
Trade and other payables	20	**248.9**	198.5
Derivative financial liabilities	19	**–**	0.2
Current taxation payable		**28.4**	27.8
Provisions	23	**3.9**	4.7
		575.9	553.7
Total liabilities		**642.5**	619.5
Total equity and liabilities		**1,169.0**	1,169.4

The Financial Statements from pages 44 to 87 were approved by the Board of Directors and authorised for issue.

They were signed on its behalf by:

C Silver **G A Kanellis**
25 July 2017

Consolidated Statement of Changes in Equity

		Attributable to owners of the Parent						
	Notes	Share capital £m	Currency translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Hedging reserve £m	Non-controlling interests £m	Total £m
At 1 June 2015		4.3	(31.1)	0.7	478.1	1.2	43.8	497.0
Profit for the year		–	–	–	67.7	–	2.0	69.7
Other comprehensive income/(expense)								
Remeasurement of post-employment obligations	24	–	–	–	9.4	–	–	9.4
Exchange differences on translation of foreign operations		–	12.0	–	–	–	3.2	15.2
Cash flow hedges – fair value gains in year		–	–	–	–	0.7	–	0.7
Cash flow hedges – tax on fair value gains		–	–	–	–	(0.1)	–	(0.1)
Deferred tax on remeasurement of post-employment obligations	22	–	–	–	(1.2)	–	–	(1.2)
Total comprehensive income for the year		–	12.0	–	75.9	0.6	5.2	93.7
Transactions with owners:								
Ordinary dividends	8	–	–	–	(33.3)	–	–	(33.3)
Acquisition of shares by ESOT	26	–	–	–	(4.2)	–	–	(4.2)
Deferred tax on share based payments	29	–	–	–	(0.3)	–	–	(0.3)
Acquisition of non-controlling interest	30	–	–	–	(0.5)	–	(0.3)	(0.8)
Non-controlling interests dividend paid		–	–	–	–	–	(2.2)	(2.2)
Total transactions with owners recognised directly in equity		–	–	–	(38.3)	–	(2.5)	(40.8)
At 31 May 2016		**4.3**	**(19.1)**	**0.7**	**515.7**	**1.8**	**46.5**	**549.9**
At 1 June 2016		**4.3**	**(19.1)**	**0.7**	**515.7**	**1.8**	**46.5**	**549.9**
Profit for the year		**–**	**–**	**–**	**64.2**	**–**	**2.7**	**66.9**
Other comprehensive income/(expense)								
Remeasurement of post-employment obligations	24	**–**	**–**	**–**	**(1.9)**	**–**	**–**	**(1.9)**
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	**–**	**–**	**–**	**0.5**	**–**	**–**	**0.5**
Deferred tax on other equity related items	22	**–**	**–**	**–**	**1.1**	**–**	**–**	**1.1**
Total comprehensive (expense)/income for the year		**–**	**(39.5)**	**–**	**63.9**	**0.6**	**(11.2)**	**13.8**
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		**4.3**	**(58.6)**	**0.7**	**543.9**	**2.4**	**33.8**	**526.5**

Consolidated Cash Flow Statement

Year ended 31 May 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	27	**110.9**	106.4
Taxation paid		**(14.3)**	(17.9)
Interest paid		**(5.5)**	(6.1)
Net cash generated from operating activities		**91.1**	82.4
Cash flows from investing activities			
Interest income		**2.7**	0.6
Purchase of property, plant and equipment	11	**(40.6)**	(35.5)
Proceeds from sale of property, plant and equipment		**0.9**	2.6
Net cash used in investing activities		**(37.0)**	(32.3)
Financing activities			
Dividends paid to non-controlling interests		**(1.4)**	(2.2)
Purchase of shares for ESOT	26	**(1.2)**	(4.2)
Dividends paid to Company Shareholders	8	**(34.2)**	(33.3)
Acquisition of non-controlling interests	30	**(0.4)**	(0.8)
Increase in borrowings	19	**6.3**	45.4
Net cash (used in)/generated from financing activities		**(30.9)**	4.9
Net increase in cash and cash equivalents		**23.2**	55.0
Cash and cash equivalents at the beginning of the year		**104.6**	47.8
Effect of foreign exchange rates		**(11.7)**	1.8
Cash and cash equivalents at the end of the year	18	**116.1**	104.6

Notes to the Consolidated Financial Statements

General information

PZ Cussons Plc is a public limited company which is listed on the London stock exchange and is domiciled and incorporated in the UK under the Companies Act 2006. The address of the registered office is given on page 104.

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 58.

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 following standards have been adopted by the Group for the first time for the financial year beginning on 1 June 2016:

- Annual improvements 2012-2014 (effective 1 January 2016)
- Amendment to IFRS 11, 'Joint arrangements on acquisition of an interest in a joint operation', (effective 1 January 2016)
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation (effective 1 January 2016)
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 41, 'Agriculture' on bearer plants (effective 1 January 2016)
- Amendments to IAS 27, 'Separate Financial Statements' on equity accounting (effective 1 January 2016)
- Amendments to IFRS 10, 'Consolidated Financial Statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exemption (effective 1 January 2016)
- Amendments to IAS 1, 'Presentation of Financial Statements' disclosure initiative (effective 1 January 2016)

The adoption of the new and amended standards above has not had a material impact on the Group Financial Statements.

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

The following new standards and amendments to standards, which have been issued but are not yet effective, and have not been early adopted by the Group or Parent Company:

- IFRS 9, 'Financial Instruments' (effective 1 January 2018)
- IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2018)
- IFRS 16, 'Leases' (effective 1 January 2019)

The Group is currently assessing the impact these new standards may have on the Group and Parent Company Financial Statements and will provide a further assessment of the potential impacts in future years.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

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

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.

Operating profit

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

Exceptional items

The Group adopts a columnar Income Statement format to highlight significant items within the Group results for the 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, such items as certain foreign exchange losses, restructuring costs, acquisition related costs, material impairments of non-current assets, including receivables, material profits and losses on disposal of property, plant, equipment and brands, profit or loss on disposal or termination of operations and material pension settlements and amendments. The Directors apply judgement in assessing the particular items, which by virtue of their 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.

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 associates or 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 associates and 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.

Interests in joint ventures

The Group applies IFRS 11 to all joint arrangements. 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.

Intangible assets

Goodwill

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

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

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

Other intangible assets

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

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.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

Intangible assets continued

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
- 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 in which they come into use.

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.

Leases

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

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

Foreign currencies

The individual Financial Statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Consolidated Financial Statements, the results and financial position of each entity are 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. 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.

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.

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.

Notes to the Consolidated Financial Statements
continued

1. Accounting policies continued

Taxation 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 which 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 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 so as to write off the cost or valuation of assets, other than land, over their estimated useful lives, using the straight-line method, on the following basis:

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

In the case of major projects depreciation is provided from the date the project in question is brought into use. 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 is subject to depreciation is 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 suffers impairment is reviewed for possible reversal of the impairment at each Balance Sheet date.

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.

Inventories

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

Where net realisable value is lower than cost, provision for impairment is made which 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.

Research and development

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

Cash, cash equivalents and bank overdrafts

Cash, cash equivalents and bank overdrafts includes cash at bank and in hand plus short-term deposits less overdrafts. Short-term deposits have a maturity of less than three months from the date of 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.

Contingent consideration

Where consideration due to vendors is contingent on future events, management's best estimate of the amounts payable is included in consideration when assessing the total acquisition cost and is accrued within trade and other payables until such a time that the amounts are settled. Where the ultimate amount settled differs from management's initial assessment of the fair value, the difference is recognised as a gain or loss within the Income Statement.

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.

Notes to the Consolidated Financial Statements continued

1. Accounting policies continued

Financial instruments continued

(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 are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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 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.

Financial liabilities and equity

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

Investments

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

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

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.

Share premium
Amounts in excess of the nominal value of Ordinary Shares issued are recognised in share premium, except where the Company was able to take relief under section 612 of the Companies Act 2006 from crediting share premium and instead transfer the net proceeds in excess of the nominal value to retained earnings.

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, 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.

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.

Retirement benefit obligations
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'. The deficit/surplus of the defined benefit pension schemes is recognised in full on the Balance Sheet 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.

Notes to the Consolidated 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. The assumptions and estimates that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are as follows:

Pensions

As disclosed in note 24, the Group's UK defined benefit pension schemes are closed to new members and future accruals. 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.

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. Details of key estimates, sensitivities and key assumptions are discussed in note 10.

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.

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. This requires management to apply judgement and estimates based on historical trends and known activity to date and should actual uptake differ from that estimated this could impact the results of the Group.

Exceptional items

The Group adopts a columnar Income Statement format to highlight significant items within the Group 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. 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.

2. Segmental analysis

The Chief Operating Decision Maker (CODM) has been identified as the Executive Board which comprises the three 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, 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

2017	Africa £m	Asia[1] £m	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	62.1	–	103.4
Share of results of joint ventures	2.9	–	–	–	2.9
Segmental operating profit before exceptional items	28.3	15.9	62.1	–	106.3
Exceptional items	(12.3)	(2.9)	(0.3)	–	(15.5)
Segmental operating profit	16.0	13.0	61.8	–	90.8
Finance income					2.7
Finance cost					(5.5)
Profit before taxation					88.0
Depreciation and amortisation	7.7	4.6	7.6		19.9

2016	Africa £m	Asia[1] £m	Europe[2] £m	Eliminations £m	Total £m
Gross segment revenue	359.2	197.7	408.3	(144.0)	821.2
Inter-segment revenue	(2.0)	(9.5)	(132.5)	144.0	–
Revenue	357.2	188.2	275.8	–	821.2
Segmental operating profit before exceptional items and share of results of joint ventures	27.2	16.4	61.7	–	105.3
Share of results of joint ventures	3.2	–	–	–	3.2
Segmental operating profit before exceptional items	30.4	16.4	61.7	–	108.5
Exceptional items	(7.8)	(2.6)	(8.9)	–	(19.3)
Segmental operating profit	22.6	13.8	52.8	–	89.2
Finance income					0.6
Finance cost					(6.1)
Profit before taxation					83.7
Depreciation and amortisation	9.3	3.8	8.7		21.8
Impairment	–	–	0.2		0.2

[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:

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	55.4	–	–	55.4
Financial instruments	19.0	9.4	6.6	35.0

2016	UK £m	Nigeria £m	Other £m	Total £m
Revenue	192.5	320.0	308.7	821.2
Goodwill and other intangible assets	238.4	20.1	98.6	357.1
Property, plant and equipment	71.0	108.4	47.6	227.0
Pension	51.3	–	–	51.3
Financial instruments	15.9	12.1	5.6	33.6

The Group analyses its net revenue by the following categories:

	2017 £m	2016 £m
Personal Care	431.0	413.2
Home Care	127.6	124.5
Food & Nutrition	156.5	165.6
Electricals	87.9	111.7
Other	6.2	6.2
	809.2	821.2

3. Exceptional items

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

Year to 31 May 2016 Exceptional items included within operating profit:	Exceptional items before taxation £m	Taxation £m	Exceptional items after taxation £m
Group structure and systems project	4.8	(0.8)	4.0
Supply chain optimisation project with associated restructuring costs	2.1	(0.5)	1.6
Provision against trade receivable in Europe	5.9	(1.5)	4.4
Foreign currency devaluation in Nigeria	6.5	(2.0)	4.5
Finalisation of tax position relating to a prior period disposal	–	(3.3)	(3.3)
Deferred tax benefit of reduction in UK corporation tax rate principally relating to acquired brands	–	(4.2)	(4.2)
	19.3	(12.3)	7.0

Explanation of exceptional items

Year to May 2017

Group structure and systems project

The Group has 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 consist of restructuring, advisory and IT related costs.

Partial recovery of trade receivable in Europe provided for in prior year

A credit of £3.1m has been recognised relating to the partial recovery of a trade receivable in Europe, which was fully provided for in the prior year. This position has now been finalised.

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 have been 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.

Year to May 2016

Group structure and systems project

The Group incurred exceptional costs of £4.8m relating to the project to realign the non-manufacturing organisation design to create a more effective Group operating model. These costs mainly consisted of restructuring and advisory costs.

Supply chain optimisation project with associated restructuring costs

The Group incurred exceptional costs of £2.1m relating to further opportunities to reduce the Group's supply chain cost base identified in the prior year. The costs related to restructuring costs associated with supply chain optimisation.

Provision against trade receivable in Europe

A provision of £5.9m was made against a trade receivable due from a European customer.

Foreign currency devaluation in Nigeria

During the final quarter of the year to 31 May 2016 the Group's Nigerian subsidiaries accessed the secondary currency market in Nigeria in order to settle a number of long outstanding US Dollar denominated trade payables. This resulted in a transactional foreign exchange loss of £6.5m which the Directors deemed to be exceptional due to the nature and magnitude of this effective currency devaluation.

Finalisation of a tax position relating to a prior period disposal

During the year to 31 May 2016, the Group recognised a tax credit of £3.3m following the finalisation of a position relating to a disposal made in a prior period.

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

As at 31 May 2016, the UK corporation tax rate was expected to reduce to 18% 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 has been arrived at after charging/(crediting):

	2017 £m	2016 £m
Net foreign exchange losses	21.9	5.1
Research and development costs	4.1	3.8
Amortisation of government grants	(0.1)	(0.1)
Impairment of property, plant and equipment (note 11)	–	0.2
Depreciation of property, plant and equipment (note 11)	19.0	21.8
Amortisation of intangible assets (note 10)	0.9	–
Loss on disposal of property, plant and equipment	0.2	0.3
Raw and packaging materials and goods purchased for resale (note 15)	428.9	429.9
Inventory provisions	4.5	2.6
Accounts receivable provisions	(1.5)	8.3
Operating lease rentals	1.5	1.2
Employee costs (note 5)	100.5	96.9
Auditors' remuneration (see below)	1.1	1.0

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

	2017 £m	2016 £m
Fees payable to the Company's Auditor for the audit of the Company's annual Financial Statements and Consolidation	0.1	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	0.7	0.6
Total audit fees	0.8	0.7
Fees payable to the Company's Auditor and its associates for other services:		
– Tax services	0.2	0.2
– Other services	0.1	0.1
Total fees	1.1	1.0

5. Directors and employees

Employee costs

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

	2017 Number	2016 Number
Production	1,980	2,289
Selling and distribution	1,986	2,164
Administration	554	545
	4,520	4,998

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

	2017 £m	2016 £m
Wages and salaries	93.1	87.9
Social security costs	5.9	5.9
Other pensions costs	1.5	3.1
	100.5	96.9

The other pensions costs consist of:

	2017 £m	2016 £m
Defined benefit schemes (note 24)	(0.9)	(0.3)
Defined contribution schemes (note 24)	1.4	2.4
Overseas minor defined benefit schemes and Nigerian gratuity scheme (note 24)	1.0	1.0
	1.5	3.1

Directors' remuneration

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

	2017 £m	2016 £m
Short-term employee benefits	3.6	2.6
Post-employment benefits	0.3	0.3
Total	3.9	2.9

For the year ended 31 May 2017 the highest paid Director received total remuneration of £1.5m (2016: £1.0m) and pension contributions of £0.1m (2016: £0.1m).

Additional details are within the Report on Directors' Remuneration on pages 18 to 26.

6. Net finance costs

	2017 £m	2016 £m
Finance income		
Interest receivable on cash deposits	2.7	0.6
Finance income	2.7	0.6
Finance expense		
Interest payable on bank loans and overdrafts	(5.5)	(6.1)
Finance expense	(5.5)	(6.1)
Net finance costs	(2.8)	(5.5)

7. Taxation

	2017 £m	2016 £m
Current tax		
UK corporation tax charge for the year	5.3	6.5
Adjustments in respect of prior years	(1.1)	0.5
Double tax relief	(2.1)	(1.1)
	2.1	5.9
Overseas corporation tax charge for the year	17.7	10.2
Adjustments in respect of prior years	(2.8)	(1.0)
	14.9	9.2
Total current tax charge	17.0	15.1
Deferred tax		
Origination and reversal of temporary timing differences	6.2	2.4
Adjustments in respect of prior years	1.2	0.7
Effect of rate change adjustments	(3.3)	(4.2)
Total deferred tax charge/(credit)	4.1	(1.1)
Total tax charge	21.1	14.0

UK corporation tax is calculated at 19.83% (2016: 20.00%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Consolidated Financial Statements
continued

7. Taxation continued

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 which 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 25.01% (2016: 24.13%).

	2017 £m	2016 £m
Profit before tax	**88.0**	83.7
Tax at the weighted average tax rate of 25.01% (2016: 24.13%)	**22.0**	20.2
Adjusted for:		
Tax effect of expenses/revenue that are not deductible/taxable	**4.2**	(1.6)
Effect of UK rate change on deferred taxation	**(3.3)**	(4.1)
Tax effect of share of results of joint ventures	**(0.9)**	(1.0)
Overseas withholding tax suffered on dividends	**0.3**	–
Adjustment to amount carried in respect of unresolved tax matters	**2.3**	–
Derecognition of deferred tax assets not deemed recoverable (note 22)	**–**	0.3
Research and development relief	**(0.8)**	–
Adjustments in respect of prior periods	**(2.7)**	0.2
Tax charge for the year	**21.1**	14.0

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 weighted average tax rate (based on where the Group has made profits and the tax rates applicable in those countries) has remained relatively stable when compared to the prior year. The main movements in the tax reconciliation are explained as follows:

- expenses included within the Income Statement which are treated as permanent non-tax deductible items amount to £4.2m. Included within this adjustment is a £1.1m increase to the tax charge related to a non-recurring exceptional item and a £0.9m increase from the resolution of an uncertain tax position.
- the UK tax rate is due to fall to 17% from 1 April 2020. This reduces the carrying value of the Group's net deferred tax liabilities and has lowered the tax charge for the year by £3.3m.
- 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 which are provided for on the Balance Sheet. This adjustment increases the tax charge by £2.3m.
- the adjustments in respect of prior periods reflect amendments to the estimated tax charge for all Group companies when compared to the final submitted tax returns. The adjustment reduces the tax charge by £2.7m.

The resulting Income Statement tax charge for the year represents a post-exceptional effective tax rate of 23.98% (2016: 16.73%).

The Group continues to believe that it has made adequate provision for the liabilities likely to arise from periods which 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 credit of £1.6m (2016: £1.5m charge, £1.2m charge to other comprehensive income) and relates to deferred tax on pensions, revalued land and buildings, share option schemes and financial derivatives recognised in the hedging reserve.

8. Dividends

	2017 £m	2016 £m
Amounts recognised as distributions to Ordinary Shareholders in the year comprise:		
Final dividend for the year ended 31 May 2016 of 5.50p (2015: 5.39p) per Ordinary Share	23.0	22.5
Interim dividend for the year ended 31 May 2017 of 2.67p (2016: 2.61p) per Ordinary Share	11.2	10.8
	34.2	33.3
Proposed final dividend for the year ended 31 May 2017 of 5.61p (2016: 5.50p) per Ordinary Share	23.5	23.0

The proposed final dividends for the years ended 31 May 2016 and 31 May 2017 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 2016 and 31 May 2017 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.

	2017 Number 000	2016 Number 000
Basic weighted average	418,412	418,808
Diluted weighted average	418,423	418,888

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:

	2017 Number 000	2016 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	(10,313)	(9,917)
Basic weighted average shares in issue during the year	418,412	418,808
Dilutive effect of share incentive plans	11	80
Diluted weighted average shares in issue during the year	418,423	418,888

At 31 May 2017, the Employee Share Option Trust held 10,379,933 Ordinary Shares (2016: 10,143,164 Ordinary Shares).

Adjusted earnings per share

	2017	2016
Basic earnings per share	15.34p	16.16p
Exceptional items	1.51p	1.06p
Adjusted basic earnings per share	16.85p	17.22p
Diluted earnings per share	15.34p	16.15p
Exceptional items	1.51p	1.06p
Adjusted diluted earnings per share	16.85p	17.21p

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:

	2017 £m	2016 £m
Profit attributable to ordinary equity Shareholders	64.2	67.7
Exceptional items (net of taxation effect)	6.3	4.4
Adjusted profit after tax	70.5	72.1

Notes to the Consolidated Financial Statements
continued

10. Goodwill and other intangible assets

	Goodwill £m	Software £m	Other £m	Total £m
Cost				
At 1 June 2015	62.2	–	294.4	356.6
Currency retranslation	0.3	–	0.2	0.5
At 31 May 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**
Accumulated amortisation				
At 1 June 2015	–	–	–	–
Charge for the year	–	–	–	–
At 31 May 2016	–	–	–	–
Charge for the year	–	0.9	–	0.9
At 31 May 2017	**–**	**0.9**	**–**	**0.9**
Net book values				
At 31 May 2017	**63.1**	**44.8**	**295.5**	**403.4**
At 31 May 2016	62.5	–	294.6	357.1

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

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 cash-generating units (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 which 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 2017 £m	Goodwill 2016 £m	**Other intangible assets 2017 £m**	Other intangible assets 2016 £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**	5.7	**9.5**	8.6
Total	**63.1**	62.5	**295.5**	294.6

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

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:

- long-term growth rate – 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; and
- discount rate – the discount rate is based on a Weighted Average Cost of Capital (WACC) for comparable companies operating in similar markets and geographies as the Group as the base discount rate, adjusted for risks specific to each CGU.

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

	Long-term growth rate	Discount rate
Original Source	2.5%	7.5%
Beauty division brands	2.5%	7.5%
Rafferty's Garden	2.5%	7.0%
Nutricima	7.0%	16.0%
five:am	2.5%	7.0%
Greece	1.0%	12.5%

The discount rates disclosed above are the pre-tax discount rate applied in the value-in-use calculations. Discount rates have been used which reflect the similar geographic and product diversification within each CGU's market and the similar risks associated with each CGU. The discount rates applied in the value-in-use calculations for Nutricima, Greece, Rafferty's Garden and five:am reflect the specific economic and political risks associated with those CGUs.

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 which include the UK, Australia, the USA and central Europe. Long-term growth rates have been set with reference to long-term inflation 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 geographies of Nigeria and Ghana 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 2017 (31 May 2016: £nil). As part of forming this conclusion the Directors performed a sensitivity analysis which focused on the change required in key assumptions, both individually and through dual assumption sensitivities, to give rise to an impairment, with the conclusion that no reasonable possible changes in key assumptions would cause the recoverable amount of the goodwill and other intangible assets to be less than the carrying value.

Notes to the Consolidated Financial Statements
continued

11. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Assets in the course of construction[1] £m	Total £m
Cost					
At 1 June 2015	139.2	206.0	54.3	39.1	438.6
Currency retranslation	4.9	6.6	0.9	0.5	12.9
Additions	0.7	0.6	0.9	33.3	35.5
Disposals	(4.8)	(13.9)	(3.8)	–	(22.5)
Reclassifications within categories	6.9	10.0	1.9	(18.8)	–
At 31 May 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**
Accumulated depreciation and amounts written off					
At 1 June 2015	38.0	143.9	47.6	–	229.5
Currency retranslation	0.8	4.1	0.7	–	5.6
Charge for the year	2.7	12.5	6.6	–	21.8
Disposals	(2.3)	(13.6)	(3.7)	–	(19.6)
Impairment loss	–	0.2	–	–	0.2
At 31 May 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**
Net book values					
At 31 May 2017	**90.6**	**51.8**	**–**	**34.6**	**177.0**
At 31 May 2016	107.7	62.2	3.0	54.1	227.0

[1] Included in assets in the course of construction is £nil (2016: £29.2m) of capital expenditure in relation to the implementation of SAP.

Depreciation is charged to administrative expenses in the Income Statement. At 31 May 2017, the Group had entered into commitments for the acquisition of property, plant and equipment amounting to £3.8m (2016: £2.8m). At 31 May 2017, the Group's share in the capital commitments of the joint ventures was £nil (2016: £nil).

12. Assets held for sale

	2017 £m	2016 £m
Land	**2.2**	–
	2.2	–

In April 2017, the Directors decided to sell land relating to a redundant manufacturing site in Australia. The sale is expected to be completed before the end of November 2017 and therefore has been classified as held for sale under IFRS 5. The land has been recognised at its carrying value as this is lower in value than the fair value less costs-to-sell. The sale of the land was agreed on 2 June 2017 and is expected to complete on 29 November 2017.

13. Net investments in joint ventures

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 2015	–	27.4	1.2	28.6
Exchange differences on translation of overseas net assets recognised in equity	–	–	0.1	0.1
Share of result for the year taken to the Income Statement	–	–	3.2	3.2
At 31 May 2016	–	27.4	4.5	31.9
Exchange differences on translation of overseas net liabilities 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	–	6.6
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**

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	**2017 £m**	2016 £m
Assets		
Non-current assets		
Assets	**52.3**	60.3
Current assets		
Cash and cash equivalents	**–**	14.5
Other current assets	**79.8**	48.2
	79.8	62.7
Total assets	**132.1**	123.0
Liabilities		
Non-current liabilities	**(81.0)**	(58.9)
Current liabilities	**(73.0)**	(55.0)
Total liabilities	**(154.0)**	(113.9)
Net (liabilities)/assets	**(21.9)**	9.1

Aggregated amounts relating to joint ventures	**2017 £m**	2016 £m
Revenues	**156.9**	175.8
Profit for the year	**5.9**	6.4
Total comprehensive (expense)/income	**(31.0)**	6.4

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 32.

Notes to the Consolidated Financial Statements
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14. Other investments

Non-current other investments of £0.3m (2016: £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 2017 and 31 May 2016.

15. Inventories

	2017 £m	2016 £m
Raw materials and consumables	56.8	56.9
Work in progress	7.8	6.0
Finished goods and goods for resale	98.7	87.6
	163.3	150.5

During the year ended 31 May 2017, £4.5m (2016: £2.6m) 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 £428.9m (2016: £429.9m). Inventories are stated after provisions for impairment of £1.2m (2016: £2.9m).

16. Trade and other receivables

Receivables due within one year	2017 £m	2016 £m
Trade receivables	146.4	140.6
Less: provision for impairment of trade receivables	(6.2)	(16.7)
Net trade receivables	140.2	123.9
Amounts owed by joint ventures	7.9	14.6
Other receivables	31.0	27.6
Prepayments and accrued income	11.2	8.4
	190.3	174.5

The Directors consider 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	2017 £m	2016 £m
Prepayments and accrued income	1.3	1.0
Other receivables	0.3	0.4
	1.6	1.4

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

	2017 £m	2016 £m
At 1 June	(16.7)	(7.9)
Provision for receivables impairment[1]	1.5	(8.3)
Receivables written off during the year	7.6	0.2
Currency translation	1.4	(0.7)
At 31 May	(6.2)	(16.7)

[1] Included within provisions for receivables impairment is a £3.1m credit (2016: £5.9m charge) 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.

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 (2016: 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:

	2017 £m	2016 £m
Sterling	**43.8**	38.0
US Dollar	**12.6**	10.4
Nigerian Naira	**25.0**	26.9
Euro	**10.9**	9.4
Polish Zloty	**3.0**	2.0
Indonesian Rupiah	**16.9**	13.8
Ghana Cedi	**4.1**	5.1
Australian Dollar	**17.7**	12.6
Other currencies	**6.2**	5.7
	140.2	123.9

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

	2017 £m	2016 £m
Not past due	**114.8**	103.9
Past due 0-90 days	**19.7**	17.0
Past due 90-180 days	**3.8**	2.0
Past due >180 days	**1.9**	1.0
	140.2	123.9

17. Current asset investments

	2017 £m	2016 £m
Unlisted	**0.3**	0.3
	0.3	0.3

18. Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	**134.5**	160.4
Short-term deposits	**16.1**	14.7
Cash and short-term deposits	**150.6**	175.1
Less: bank overdrafts (included within borrowings note 19)	**(34.5)**	(70.5)
Cash and cash equivalents	**116.1**	104.6

The effective interest rate on cash and cash equivalents during the year ended 31 May 2017 was 4.5% (2016: 3.0%).

Notes to the Consolidated Financial Statements
continued

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 2017 and 31 May 2016, 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).

Across the years ended 31 May 2017 and 31 May 2016 the financial instruments held at fair value by the Group relate to foreign currency contracts used as derivatives for hedging and the contingent consideration relating to the five:am acquisition in the year to 31 May 2015 that was settled in the year to 31 May 2016.

For both the year ended 31 May 2017 and 31 May 2016, the assets and liabilities arising from foreign currency contracts have been classified as level 2. The contingent consideration that arose on the acquisition of five:am was classified as level 3 prior to settlement. There have been no transfers between either level 1 and 2 or level 2 and 3 in any period.

(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 2017 and 31 May 2016. None of the financial assets and liabilities have been reclassified during the year.

	2017 Carrying amount and fair value £m	2016 Carrying amount and fair value £m
Loans and receivables		
Cash and short-term deposits	150.6	175.1
Trade and other receivables	179.1	166.1
Fair value through profit and loss		
Derivative financial assets	1.5	–
Financial liabilities at amortised cost		
Trade and other payables	(232.8)	(188.1)
Bank overdrafts	(34.5)	(70.5)
Bank loans	(260.2)	(252.0)
Fair value through profit and loss		
Derivative financial liabilities	–	(0.2)

Included in cash and other short-term deposits is cash denominated in the Nigerian Naira of £52.5m (2016: £64.4m). These cash balances are translated into Sterling using the interbank rate for Naira:US Dollar then converted at the closing US Dollar:Sterling rate.

Borrowings

	2017 £m	2016 £m
Overdrafts due within one year	34.5	70.5
Bank loans due within one year	260.2	252.0
	294.7	322.5

Loans due within one year includes the Group's main borrowing facility which is provided by a syndicate of three UK banks in the form of a £285m committed multi-currency revolving credit facility with a final termination date of February 2020. In addition, the Group has a further £40m of bilateral facilities which are utilised for general working capital and trade finance purposes and of which £14m has been utilised at 31 May 2017 (2016: £50m of bilateral facilities which are utilised for general working capital and trade finance purposes and of which £12m was utilised).

Overdrafts do not form part of the Group's main borrowing facilities and arise as part of the Group's composite banking arrangement with Barclays Bank Plc. Under the terms of this arrangement cash and overdraft balances recognised by the Group's UK operations are considered as one cash pool with the net position being monitored by the Directors and by Barclays. At 31 May 2017 these overdraft balances have been presented gross with a corresponding increase in cash at bank and in hand.

At 31 May 2017, the available Group-wide undrawn facilities totalled £187.6m (2016: £132.1m).

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.

	2017 £m	2017 Interest rate %	2016 £m	2016 Interest rate %
Borrowing	294.7	1.4	322.5	1.4

Notes to the Consolidated Financial Statements
continued

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 which include the Group's forward foreign exchange contracts. These are fair valued as level 2 derivative financial instruments.

The forward foreign exchange contracts have been fair valued using exchange rates that are quoted in an active market. The effects of discounting are generally insignificant for level 2 derivatives.

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

	2017 £m	2016 £m
Assets		
Forward foreign exchange contracts	**1.5**	–
Liabilities		
Forward foreign exchange contracts	**–**	0.2

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

The net notional principal amounts of the outstanding forward foreign exchange contracts at 31 May 2017 was £43.7m (2016: £44.0m).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 May 2017 are recognised in the Income Statement in the period or periods during which the hedged forecast transaction affects the Income Statement. This is generally within 12 months from the Balance Sheet date unless the gain or loss is included in the initial amount recognised for the purchase of fixed assets, in which case recognition is over the lifetime of the asset.

(d) Contingent consideration

Contingent consideration arose on the acquisition of five:am in the year to 31 May 2015 and was payable subject to performance of the business in the prior year. This was fair valued as a level 3 financial instrument.

	2017 £m	2016 £m
Opening balance	**–**	3.9
Arising on acquisitions	**–**	–
Paid in year	**–**	(3.9)
Closing balance	**–**	–

(e) 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.

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

	2017 £m	2016 £m
AA	19.2	17.7
A	38.7	11.4
B	55.1	75.5
C	3.1	–
Total	**116.1**	104.6

(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.

(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.

	2017		2016	
	Equity £m	Income statement £m	Equity £m	Income statement £m
Nigerian Naira	23.7	2.0	39.6	1.3
Euro	4.5	0.4	3.7	(0.1)
Indonesian Rupiah	4.1	0.7	3.0	0.2
Australian Dollar	2.1	0.5	1.5	0.6
Polish Zloty	1.6	–	1.2	(0.1)

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

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

(vi) Cash flow and interest rate risk
The Group's variable rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates.

Notes to the Consolidated Financial Statements continued

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

(e) Financial risk management continued

(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 2017 and 31 May 2016 respectively, as shown below:

	2017 £m	2016 £m
Cash at bank and in hand (see note 18)	134.5	160.4
Short-term deposits (see note 18)	16.1	14.7
Bank overdrafts	(34.5)	(70.5)
Cash and cash equivalents	116.1	104.6
Current asset investments	0.3	0.3
Loans due within one year	(260.2)	(252.0)
Net debt	(143.8)	(147.1)

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

	2017 £m	2016 £m
Trade payables	113.4	97.9
Other taxation and social security	16.1	10.6
Other payables	5.5	5.1
Accruals and deferred income	113.9	84.9
	248.9	198.5

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

	2017 £m	2016 £m
Other payables	0.6	0.6
	0.6	0.6

22. Deferred tax

	Property, plant and equipment £m	Retirement benefit obligations £m	Revaluation of property, plant and equipment £m	Tax losses and other timing differences £m	Business combinations £m	Share based payments £m	Total £m
At 1 June 2015	(10.5)	(2.8)	(8.0)	6.6	(33.4)	0.3	(47.8)
(Charge)/credit to income	(0.5)	(2.1)	(1.4)	2.2	2.9	–	1.1
Charge to equity	–	(1.2)	–	–	–	(0.3)	(1.5)
Other	–	–	1.2	(1.2)	–	–	–
At 31 May 2016	(11.0)	(6.1)	(8.2)	7.6	(30.5)	–	(48.2)
(Charge)/credit to income	(6.2)	(0.5)	0.1	0.9	1.6	–	(4.1)
Credit/(charge) to equity	–	0.5	0.4	(0.2)	0.9	–	1.6
Currency translation	2.0	0.2	0.8	(0.4)	–	–	2.6
Other	–	–	(1.1)	1.1	–	–	–
At 31 May 2017	**(15.2)**	**(5.9)**	**(8.0)**	**9.0**	**(28.0)**	**–**	**(48.1)**

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:

	2017 £m	2016 £m
Deferred tax assets	**15.0**	7.8
Deferred tax liabilities	**(63.1)**	(56.0)
	(48.1)	(48.2)

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 2017 (2016: 18.0%). The impact of the change in tax rates to 17.0% has been a £3.3m credit in the Income Statement and £nil recognised within other comprehensive income.

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 £18.3m as at 31 May 2017 (2016: £17.2m).

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 £nil recognised tax losses (2016: £nil). Temporary differences arising in connection with interests in associates and joint ventures are not significant.

Notes to the Consolidated Financial Statements
continued

23. Provisions

	Restructuring and warranty provisions £m
At 1 June 2015	13.4
Charged to the Income Statement	7.4
Currency retranslation	(0.1)
Used during year	(16.0)
At 31 May 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**

Provisions as at 31 May 2017 relate to restructuring costs in connection with the Group structure and systems project (2017: £2.7m, 2016: £3.5m) and warranty costs in relation to the Africa Electricals division (2017: £1.2m, 2016: £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 £168,300 (2016: £166,632).

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.

Summary of Group defined benefit scheme associated obligations

	2017			2016		
	Surplus £m	**Deficit £m**	**Total £m**	Surplus £m	Deficit £m	Total £m
Expatriate plan	**51.3**	**–**	**51.3**	46.7	–	46.7
Directors plan	**4.1**	**–**	**4.1**	4.6	–	4.6
Main staff plan	**–**	**(2.5)**	**(2.5)**	–	(4.0)	(4.0)
Unfunded plan	**–**	**(5.3)**	**(5.3)**	–	(4.5)	(4.5)
Other overseas units	**–**	**(10.1)**	**(10.1)**	–	(8.5)	(8.5)
	55.4	**(17.9)**	**37.5**	51.3	(17.0)	34.3

The movements in the year are as follows:

	Overseas retirement benefits and similar obligations £m	UK retirement benefits and similar obligations £m	Total £m
At 1 June 2015	(7.6)	23.9	16.3
Currency retranslation	(0.2)	–	(0.2)
Interest (expense)/income	(1.0)	0.3	(0.7)
Contributions paid	–	9.2	9.2
Utilised in the year	0.3	–	0.3
Remeasurement gains	–	9.4	9.4
At 31 May 2016	(8.5)	42.8	34.3
Currency retranslation	(1.3)	–	(1.3)
Interest (expense)/income	(1.0)	0.9	(0.1)
Contributions paid	–	6.2	6.2
Utilised in the year	0.3	–	0.3
Remeasurement gains/(losses)	0.4	(2.3)	(1.9)
At 31 May 2017	**(10.1)**	**47.6**	**37.5**

Overseas retirement benefits and similar obligations measurement and assumptions used
The most significant overseas scheme as at 31 May 2017 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% (2016: 8.0%) and salary inflation rate of 8.0% (2016: 8.0%) have been used. The scheme is unfunded and provision for future obligations included in the above table is £9.2m (2016: £7.4m).

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 2017. There have been no changes in the valuation methodology adopted for this year's disclosures compared to the previous year's disclosures.

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

	2017	2016
Rate of increase in retirement benefits in payment	**3.05%**	2.75%
Discount rate	**2.45%**	3.30%
Inflation assumption	**3.10%**	2.75%

The mortality assumptions used were as follows:

	2017 Years	2016 Years
Weighted average life expectancy on post-retirement mortality table used to determine benefit obligations		
– Member age 65 (current life expectancy)	**23.6**	23.6
– Member age 40 (life expectancy at age 65)	**25.8**	25.7

Notes to the Consolidated Financial Statements continued

24. Retirement benefits continued

Summary of Group defined benefit scheme associated obligations continued

The assets in the schemes were:

	2017 £m	2016 £m	2015 £m
Equities	**56.4**	77.6	92.6
Bonds	**291.9**	250.9	237.3
Property	**6.0**	5.6	5.7
Cash and other	**54.1**	10.5	10.3
Total fair value of scheme assets	**408.4**	344.6	345.9
Present value of scheme liabilities	**(360.8)**	(301.8)	(322.0)
Surplus in the schemes	**47.6**	42.8	23.9
Related deferred tax liability	**(8.1)**	(7.7)	(4.8)
Net retirement benefit surplus	**39.5**	35.1	19.1

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

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

	2017 £m	2016 £m
Interest on net defined benefit surplus	**1.6**	1.0
Administration expenses paid by the scheme	**(0.7)**	(0.7)
Net retirement benefit income before taxation	**0.9**	0.3

All above amounts are recognised in the Group's Income Statement in arriving at operating profit.

The reconciliation of the opening and closing Balance Sheet position is as follows:

	2017 £m	2016 £m
Surplus at beginning of year	**42.8**	23.9
Interest on net defined benefit surplus	**1.6**	1.0
Administration expenses paid by the scheme	**(0.7)**	(0.7)
Employer contributions	**6.2**	9.2
Remeasurement gain due to scheme experience	**–**	7.2
Remeasurement gain due to changes in demographic assumptions	**–**	3.0
Remeasurement (loss)/gain due to changes in financial assumptions	**(62.4)**	5.7
Return of plan assets (excluding interest income)	**60.1**	(6.5)
Net surplus at end of year	**47.6**	42.8
Analysed between:		
Retirement benefit surplus	**55.4**	51.3
Retirement benefit obligation	**(7.8)**	(8.5)
	47.6	42.8

Remeasurement gains and losses are recognised directly in the Statement of Comprehensive Income. At 31 May 2017, cumulative pre-tax remeasurement losses of £37.9m (2016: £36.0m) were recorded directly in the Statement of Comprehensive Income.

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

	Assets 2017 £m	Assets 2016 £m
1 June	344.6	345.9
Interest income	11.3	11.8
Return of plan assets (excluding interest income)	60.1	(6.5)
Employer contribution	6.2	9.2
Administrative expenses	(0.7)	(0.7)
Benefits paid	(13.1)	(15.1)
31 May	408.4	344.6

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

	Obligations 2017 £m	Obligations 2016 £m
1 June	(301.8)	(322.0)
Interest expense	(9.7)	(10.9)
Remeasurement gain due to scheme experience	–	7.2
Remeasurement gain due to changes in demographic assumptions	–	3.0
Remeasurement (loss)/gain due to changes in financial assumptions	(62.4)	5.7
Benefits paid	13.1	15.2
31 May	(360.8)	(301.8)
Plans that are wholly or partly funded	(355.5)	(297.3)
Plans that are wholly unfunded	(5.3)	(4.5)
	(360.8)	(301.8)

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 2018 the Group expects to make cash contributions of £6.0m (2017: £6.0m) to funded defined benefit plans. A further £2.2m (2017: £2.1m) is expected to be contributed to defined contribution plans.

The amount recognised as an expense in the Consolidated Income Statement in relation to defined contribution schemes is £1.4m (2016: £2.4m).

25. Share capital

	2017		2016	
	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

Notes to the Consolidated Financial Statements
continued

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 2017, the trust held 10,379,933 (2016: 10,143,164) Ordinary Shares with a book value of £40.0m (2016: £39.2m). The market value of these shares as at 31 May 2017 was £35.9m (2016: £35.5m). During the year the ESOT purchased 289,887 shares of the Company at a cost of £1.2m (2016: 1,066,252 at a cost of £4.2m) representing 0.05% 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

	2017 £m	2016 £m
Profit before tax	**88.0**	83.7
Adjustment for net finance costs	2.8	5.5
Operating profit	**90.8**	89.2
Depreciation and amortisation	19.9	21.8
Impairment loss on tangible fixed assets	–	0.2
Loss on sale of tangible fixed assets	0.2	0.3
Difference between pension charge and cash contributions	(5.7)	(9.0)
Share of results from joint ventures	(2.9)	(3.2)
Operating cash flows before movements in working capital	**102.3**	99.3
Movements in working capital:		
Inventories	(27.9)	19.4
Trade and other receivables	(8.6)	9.2
Trade and other payables	45.6	(10.5)
Provisions	(0.5)	(11.0)
Cash generated from operating activities	**110.9**	106.4

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:

	2017 £m	2016 £m
Within one year	1.6	1.6
In the second to fifth years inclusive	5.0	4.0
Over five years	2.7	0.7

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 (2016: £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, 1,321,710 awards were made under the PSP scheme (2016: total awards of 1,204,962). The number of shares exercised in the year was nil (2016: 296,985) at a market value of £nil (2016: £1,018,988) based on the market price at the date of exercise. In addition the number of lapsed share options totalled 1,104,456 (2016: 1,034,616). The number of awards outstanding but not yet exercisable is 3,573,590 at 31 May 2017 (2016: 2,839,432). The total credit included in operating profit in relation to these awards was £nil (2016: £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 (2016: £nil).

No options have been granted during the current or previous 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 2015	201,238	1.6
Exercisable at 31 May 2015	201,238	1.6
Lapsed	–	–
Exercised	(135,469)	1.6
Outstanding at 31 May 2016	65,769	1.7
Exercisable at 31 May 2016	65,769	1.7
Lapsed	–	–
Exercised	(65,769)	1.7
Outstanding at 31 May 2017	**–**	**–**
Exercisable at 31 May 2017	**–**	**–**

	Price/share £	Weighted average exercise price £
Range of prices:		
31 May 2017	**1.7**	**1.7**
31 May 2016	1.3-1.7	1.6

	Number of share options	Weighted average contract term (years)
Weighted average contractual remaining life:		
31 May 2017	**–**	**–**
31 May 2016	65,769	1.0

There were no options outstanding at 31 May 2017 or 31 May 2016 that are outside of the scope of IFRS 2 'Share based payments'.

Notes to the Consolidated Financial Statements
continued

30. Acquisitions

Acquisition of 0.25% of share capital of PZ Cussons Nigeria Plc

Cost of acquisitions

	£m
0.25% of share capital of PZ Cussons Nigeria Plc	0.4

Throughout the year to 31 May 2017, the Group has acquired additional share capital of its existing subsidiary PZ Cussons Nigeria Plc, increasing the Group's stake from 73.03% to 73.28%. The consideration for these additional shares was £0.4m, resulting in the acquisition of a non-controlling interest of £0.1m and an amount debited to retained earnings through the Consolidated Statement of Changes in Equity of £0.3m.

31. 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 2017 the outstanding loan balance receivable from PZ Wilmar Limited was £26.1m (2016: £21.0m) and from PZ Wilmar Food Limited was £8.0m (2016: £6.4m). These receivables relate to long-term loan investments that have been made by both joint venture partners.
- The value of certain raw materials the Group sourced and then sold to PZ Wilmar Limited was £0.5m (2016: £0.1m). At 31 May 2017 the outstanding trade receivable balance from PZ Wilmar Limited was £0.5m (2016: £1.2m) and from PZ Wilmar Food Limited was £nil (2016: £nil). The outstanding trade receivable balance from the Group to PZ Wilmar Food Limited at 31 May 2017 was £nil (2016: £nil).
- At 31 May 2017 the outstanding other receivable balance from PZ Wilmar Limited was £4.0m (2016: £11.0m) and from PZ Wilmar Food Limited was £nil (2016: £nil). The outstanding other receivable balance from the Group to PZ Wilmar Food Limited at 31 May 2017 was £nil (2016: £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 2017 (2016: £nil) and no charge to the Income Statement in respect of doubtful related party receivables (2016: £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 2017 the outstanding other receivable balance from Wilmar PZ International Pte Limited was £3.4m (2016: £2.4 m). The outstanding other receivable balance from the Group to Wilmar PZ International Pte Limited at 31 May 2017 was £nil (2016: £nil). These receivables relate to services provided by subsidiary companies to Wilmar PZ International Pte Limited.

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

Details of the Company's subsidiaries at 31 May 2017 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	Distribution	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
PZ Cussons Beauty Australia 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 (UK) Limited	Provision of services to Group companies	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
Harefield Industrial Consultants & Contractors 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
Parnon Limited	Dormant	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	Holding partnership	England	†100%	†100%	14 Upper St. Martin's Lane, Covent Garden, London, WC2H 9FB
Roberts Laboratories Limited	Dormant	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
Seven Scent Limited	Manufacturing	England	†100%	†100%	Agecroft Commerce Park, Lamplight Way, Swinton, Manchester, M27 8UJ

Notes to the Consolidated Financial Statements
continued

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

Company	Operation	Incorporated in:	Parent Company's interest	Proportion of voting interest	Registered Office address
St.Tropez Acquisition Co. Limited	Dormant	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
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%	Cyber Building, 9th Floor, Jalan Kuningan Barat No. 8, Jakarta Selatan, 12710
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
Rafferty's Garden New Zealand Pty Limited	Dormant	New Zealand	†100%	†100%	PKF Carr & Stanton Ltd, 119 Queen Street East, Hastings, 4122
Food For Life International Limited	Distribution	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	Holding company	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	Holding company	Thailand	†49%	†49%	35 Moo 4 Tessamphan Road, Banchang, Muang, Pathumthani 12000

Company	Operation	Incorporated in:	Parent Company's interest	Proportion of voting interest	Registered Office address
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.

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

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.

Independent Auditors' Report
to the members of PZ Cussons Plc

Report on the Company Financial Statements

Our opinion

In our opinion, PZ Cussons Plc's Company Financial Statements (the 'Financial Statements'):

- give a true and fair view of the state of the Company's affairs as at 31 May 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The Financial Statements, included within the Governance and Financial Statements 2017 (the 'Annual Report'), comprise:

- the Company Balance Sheet as at 31 May 2017;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the Financial Statements is United Kingdom Accounting Standards, comprising FRS101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

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

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

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Financial Statements and the part of the Report on Directors' Remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Report on Directors' Remuneration – Companies Act 2006 opinion

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.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the Financial Statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of Financial Statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the Financial Statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Report of the Directors and Report on Corporate Governance, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Group Financial Statements of PZ Cussons Plc for the year ended 31 May 2017.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
25 July 2017

Company Balance Sheet
At 31 May 2017

	Notes	2017 £m	2016 £m
Fixed assets			
Investments	4	**116.8**	119.1
		116.8	119.1
Current assets			
Debtors	5	**321.9**	292.0
Investments	6	**0.3**	0.3
Cash at bank and in hand		**0.8**	3.0
		323.0	295.3
Creditors – amounts falling due within one year	7	**(404.2)**	(380.3)
Net current liabilities		**(81.2)**	(85.0)
Total assets less current liabilities		**35.6**	34.1
Creditors – amounts falling due after more than one year	7	**–**	–
Net assets		**35.6**	34.1
Capital and reserves			
Called up share capital	8	**4.3**	4.3
Capital redemption reserve		**0.7**	0.7
Profit and loss account		**30.6**	29.1
Total Shareholders' funds		**35.6**	34.1

The Financial Statements from pages 90 to 101 were approved by the Board of Directors and authorised for issue.

They were signed on its behalf by:

C Silver **G A Kanellis**
25 July 2017

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 2015	**4.3**	**0.7**	**31.2**	**36.2**
Profit for the year	–	–	35.4	35.4
Acquisition of shares by ESOT	–	–	(4.2)	(4.2)
Ordinary dividends	–	–	(33.3)	(33.3)
At 31 May 2016	**4.3**	**0.7**	**29.1**	**34.1**
At 1 June 2016	**4.3**	**0.7**	**29.1**	**34.1**
Profit for the year	–	–	39.9	39.9
Acquisition of shares by 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**	**30.6**	**35.6**

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' (FRS101). The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of certain derivative financial assets and financial liabilities measured at fair value through profit or loss, 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 FRS101. Its Financial Statements are consolidated into the Group Financial Statements of PZ Cussons Plc which are included within this Annual Report.

The preparation of Financial Statements in conformity with FRS101 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 FRS101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payment' (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':
  – 10(d) (statement of cash flows);
  – 16 (statement of compliance with all IFRS);
  – 38A (requirement for minimum of two primary statements, including cash flow statements);
  – 38B-D (additional comparative information);
  – 111 (cash flow statement information); and
  – 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

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 Income Statement. 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 £m.

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 Income Statement 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 Company 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 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 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.

Derivative financial instruments
The Company's activities expose it primarily to the financial risks of changes in interest rates. The Company uses derivative financial instruments to hedge a proportion of the exposure to floating interest rate fluctuations.

The Company 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 Company 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 Company's policies approved by the Board of Directors, which provide written principles in the use of financial derivatives consistent with the Company's risk management strategy. The Company 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.

Notes to the Company Financial Statements continued

1. Accounting policies continued

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 they are not settled in the year in which they arise.

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.

Investments in subsidiaries

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

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 Income Statement.

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 the Income Statement 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 distribution to the Company's Shareholders is recognised as a liability in the Company's Financial Statements in the period in which the dividends are approved by the Company's Shareholders. In respect of interim dividends these are recognised once paid.

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.

Critical accounting policies and key sources of estimation uncertainty

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

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

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

	2017 £m	2016 £m
Aggregate amount of Directors' emoluments	3.9	2.9
Emoluments of the highest paid Director	1.6	1.1

For the year ended 31 May 2017 the highest paid Director received Company pension contributions of £0.1m (2016: £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 18.

Notes to the Company Financial Statements continued

3. Dividends

	2017 £m	2016 £m
Amounts recognised as distributions to Ordinary Shareholders in the year comprise:		
Final dividend for the year ended 31 May 2016 of 5.50p (2015: 5.39p) per Ordinary Share	**23.0**	22.5
Interim dividend for the year ended 31 May 2017 of 2.67p (2016: 2.61p) per Ordinary Share	**11.2**	10.8
	34.2	33.3
Proposed final dividend for the year ended 31 May 2017 of 5.61p (2016: 5.50p) per Ordinary Share	**23.5**	23.0

The proposed final dividends for the years ended 31 May 2016 and 31 May 2017 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 2016 and 31 May 2017 respectively.

4. Investments in subsidiaries

	Shares £m	Loans £m	Total £m
Cost at 1 June 2015	124.8	3.0	127.8
Disposals in the year	(4.1)	–	(4.1)
Provisions	(4.6)	–	(4.6)
Net book value at 31 May 2016	116.1	3.0	119.1
Cost at 1 June 2016	**120.7**	**3.0**	**123.7**
Disposals in the year	**(2.3)**	**–**	**(2.3)**
Provisions	**(4.6)**	**–**	**(4.6)**
Net book value at 31 May 2017	**113.8**	**3.0**	**116.8**

In the current and prior year the Company's Greek business, Minerva SA, executed a return of capital through a share buyback. This has been shown as a disposal in the current year which reduces the Group's investment in that subsidiary by £1.6m (2016: £4.1m). Additionally, in the current year there has been a write off of investments in PZ Cussons (Finance) Limited and Parnon Limited following the clear down of these entities in preparation for strike off.

Details of the Company's direct subsidiaries at 31 May 2017 are as follows:

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%
Parnon Limited	Dormant	England	100%	100%

5. Debtors

	2017 £m	2016 £m
Amounts owed by Group companies	**317.4**	291.0
Deferred taxation	**4.5**	1.0
	321.9	292.0

£312.3m (2016: £8.5m) of amounts owed by Group companies are interest bearing and are based on market rates of interest. £5.1m (2016: £282.5m) of amounts owed by Group companies are non-interest bearing. All of the balances are unsecured and are repayable on demand.

6. Current asset investments

	2017 £m	2016 £m
Unlisted	**0.3**	0.3

7. Creditors

Due within one year	2017 £m	2016 £m
Bank loans and overdrafts	**253.5**	225.1
Amounts owed to Group companies	**150.3**	149.0
UK corporation taxation payable	**–**	5.6
Accruals and deferred income	**0.4**	0.6
	404.2	380.3

£150.3m (2016: £nil) 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.

Financial instruments utilised by the Company during the years ended 31 May 2017 and 31 May 2016, 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.

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

	2017		2016	
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

Notes to the Company Financial Statements continued

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 2017, the trust held 10,379,933 (2016: 10,143,164) Ordinary Shares with a book value of £40.0m (2016: £39.2m). The market value of these shares as at 31 May 2017 was £35.9m (2016: £35.5m). During the year the ESOT purchased 289,887 shares of the Company at a cost of £1.2m (2016: 1,066,252 at a cost of £4.2m) representing 0.05% 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.

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 (2016: £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 Company'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, 1,321,710 awards were made under the PSP scheme (2016: total awards of 1,204,962). The number of shares exercised in the year was nil (2016: 296,985) at a market value of £nil (2016: £1,018,988) based on the market price at the date of exercise. In addition the number of lapsed share options totalled 1,104,456 (2016: 1,034,616). The number of awards outstanding but not yet exercisable is 3,573,590 at 31 May 2017 (2016: 2,839,432). The total credit included in operating profit in relation to these awards was £nil (2016: £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 2017 was £253.5m (2016: £225.1m).

In addition the Company is party to cross guarantee arrangements relating to an overdraft facility for certain Group UK entities at Barclays Bank Plc. The maximum exposure at 31 May 2017 was £5.0m (2016: £5.0m).

12. Subsidiaries and joint ventures

Details of the Company's subsidiaries at 31 May 2017 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	Distribution	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
PZ Cussons Beauty Australia 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 (UK) Limited	Provision of services to Group companies	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
Harefield Industrial Consultants & Contractors 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
Parnon Limited	Dormant	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	Holding partnership	England	†100%	†100%	14 Upper St. Martin's Lane, Covent Garden, London, WC2H 9FB
Roberts Laboratories Limited	Dormant	England	†100%	†100%	Manchester Business Park, 3500 Aviator Way, Manchester, M22 5TG
Seven Scent Limited	Manufacturing	England	†100%	†100%	Agecroft Commerce Park, Lamplight Way, Swinton, Manchester, M27 8UJ

Notes to the Company Financial Statements continued

Company	Operation	Incorporated in:	Parent Company's interest	Proportion of voting interest	Registered Office address
St.Tropez Acquisition Co. Limited	Dormant	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
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%	Cyber Building, 9th Floor, Jalan Kuningan Barat No. 8, Jakarta Selatan, 12710
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
Rafferty's Garden New Zealand Pty Limited	Dormant	New Zealand	†100%	†100%	PKF Carr & Stanton Ltd, 119 Queen Street East, Hastings, 4122
Food For Life International Limited	Distribution	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	Holding company	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	Holding company	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.

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

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.

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

Following a formal tender process, the Board will propose that Deloitte LLP will replace PricewaterhouseCoopers LLP as the Group's statutory auditor at the forthcoming Annual General Meeting to be held in September 2017.

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 2017 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
Manchester
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	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Operating profit before exceptional items	**106.3**	108.5	114.4	116.4	108.4
Net finance expense	**(2.8)**	(5.5)	(5.6)	(1.4)	(0.9)
Profit before taxation and exceptional items	**103.5**	103.0	108.8	115.0	107.5
Exceptional items	**(15.5)**	(19.3)	(24.8)	8.7	(12.7)
Profit before taxation	**88.0**	83.7	84.0	123.7	94.8
Taxation	**(21.1)**	(14.0)	(26.1)	(25.0)	(23.8)
Profit for the year	**66.9**	69.7	57.9	98.7	71.0
Attributable to:					
Owners of the Parent	**64.2**	67.7	52.4	91.4	63.1
Non-controlling interests	**2.7**	2.0	5.5	7.3	7.9
Net assets attributable to owners of the Parent	**492.7**	503.4	453.2	484.0	480.7
Net (debt)/funds	**(143.8)**	(147.1)	(157.4)	(29.4)	3.4
Per Ordinary Share:					
Basic earnings	**15.34p**	16.16p	12.45p	21.52p	14.75p
Adjusted basic earnings	**16.85p**	17.22p	17.94p	17.96p	16.62p
Dividend (interim and final declared post year end)	**8.28p**	8.11p	8.00p	7.76p	7.39p
Times cover – after exceptional items	**1.9**	2.0	1.6	2.8	2.0
Times cover – before exceptional items	**2.0**	2.1	2.2	2.3	2.2
Net assets	**114.92p**	117.42p	105.71p	112.90p	112.13p

Shareholder information and contacts

Annual General Meeting

The Annual General Meeting will be held at 10.30am on Wednesday, 27 September 2017 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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Thank you.

The Governance and Financial Statements 2017 is available at **www.pzcussons.com**

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