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PZ Cussons Plc
Annual Report & Accounts

2012

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

Mission

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

Vision

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

Highlights 2012

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Group

- Revenue growth of 4.7% despite challenging trading conditions during the year, particularly in Nigeria and Australia
- Profits impacted by high raw material costs, a worsening trading environment in the Australian Home Care category, and the social and economic tensions in Nigeria
- Major launch in the UK post period end of Cussons Mum & Me – a new brand of Personal Care products specifically designed for mothers and babies
- Extension of the Beauty division portfolio with the acquisition of the Fudge hair-care brand in January 2012
- Supply chain optimisation project under way to significantly reduce the overhead footprint of the Group's manufacturing activities
- Healthy balance sheet with only a small net debt position at the end of the year
- Total dividend increased 1.6% year on year reflecting the strong balance sheet and the Board's confidence in the future

Africa

- Overall increase in revenue of 6.8% reflecting a strong first half but a second half affected by the social unrest in the north of Nigeria and the impact from the fuel duty subsidy reduction
- Profits lower as a result of the above as well as higher raw material costs
- Construction of the palm oil refinery with Wilmar on track for completion by the end of the calendar year

Asia

- Continued positive momentum in Indonesia, with revenue and profit from the market leading Cussons Baby range ahead of the prior year
- Overall Asian revenue and profits lower due to the challenging trading conditions in the Australian Home Care category

Europe

- Robust performance in the UK Washing and Bathing division driven by brand innovation and renovation despite competitive trading conditions
- Strong performance in the Beauty division with significant new product launches across the portfolio of Sanctuary, St Tropez, Charles Worthington and Fudge
- Strong trading in Poland across both Home Care and Personal Wash

Financial highlights 2012

	Year ended 31 May 2012	Year ended 31 May 2011	% change
Reported results (before exceptional items¹)			
Revenue	£858.9m	£820.7m	4.7%
Operating profit	£93.4m	£108.1m	(13.6%)
Profit before tax	£92.3m	£108.9m	(15.2%)
Adjusted basic earnings per share	14.74p	16.20p	(9.0%)
Statutory results			
Operating profit	£49.6m	£107.3m	(53.8%)
Profit before tax	£48.5m	£108.1m	(55.1%)
Basic earnings per share	8.03p	16.48p	(51.3%)
Total dividend per share	6.717p	6.61p	1.6%
Net (debt)/funds ²	(£17.9m)	£51.8m	

¹ Exceptional items totalling £43.8 million before tax are detailed in note 3

² Net (debt)/funds above and hereafter is defined as cash, short-term deposits and current asset investments less borrowings (refer to note 18)

Chairman's statement

The Group delivered revenue growth despite challenging trading conditions. Profits were lower with a robust performance in the UK, strong trading in the Beauty division and positive momentum in Indonesia, more than offset by specific market challenges in Nigeria and Australia, and the impact of the largest year-on-year increase in raw material costs we have experienced

Despite the external challenges, the Group remains committed to driving profitable growth through brand renovation and innovation and through further cost reduction. During the year, underlying revenue growth continued across the business, particularly in the UK, in the Beauty division and in Indonesia. As we start the current financial year, this momentum, together with our new Cussons Mum & Me and Fudge ranges, will help to ensure this growth continues.

Our exciting joint venture with Wilmar is on track with the Nigerian palm oil refinery due to be completed by the end of the calendar year.

At the same time, we are working actively to reduce our cost base, and the supply chain optimisation project announced in March will significantly reduce the overhead base of our manufacturing activities.

Our balance sheet remains strong with only a small net debt position and this gives us the capacity to pursue further investment opportunities which fit our strategic aims.

Clearly the world remains uncertain and volatile. However, consumer demand for high quality innovative products serving day to day needs continues, and we are well placed to serve

those needs with a strong distribution footprint in key geographic markets. Whilst the situation in the Group's important Nigerian market remains fragile, we are confident that the Group will return to profitable growth in the current financial year. Overall performance since the year-end has been in line with expectations.

Derek Lewis, who has served the Board as a Non-executive Director since 2004, has indicated his intention to retire with effect from the 2012 Annual General Meeting on 19 September. The Board would like to thank him for his significant contribution to PZ Cussons over the past eight years. Following Mr Lewis' retirement, James Steel, a Non-executive Director since 2005, will be appointed Senior Independent Director in his place.

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

Richard Harvey
Non-executive Chairman
24 July 2012

CAN DO people

As one of our strategic pillars, our team of over 7,000 CAN DO people embodies the core values that are firmly embedded in our culture and are integral to our success. It is this CAN DO culture that we believe is the unifying strength that binds together our diverse businesses around the world.

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

Our CAN DO values are

Courage

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

Accountability

We are all champions of our company. We take personal responsibility for achieving our objectives. We do what we say we shall do. We do what is right, not merely what is expected.

We act with openness, integrity and trust. We ask for help, admit to our mistakes and put things right.

Networking

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

Drive

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

Oneness

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

At a glance

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

Africa

Africa remains the Group's largest region and in **Nigeria** Africa's most populous country (circa 160 million people) and our biggest single market, we continue to operate in four categories: **Personal Care**, **Home Care**, **Electricals** and **Food and Nutrition**.

The **Personal Care** and **Home Care** businesses have established local brands with ongoing renovation programmes leading to continued maintenance and growth of our market-share. The **Electricals** business leads the core refrigerator and freezer market. Within the **Food and Nutrition** category we have two joint ventures: Nutricima (with Glanbia Plc) operating predominantly in the nutritional beverage sector, and PZ Wilmar (with Wilmar International Limited) that will operate in the branded oils and spreads market and will also refine crude palm oil once the plant is commissioned at the end of the calendar year.

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

Revenue (2011: £339.1m)

£362.2m

Home Care Personal Care Electrical Goods Food and Nutrition

Asia

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

Indonesia is the fourth most populous country in the world with a population of circa 240 million currently growing at a rate of around 2% per annum. The economy is the largest in South East Asia with GDP growth rates of around 6% and consistent growth in GDP per capita over the last decade. Our Cussons Baby brand is the market leader and our distribution network also enables our other **Personal Care** brands to be delivered to consumers throughout the region. **Australia** represents a more mature market where we have leading positions in the **Home Care** category through our dish and fabric care products. Our businesses in **Thailand** and the **Middle East** are smaller and less well established but have good growth potential.

Europe

Our business in Europe comprises a broad range of categories and markets. **Personal Wash** in the **UK** is serviced by our Personal Wash Centre of Excellence facilities in Manchester and focuses on the Imperial Leather, Carex and Original Source brands. **Poland's** growth is generated by the core **Home Care** business and also by replicating the innovation from the UK Personal Wash category. The **Food and Nutrition** category is represented in **Greece** by Minerva and associated brands. Product innovation is key to maintaining the leading positions within these markets and this year has seen the development (and June 2012 launch) of the Mum & Me range of products and the launch of Carex Protect-Plus in the UK.

This has been the first full year of the **Beauty division** based in London. The Beauty division markets and sells Sanctuary, St Tropez, Charles Worthington and newly acquired Fudge and will maximise the international and cross selling potential of these brands.

Revenue

(2011 £176.1m)

£158.8m

Baby Care

Personal Care

Home Care

Revenue

(2011 £305.5m)

£337.9m

Personal Care

Food and
Nutrition

Beauty

Home Care

Strategic pillars

In order to achieve our vision our business model is based on our four strategic pillars

Selected categories

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

Progress and priorities

The Group has this year consolidated all of its Beauty businesses into one global division. This is a strategic move designed to maximise the potential, both in the UK and internationally, of our portfolio of premium beauty brands. The Beauty range has been extended through the Fudge brand acquisition (see page 17). The Washing and Bathing division within the UK has delivered robust performance in a tough market through continued renovation of existing brands (see page 15). The launch of Mum & Me (see page 15) demonstrates our product and range innovation. Priorities next year are to promote and extend the new brand ranges and continue the renovation process across the rest of the portfolio.

Selected geographies

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

Progress and priorities

We have grown our revenue this year through expansion in our core geographies and penetration into newer territories. The main core geographic highlights of this year are the continued growth of Cussons Baby in Indonesia (see page 13), the robust UK performance and the continued development of the Food and Nutrition edible oils joint venture with PZ Wilmar (see page 11). We have also continued to share category innovation across geographies, driven by our UK Washing and Bathing division and our UK Personal Wash centre of excellence. Newer territories have been progressed mainly through the growth of the Beauty division in the United States with St Tropez (see page 16). Priorities next year will be to continue to expand in our existing geographies through our core brands, to continue to share category best practice and innovation across geographies and further global expansion of the Beauty division.

Flexible supply chain

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

Progress and priorities

Due to rising raw material costs and wage inflation in emerging markets, the Group has initiated a supply chain optimisation project to ensure that its supply chain cost base remains competitive. The project will result in a reduction in the overhead footprint of the Group's manufacturing activities (see page 9). The current year has also seen continued investment in the expansion of the edible oils joint venture with PZ Wilmar (see page 11) and improvements in the supply chain in Indonesia, where PZ Cussons distributes to over 10 000 islands, 150 000 traditional retailers and 750 independent supermarkets.

CAN DO people

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

Progress and priorities

Our CAN DO people continue to live our core values. This year our employees in Thailand showed incredible courage and adaptability throughout the flooding in October and enabled our operations to continue in this very difficult period. Further highlights include the Mum & Me development team delivering from first concept to launch within 14 months (see page 15), the Indonesian Baby/Kids range teams continuing to grow market share, revenue and profitability (see page 13), and the Beauty division producing a strong performance through the integration of four brand cultures, teams, systems and operations (see page 16). We will continue to develop the enablers to allow our people to further embody our CAN DO values.

Financial review

The Directors present the Group's annual report and audited financial statements for the year ended 31 May 2012.

This year's highlights at a glance

- Revenue up 4.7% to £858.9 million (2011: £820.7 million)
- Raw material costs, worsening trading environment in the Australian Home Care category and the social and economic tensions in Nigeria decreased profit before tax and exceptional items by 15.2% to £92.3 million (2011: £108.9 million)
- Earnings per share fell by 9.0% to 14.74p (2011: 16.20p)
- Net debt of £179 million (2011: net funds of £51.8 million)
- Exceptional costs of £43.8 million were incurred (2011: £0.8 million) mainly in relation to a supply chain optimisation project, Beauty division's acquisition and integration costs, and a full impairment of the Australian Trix brand

Financial performance – overview

The Group delivered revenue growth of 4.7% for the year despite challenging trading conditions in a number of markets. Profits before tax and exceptional items were 15.2% lower than the previous year reflecting a robust performance in the UK, strong trading in the Beauty division and positive momentum in Indonesia, more than offset by the impact of three factors: approximately £25 million of increased costs from the significant year-on-year raw material cost inflation, a worsening environment in the Australian Home Care category, and the social and economic tensions in Nigeria.

In Africa, revenue growth in Nigeria was strong during the first half of the financial year but then affected by the social unrest in the north and the impact of the partial removal of the fuel duty subsidy in January. Raw material cost increases dented margins in the first half although these began to improve during the second half as a result of price increases and margin improvement initiatives.

In Asia, continued positive momentum delivered another year of revenue and profit growth in Indonesia although this was more than offset by lower results in Australia as well as tough trading conditions in Thailand and the Middle East.

In Europe, continued brand innovation and renovation contributed to a robust performance from the UK Washing and Bathing division despite competitive trading conditions. The Beauty division delivered a strong performance in its first full year as a separate entity as well as completing the acquisition of Fudge in January. Trading in Poland has been strong across both Home Care and Personal Care, whilst profitability in Greece is lower as a result of the domestic economic situation although the results are immaterial to the Group as a whole.

The overall impact of exchange rate movements in the year resulted in a decrease in Group revenue and profitability of circa £16 million and £2 million respectively.

Financial position – overview

The Group's balance sheet remains strong with a net debt position of £17.9 million at the year end despite higher working capital levels particularly in Nigeria.

Underlying capital expenditure continues to run at or below normal depreciation levels. Other key cash outflows during the year included £26.3 million for the acquisition of Fudge, £16.8 million for the investment in the Wilmar palm oil joint venture, £15.3 million for contributions to the closed UK final salary schemes including the de-risking exercise, and £8.6 million for the purchase of additional shares in our Nigerian listed subsidiary.

Major projects

Supply chain optimisation project

As part of the Group's supply chain strategy, and following a number of years of rising raw material costs together with significant ongoing wage inflation in emerging markets, the Group has been developing programmes to ensure that its supply chain cost base remains at a competitive level.

As a result, a major supply chain optimisation project was initiated in March and will continue to be implemented over the remainder of this financial year. This will significantly reduce the overhead footprint of the Group's manufacturing activities. There are two components to the project:

First, in order to move to a variable cost model for its developed market Home Care businesses, the Group is closing its manufacturing facilities in Australia with supply being moved to other Group facilities as well as to third parties, and is also reviewing its manufacturing facilities in Poland.

Second, the Group intends to reduce the supply chain overhead at a number of other manufacturing facilities. This includes closing its manufacturing facilities in Ghana, with supply being moved to third parties as well as to the Group's existing Nigerian facilities, in addition to other optimisation projects in Africa and Asia.

The total cash cost of these initiatives will be approximately £19.9 million for redundancy and other associated items, with

payback expected within three years. There will be a further non-cash charge of approximately £19 million for asset write-downs. These have been treated as exceptional charges with £27.5 million charged in the year to 31 May 2012 and the balance falling in the next financial year.

The benefits of this project will begin to be seen in the current financial year through lower supply chain overheads, the mitigation of the impact of further wage inflation and the avoidance of the high capital maintenance cost that would have been associated with any closed or restructured facilities.

Exceptional items

A net exceptional charge of £43.8 million before tax was recorded during the year (2011: £0.8 million). The exceptional charge relates to the net effect of: the cost of the supply chain optimisation project (£27.5 million); the Beauty division's acquisition and integration costs (£6.3 million); the full impairment of one of our Australian Home Care brands (£9.7 million); and the pension scheme de-risking charge (£0.3 million).

Of the exceptional charge of £43.8 million, £17.7 million relates to cash and £26.1 million relates to non-cash items. The majority of the cash items will impact cash flow in the 12 months to 31 May 2013.

Taxation

The effective tax rate before exceptional items was 27.0% (2011: 27.8%) and is lower principally due to decreased UK corporation tax rates.

Dividend

The Company aims to pay an attractive, sustainable and growing dividend. The Board is recommending a maintained final dividend of 4.487p (2011: 4.487p) per share making a total of 6.717p (2011: 6.61p) per share for the year, a 1.6% increase and the 39th successive year of dividend increases. The overall dividend remains some 2.2 times covered by earnings per share before exceptional items. Subject to approval at the AGM, the final dividend will be paid on 1 October 2012 to shareholders on the register at the close of business on 17 August 2012.

Pensions

The Group's three closed UK defined benefit schemes had a surplus position at 31 May 2012 of £8.9 million (2011: surplus of £2.8 million). The Group has continued its de-risking strategy resulting in an exceptional charge before tax of £0.3 million (2011: £2.4 million). Further details are provided in note 23.

Outlook

Across the Group, the focus remains on driving profitable growth through brand innovation and renovation, and through improving margins via further cost reduction initiatives. The major supply chain optimisation project, announced in March, is on track to significantly reduce the overhead footprint of the Group's manufacturing activities, and the benefits will be seen in the current financial year.

Whilst input costs have shown signs of short-term easing, they remain volatile and in some cases close to their highest levels.

The balance sheet remains strong with only a small net debt position and the Group is well placed to pursue further growth opportunities which fit its strategic aims.

Last year's underlying revenue growth across the business, particularly in the UK, in the Beauty division and in Indonesia, together with the new Cussons Mum & Me and Fudge ranges, have provided encouraging momentum into the current financial year. As a result, overall performance since the year-end has been in line with expectations.

Clearly the world remains uncertain and volatile. However, consumer demand for high quality innovative products serving day-to-day needs continues, and we are well placed to serve those needs with a strong distribution footprint in key geographic markets. Whilst the situation in the Group's important Nigerian market remains fragile, the Board is confident of a return to profitable growth in the current financial year.

Business review

Revenues have continued to increase this year despite social unrest in the north of Nigeria and the impact from the fuel duty subsidy reduction.

Africa

Regional highlights

- Overall increase in revenue of 6.8% reflecting a strong first half but a second half affected by the social unrest in the north of Nigeria and the impact from the fuel duty subsidy reduction
- Profits lower as a result of the above as well as higher raw material costs
- Construction of the palm oil refinery with Wilmar on track for completion by the end of the calendar year

Key brands

Product innovations

Robb
Robb one of Africa's leading brands in the medicaments category had a number of initiatives to sustain market leadership and enter new subcategories. Robb Super Intense was relaunched as Hot Robb with new packaging and a campaign with Nigeria's football Premier League. In addition Robb Menthol sweets were launched into the market giving Robb access to the soothing throat drops segment.

Canoe
To consolidate its position as a leading laundry care brand Canoe known for its laundry soap launched Canoe detergent into the fabric care market at a premium to our Zip detergent brand. This introduction has the objective to increase our share of branded detergents with a premium offering to meet consumer fabric care needs.

PZ Wilmar progress

As announced in the last financial year expansion of our presence in the Food and Nutrition category in Nigeria through our food ingredients joint venture (PZ Wilmar) with Singapore based Wilmar International Limited is progressing. Over the course of the year PZ Wilmar has made excellent progress in its development of a range of oil based branded food products. Central to PZ Wilmar's strategy is the construction of a palm oil refinery in Nigeria in which our investment to date is £18 million. Work on the refinery is proceeding well and in line with the expected timeframe to completion within two years. Commissioning of the refinery and launch of the range of branded food products are both anticipated in the forthcoming financial year.

£18m

total cumulative PZ
investment to date
into PZ Wilmar

In **Nigeria** revenue growth was strong during the first half of the financial year underpinned by a stable economic and political environment following the presidential elections in April 2011. During the second half of the year trading was significantly affected by two key issues. First, social instability in the north resulted in lower sales in those areas with trade affected by local disruption and uncertainty. Second, the partial removal of the fuel duty subsidy in January led to a week-long national strike which adversely affected sales and costs during the period. Whilst half of the fuel subsidy was subsequently reinstated, consumer disposable income has been affected by a doubling of fuel costs resulting in lower levels of demand. Despite the ongoing disruption in the north, the economic outlook for the country remains encouraging with positive GDP growth rates expected to continue. During the year, the Naira weakened slightly against the US Dollar and Sterling accounting for £1.5 million of the Group's exchange loss of £2 million.

During the year, the Group's holding in its listed Nigerian subsidiary was increased further from 66.8% to 68.8% at a cost of £8.6 million.

The Group continues to operate in four categories in Nigeria namely Personal Care, Home Care, Electricals and Food and Nutrition.

In Personal Care and Home Care, the focus has remained on brand renovation across the portfolio of soaps, detergents, baby care and medicaments. The significant year-on-year increase in raw material costs adversely affected margins in the first half although this began to ease during the second half as a result of price increases and margin improvement initiatives.

In Electricals, the focus has continued to be on the core range of fridges, freezers and air conditioners sold through the HPZ joint venture with Haier, as well as the range of generators which are separately imported. During the year, a further HT Cool World store was opened taking the number to seven, with further stores planned in the new financial year.

Nutricima, the Food and Nutrition joint venture with Glanbia Plc, has seen revenue growth of almost 20% in the year to £72 million despite tough trading conditions. The brand portfolio has now been extended to five brands: Nunu, Coast, Bliss, Olympic and Yo! with all performing well. Continued increases in the cost of milk and the weaker exchange rate have adversely affected margins, with the Group's share of profit being broadly flat for the year at £0.3 million (2011: £0.4 million).

Construction of the palm oil refinery with Wilmar is on track with completion due by the end of the calendar year, with a new consumer food ingredients brand to be launched to coincide with the start of production in early 2013.

Ghana and Kenya have continued to perform well with revenue and profitability ahead of the prior year. In Ghana, the Nutrition and Electricals portfolios have continued to grow and a further HT Cool World retail outlet was opened taking the number to four.

Business review continued

The Indonesian Cussons Baby range has continued to grow whilst the Australian business has faced a number of challenges.

Asia

Regional highlights

- Continued positive momentum in Indonesia with revenue and profit from the market leading Cussons Baby range ahead of the prior year
- Overall revenue and profits lower due to the challenging trading conditions in the Australian Home Care category

Product innovations

Cussons Kids
The Cussons Kids range continues to grow in Indonesia after prior year relaunches. The range has grown 32% year-on-year in a previously untapped market segment and is marketed in Indonesia as the trusted follow-on range of products to the successful Cussons Baby range. It has rejuvenated its packaging and product presentation. The characters on the Cussons Kids portfolio were developed to depict child role models allowing engagement with the consumers as well as their parents.

Radiant Laundry
The Radiant Laundry range including detergent powder and liquid was relaunched in Australia. Radiant Liquid unit dose capsules were the first advanced liquid formulation product to be launched in the Australian market. Delivering premium performance and creating brand differentiation through stronger brand claim, the advanced range removes seven day dried in stains. Further extensions and a pack size renovation to the core liquid range is planned later this financial year to ensure brand relevance and penetration in the fast growing liquid segment.

In **Australia** the trading environment in the Home Care category worsened during the year as retailers devoted greater shelf space in store to private label products resulting in branded suppliers having to trade with lower volumes and reduced margins. Revenue in Australia declined 27% resulting in the business moving from profit to loss for the year. Measures to address the underperformance of the Australian business have been under way for some months and are proving successful with the business moving back into profitability on a monthly basis towards the end of the financial year. These measures included moving to a variable cost model via the closure of the local manufacturing facility. Revenue and profitability of the Personal Care and Beauty portfolios grew year on year and these remain the focus growth areas for the future.

In **Indonesia** the positive momentum has continued with another year of growth in revenue and profitability. The market leading Cussons Baby range has continued to grow through portfolio improvements and distribution expansion. Cussons Baby has clearly established itself as the number one brand in its segment with a market share significantly ahead of its closest competitor and is well placed to capitalise on the growth in the economy and a population of circa 240 million people. Other brands in the portfolio namely Imperial Leather, Morning Fresh and Carex have also performed well.

Of our smaller businesses within the Asian segment, revenue and profitability in **Thailand** were lower than the previous year as a result of disruption caused by the significant flooding that affected the country whilst results in **The Middle East** were also adversely affected by social and political unrest in that region.

22%

revenue growth
of Cussons Baby
range in 2012

Indonesia Cussons Baby range

Cussons Baby continues to grow significantly in Indonesia after the prior year relaunch. The range has grown 22% year-on-year strengthening its market leading position in the Indonesian baby toiletries market with products across five key categories (powder, bar soap, liquid soap, shampoo and cologne). The rejuvenated portfolio offering more modern packaging and improved formulations is the trusted brand of choice and has benefited from a 360° activation campaign which creates consumer awareness via TV campaigns and social media based engagement between consumers and medical experts.

This commercial awareness has been converted into sales through a committed strong team of sales and promotional staff. Additionally, the growth is supported by a 15 strong network of depots allowing an effective distribution to the most challenging of Indonesian geographies reaching both traditional and modern outlets to achieve maximum penetration and speed to market. Geographic expansion has occurred in the Philippines and Vietnam with a roll-out planned into China, Myanmar, Pakistan and Bangladesh during the latter part of this financial year.

Business review continued

The Group's strategy of continuing to renovate and innovate its brand portfolios has ensured market shares have continued to increase in Europe.

Europe

Product innovations

Imperial Leather
This market leading brand was refreshed with new contemporary graphics in its range of bar soaps and innovative Foamburst shower product. The top-selling Limited Editions products across shower gels and bath foams continued to offer consumers sensual fragrances and luxurious skin benefits.

Regional highlights

- Robust performance in the UK Washing and Bathing division driven by brand innovation and renovation despite competitive trading conditions
- Strong trading in Poland across both Home Care and Personal Wash

Original Source
The brand was relaunched with stronger packaging graphics hard-hitting claims to further strengthen its point of difference and the line-up enhanced by new seasonal editions. In addition the brand was launched in Poland into the leading Rossmann drugstore chain.

Key brands

E' (Poland)
E' our leading Polish household brand was rejuvenated this year with a major relaunch in detergent powders with the new E' Soft Water Active Plus range and new formulation and packaging in its fabric conditioner range. Significant market success was also driven by the Shine with E' consumer promotion that was a massive hit with consumers and trade customers alike.

Carex Protect Plus

Building on its strong consumer and technical expertise Carex launched a ground breaking new range called Protect Plus in 2011. The new products deliver two-hour antibacterial protection protecting consumers from bacteria even after washing. There are three hand washes tailored to different skin types: Original, Sensitive and Moisturising for those with dry skin. There is also a hand gel in the range convenient for when on the go. The launch builds further on the brand's number one leadership position in handwash and quickly follows the recent first to market claim works in seconds which now appears on key products in the rest of the Carex range. Launched in the 1980s the brand has a long standing heritage as the first antibacterial handwash and has continued to drive category growth through first to market innovation.

Cussons Mum & Me

Cussons Mum & Me is a Personal Care range with 22 products across three key stages: Bump, New Mum and Baby. The novel range was developed by PZ Cussons to guide mums through the journey from bump to baby addressing the key needs of mums and babies: Sleep, Skin and Hair. Designed in-house in conjunction with both experts and mothers and accessing the Group's existing expertise in baby care products in Indonesia the range was taken from concept to shelf in 14 months. The innovative range features products that have superior reassurance including being hypoallergenic, having paediatrician approval, support from strong consumer claims and backing from clinically proven results. Cussons Mum & Me launched into the UK market in June 2012 through a £6 million campaign utilising extensive 360° marketing via TV, press and digital media. Additionally through Bounty, the No. 1 UK Parenting Club, a targeted sampling campaign will be executed and over 1.8 million samples will be distributed via a hospital maternity department product placement programme.

14 months

from concept to
market delivery of
Cussons Mum & Me

The **UK** Washing and Bathing division produced a robust performance with revenue and profitability ahead of the prior year despite competitive trading conditions in the retailers with high levels of promotions continuing. Whilst consumers remained cautious with lower disposable income, brand innovation and renovation across the portfolio resulted in another year of growth. Imperial Leather remains the largest brand in the portfolio and new packaging and fragrances were introduced during the year across the portfolio of bar soap, bath and shower gel ranges whilst the unique Foamburst shower product continues to attract a loyal consumer following. Carex has continued to maintain its position as the UK's leading antibacterial handwash with Carex Protect Plus launched during the year with a new technology that kills bacteria for up to two hours after use. Original Source was the fastest growing brand in the portfolio with significant new product launches in the year across shower gel, handwash, bath, men's and hair ranges.

Post period end, the division announced the launch of an important new brand, Cussons Mum & Me, a range of personal care products specifically designed for mothers and babies. The reaction from retailers to the launch has been extremely positive.

Trading in **Poland** has been strong with growth in revenue and profitability across both the Home Care brand, E and the Personal Wash portfolio of Luksja, Carex and Original Source.

Profitability in **Greece** is lower than the previous year due to weak consumer demand as a result of the domestic economic crisis although the results are immaterial to the Group as a whole. Despite this, the focus continues to be on growing the value-added categories of butter, cheese and spreads.

Business review continued

The first year of the Beauty division has seen a strong performance combined with a new brand acquisition and product innovation across all ranges

Beauty division

Product innovations

Active Reverse skin products

In June 2012 the Beauty division launched the Active Reverse range of skin care products with ballet star Darcey Bussell as brand ambassador. The innovative, clinically tested formulations incorporate a six product range that utilises the latest peptide technology to lock moisture and nourishment deep into the skin thereby reducing lines and wrinkles and improving tone.

St Tropez

The St Tropez Self Tan Bronzing Mousse is now the top skin finishing product in the US with significant category growth predicted next year. The St Tropez range has also now started distribution in ten Latin American countries. In the UK, strong innovation through new product launches such as Dark and Gradual Tan Plus are helping maintain the number one market position St Tropez holds.

Division highlights

- First year of Beauty division has seen strong performance and the merging of operations
- Fudge brand acquired and integrated
- St Tropez sales in US more than doubled from prior year
- Significant product innovations including Sanctuary 'Active Reverse', St Tropez 'Dark and Gradual Tan Plus' and Charles Worthington 'Salon at Home'

Key products

Business review

This is the first year of the separate Beauty division which has seen the merger of four brand cultures, teams, systems and operations. The division has performed well both in the UK and overseas. There has been particularly strong growth from St Tropez in the United States where revenue increased 2.5 fold to £7.5 million. This has been delivered through distribution via Sephora US launching in over 300 JC Penney Stores and extensive media coverage including QVC. St Tropez has also seen a number of significant new product launches including a dark tan product which is proving to be extremely popular. An exciting development for Sanctuary was the launch during the year of a new range of

skincare products called 'Active Reverse' with ballet star Darcey Bussell as brand ambassador. The Charles Worthington 'Salon at Home' range has achieved a step-change for the brand into a more premium differentiated offering. In January the division acquired the Fudge hair-care brand for £26.3 million in cash. Fudge is a leading premium hair-care brand sold predominantly through salon distribution in the UK, Australia and New Zealand.

Looking to the future, the division is planning to extend its geographical footprint further and sell a wider range of products within its existing geographies.

£26.3m

investment in Fudge
hair-care brand

Fudge brand acquisition

The Fudge hair-care brand was purchased from the Australian-based Sabre Group in January 2012 for £26.3 million. Established in 1991, Fudge is a leading premium hair-care brand sold predominantly through salon distribution in the UK, Australia and New Zealand. It is best known for its styling products including the popular 'Hair Shaper' product, although the large array of products includes two styling ranges, extreme colour ranges, a hair-care range and a professional salon support range. The brand's revenue contribution in 2012 for the four months since acquisition was £5 million and its sales are split approximately 50/50 between Europe and Australasia. During the year the Fudge brand was successfully integrated into the existing Beauty division.

Principal risks and uncertainties

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

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

Risks	Description of risks	Measures to reduce the risks
Financial risks		
Foreign currency and treasury risk	The international nature of the Group's activities gives rise to both transactional exchange rate risk (with the main exposure relating to US Dollar trade balances) and translation exposure when the results assets and liabilities of foreign subsidiaries are translated into Sterling	<p>The Group requires its operating units to hedge their material transaction exposures on sales and purchases conducted in currencies other than their functional currencies. The Group does not actively hedge its translation exposures as these are of an accounting rather than a cash nature, however the international spread of the Group's operations itself reduces dependence on individual currencies.</p> <p>The Group maintains a centralised treasury function which operates on a non-speculative basis in accordance with policies and procedures approved by the Board of Directors and reviewed during the year by the Board and the Audit Committee. The aim of this function is to mitigate the effects of any adverse movements in exchange rates and interest rates on the Group's financial results and support operating units in treasury matters.</p>
	<p>The current uncertainty over the Eurozone's economic outlook and Greece's future within the single currency is a risk given the Group has a Greek operating unit. If Greece was to leave the Eurozone, it is likely that any replacement currency would devalue against the Euro/Sterling and reduce</p> <ul style="list-style-type: none"> – the carrying value of the Group's investment in Minerva – cash reserves in Minerva and – future income streams when converted to Sterling 	<p>Throughout the Eurozone uncertainty the Group has ensured that surplus funds in Minerva have been repatriated to the UK parent company and held in Sterling. It is not possible for the Group to hedge against the risk of a devaluation in the carrying value of the Greek investment or the value of future income from Minerva if the Drachma is reinstated. Overall, the Group does not have a significant exposure to the Eurozone given the geographic spread of the operating units; however, the Board will continue to closely monitor the situation in Greece in an attempt to minimise any potential impact.</p>
Operational risks		
Staff retention and recruitment	The Group recognises that in order to deliver sustained strong results it requires the right calibre of people at all levels of the business. In particular, the Group must compete to recruit and retain capable individuals within the business including training them in the skills and competencies which are required to deliver profitable growth.	The Board believes that there is an attractive employment proposition across the Group in place which will continue to attract capable recruits and that key management and personnel are sufficiently well recognised, incentivised and challenged in order to retain them as far as possible.
Reputation risks	Should the Group fail to meet high product safety, social, environmental and ethical standards in all operations and activities, its corporate reputation could be damaged leading to the rejection of our products by consumers, damage to brands and diversion of management time into rebuilding our reputation.	Product safety, social, environmental and ethical standards continue to be the cornerstones on which our business is based. They are key focus areas for the Corporate Social Responsibility Committee, a standing sub-committee of the Board. Should any issues arise in these areas, the Group has processes in place to enable a quick response.

Corporate social responsibility report

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

Introduction

At PZ Cussons we believe passionately in 'Doing Good Business'. It is something we have been doing for over 125 years and it is a key part of our culture and who we are. We are committed to conducting our business with integrity and with care in so far as the social and environmental impact of our activities is concerned. We aim to make a positive impact on society through the products which we sell, through the way in which our products are designed, manufactured and packaged and through the contributions we make to the communities in which we operate.

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

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

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

The PZ Cussons Plc Corporate Social Responsibility Committee
The Board is responsible for overseeing CSR within the Company supported by a Corporate Social Responsibility Committee (CSR Committee).

The CSR Committee was established to ensure that the principles of CSR remain at the core of the Group's business activities. Reflecting the importance of CSR within the Group, each of the Directors is a member of the CSR Committee. Accordingly, the members of the CSR Committee are Simon Heale (Chairman), Richard Harvey, Alex Kanellis, Chris Davis, Brandon Leigh, John Pantelireis, Derek Lewis, John Arnold, James Steel and, with effect from their appointment to the Board in January 2012, Ngozi Edozien and Helen Owers. The Chairman of the CSR Committee reports to the Board on the Committee's proceedings after each meeting on all matters within the scope of its duties and responsibilities.

The terms of reference of the CSR Committee and further details regarding its members are available on the Company's website (www.pzcussons.com).

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

'Doing Good Business'

Our CSR values and principles are set out in a statement on Corporate Social Responsibility, called 'Doing Good Business'. The statement sets out 'The Big 6', the six principal areas in which our operations have the greatest potential to impact – either favourably or adversely – upon our stakeholders.

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

We believe that there should not be any conflict or inconsistency between being a successful, profitable organisation and, at the same time, running our operations so that they have a positive impact on society. On the contrary, we believe that being socially responsible is value enhancing for our shareholders and all of our other stakeholders

In other words, we simply believe in 'Doing Good Business!'

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

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

The Committee's activities during the year

During the year, the principal matters for the Committee have included

- Profit with a purpose
Earlier this year the Committee adopted Group targets in respect of four key areas where our business impacts upon the environment: packaging, carbon emissions, water and waste. Further details of those targets and our performance are set out on the following pages
- Consumer safety
The safety and wellbeing of our consumers has always been of paramount importance to us. During the year, the Committee adopted a new Group Consumer Safety Policy, supported by a Group Materials of Concern Policy and the establishment of a senior level Consumer Safety Steering Team, to ensure consistent safety standards and practices across all of our operations regardless of differences in local regulations and that any emerging issues are effectively managed
- Communication
The Committee has continued to sponsor communication programmes across all operating units, explaining the importance of The Big 6 to all aspects of our operations and asking our employees to share their CSR stories. Some of those stories are set out in this report

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

Page 22 for further information

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

Page 26 for further information

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

Page 26 for further information

Business conduct and ethics We demonstrate ethical behaviour in all our business activities and in all our dealings with third parties

Page 28 for further information

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

Page 28 for further information

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

Page 30 for further information

The environment

We recognise that our business has an impact upon the environment – both through our manufacturing and logistics operations and through our manufactured products and the way in which they are used by our consumers. We also recognise that we have a responsibility – to all of our stakeholders – to run our business in ways which minimise the adverse impacts and make a positive contribution to meeting global environmental challenges. We aim to identify and vigorously pursue opportunities across our Group to reduce our reliance on increasingly scarce materials and to minimise our impact on the environment while delivering margin improvement and continuing to build a sustainable business – thereby creating a win-win both for the environment and our business. We call our approach: Profit with a Purpose.

Environmental targets set

In previous reports we have stated our commitment to the continuous improvement of our environmental performance by –

- reporting and reducing the Group's carbon footprint
- minimising waste – and
- efficient use of energy, water and other natural resources in our office, factory and warehouse environments.

This has continued during the past year and – to bring greater focus to this process and to motivate our local businesses and employees – we have set targets in four key environmental areas:

Carbon

-12%

12% reduction in our carbon footprint by 2015

Packaging

-10%

10% reduction in our packaging weight by 2015

Waste

-15%

15% reduction in waste disposed of by 2015

Water

-10%

10% reduction in our water consumption by 2015

A summary of projects carried out during the year as part of the journey to delivering on our environmental commitments is set out below.

Carbon

Our planet is getting warmer with many damaging consequences. It is a global problem to which we all need to respond – and as a business we are committed to doing our bit.

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

Our absolute direct CO₂ emissions (i.e. Scope 1 and Scope 2 – see diagram on page 23) for the last four years have been 147,729 metric tonnes (2008/09), 133,181 metric tonnes (2009/10), 141,083 metric tonnes (2010/11) and 123,621 metric tonnes (2011/12). Since 2008/09 we have reduced our absolute carbon emissions by 16.3%. We have achieved a 12.4% reduction in carbon versus last year against an increase of 4.5% in production tonnage. This was principally delivered by our Nigerian business which has been able to implement more efficient processes and has moved to more carbon efficient fuels.

We recognise that – given the significant progress which we have made in recent years – continuous improvement on our 2011/12 base line will become increasingly challenging but we are committed to reducing our carbon emissions further and are already planning initiatives across our businesses to meet our new target.

Our carbon footprint scope

Scope 1 Direct

Usage
Electricity purchased
for use in our factories
and within our offices
world wide

Scope 2 Indirect

Usage
Fuel combustion in
our own factories Gas
including LPG diesel oil
heavy fuel oil and coal

Scope 3 and other indirect emissions are outside of our Carbon footprint at present time

Areas

- | | | | | |
|--|-----|-----|-----|-----|
| 1 Employee business and commuting travel | (1) | (2) | (3) | (4) |
| 2 Emissions associated with distribution | | | | |
| 3 Emissions associated with third party manufacturer | | | | |
| 4 Production of purchased materials | | | | |

To date we have already delivered some significant savings in carbon across our business

- **In Greece**, energy saving activity resulted in a reduction of 770 metric tonnes of carbon which represents a 9.5% reduction in the overall footprint of that business. This has been achieved through a variety of projects ranging from separating the cooled loading bays into two to prevent the loss of cool air when loading trucks, upgrading refrigeration equipment and changing lights in the warehouse to low energy bulbs at our Schimatari site.
- **In Nigeria** our total operations have reduced carbon emissions by 9.7% (Scope 1 and Scope 2) from a 2010/11 baseline against an increase in production volume of 9.7% driven mainly by improved efficiencies and moving to lower carbon fuels. For example, at our Ilupeju manufacturing site we completed our conversion of the diesel generators to operate on a combination of diesel and gas.

Carbon Disclosure Project (CDP)

The Company has continued its commitment to participate in the CDP. The CDP is an independent, not-for-profit organisation working to drive down greenhouse gas emissions and sustainable water use by businesses and cities. The CDP operates the only global climate change reporting system, gathering data on company strategies and performance with regard to carbon emissions and water use. As a business we have been participating in the CDP for the last four years with a continued commitment to reduce our carbon footprint. Currently we report on Scope 1 and Scope 2 emissions. We have an ambition to ultimately work to Scope 3 (which includes transportation and contract manufacturing activity) and hope to be able to measure our carbon impact within Scope 3 in the coming years.

1,273 metric tonnes
of carbon saved this year

In May 2012 our Kenyan factory successfully installed and commissioned a five metric tonnes per hour Biomass fuelled boiler to provide steam and hot water for the factory, saving 1,273 metric tonnes of carbon per year, which equates to 65% of the Kenyan carbon footprint for 2011/12. The Biomass boiler burns organic waste which would otherwise have gone to landfill. By using this organic waste, we are able to put a waste crop to good use and avoid the burning of fossil fuels.

Corporate social responsibility report continued

Packaging

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

In order to meet our targets for the coming years, we will optimise existing packaging formats through light weighting, optimising structural and material design and eliminating unnecessary packaging materials, while also ensuring that a 'right by design' philosophy is used for all future packaging initiatives.

Packaging reduction projects that we have delivered include:

- Our operating unit in Greece has successfully light weighted their range of tubs used for Feta cheese and Benecol white cheese sold under the Horio and Benecol brand respectively. They have also light weighted their two litre PET bottles used for our Horio, Minerva and Mana brands of Extra Virgin Olive Oils, Olive Pomace oils, Corn oil, Sunflower oil and Niki Fry seed oil. In total, these projects have successfully saved 19.8 metric tonnes of plastic.

19.8 metric tonnes
of plastic reduction through reduced packaging

- In the UK, work has concluded on reducing the weight of our Morning Fresh 450ml, Imperial Leather Handwash 300ml and Carex Handwash 333ml bottles and we will be starting production at the end of July 2012. The light weighting has enabled us to reduce the amount of plastic we buy by 139 metric tonnes. We have identified further savings to implement in the coming years.

Waste

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

Total waste for disposal is our key management measure to ensure that we reduce the level of waste which we generate. The total waste figure which we consider comprises of solid waste, including waste which is recycled, plus the strength of effluent as measured by Chemical Oxygen Demand (COD). As our aim is to ultimately eliminate waste generated, we have included recycled waste to help drive a culture of elimination of waste rather than one of recycling. We recognise a zero waste culture is an ambitious one, however, we will continue to encourage and support finding secondary uses or recycling of waste in a responsible manner to avoid sending waste to landfill and would expect to see a shift in the percentages of waste recycled or reused versus that which is sent to landfill.

We have just started our journey on delivering against our waste target and so far, our operating unit in Poland has successfully implemented a project to reduce the amount of waste water discharged into the public drainage system by 40,800m³ by separating water which is used for cooling from water which is used in the manufacture of our products. The business has also installed a treatment plant for effluent generated during the manufacturing of our personal wash products. This effluent plant has enabled us to reduce the waste sent to a specialist treatment contractor by 30%.

Water

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

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

As this is a new focus area for us we have just started to identify opportunities to make savings in our water consumption

Sustainable sourcing

Palm oil

Palm oil is the most widely traded vegetable oil in the world and is used in many food and household products. Over 85% of the world's palm oil comes from Indonesia and Malaysia where land is sometimes cleared of forest for palm plantations resulting in greenhouse gas emissions and a loss of wildlife habitat. In common with our competitors certain parts of our businesses utilise palm oil and we share the concerns of our consumers and other stakeholders in relation to palm oil sourcing, end use and the potential for damage to the environment.

In recognition of these concerns PZ Cussons committed to membership of the Round table for Sustainable Palm Oil (RSPO) in 2010. The RSPO which was formed in 2004 is a not-for-profit association which unites members from across all sectors of the palm oil industry (including oil palm producers, traders, consumer goods manufacturers, retailers, banks and investors and NGOs and pressure groups) with the objective of promoting the growth and use of sustainable palm oil products through credible global standards and engagement of stakeholders. PZ Cussons is committed to promoting and communicating RSPO values across our supply chain and has committed to move to 100% Certified Sustainable Palm Oil via the use of RSPO approved supply chain mechanisms by 31 May 2015.

Wood pulp

PZ Cussons uses wood pulp for labels to put onto our bottles and packages in boxes for our products and in corrugated boxes and trays used for transporting our products from our factories to our customers. Though we do not directly buy wood pulp or own or manage forests we recognise that we have a responsibility to ensure that the products which we procure are from sustainable sources and minimise our requirements for wood pulp. We have just started our journey to improve our understanding of wood pulp fibre, drive transparency in sourcing and ensure that

PZ Wilmar

In December 2010 we announced the expansion of our Food and Nutrition operations in Nigeria through the establishment of a food ingredients joint venture with Singapore based Wilmar International Limited, one of Asia's leading agribusiness groups.

Palm oil is an integral part of Nigerian culture and cuisine. However, the Nigerian palm industry, once a world leader, has declined in recent decades and the country is currently in a net deficit position of production versus demand. Domestic product is often produced in unhygienic conditions and widely sold in discarded second-hand water bottles.

One of the largest single agro-investments in Nigeria, our PZ Wilmar business is committed to helping to rejuvenate Nigeria's palm oil industry from plantation to plate by:

- building a state of the art palm oil refinery and packaging operation (scheduled for commissioning later this year)
- investing in the development of plantations to world class standards and
- producing palm oil based products to world class quality health and nutritional standards.

There are a number of benefits for Nigeria and its people:

- Safe, hygienic, good quality and affordable cooking ingredients in tamper proof packaging
- Job creation in rural and agricultural areas – it is anticipated that the business will result in the creation of many thousands of indirect jobs including jobs with local farmers and outgrowers
- Investment in local schools and medical facilities
- Greater economic self sufficiency with a reduction in Nigeria's supply shortage by 300,000 metric tonnes and the development of agricultural best practice.

Palm oil is indigenous to Nigeria and therefore it does not compete against local food crops or vegetation. The establishment of local plantations also fits our Group commitment to use raw materials from sustainable and environmentally friendly sources.

sustainable forest management practises are used. As stated above, we are already focusing on reducing the amount of packaging and anticipate that this will also include the weight of wood pulp which we consume.

Forest Footprint Disclosure project

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

Our participation in the FFD has improved corporate awareness of the issues around the maintenance of tropical forests resources in developing countries and has led us to start to assess our supply chain in order to establish targets for use of certified sustainable palm oil, for sourcing sustainable wood pulp fibre and to drive a reduction in consumption.

Health and safety

PZ Cussons is committed to having safe and healthy operations around the world and we continually strive to improve health and safety standards across all of our operating units. We seek to provide safe working environments for all our employees, contractors and visitors and to ensure compliance with all relevant health and safety laws and regulations at all our places of operation.

It is, therefore, with great sadness that we report that during the year an industrial accident resulted in the death of an employee. The accident was immediately reported to the relevant authorities and an internal investigation was also launched into the causes of the accident. Improvement actions and learnings have been communicated across the whole of the Group to prevent any recurrence. The Company has conveyed its deepest condolences to the family of the deceased.

We remain determined to drive continuous improvement across all of our businesses. We use regular internal and external audits to help drive continuous improvement and all operating units participate in the PZ Cussons World Class Manufacturing programme delivering compliance checks and identification of improvement opportunities. Two of our operating units, PZ Cussons UK and PZ Cussons Indonesia, are certified in an internationally recognised Occupational Health and Safety management system, OHSAS 18001, and we have plans to roll this out across other operating units over the coming years. PZ Cussons Nigeria has already started a programme to achieve this certification. Further, Nigeria is also implementing risk assessment procedures with near miss or hazard identification procedures (HAZOP & HAZID). In all operating units, employees are positively encouraged to identify and report hazards or near misses and to personally conduct work place risk assessments as part of personal objectives.

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

As the graph following shows, we have successfully reduced LTI frequency by 18.0% as a Group to a frequency rate of 0.41 per 200,000 hours worked and FACs have reduced by 14.1% to 2.04 per 200,000 hours worked. Our LTI frequency rate is better than industry standards; however, we will continue to drive improvement of these rates even further in the future.

Consumer safety

The safety of our products is of paramount concern to our consumers and to us. At each stage of the product development, materials sourcing and manufacturing processes, we assess:

- whether products pose any immediate health risk during use (such as interactions with the hair and skin)
- the potential longer-term impact on consumer health through use of materials with poor or unknown safety records
- that products are fit for purpose at the time of use and have undergone appropriate stability testing and manufacturing trials before reaching the market, and
- that we have considered reasonable foreseeable conditions of use and used appropriate pack warnings and safety features such as child proof closures when needed.

We fully comply with all relevant legislation in the markets in which we operate and, where regulations allow, we adopt a common standard across the Group. As an example of this approach:

- the European Union Cosmetics Directive is our standard for personal care products in all markets
- in our electricals and white goods business in Africa, we only source products from suppliers who are accredited with the Conformite Europeenne (CE) Mark, which certifies that their products meet European Union health, safety and environmental requirements, and
- in our food business in Greece, Codex Alimentarius, EU regulation 852/2004 and HACCP principles on the hygiene of foodstuffs are all applied. Our factory also has BRC ISO-9001 and ISO-22000 certification.

We adopt a precautionary approach to material usage. In Europe, we follow REACH regulations (Registration, Evaluation, Authorisation and restriction of Chemicals) for controlling chemicals and use the Substances of Very High Concern (SVHC) list to guide our materials policy within the Group. Where we believe there are reasonable grounds to restrict or prohibit the use of a material, we will do so ahead of legislation.

Our technical teams actively work with industry associations and regulatory bodies to ensure we are aware of legislative requirements and work proactively to help shape the industry response to managing future issues. Where necessary, we use specialist expertise, such as Toxicologists, as part of the product safety assessments.

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

Cosmetic product safety

All products designed for the European and Asian market are developed to meet the requirements of the EU Cosmetics Directive and products designed for Africa will do so by July 2013. The EU Cosmetics Directive represents the highest safety standard and requires a detailed Cosmetic Product Safety Report to be done for every product before being placed on the market.

Consumer safety steering team

We have established a senior level steering team to guide and direct our approach to consumer safety and policy deployment. This team will ensure a common Group approach is adopted and that actions are implemented swiftly in all parts of the business. The team will meet quarterly and be advised by experienced functional heads from around the Group.

Managing 'Materials of Concern'

We have adopted a Group 'Materials of Concern' list which formalises our approach to material selection and acts as the vehicle for communication around the Group. Where there are reasonable grounds for concern on consumer safety or environmental impact, we will adopt a cautionary approach and materials may be restricted or prohibited ahead of any legislation being put in place. We recognise that many of these issues are complex and the following factors will be considered before any action is taken:

- The latest scientific or clinical evidence and the opinion of recognised chemical safety bodies
- The global regulatory status of the material
- The functionality of the ingredient and the availability, cost and safety profile of alternative materials
- What would be appropriate actions proportionate to the scale of the issue

The 'Materials of Concern' will be regularly reviewed by the Consumer Safety Steering Team and decisions to impose restrictions will be ratified by it.

Business conduct and ethics

We aim to demonstrate ethical behaviour in all our business activities and in all our dealings with third parties. We value our relationships with our customers, suppliers and other business partners and we demonstrate respect and integrity in our dealings with them. We also recognise that we are only as good as the third parties with whom we partner and we expect our suppliers and contractors to demonstrate similar high ethical standards and an alignment with our values and principles. We take due account of this when establishing or continuing business relationships.

Bribery Act

Building on work already initiated as part of our commitment on Business Ethics, the Group has taken action to ensure continuing compliance with the UK Bribery Act since it came into effect earlier in the year. The Board, advised by our external legal advisors, has initiated a number of actions during the year including:

- a risk assessment across the Group, particularly within territories or areas which are perceived as high risk
- starting the process of incorporating our Business Conduct and Ethics standards (and other Big 6 values) into contract tender and audit processes and decision making
- refreshing our global 'Speak Up' whistleblower policy which was established in 2008 to ensure that employees may report any concerns over business practice, confidentially and without fear of recrimination, through a telephone hotline and online facility provided by a third party expert. 'Speak Up' is particularly focused on any allegation or concern of malpractice (including concerns over breaches of health and safety, criminal activity or fraud and breaches of local laws or environmental regulations) and incorporates procedures which ensure that any such issues can be brought promptly to the attention of the Board and addressed at the earliest opportunity
- the production of Codes of Conduct for key staff, and
- the integration of anti-bribery provisions into key commercial contracts

We are committed to rolling out a further communication programme for all staff in the year to come and to putting in place formal compliance training for key staff.

Codes of conduct

During the year we have continued the process of informing and educating our suppliers in respect of our 'Big 6' values and related codes of conduct. Going forward, we are committed to continuing that process and to ensuring that compliance and alignment with our values are an integral part of the supplier selection, engagement and auditing processes.

Animal testing

Our position on animal testing remains as it has for many years. We do not conduct safety testing on animals in respect of any of our products, nor do we commission others to do so on our behalf. We recognise that in some regulatory environments there is a requirement to do so – we do not operate in those countries or product sectors. We support the development of alternative test methods and the stated intention of the EU to remove completely the need for any testing on animals in the cosmetics industry.

Our employees

Our employees are essential to the success of our business and to achieving our business goals. We value and celebrate the diversity of every member of our team of over 7,000 employees working in ten countries across Europe, Africa, Asia and North America. PZ Cosmetics is committed to a culture where all employees are treated with respect and have the right to expect that their dignity will be fully respected in the workplace. We are committed to creating an environment in which all employees have the opportunity to reach their full potential and where everyone has a voice regardless of role, seniority or geography.

Employee engagement

We conducted our first full employee engagement survey in 2010. This was based on the opinions of more than 75% of our employees and calibrated against global FMCG norms. The employee engagement survey enabled each operating unit to develop its own unique action plan to address key areas for improvement.

A follow up survey was carried out in November 2011 and enabled us to check on progress against action plans and to challenge ourselves to make progress against the targets which we had set. Overall, seven out of ten of the survey categories have seen a significant improvement since last year. Of particular note is the continued progress in:

- Communication and Integrity and Respect, achieved a 7% and a 6% improvement, respectively, in their satisfaction ratings compared to last year, and
- Communication and Managing Change, where we were rated significantly above our benchmark global consumer goods company norms.

PZ Cosmetics donated £1 to UNICEF for every completed employee opinion survey. Having done two surveys now, we have donated a total of £10,000.

Performance management

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

As an ongoing commitment to personal development and developing the Research and Development (R&D) capability in the African businesses, members of the R&D team in Nigeria and Kenya have successfully attained a Diploma in Cosmetic Science from the UK Society of Cosmetic Scientists through a distance learning programme. The course is recognised by the Royal Society of Chemistry and is endorsed by the Cosmetic Toiletry and Perfumery Association (CTPA). The Diploma course gives an excellent grounding in cosmetic science including modules on formulation development, quality and product testing.

Developing PZ Cussons talent

We are committed to the training and development of our employees and have delivered more than 200 training courses across the globe in our operating units. The training courses are a combination of management competency and technical skills training and have included:

- 187 leaders and future leaders from every operating unit participated in our award winning global leadership programme (2011 Peer Awards in Excellence in Leading and Development). The course was developed in-house and run in conjunction with Corporate Executive Coaching (CECO) and was designed to help employees recognise their skills, strengths and weaknesses and so develop as leaders within the business. The course is now being applied in the operating units as a future leaders programme, and
- our Graduate Development Programme in Nigeria has been running in excess of ten years, directly recruiting circa 30 Nigerian graduates from across the country every year.

Diversity and inclusion

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

30%

Women employees

42%

Women senior managers

19.6%

Employees with over 15 years' service

7.4%

Employees over 50

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.

Local community and charity

We operate in a number of different countries with diverse ethnic cultures and socio-economic dynamics. As a business, we recognise our responsibilities to society and in particular, to those local communities in which we operate.

Employees across all of our operating units have continued to show real commitment to supporting their local communities and charities

Nigeria

PZ Cussons Nigeria Foundation – In Nigeria, support for the Foundation has continued. The Foundation was established in 2007 with the objective to positively impact local communities through schemes related to education, health, potable water and infrastructure. 34 projects in 23 locations around Nigeria have been supported since the Foundation was established, including the following projects this year:

PZ Cussons Foundation/EDUcare Inspiration Youth Centre, Ibadan

A Youth Inspiration Centre was built by the PZ Cussons Foundation and donated to the Educare Trust (an Education and Health NGO). The Centre has been established to help Nigerian youths who might otherwise have become involved in criminal activity due to unemployment or boredom.

Opening of EDUcare Inspiration Youth Centre

Sustainable Water Sanitation and Hygiene (SWASH) with Concern Universal

The Foundation partnered with the charity Concern Universal to help improve water sanitation and hygiene for five different communities in Nigeria. The main element of the project was the construction of hand boreholes and individual household latrines to improve sanitation for those living in the communities.

Hand borehole constructed in Nigeria

Expanding a medical facility in Bells University, Ota

The Foundation assisted the medical facility at Bells University Ota through the construction of a new building which comprises of four wards with adjoining bathrooms, a treatment room, store and a lounge. This has improved conditions for both the medical team and patients attending the clinic.

Medical facility in Bells University, Ota

Training of Primary School Teachers in Jigawa State College of Education

The Foundation was approached to assist the Jigawa State College of Education (JSCOEC) in its key role of training teachers needed in the primary school system in Gumei. The Foundation has begun a three-year partnership with Voluntary Services Overseas (VSO) to assist with providing the required expatriate teachers to help with this training.

UK

In the UK both the operating unit and head office employees were busy supporting local charities with a variety of activities

Salford Academy

PZ Cussons has been working with Salford Academy for several years to offer pupils different opportunities to learn life and work skills. This year we worked with students on how to make a profitable shampoo which the students could sell in school to raise money. This project covered Maths, English, Science, ICT, Citizenship and also taught them about careers and communication skills. Students learnt responsibility, communication skills and the value of teamwork.

Seashell Trust

The Seashell Trust is a residential special school based in Manchester supporting children and young people with sensory impairments and profound learning and communication difficulties. The Trust and PZ Cussons have now been working together for two years on research to investigate and evaluate how olfaction might affect and support the development of communication of students with multi-sensory impairment. The project has been looking at how bespoke fragrances can improve a child's understanding and communication including the ability of these children to make choices. For example, simple choices such as food or drink based on smell have now been successfully introduced into the curriculum. Further research has also taken place and is aimed at enhancing multi-sensory experiences for students such as releasing the scent of burning wood at Bonfire Night celebrations. The work has attracted international interest from America and Denmark and we are currently evaluating how the project might be extended to assist dementia sufferers.

Greece

Our employees in Greece have supported the municipalities of Schimatari, Snt Dimitrios (Ioannina) and Andravida by providing poor and homeless people with a charity food bank.

Thailand and Indonesia

Thailand and Indonesia, where two of our businesses are located, were affected by natural disasters during the year. Our factory in Thailand was only protected from flooding by the extraordinary efforts of our employees who, working around the clock to help strengthen the site flood defences, were able to keep the flood waters at bay when most neighbouring facilities were under water. The Board would like to say a special thank you to all of those employees for their amazing efforts.

Up to 50 of our employees were directly affected by the flooding and so our facility became their home. Offices were converted to provide basic living facilities including food, clean water and laundry facilities and a People Centre was set up to provide support for all our employees including health education and health screening at a time of increased risk of infection. Indonesia also suffered severe flooding in parts of the country. Employees in our operating units were generous in fundraising to help colleagues affected by the flooding, which enabled, with the support of the business, the distribution of flood survival packs to all employees, financial support and access to loans. Local schools impacted by the flood were also supported with donations and survival bags.

Poland

Our operating unit in Poland established the Carex Clean Hands Academy in 2011 with the objective to reach 11,000 schools to educate elementary and middle school children on hand hygiene. The programme is in its second year and continues to offer educational materials for schools, to run demonstrations from medical experts and competitions for children and teachers with 300 schools joining the programme this year.

Board of Directors

Executive Directors

Alex Kanellis (age 47)

Group Chief Executive

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

Chris Davis (age 50)

Commercial Director

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

Brandon Leigh (age 41)

Group Finance Director

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

John Pantelireis (age 58)

Supply Chain Director

Mr Pantelireis was appointed an Executive Director of PZ Cussons in 2005 and is a member of the Group Risk and CSR Committees. He has worked in a variety of senior positions for PZ Cussons both in Nigeria and the UK and spent three years as Supply Chain Development Director prior to his appointment to the Board.

Independent Non-executive Directors

Richard Harvey (age 62)

Mr Harvey was appointed a Non-executive Director of PZ Cussons Plc in January 2010 and took up the position of Chairman on 1 July 2010. A Fellow of the Institute of Actuaries, Mr Harvey became Group Chief Executive Officer of Norwich Union Plc in 1998 and subsequently Group Chief Executive of Aviva Plc, initially branded CGNU, after the merger of Norwich Union with CGU. He has worked extensively overseas in both mature and emerging markets and was Chair of the Association of British Insurers from 2003/05. Since retiring from Aviva Plc in 2007, Mr Harvey has spent time in Africa supporting charitable initiatives and has also worked on other projects to accelerate business development in Africa, including work for the Africa Progress Panel and the World Bank. He is a Non-executive Director of Jardine Lloyd Thompson Plc. Mr Harvey is the Chairman of the Nomination Committee and a member of the Group Risk and CSR Committees.

Derek Lewis (age 67)

Mr Lewis has been a Non-executive Director of PZ Cussons Plc since June 2004. A retired solicitor and former partner of Addleshaw Goddard LLP, Mr Lewis specialised throughout his professional career in advising on corporate and commercial matters. Mr Lewis is the Senior Non-executive Director and a member of the Nomination, Remuneration, Audit, Group Risk and CSR Committees. After eight years' service to the Board, Mr Lewis will retire with effect from the 2012 Annual General Meeting.

Professor John Arnold (age 68)

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

Ngozi Edozien (age 47)

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

Simon Heale (age 59)

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

Helen Owers (age 49)

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

James Steel (age 52)

Mr Steel has been a Non-executive Director of PZ Cussons Plc since October 2005. After qualifying as a chartered accountant with Price Waterhouse, he became a corporate financier and worked for Schroders, Citigroup and Arbuthnot Securities in a variety of positions both in the UK and overseas. He is a trustee of Independent Age. Mr Steel is Chairman of the Remuneration Committee and a member of the Nomination, Audit, Group Risk and CSR Committees. Following Mr Lewis' retirement with effect from 19 September 2012, Mr Steel will be appointed Senior Independent Director.

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

Under the Company's present Articles of Association, all Directors are subject to annual re-election by shareholders. Each of the Directors will retire immediately prior to the 2012 Annual General Meeting and, with the exception of Mr Lewis who is retiring from the Board, each, being eligible, will offer himself or herself for re-election at the meeting.

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

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 31 of the consolidated financial statements.

The principal activity of the Company is a holding company.

Results and dividends

A summary of the Group's results for the year is set out in the Financial review on pages 8 to 9 of the Annual Report.

The Directors recommend a final dividend of 4.487p (2011: 4.487p) per Ordinary Share to be paid on 1 October 2012 to Ordinary Shareholders on the register at the close of business on 17 August 2012 which, together with the interim dividend of 2.23p (2011: 2.123p) paid on 2 April 2012, makes a total of 6.717p for the year (2011: 6.61p).

Directors

Executive Directors

Alex Kanellis – Group Chief Executive
Chris Davis – Commercial Director
Brandon Leigh – Group Finance Director
John Pantelireis – Supply Chain Director

Independent Non-executive Directors

Richard Harvey
Derek Lewis
Professor John Arnold
Ngozi Edozien
Simon Heale
Helen Owers
James Steel

Directors' interests

The Directors' interests in the share capital of the Company at 31 May 2012 together with their interests at 1 June 2011 are detailed below.

	Ordinary Shares	
	2012 Number	2011 Number
Beneficial		
Mr R Harvey	33,206	18,360
Mr G A Kanellis	409,340	282,510
Prof J A Arnold	13,450	13,450
Mr C G Davis	258,515	180,899
Ms N Edozien	–	–
Mr S J N Heale	8,000	8,000
Mr B H Leigh	86,022	74,828
Mr D W Lewis	45,000	40,000
Mrs H Owers	–	–
Mr J Pantelireis	181,340	109,244
Mr J T J Steel	37,500	37,500
Total	1,072,373	764,791

- The figures in the tables do not include 334,856 (2011: 1,334,578) Ordinary Shares held by the Employee Share Option Trust (ESOT) at 31 May 2012. The ESOT is a discretionary trust under which the class of beneficiaries who may benefit comprises certain employees and former employees of the Company and its subsidiaries including members of such employees and former employees' immediate families. Some or all of the shares held in the ESOT may be the subject of awards to Executive Directors of the Company under the PZ Cussons Plc Deferred Annual Share Bonus Scheme, the PZ Cussons Plc Executive Share Option Scheme and/or the PZ Cussons Plc Performance Share Plan, details of each of which are given in the Report on Directors' remuneration. Accordingly, those Executive Directors are included in the class of beneficiaries and are deemed to have a beneficial interest in all the shares acquired by the ESOT.
- The figures in the tables do not include options granted over Ordinary Shares under the PZ Cussons Plc Executive Share Option Scheme, conditional shares granted under the PZ Cussons Plc Performance Share Plan or deferred shares granted (but not yet transferred to participants) under the PZ Cussons Plc Deferred Annual Share Bonus Scheme as at 31 May 2012.

There have been no changes in the interests of any of the Directors between 31 May 2012 and the date of this report save that Mr Harvey purchased on 30 June 2012 an additional 3 870 shares pursuant to a trading plan. The register recording the Directors' interests will be open for inspection at the 2012 Annual General Meeting. No Director had any beneficial interest during the year in shares or debentures of any subsidiary company. Save for their service contracts or letters of appointment, there were no contracts of significance subsisting during or at the end of the financial year with the Company or any of its subsidiaries in which a Director of the Company was materially interested.

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

Other substantial interests

The register maintained by the Company under section 808 of the Companies Act 2006 disclosed the following interests in the shares of the Company held at 24 July 2012:

	Number of shares	%
J B Zochonis	60 619 580	14.14
Zochonis Charitable Trust	49 860 040	11.63
M&G	47 232 219	11.01
Mrs C M Green Settlement	20 328 280	4.74
J B Zochonis Settlement	19 927 130	4.65

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

Directors

Derek Lewis, who has served the Board as a Non-executive Director since 2004, has indicated his intention to retire with effect from the 2012 Annual General Meeting on 19 September. Following Mr Lewis' retirement, James Steel, a Non-executive Director since 2005, will be appointed Senior Independent Director in his place.

Political and charitable contributions

Charitable contributions in the United Kingdom during the year amounted to £253 000 (2011: £183 000). No political contributions were made (2011: nil).

Research and development

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

Payment of suppliers

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

Employment of disabled persons

During the year the Group has maintained its policy of providing equal opportunities for the appropriate employment, training and development of disabled persons. Further information regarding the Company's policies in this respect are set out within the report on page 93.

Employee information

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

Auditor

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

Report of the Directors continued

Enhanced business review

A review of the functional performance of the Group is provided on pages 10 to 17

Principal risks and uncertainties facing the Group

The Group's business activities, financial condition, results of operations could be affected by a variety of risks or uncertainties. These are summarised in the Principal risks and uncertainties section on pages 18 to 19

Corporate governance

The Group's statement on corporate governance can be found in the Corporate governance report on pages 44 to 48 of these financial statements. The Corporate governance report forms part of this Report of the Directors and is incorporated by cross reference

Annual General Meeting

The Company's 2012 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 19 September 2012. The resolutions which will be proposed at the 2012 Annual General Meeting are set out in the separate Notice of Annual General Meeting which accompanies this Annual Report and Financial Statements

Share capital

As at 31 May 2012, 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 2011 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 2012 Annual General Meeting. No shares were purchased from 1 June 2011 to 24 July 2012 (2011: nil) (other than the acquisitions undertaken by the ESOT (see note 25))

Restrictions on the transfer of securities

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

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

Directors' statement as to disclosure of information to the Auditor

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

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

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

By order of the Board of Directors

Mr S P Plant

Company Secretary

24 July 2012



Report on Directors' remuneration

Foreword

The Remuneration Committee is responsible for overseeing the remuneration of the Executive Directors and the Chairman. It is also responsible for the operation of senior management incentive schemes throughout the Group. In designing an appropriate incentive structure, the Committee seeks to set challenging targets aimed at the generation of sustained shareholder value.

During the year, the Committee made a number of key decisions:

- **Salary increase of 4% for 2012/13** We reported last year that, following a comprehensive review, the Committee had concluded that an overall salary increase of 12% was required in order to restore remuneration packages to market competitive levels. We also reported that in view of the continuing sensitivity over executive pay and the need to show restraint, we had decided to phase this over two years with a 6% increase in 2011 and a further 6% increase expected in 2012 if still appropriate.
- Whilst updated benchmarking indicates that an additional 6% increase remains reasonable, the Committee has decided to restrict this year's increase in basic salaries to 4% in view of the performance achieved during the year and also to take account of general pay and conditions applying to other employees across the Group. The increase will take effect on 1 September 2012 and the position will be reviewed again next year.
- **No change to other elements of the Executive Directors' remuneration packages** The annual bonus opportunity for 2012/13 remains at 60% of salary for on-target performance rising to a maximum of 100% of salary for out-performance. The long-term incentive opportunity will also remain at 100% of salary.
- **Incentive out-turns in 2011/12**
 - **No bonus pay-out** For the year ended 31 May 2012 we again focused the annual bonus on performance against three key indicators: profit before tax, net working capital and operating contribution margin. The performance targets were not met during the year with the result that Executive Directors did not qualify for any part of their bonus entitlement for the period.
 - **No vesting under 2009 PSP awards** The Group operates a long-term incentive scheme linked to real growth in earnings per share above a threshold. Despite delivering strong results in the first two years of the three year performance period, performance during the most recent year was such that overall the minimum performance threshold was not met. As a result, none of the awards made to Directors in 2009 in respect of the three years ended 31 May 2012 will vest. These awards will now lapse.

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

James Steel

Remuneration Committee Chairman

Introduction

This report on Directors' remuneration has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and satisfies the requirements of the Listing Rules of the Financial Services Authority. A resolution to approve the report will be proposed at the 2012 Annual General Meeting.

The information on pages 41 to 43 relating to Directors' interests in shares under incentive arrangements, remuneration during the year ended 31 May 2012 and Directors' pension benefits constitutes audited information.

Remuneration Committee

The Remuneration Committee of the Board (the Committee) is responsible for determining and agreeing with the Board the remuneration policy for Executive Directors. The Committee is also responsible for determining within such policy the remuneration packages of individual Executive Directors, for determining the remuneration packages of the Chairman and the Company Secretary and for approving the design and operation of all incentive schemes for the Executive Directors and senior management. The Committee meets at least twice a year and met on five occasions during the year ended 31 May 2012. The Committee's current Terms of Reference, which are reviewed annually and were last revised in March 2012, are available on the Company's website (www.pzcussons.com).

The members of the Committee during the year were Mr Steel (Committee Chairman), Professor Arnold, Mr Heale, Mr Lewis and with effect from their appointment on 1 January 2012, Ms Edozien and Mrs Owers. Each is a Non-executive Director of the Company and all are independent of management and have no conflicts of interest or any day-to-day involvement in running the business. The remuneration of the Non-executive Directors (with the exception of Mr Harvey as Non-executive Chairman) is determined by the Board of Directors. No Director is involved in any decisions on the level and composition of his own remuneration.

The Committee was advised generally in relation to Directors' remuneration during the year by Deloitte LLP. Deloitte LLP has also provided tax advisory services to the Group. During the year, the Committee consulted Mr Harvey (in his capacity as Chairman) on issues where his experience and knowledge have been of benefit to its deliberations and Mr Harvey attended meetings by invitation. The Chief Executive has also been consulted on proposals relating to the remuneration of members of the Group's senior management team and he too attended meetings by invitation. Neither Mr Harvey nor the Chief Executive attend when the matters under consideration concern their own personal remuneration. The Global Human Resources Director also attended meetings by invitation. The Company Secretary acts as Secretary to the Committee and attends Committee meetings (save where his own remuneration is under consideration).

Report on Directors' remuneration continued

Policy on Executive Directors' remuneration

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

- be sufficient to recruit, motivate and retain executives of the calibre required
- be aligned with the enhancement of sustainable shareholder value
- provide a competitive level of remuneration against companies of similar size and complexity
- be structured such that an appropriate proportion of the remuneration package links reward to corporate and individual performance over the short, medium and long term, and
- recognise the long-term ambitions of and risks inherent to the Company

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

Element	Commentary
Salary and benefits	Basic salary varies by individual and will increase by 4% with effect from 1 September 2012. Benefits include life assurance, health insurance and car benefits.
Pension benefits	Company contribution of 20% of salary to a defined contribution pension scheme (or receipt of cash in lieu). Membership of a defined benefit pension scheme closed to further accrual since 2008 but with a continuing salary linkage until 31 May 2013.
Annual bonus	Maximum opportunity of 100% of salary (with 60% of salary payable for on-target performance), dependent upon profit before taxation, net working capital and operating contribution targets.
Performance Share Plan	Annual awards of rights over shares worth 100% of salary, with 25% vesting for growth in adjusted earnings per share of RPI+4% per annum rising pro rata to 100% vesting for growth in adjusted earnings per share of RPI+10% per annum, in each case compounded over a three year performance period.
Shareholding guidelines	Requirement over time to build up interests in the Company's shares worth 150% of salary and to reinvest half of any after-tax bonus or gain arising from share incentive plans until the guideline is met.
Service contracts	One year rolling service contracts.

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 enhancement 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.

The Committee receives updates from the Global Human Resources Director on pay and employment conditions applying to other Group employees; these are taken into consideration when setting Executive Directors' remuneration, consistent with the Group's general aim of seeking to reward all employees fairly according to the nature of their role, their performance and market forces.

Balance of fixed versus variable remuneration

The Committee believes that an appropriate proportion of the executive remuneration package should be variable and performance-related in order to encourage and reward superior corporate and individual performance. The following chart illustrates the balance between fixed and variable remuneration for Executive Directors, based on the policy for 2012/13.

Basic salary and benefits

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

In 2011 the Committee undertook a benchmarking review with advice and assistance from Deloitte LLP which indicated that Executive Directors' remuneration packages had fallen below market competitive levels. The Committee concluded that an overall salary increase of 12% was required but, recognising the continuing sensitivity over executive pay and the need for restraint, determined to phase this salary increase over two years, limiting the increase in 2011 to 6% with the balance expected to become effective from 1 September 2012 if still considered appropriate at that time.

Whilst updated benchmarking indicates that an additional 6% increase in 2012 remains reasonable, the Committee has decided to restrict this year's increase in basic salaries to 4% in view of the performance achieved during the year and the general pay and conditions applying to other Group employees. The increase will take effect on 1 September 2012 and the position will be reviewed again next year. Other elements of the Executive Directors' remuneration packages remain unchanged.

Details of the Executive Directors' revised salaries (effective from 1 September 2012) are set out in the notes to the table on Directors' remuneration on page 42.

Taxable benefits, which are subject to periodic review, include life assurance, health insurance and car benefits.

Pension benefits

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

Up to 31 May 2008 Executive Directors participated in a defined benefit pension scheme which provided benefits of up to two thirds of final salary, subject to a scheme-specific earnings cap. With effect from 1 June 2008 no further benefits accrue under the defined benefit scheme, although the benefits payable will remain linked to salary until 31 May 2013 in line with arrangements pertaining to all members of the scheme when it was closed to future accrual. Further detail on Executive Directors' benefits under the defined benefit pension scheme are set out in the table on page 43.

Annual bonus scheme

Executive Directors and key senior executives are generally eligible to participate in an annual bonus scheme. In respect of the year ended 31 May 2012, each of the Executive Directors participated in the Senior Executive Annual Bonus Scheme, pursuant to which they were eligible to earn a cash bonus linked to performance targets established by the Committee. For the year ended 31 May 2012 Executive Directors could receive a bonus of up to 100% of basic salary (with 60% of salary payable for on-target performance), dependent upon the achievement of profit before taxation, net working capital and operating contribution margin targets. These targets and bonus levels were established at the beginning of the year; no changes were made during the year.

The performance targets were not met during the year and, accordingly, no bonus payments were made to any of the Executive Directors in respect of the year ended 31 May 2012.

Each of the Executive Directors will continue to participate in the Senior Executive Annual Bonus Scheme in respect of the year ending 31 May 2013. The eligibility of the Executive Directors to earn a cash bonus in respect of that period will also be dependent upon the achievement of certain profit before taxation, net working capital and operating contribution margin targets for the Group.

The Senior Executive Annual Bonus Scheme was introduced with effect from 1 June 2010 and replaced an earlier Deferred Annual Share Bonus Scheme. Under that earlier scheme, awards of deferred shares were made to Executive Directors following the attainment of pre-determined annual financial targets. Vesting of such deferred shares was then subject to three years' continuing employment. During the year ended 31 May 2012, each Executive Director received certain shares which had been the subject of earlier deferred share awards in respect of performance for the year ended 31 May 2008 (each having satisfied the condition that he complete three years of continuing employment from the date of grant of the award). Sufficient shares to satisfy deferred share awards are generally purchased in the market and retained in an employee benefit trust pending their transfer to participants. Further details regarding the employee benefit trust are given in note 25 of the consolidated financial statements.

- 1 The maximum bonus opportunity available under the Senior Executive Annual Bonus Scheme may be exceeded in exceptional cases at the discretion of the Committee. The maximum bonus opportunity was not exceeded during the year ended 31 May 2012.

Report on Directors' remuneration continued

Performance Share Plan

Executive Directors and certain key executives are also generally eligible to participate in the Performance Share Plan which provides for the grant of conditional rights to receive shares subject to continued employment over a three year vesting period and the satisfaction of certain performance criteria established by the Committee. Annual awards to any participant are limited to rights over shares with a market value at the time of grant equal to 100% of basic salary¹.

The year ended 31 May 2012 represented the final year of the three year performance period for awards made under the Performance Share Plan in 2009. Despite delivering strong results in the first two years, performance in the final year was such that overall the minimum performance threshold was not met. As a result, none of the awards made to the Executive Directors in 2009 in respect of the three years ended 31 May 2012 will vest and these awards will now lapse.

During the year ended 31 May 2012 new awards were made to the Executive Directors over shares with a value equal to 100% of basic salary. These awards are subject to adjusted earnings per share growth targets measured over the single three year performance period commencing on 1 June 2011. The Committee considers adjusted earnings per share to be an important indicator of the Company's underlying financial performance providing a clear line of sight for executives between their performance and potential reward. Further details of these performance conditions are set out in the notes to the table setting out Directors' interests in shares under incentive arrangements on page 41.

The Committee intends to make further awards to Executive Directors on the same basis during the year ending 31 May 2013. Such awards are expected to be subject to similar performance targets measured over a three year performance period commencing on 1 June 2012.

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

Executive Share Option Scheme

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

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

Limits on shares issued to satisfy share incentive plans

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

Shareholding guidelines for Directors

The Committee has established Shareholding Ownership Guidelines which require Executive Directors

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

All Executive Directors have complied with the above guidelines in respect of the year ended 31 May 2012.

Mr Harvey is also required under his letter of appointment to invest 20% of his fees each year in the purchase of shares in the Company and to retain such shares during the term of his appointment.

Non-executive Directors

Non-executive Directors' fees are generally reviewed every two years, the last such review having taken place with effect from 1 July 2010. There have been no changes in the fees payable during the year and the next review (scheduled for 1 July 2012) has been deferred until 1 June 2013. Details of the fees paid during the period are set out in the table on Directors' remuneration on page 42.

The following information on pages 41 to 43 comprises the auditable disclosures of the Report on Directors' remuneration.

Director's interests in shares under incentive arrangements

Details of awards at 1 June 2011 and 31 May 2012 to Executive Directors are as follows

Director	Date of award	Number of options/ awards at 1 June 2011	Granted/ allocated in year	Exercised/ vested in year	Lapsed in year	Number of options/ awards at 31 May 2012	Option exercise price (£)	Market price at date of award (£)	Earliest date of exercise	Expiry date	Vesting/ transfer date
G A Kanellis	08 Sep 05 ¹	184 900	-	-	-	184 900	1 298	-	08 Sep 08	08 Sep 15	-
	31 Aug 06 ¹	213 210	-	-	-	213 210	1 407	-	31 Aug 09	31 Aug 16	-
	06 Aug 07 ¹	197 309	-	-	-	197 309	1 6725	-	06 Aug 10	06 Aug 17	-
	01 Oct 08 ²	225 750	-	225 750	-	-	-	1 7275	-	-	-
	28 Jul 09 ²	192 170	-	-	-	192 170	-	2 2375	-	-	27 Jul 12
	30 Jul 10 ²	131 633	-	-	-	131 633	-	3 43	-	-	29 Jul 13
	28 Jul 11 ²	-	127 320	-	-	127 320	-	3 77	-	-	28 Jul 14
	21 Aug 08 ³	38 480	-	38 480	-	-	-	1 725	-	-	-
	14 Aug 09 ³	60 840	-	-	-	60 840	-	2 229	-	-	14 Aug 12
	02 Aug 10 ³	85 380	-	-	-	85 380	-	3 498	-	-	02 Aug 13
C G Davis	31 Aug 06 ¹	71 070	-	-	-	71 070	1 407	-	31 Aug 09	31 Aug 16	-
	06 Aug 07 ¹	131 539	-	-	-	131 539	1 6725	-	06 Aug 10	06 Aug 17	-
	01 Oct 08 ²	141 820	-	141 820	-	-	-	1 7275	-	-	-
	28 Jul 09 ²	122 900	-	-	-	122 900	-	2 2375	-	-	27 Jul 12
	30 Jul 10 ²	84 184	-	-	-	84 184	-	3 43	-	-	29 Jul 13
	28 Jul 11 ²	-	80 900	-	-	80 900	-	3 77	-	-	28 Jul 14
	21 Aug 08 ³	19 880	-	19 880	-	-	-	1 725	-	-	-
	14 Aug 09 ³	38 220	-	-	-	38 220	-	2 229	-	-	14 Aug 12
B H Leigh	02 Aug 10 ³	54 600	-	-	-	54 600	-	3 498	-	-	02 Aug 13
	01 Oct 08 ²	138 920	-	138 920	-	-	-	1 7275	-	-	-
	28 Jul 09 ²	120 670	-	-	-	120 670	-	2 2375	-	-	27 Jul 12
	30 Jul 10 ²	82 653	-	-	-	82 653	-	3 43	-	-	29 Jul 13
	28 Jul 11 ²	-	79 570	-	-	79 570	-	3 77	-	-	28 Jul 14
	21 Aug 08 ³	23 320	-	23 320	-	-	-	1 725	-	-	-
	14 Aug 09 ³	37 440	-	-	-	37 440	-	2 229	-	-	14 Aug 12
J Pantelireis	02 Aug 10 ³	53 610	-	-	-	53 610	-	3 498	-	-	02 Aug 13
	08 Sep 05 ¹	138 670	-	-	-	138 670	1 298	-	08 Sep 08	08 Sep-15	-
	31 Aug 06 ¹	132 190	-	-	-	132 190	1 407	-	31 Aug 09	31 Aug 16	-
	06 Aug 07 ¹	117 189	-	-	-	117 189	1 6725	-	06 Aug 10	06 Aug 17	-
	01 Oct 08 ²	127 350	-	127 350	-	-	-	1 7275	-	-	-
	28 Jul 09 ²	105 020	-	-	-	105 020	-	2 2375	-	-	27 Jul 12
	30 Jul 10 ²	71 939	-	-	-	71 939	-	3 43	-	-	29 Jul-13
	28 Jul 11 ²	-	69 360	-	-	69 360	-	3 77	-	-	28 Jul 14
	21 Aug 08 ³	22 850	-	22 850	-	-	-	1 725	-	-	-
	14 Aug 09 ³	34 320	-	-	-	34 320	-	2 229	-	-	14 Aug 12
	02 Aug 10 ³	46 660	-	-	-	46 660	-	3 498	-	-	02 Aug 13

1 Awarded under the PZ Cussons Plc Executive Share Option Scheme. All awards have now vested and are capable of exercise

2 Awarded under the PZ Cussons Plc Performance Share Plan. The vesting of each award is dependent upon the extent to which an adjusted earnings per share growth target is achieved over a single three year performance period. No proportion of an award may vest unless the Company's adjusted earnings per share grows by at least RPI + 4% per annum compounded over the relevant performance period. 25% of the award will vest where adjusted earnings per share grows by RPI + 4% per annum rising on a straight line pro rata basis to 100% vesting where adjusted earnings per share grows by RPI + 10% per annum or better compounded over the performance period. Where awards vest participants will also receive a payment (in cash and/or shares as determined by the Remuneration Committee) on or shortly following vesting of an amount equivalent to the dividends which would have been paid on those shares between the time when the awards were granted and the time when they vest. The minimum performance conditions relating to the awards made in 2009 in respect of the three years ended 31 May 2012 have not been attained with the result that the awards will lapse in their entirety

3 Awarded under the Deferred Annual Share Bonus Scheme following the attainment of pre-determined financial targets. Deferred shares will normally be received by participants following and conditional only upon three years of continuing employment from the date of the grant of the award

The aggregate gross gains made by the Directors on the exercise of share options under the PZ Cussons Executive Share Option Scheme during the year were £nil (2011 £734,132). The gains are calculated based on the market price at the date of exercise for share options although the shares may have been retained and no gain realised

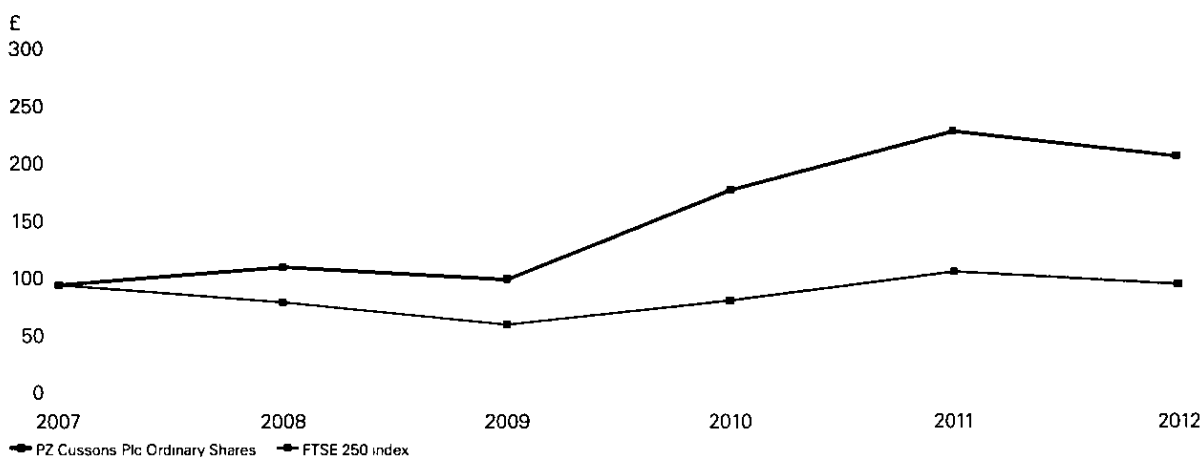
The aggregate gross gains made by the Directors during the year on the vesting of the Performance Share Plan award made in 2008 was £2 122 096. The gains are calculated based on the market price at the date of vesting although the shares may have been retained and no gain realised

The market value of the Company's shares at 31 May 2012 was £3.23 per share. The range during the year was £2.85 to £3.88

Report on Directors' remuneration continued

Performance graph

The graph below illustrates the performance of PZ Cussons Plc measured by Total Shareholder Return (TSR) over the five year period to 31 May 2012 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.



Remuneration during the year ended 31 May 2012

The following table shows the remuneration of individual Directors for the year ended 31 May 2012

	Salary/fees	Bonus	Pension contributions ¹	Taxable benefits	2012 Total ²	2011 Total
Executive Directors³						
G A Kanellis	472 875	–	94 575	29 586	597,036	650 955
C G Davis	300 937	–	58 314	17 073	376,324	414 750
B H Leigh	295 875	–	59 175	17 073	372,123	407 555
J Pantelireis	257 812	–	51 562	17 073	326,447	356 843
Non-executive Directors						
R J Harvey	250 000	–	–	–	250,000	250 000
J A Arnold	52 500	–	–	–	52,500	51 875
N Edozien ⁴	21 875	–	–	–	21,875	–
S J N Heale	52 500	–	–	–	52,500	51 458
D W Lewis	52 500	–	–	–	52,500	51 875
H Owers ⁴	21 875	–	–	–	21,875	–
J T J Steel	52 500	–	–	–	52,500	51 875
	1 831 249	–	263 626	80 805	2,175,680	2 287 186

- With effect from 1 June 2008 the Executive Directors became eligible for membership of the Company's new defined contribution pension arrangement. Messrs Kanellis, Leigh and Pantelireis have each elected, with the permission of the Committee, to receive instead a salary supplement equivalent to 20% of base salary. These amounts are included in the column headed 'Pension Contributions'. Mr Davis continues to participate in the defined contribution pension arrangement but, as the amount of Company contributions was less than 20% of his salary due to legislation introduced in the Finance Bill 2011, the difference between those contributions and 20% of his base salary was paid as a salary supplement. Both the pension contributions and the salary supplement are included in the column headed 'Pension contributions'.
- In addition to the above, Executive Directors received the following cash payments during the year in lieu of dividends on past awards of deferred shares made under the Deferred Annual Share Bonus Scheme which have not yet vested: Mr Kanellis £11 548, Mr Davis £7 126, Mr Leigh £7 162 and Mr Pantelireis £6 464. The Executive Directors also received the following cash payments during the year in lieu of dividends accrued under the PZ Cussons Plc Performance Share Plan in respect of the award made in October 2008 which vested in October 2011: Mr Kanellis £40 138, Mr Davis £25 215, Mr Leigh £24 699 and Mr Pantelireis £22 642.
- As reported on page 39, the annual salaries of the Executive Directors will be revised with effect from 1 September 2012. The following annual salaries will apply: Mr Kanellis £499 200, Mr Davis £317 200, Mr Leigh £312 000 and Mr Pantelireis £271 960.
- Ms Edozien and Mrs Owers were each appointed to the Board on 1 January 2012 at annual fees of £52 500. The fees payable in respect of Ms Edozien are paid to her employer.

Directors' pension benefits

The following Executive Directors were members of the defined benefit pension arrangements provided by the Company. All of these defined benefit plans were closed to future accrual on 31 May 2008 and replaced by defined contribution arrangements. Benefits built up in the defined benefit plans will continue to receive a salary link until 31 May 2013 or the date that each Director leaves employment with the Company if sooner. The pension entitlements and corresponding transfer values below relate solely to the defined benefit arrangements.

	Gross increase in accrued pension £ pa	Increase in accrued pension net of inflation (a) £ pa	Total accrued pension at 31 May 2012 £ pa	Value of net increase in pension over period (b) £	Value of accrued pension at 31 May 2011 £	Value of accrued pension at 31 May 2012 £	Total change in value during period (c) £
G A Kanellis	15 095	7 133	303 428	115 100	4 344 000	4 896 000	552 000
C G Davis	1 090	451	24 243	8 300	399 000	444 000	45 000
B H Leigh	4 918	2 126	106 022	29 000	1 252 000	1 448 000	196 000
J Pantelireis	6 498	2 885	137 320	67,700	2 979 000	3 214 000	235 000

Notes

- Pension accruals shown are the amounts which would be paid annually on retirement based on service to the plan closure date (31 May 2008) and pensionable salaries at 31 May 2012.
- Transfer values relating to benefits accrued in the Directors and expatriate pension plans have been calculated in accordance with the method and basis determined by the Trustee of each plan on the advice of their actuary to be consistent with current legislation and the rules of the plans. Transfer values relating to unfunded pension benefits (see note 5) have been calculated using a method and basis consistent with those used for the funded plans.
- The value of net increase (b) represents the incremental value to the Director of his increase in pension over the year, calculated on the assumption that he left employment with the Company at the year end. It is based on the accrued pension increase (a).
- The change in the transfer value (c) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors. Such factors include mortality assumptions (which were revised by the Trustees of each plan during the year following a review of the transfer value bases) and gilt yield movements.
- The Company provides unfunded, unapproved pension benefits for Messrs Leigh and Davis as their benefits would have been subject to the Inland Revenue earnings cap introduced by the Finance Act 1989 had the earnings cap not been abolished by the Finance Act 2004. The funded benefits payable to these Directors remain subject to a scheme specific earnings cap which increases each year and is calculated in a similar manner to the abolished statutory earnings cap. The above figures include both the funded and unfunded pension benefits.
- Messrs Pantelireis and Kanellis are former members of the expatriate pension scheme operated by the Company and additional benefits are provided through that scheme as their benefits would have been subject to the Inland Revenue earnings cap introduced by the Finance Act 1989 had the earnings cap not been abolished by the Finance Act 2004. The above figures are inclusive of the expatriate pension scheme benefits.
- The Company operates a defined contribution pension arrangement for current service. Participation in the arrangement is optional and only Mr Davis chose to participate during the year. The contributions paid to the arrangement during the year by the Company in respect of Mr Davis was £34 065. These contributions are included in the Pensions Contributions column of the table on Directors remuneration on page 42.
- As Messrs Pantelireis, Leigh and Kanellis chose not to participate in the defined contribution arrangement during the year, they received a salary supplement equivalent to 20% of base salary in lieu of pension provision. As the amount of contributions paid to the defined contribution arrangement by the Company in respect of Mr Davis were less than 20% of his salary due to legislation introduced in the Finance Bill 2011, the difference between those contributions and 20% of his base salary was paid as a salary supplement. These contributions are also included in the Pensions Contributions column of the table on Directors remuneration on page 42.
- Voluntary contributions paid by Directors and resulting benefits are not shown.

Service contracts

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

No Executive Directors hold any other positions outside the Group.

Non-executive Directors do not have service contracts but are appointed for initial periods of three years, normally renewable on a similar basis. The present letters of appointment for Professor Arnold, Ms Edozien, Mr Heale, Mr Harvey, Mrs Owers and Mr Steel will expire on 31 December 2012, 31 December 2014, 31 December 2013, 31 December 2012, 31 December 2014 and 30 September 2014 respectively. Whilst the letter of appointment of Mr Lewis formally expires on 31 May 2013, he has indicated his intention to step down from the Board at the Company's AGM (Annual General Meeting) in 2012.

By order of the Board of Directors

James Steel

Chairman of the Remuneration Committee

24 July 2012

Report on corporate governance

The Board is committed to meeting the standards of good corporate governance as established by the Financial Reporting Council from time to time. In respect of the year ended 31 May 2012, the UK Corporate Governance Code published in June 2010 (the Code) was applied by the Company. The Code is publicly available on the Financial Reporting Council's website (www.frc.org.uk).

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

Board evaluation

Composition and independence

As at the date of this report, the Board of Directors has 11 members comprising the Non-executive Chairman, the Chief Executive, three other Executive Directors and six Non-executive Directors. The names of the Directors together with their biographical details are set out on pages 32 to 33. 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.

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 Harvey is a Non-executive Director of Jardine Lloyd Thompson Plc, which acts as insurance broker to the Company. Mr Lewis is a former partner of Addleshaw Goddard LLP, which acts as legal advisor to the Company. The level of fees payable to each of Jardine Lloyd Thompson Plc and Addleshaw Goddard LLP is not material and the Board is wholly satisfied that it is appropriate to designate each of Mr Harvey and Mr Lewis as independent. Neither of them participated in any way in the provision of services by the relevant supplier to the Company. In addition, in order that his independence is not compromised, if at any time the Board or a Committee of the Board is considering any matter concerning one of the suppliers, it has been agreed that the relevant individual will withdraw from that meeting until such matters have been dealt with.

Mr Lewis is the Senior Independent Non-executive Director and in this capacity he is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate. After eight years' service to the Board, with effect from the 2012 Annual General Meeting Mr Lewis will retire and Mr Steel will be appointed Senior Independent Non-executive Director.

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 will seek re-election annually.

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

Diversity

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

Further details on diversity within the business are set out in the CSR report on pages 20 to 31.

Performance evaluation

Effectiveness reviews of the Board and its committees are carried out annually. The results are reviewed by the Chairman of the Board or Board committee, discussed in a formal meeting and any appropriate recommendations are recorded and acted upon.

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

Operation of the Board

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

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

The differing roles of the Chairman and Chief Executive are acknowledged and set out in terms of reference which have been adopted by the Board. The Chairman is primarily responsible for the running of the Board and ensuring that it is supplied in a timely manner with sufficient information to enable it to discharge its duties. The Chief Executive is responsible for 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 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 face to face meetings and briefings from the Company's brokers.

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

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

The Board has also adopted a formal induction process for Directors including visits to principal sites and meetings with operating management. 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 2012, the Committee members were Mr Harvey (Committee Chairman), Professor Arnold, Mr Heale, Mr Kanellis, Mr Lewis, Mr Steel and, with effect from their appointment to the Board on 1 January 2012, Ms Edozien and Mrs Owers. The Company Secretary is secretary to the Committee.

During the year, the Committee undertook the process of identifying new independent Non-executive Directors, culminating in the appointment to the Board of Ms Edozien and Mrs Owers. In considering these appointments, the Nomination Committee evaluated the balance of skills, knowledge and experience of 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 Ms Edozien and Mrs Owers, following which the Board approved their appointments.

Remuneration Committee

The Remuneration Committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors and senior executives, which the Board as a whole is responsible for approving. The Committee members are Mr Steel (Committee Chairman), Professor Arnold, Mr Heale, Mr Lewis, and, with effect from their appointment to the Board on 1 January 2012, Ms Edozien and Mrs Owers. The Company Secretary is secretary to the Committee.

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

Further details of the Committee's responsibilities and activities during the year are set out in the Report on Directors' remuneration on pages 37 to 43.

Report on corporate governance continued

Audit Committee

The Audit Committee is responsible for reviewing on behalf of the Board the Group's accounting and financial policies and its disclosure practices, internal controls, internal audit and risk management. It is also responsible for overseeing all matters associated with the appointment, terms, remuneration and performance of the external auditor and for reviewing the scope and results of the audit and its cost effectiveness. These responsibilities are discharged at the Audit Committee meetings and through regular reports from the internal audit function. The Audit Committee comprises Professor Arnold (Committee Chairman), Mr Heale, Mr Lewis, Mr Steel and with effect from their appointment to the Board on 1 January 2012, Ms Edozien and Mrs Owers. The Committee meets regularly with the external auditor, Professor Arnold, a qualified chartered accountant, brings recent and relevant financial experience to the Audit Committee. The Company Secretary is secretary to the Committee.

As indicated above, one of the duties of the Audit Committee 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 assessing whether to recommend the auditor for reappointment. These include the quality of the reports provided to the Audit Committee and the Board and the level of understanding demonstrated of the Group's business.

PricewaterhouseCoopers LLP (PwC) has been the Group's external auditors since 2007. In the opinion of the Audit Committee, the relationship with the auditors continues to operate effectively and the Committee remains satisfied with their independence. To date, the Committee has not considered it necessary for PwC to tender for the audit engagement. It is, however, a requirement that the audit partner responsible for the audit rotates every five years and accordingly the current lead audit partner, who has been in place since 2007, will rotate at the end of this current audit cycle. There are no contractual obligations restricting the Company's choice of auditors.

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

Group Risk Committee

The Group Risk Committee is responsible for identifying, assessing and prioritising all material risks facing the Group and ensuring, where possible, that appropriate action is taken to manage and mitigate those risks. The risk areas which the Committee reviews include general business risk including risk arising out of the external financial environment, product safety risk, physical asset risk including factory health and safety and environmental risks, IT and infrastructure risks. At least once a year, the Board as a whole reviews any material risks facing the Group and the output of this review forms the basis of the work undertaken by the Committee during the year.

The Committee is responsible for developing and supporting the activities necessary to convert an approved framework of risk limits and risk appetite policies into an effective plan for implementation across the Group. This is achieved by ongoing review to develop and implement plans to eliminate, reduce or transfer risk where practicable. The Committee is also responsible for reviewing the risk management and control processes within the Group and encouraging and supporting two-way communications of risks both within the business and with external stakeholders including shareholders, suppliers and customers.

The Group Risk Committee comprises Professor Arnold (Committee Chairman), Mr Davis, Mr Harvey, Mr Heale, Mr Kanellis, Mr Leigh, Mr Lewis, Mr Pantelireis, Mr Steel and with effect from their appointment to the Board on 1 January 2012, Ms Edozien and Mrs Owers. The Company Secretary is secretary to the Committee. It reports formally to the Board after each meeting. It has authority to obtain external advice as considered appropriate and the Board has resolved that it should be provided with sufficient resources to undertake fully its responsibilities.

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

CSR Committee

The CSR Committee is responsible for reviewing and developing the Company's corporate strategy to ensure that CSR is an integral part of the strategy and that the Group's social, environmental and economic activities are aligned. The CSR Committee is also responsible for the development of policies on all key areas of CSR including the environment, health and safety, consumer safety, business conduct and ethics, employees and local community and charity. Further details of the Committee's terms of reference and activities during the year are set out in the Corporate social responsibility report on pages 20 to 31.

The CSR Committee comprises Mr Heale (Committee Chairman), Professor Arnold, Mr Davis, Mr Harvey, Mr Kanellis, Mr Leigh, Mr Lewis, Mr Pantelireis, Mr Steel and with effect from their appointment to the Board on 1 January 2012, Ms Edozien and Mrs Owers. The Company Secretary is secretary to the CSR Committee. The Committee reports formally to the Board after each meeting. It has authority to obtain external advice as considered appropriate and the Board has resolved that it should be provided with sufficient resources to undertake fully its responsibilities.

Attendance at meetings

The number of scheduled meetings of the Board (excluding such ad hoc meetings as were necessary during the year to address specific matters arising) and of each of the Audit, Remuneration, Nomination, Group Risk and CSR Committees during the year ended 31 May 2012 together with a record of the attendance of the current Directors who are their respective members is detailed in the table below

	Board		Audit Committee		Remuneration Committee		Nomination Committee		Group Risk Committee		CSR 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	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
Mr R Harvey	6	6	n/a	n/a	n/a	n/a	2	2	4	4	3	3
Mr G A Kanellis	6	6	n/a	n/a	n/a	n/a	2	2	4	4	3	3
Mr C G Davis	6	6	n/a	n/a	n/a	n/a	n/a	n/a	4	4	3	3
Mr B H Leigh	6	6	n/a	n/a	n/a	n/a	n/a	n/a	4	4	3	3
Mr J Pantelireis	6	6	n/a	n/a	n/a	n/a	n/a	n/a	4	4	3	3
Mr D W Lewis	6	6	4	4	5	5	2	2	4	4	3	3
Prof J A Arnold	6	6	4	4	5	5	2	2	4	4	3	3
Ms N Edozien	3	3	2	2	3	3	0	0	2	2	1	1
Mr S J N Heale	6	6	4	4	5	5	2	2	4	4	3	3
Mrs H Owers	3	3	2	2	3	3	0	0	2	2	1	1
Mr J T J Steel	6	6	4	4	5	5	2	2	4	4	3	3

Notes

n/a indicates that the Director is not a member of the Committee

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

Remuneration

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

Business model

Information on PZ Cussons business model and strategy for generating and preserving longer-term growth and delivering on the Company's stated objectives is set out in pages 6 to 7 of the Annual Report and Accounts

Going concern

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

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

Internal control

The Board is 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 2012 and up to the date of the Annual Report and Accounts, that it is regularly reviewed by the Board and that it accords with the Turnbull guidance for Directors on the Code. The process includes:

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

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

Report on corporate governance continued

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 defined fraud reporting and whistleblowing processes which are issued to all employees within the Group.

Relations with shareholders

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

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

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

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

General meetings of shareholders

The business to be conducted at the Annual General Meeting of the Company is set out in the separate Notice of Annual General Meeting which accompanies the Annual Report and 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. Voting at the Annual General Meeting is on a show of hands and after each show of hands, details of all proxy votes lodged for and against each resolution and the number of abstentions are disclosed.

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

Compliance statement

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

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

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Report on Directors' remuneration and the 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 prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to

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

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

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

Each of the Directors, whose names and functions are listed on pages 32 to 33, confirm that, to the best of their knowledge:

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

By order of the Board

Mr S P Plant
Company Secretary
24 July 2012

Independent auditors' report to the members of PZ Cussons Plc

We have audited the Group financial statements of PZ Cussons Plc for the year ended 31 May 2012 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 49, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 May 2012 and of its profit and cash flows for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on other matter prescribed by the Companies Act 2006

In our opinion

- the information given in the Report of the Directors for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 47, in relation to going concern
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration

Other matter

We have reported separately on the Parent Company financial statements of PZ Cussons Plc for the year ended 31 May 2012 and on the information in the Report of Directors' remuneration that is described as having been audited.

Nicholas Boden (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Manchester

24 July 2012

Consolidated income statement

Year ended 31 May 2012

	Notes	Year ended 31 May 2012			Year ended 31 May 2011		
		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	858.9	–	858.9	820.7	–	820.7
Cost of sales		(549.7)	–	(549.7)	(495.5)	–	(495.5)
Gross profit		309.2	–	309.2	325.2	–	325.2
Selling and distribution costs		(134.0)	–	(134.0)	(135.0)	–	(135.0)
Administrative expenses		(81.6)	(43.8)	(125.4)	(82.5)	(0.8)	(83.3)
Share of results of joint ventures	12	(0.2)	–	(0.2)	0.4	–	0.4
Operating profit	2	93.4	(43.8)	49.6	108.1	(0.8)	107.3
Finance income		2.5	–	2.5	3.4	–	3.4
Finance costs		(3.6)	–	(3.6)	(2.6)	–	(2.6)
Net finance (expense)/income	6	(1.1)	–	(1.1)	0.8	–	0.8
Profit before taxation		92.3	(43.8)	48.5	108.9	(0.8)	108.1
Taxation	7	(24.9)	14.4	(10.5)	(30.2)	2.0	(28.2)
Profit for the year	4	67.4	(29.4)	38.0	78.7	1.2	79.9
Attributable to							
Equity holders of the Company	9	63.1	(28.7)	34.4	69.2	1.2	70.4
Non-controlling interests		4.3	(0.7)	3.6	9.5	–	9.5
		67.4	(29.4)	38.0	78.7	1.2	79.9
Basic EPS (p)	9			8.03			16.48
Diluted EPS (p)	9			7.99			16.29
Adjusted basic EPS (p)	9			14.74			16.20
Adjusted diluted EPS (p)	9			14.65			16.02

Consolidated statement of comprehensive income

Year ended 31 May 2012

	Notes	2012 £m	2011 £m
Profit for the year		38 0	79 9
Other comprehensive expense			
Actuarial losses on defined benefit pension schemes	23	(11 5)	(3 3)
Exchange differences on translation of foreign operations		2 1	(33 6)
Cash flow hedges – fair value (loss)/gain in year		(0 7)	1 8
Taxation on items taken directly to equity		2 8	0 4
Other comprehensive expense for the year net of taxation		(7 3)	(34 7)
Total comprehensive income for the year		30 7	45 2
Attributable to			
Equity holders of the Company		23 3	45 6
Non-controlling interests		7 4	(0 4)

Consolidated balance sheet

At 31 May 2012

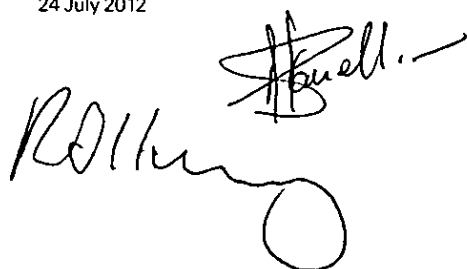
	Notes	31 May 2012 £m	31 May 2011 £m
Assets			
Non-current assets			
Goodwill and other intangible assets	10	248 4	233 9
Property, plant and equipment	11	209 5	225 7
Other investments	13	0 5	0 6
Net investment in joint ventures	12	38 7	20 8
Receivables	15	1 0	0 8
Retirement benefit surplus	23	39 1	39 3
		537 2	521 1
Current assets			
Inventories	14	173 6	151 7
Trade receivables and prepayments	15	141 0	155 8
Investments	16	7 0	10 6
Cash and cash equivalents	17	65 9	88 7
Current taxation receivable		5 8	10 6
		393 3	417 4
Total assets		930 5	938 5
Equity			
Ordinary share capital	24	4 3	4 3
Capital redemption reserve		0 7	0 7
Hedging reserve		(0 1)	0 3
Currency translation reserve		28 4	30 1
Retained earnings		425 0	438 6
Equity attributable to equity holders of the Company		458 3	474 0
Non-controlling interests		61 2	61 1
Total equity		519 5	535 1
Liabilities			
Non-current liabilities			
Borrowings	18	–	15 0
Other liabilities	20	0 9	2 2
Deferred taxation liabilities	21	50 6	58 7
Retirement benefit obligations	23	37 1	41 9
		88 6	117 8
Current liabilities			
Borrowings	18	90 8	32 5
Trade and other payables	19	192 0	219 3
Current taxation payable		22 7	30 1
Provisions	22	16 9	3 7
		322 4	285 6
Total liabilities		411 0	403 4
Total equity and liabilities		930 5	938 5

The financial statements from pages 51 to 85 were approved by the Board of Directors and authorised for issue

They were signed on its behalf by

R J Harvey
24 July 2012

G A Kanellis



Consolidated statement of changes in equity

Year ended 31 May 2012

	Attributable to equity owners of the Company					Non controlling interests £m	Total £m
	Share capital £m	Currency translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Hedging reserve £m		
At 1 June 2010	4 3	53 8	0 7	397 3	(1 3)	67 3	522 1
Profit for the year	–	–	–	70 4	–	9 5	79 9
Actuarial losses on defined benefit pension schemes	–	–	–	(3 3)	–	–	(3 3)
Exchange differences on translation of foreign operations	–	(23 7)	–	–	–	(9 9)	(33 6)
Cash flow hedges – fair value gains in year	–	–	–	–	1 8	–	1 8
Cash flow hedges – tax on fair value gains	–	–	–	–	(0 2)	–	(0 2)
Deferred tax on actuarial losses on defined benefit pension schemes	–	–	–	0 6	–	–	0 6
Total comprehensive income/(expense) for the year	–	(23 7)	–	67 7	1 6	(0 4)	45 2
Transactions with owners							
Ordinary dividends	–	–	–	(26 0)	–	–	(26 0)
Acquisition of shares for ESOT	–	–	–	(2 3)	–	–	(2 3)
Share-based payments charges	–	–	–	2 3	–	–	2 3
Deferred tax on share-based payments	–	–	–	1 2	–	–	1 2
Acquisition of non-controlling interests	–	–	–	(1 6)	–	(1 3)	(2 9)
Non-controlling interests dividend paid	–	–	–	–	–	(4 5)	(4 5)
At 31 May 2011	4 3	30 1	0 7	438 6	0 3	61 1	535 1
At 1 June 2011	4 3	30 1	0 7	438 6	0 3	61 1	535 1
Profit for the year	–	–	–	34 4	–	3 6	38 0
Actuarial losses on defined benefit pension schemes	–	–	–	(11 5)	–	–	(11 5)
Exchange differences on translation of foreign operations	–	(1 7)	–	–	–	3 8	2 1
Cash flow hedges – fair value losses in year	–	–	–	–	(0 7)	–	(0 7)
Cash flow hedges – tax on fair value losses	–	–	–	–	0 3	–	0 3
Deferred tax on actuarial losses on defined benefit pension schemes	–	–	–	2 5	–	–	2 5
Total comprehensive income/(expense) for the year	–	(1 7)	–	25 4	(0 4)	7 4	30 7
Transactions with owners							
Ordinary dividends	–	–	–	(28 8)	–	–	(28 8)
Acquisition of shares for ESOT	–	–	–	(2 8)	–	–	(2 8)
Share-based payments charges	–	–	–	(0 5)	–	–	(0 5)
Deferred tax on share-based payments	–	–	–	(1 4)	–	–	(1 4)
Acquisition of non-controlling interests	–	–	–	(5 5)	–	(3 1)	(8 6)
Non-controlling interests dividend paid	–	–	–	–	–	(4 2)	(4 2)
At 31 May 2012	4 3	28 4	0 7	425 0	(0 1)	61 2	519 5

Consolidated cash flow statement

Year ended 31 May 2012

	Notes	2012 £m	2011 £m
Operating activities			
Cash generated from operations	26	57 5	113 0
Taxation paid		(21 6)	(23 0)
Net cash generated from operating activities		35 9	90 0
Cash flows from investing activities			
Investment income received		2 5	3 4
Purchase of property, plant and equipment		(18 9)	(22 1)
Proceeds from sale of property, plant and equipment		2 4	0 3
Purchase of intangible assets	10	(0 1)	(0 4)
Acquisition of non-controlling interests	29	(8 6)	(2 9)
Acquisition of business	29	(26 3)	(62 5)
Repayment/(advance) of short-term deposits to joint ventures	16	3 6	(10 3)
Loans (granted to)/repaid by joint ventures	12	(16 8)	1 0
Net cash used in investing activities		(62 2)	(93 5)
Financing activities			
Interest paid		(3 6)	(2 6)
Dividends paid to non-controlling interests		(4 2)	(3 8)
Purchase of shares for ESOT	25	(2 8)	(2 3)
Dividends paid to Company shareholders	8	(28 8)	(26 0)
Repayment of term loan	18	(15 0)	(15 0)
Increase in borrowings	18	59 4	16 4
Net cash generated from/(used in) financing activities		5 0	(33 3)
Net decrease in cash, cash equivalents and bank overdrafts		(21 3)	(36 8)
Cash, cash equivalents and bank overdrafts at the beginning of the year	17	87 6	131 2
Effect of foreign exchange rates		(0 4)	(6 8)
Cash, cash equivalents and bank overdrafts at the end of the year	17	65 9	87 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 United Kingdom under the Companies Act 2006. The address of the registered office is given on page 93.

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

1 Accounting policies

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

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

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

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

Standards and interpretations

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 June 2011:

- Revised IAS 24 Related party disclosures issued in November 2009 and superseding IAS 24 Related party disclosures issued in 2003.
- Prepayments of a minimum funding requirement (Amendments to IFRIC 14) issued in November 2009. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The limit on a defined benefit asset minimum funding requirements and their interaction. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem.

(b) Standards, amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- IFRIC 19 Extinguishing financial liabilities with equity instruments. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010.

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 June 2011 and have not been early adopted:

- IFRS 9 Financial instruments (effective 1 January 2015)
- IFRS 10 Consolidated financial statements (effective 1 January 2013)
- IFRS 11 Joint arrangements (effective 1 January 2013)
- IFRS 12 Disclosures of interests in other entities (effective 1 January 2013)
- IAS 19 (revised 2011) Employee benefits (effective 1 January 2013)
- IFRS 13 Fair value measurement (effective 1 January 2013)

Basis of consolidation

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

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

1 Accounting policies continued

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

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

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

Operating profit

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

Exceptional items

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

Business combinations

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

Interests in joint ventures

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

Intangible assets

Goodwill

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

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

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

Notes to the consolidated financial statements continued

1 Accounting policies continued

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

Other intangible assets

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

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

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

Revenue recognition

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

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

Leases

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

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

Foreign currencies

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

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

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

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

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

1 Accounting policies continued

Finance income and expense

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

Government grants

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

Employee benefits

Retirement benefit obligations

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

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

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

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

Share-based payments

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

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

The awards under the Performance Share Plan are measured at the fair value at the date of grant and are expensed over the period to which the performance relates based on the expected outcome of the vesting conditions.

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

Taxation

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

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

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

Notes to the consolidated financial statements continued

1 Accounting policies continued

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

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

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

Property, plant and equipment

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

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

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

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

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

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

Inventories

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

Trade receivables

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

Research and development

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

Cash, cash equivalents and bank overdrafts

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

Financial instruments

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

1 Accounting policies continued

Derivative financial instruments

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

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

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

Borrowings

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

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

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.

Provisions

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

Dividend distribution

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

Critical accounting policies and key sources of estimation uncertainty

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

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

Notes to the consolidated financial statements continued

1 Accounting policies continued

Accounting for intangible assets

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

Retirement benefits

The Group has three main defined benefit schemes which are based and administered in the UK and are independent of the Group's finances. These schemes were closed to future accrual on 31 May 2008. Actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. The retirement benefit cost under IAS 19 is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions advised by the actuary. The assumptions are based on information supplied to the actuary by the Company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 23. Operating results are affected by the actuarial assumptions used. These assumptions include discount rates, mortality rates, inflation rates, expected long-term rates of return on assets, take up rates on enhanced transfer value exercises and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants.

Revenue recognition

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

2 Segmental analysis

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

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

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

Sales between segments are carried out at an arms length.

Business segments

	Africa £m	Asia £m	Europe ¹ £m	Eliminations £m	Total £m
2012					
Total gross segment revenue	375.2	171.3	512.5	(200.1)	858.9
Inter segment revenue	(13.0)	(12.5)	(174.6)	200.1	—
Revenue	362.2	158.8	337.9	—	858.9
Segmental operating profit before exceptional items and share of results of joint ventures	33.7	8.3	51.6	—	93.6
Share of results of joint ventures	(0.2)	—	—	—	(0.2)
Segmental operating profit before exceptional items	33.5	8.3	51.6	—	93.4
Exceptional items	(6.1)	(30.1)	(7.6)	—	(43.8)
Segmental operating profit	27.4	(21.8)	44.0	—	49.6
Finance income					2.5
Finance cost					(3.6)
Profit before taxation					48.5
Depreciation	8.4	5.8	8.3	—	22.5

¹ Europe segmental result includes revenue and profit from US and Australia in relation to Beauty division that is deemed to be immaterial.

2 Segmental analysis continued

2011	Africa £m	Asia £m	Europe ¹ £m	Eliminations £m	Total £m
Total gross segment revenue	343.4	189.0	480.0	(191.7)	820.7
Inter segment revenue	(4.3)	(12.9)	(174.5)	191.7	–
Revenue	339.1	176.1	305.5	–	820.7
Segmental operating profit before exceptional items and share of results of joint ventures	40.6	17.5	49.6	–	107.7
Share of results of joint ventures	0.4	–	–	–	0.4
Segmental operating profit before exceptional items	41.0	17.5	49.6	–	108.1
Exceptional items	–	–	(0.8)	–	(0.8)
Segmental operating profit	41.0	17.5	48.8	–	107.3
Finance income					3.4
Finance cost					(2.6)
Profit before taxation					108.1
Depreciation	8.3	5.6	7.7	–	21.6

1 Europe segmental result includes revenue and profit from US that is deemed to be immaterial

3 Exceptional items

Year to 31 May 2012

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

Year to 31 May 2011

Exceptional items included within operating profit	Exceptional item before taxation £m	Taxation £m	Exceptional item after taxation £m
Pension scheme de-risking charge	2.4	(0.7)	1.7
Pension schemes – benefit of change from RPI to CPI	(7.5)	2.0	(5.5)
Acquisition expenses – St Tropez	1.7	(0.2)	1.5
Beauty division formation costs	4.2	(1.0)	3.2
Deferred tax benefit of reduction in UK Corporation tax rate principally relating to brands	–	(2.1)	(2.1)
	0.8	(2.0)	(1.2)

Explanation of exceptional items

Year to May 2012

Supply chain optimisation

To ensure that the supply chain cost base remains at a competitive level a supply chain optimisation project has been implemented to significantly reduce the overhead footprint of the Group's manufacturing activities. The main activities involved in this project are the closing of manufacturing facilities in Australia and Ghana in addition to other optimisation projects in Africa and Asia. Exceptional costs principally relating to the write down of manufacturing facilities and certain other restructuring costs have therefore been incurred.

Pension scheme de-risking charge

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

Notes to the consolidated financial statements continued

3 Exceptional items continued

Beauty division acquisition and integration costs

The Group incurred £1.1 million of acquisition and related costs for the purchase of the Fudge hair-care brand and associated inventory. Details of the acquisition are given in note 29. In addition, charges totalling £3.2 million were incurred in integrating the Fudge brand selling and logistics activities into the Beauty division. Further costs totalling £2.0 million have been incurred rationalising the activities of the Beauty division post Fudge integration.

Australian Home Care brand impairment

The current year performance and forward projections of our value dish-care brand in Australia, Trix, have been significantly affected by both market competition and rationalisation by key retailers resulting in significant uncertainty over future expected cash flows. Therefore a decision was made to fully impair the brand at 31 May 2012.

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

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

Year to 31 May 2011

Pension scheme de-risking charge

The Group commenced a de-risking exercise in relation to the UK defined benefit pension schemes in order to reduce the impact of future volatility in the valuation of the schemes' assets and liabilities. The first element of this de-risking exercise was an enhanced transfer value exercise for deferred members of the main UK pension scheme. This exercise commenced in May 2011 and the charge in the year of £2.4 million represented an assessment of the likely cost based on expected take-up rates.

Pension schemes – benefit of change from RPI to CPI

The Government announced in December 2010 that the inflation measure for determining minimum pension increases would move from RPI to CPI. In general the CPI index is lower than RPI and this led to a reduction in the scheme liabilities as at 31 May 2011. The effect of this change on the liabilities was reported through the income statement as a past service credit of £7.5 million due to it being a change in benefit.

Acquisition expenses – St Tropez

The Group incurred £1.7 million of acquisition and related costs for the purchase of St Tropez Holdings Limited.

Beauty division formation costs

In February 2011, the Group announced the formation of the Beauty division, bringing the Group's more premium brands – Sanctuary, Charles Worthington and St Tropez – together as one strategic business unit. The formation of the Beauty division led to the consolidation of the operations into a new Central London office and resulted in the closure of St Tropez's Nottingham site and the closure of the Sanctuary offices in London. The Charles Worthington business, previously integrated into the PZ Cussons UK operating unit, was also transferred. The exceptional costs principally related to restructuring costs and certain other costs of integrating the three brands into a new single operating unit.

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

The UK corporation tax rate reduced to 26% from 28% on 1 April 2011. 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 liability recognised when the Sanctuary and Charles Worthington brands were acquired and this was disclosed as an exceptional item due to its size and the fact that it related to previous acquisitions.

4 Profit for the year – analysis by nature

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

	2012 £m	2011 £m
Net foreign exchange (gain)/losses	(2.3)	4.1
Research and development costs	3.5	3.2
Amortisation of government grants	(0.3)	(0.2)
Impairment loss on intangible assets	9.7	–
Impairment loss on tangible fixed assets	12.4	–
Depreciation of property, plant and equipment	22.5	21.6
(Profit)/loss on disposal of property, plant and equipment	(0.5)	0.1
Loss on disposal of intangible asset	0.1	–
Raw and packaging materials and goods purchased for resale	445.6	396.0
Operating lease rentals	2.9	3.5
Employee costs (note 5)	111.2	110.3
Auditors' remuneration (see below)	1.1	1.2

4 Profit for the year – analysis by nature continued

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

	2012 £m	2011 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	0.1	0.1
Fees payable to the Company's auditors and their associates for other services to the Group		
– The audit of the Company's subsidiaries pursuant to legislation	0.5	0.5
Total audit fees	0.6	0.6
Fees payable to the Company's auditors and its associates for other services		
– Tax services pursuant to legislation	0.2	0.2
– Other tax services	0.2	0.2
– Other services	0.1	0.2
Total fees	1.1	1.2

Fees payable to PricewaterhouseCoopers LLP and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis. Included in the other services amount above are fees paid to the Group's auditors in respect of their audit of the Group's UK retirement benefit schemes totalling £18,200 (2011: £18,200).

5 Directors and employees

Employee costs

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

	2012 Number	2011 Number
Production	3,891	4,145
Selling and distribution	2,653	2,875
Administration	792	981
	7,336	8,001

The costs incurred in respect of the above were as follows

	2012 £m	2011 £m
Wages and salaries	101.3	101.7
Social security and other costs	7.8	8.5
Post-employment benefits	2.6	(2.2)
Share-based payments (credit)/charge (note 28)	(0.5)	2.3
	111.2	110.3

The post-employment benefits consist of

	2012 £m	2011 £m
Defined benefit schemes (note 23)	(1.0)	(6.3)
Defined contribution schemes (note 23)	2.8	3.3
Overseas minor defined benefit schemes and Nigerian gratuity scheme (note 23)	0.8	0.8
	2.6	(2.2)

Directors' remuneration

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

	2012 £m	2011 £m
Fees to Non-executive Directors	0.5	0.5
Wages and salaries	1.3	1.3
Bonus – cash bonus	–	0.2
Benefits	0.1	0.1
Post-employment benefits	0.3	0.3
Share-based payments	(0.2)	1.0
Total	2.0	3.4

Additional details are within the Report on Directors' remuneration on pages 37 to 43

Notes to the consolidated financial statements continued

6 Net finance (expense)/income

	2012 £m	2011 £m
Net investment gains	0 5	0 2
Interest receivable from joint ventures	–	0 1
Interest and dividends receivable	2 0	3 1
	2 5	3 4
Interest payable on bank loans and overdrafts	(3 6)	(2 6)
Net finance (expense)/income	(1 1)	0 8

7 Taxation

	2012 £m	2011 £m
Current tax		
UK corporation tax charge for the year	8 3	7 4
Adjustments in respect of prior periods	(2 4)	(1 0)
	5 9	6 4
Overseas corporation tax charge for the year	12 3	16 6
Adjustments in respect of prior periods	(0 4)	(0 4)
	11 9	16 2
Total current tax charge	17 8	22 6
Deferred tax		
Temporary differences origination and reversal	(7 3)	4 5
Adjustments in respect of prior periods	–	1 1
Total deferred tax (note 21)	(7 3)	5 6
Total tax charge	10 5	28 2

UK corporation tax is calculated at 25.69% (2011: 27.69%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Taxation on items taken directly to equity was a credit of £1.4 million (2011: £1.6 million) and relates to the movement in deferred tax on actuarial losses on share option schemes and on financial derivatives recognised in the hedging reserve.

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

	2012 £m	2011 £m
Profit before tax	48 5	108 1
Tax at the UK corporation tax rate of 25.69% (2011: 27.69%)	12 5	29 9
Tax effect of revenue/expenses that are not taxable/deductible	3 9	0 4
Effect of different tax rates of subsidiaries in overseas jurisdictions	(2 0)	(0 6)
Effect of UK rate change on deferred taxation	(3 0)	(2 0)
Tax effect of share of results of joint ventures	0 1	(0 1)
Overseas withholding tax suffered on dividends	1 8	0 9
Prior period adjustment	(2 8)	(0 3)
Tax charge for the year	10 5	28 2

The main rate of corporation tax in the UK reduced from 26% to 24% from 1 April 2012. The change in deferred tax has resulted in a reduction in deferred tax liabilities of £3.8 million of which £3.0 million has been recognised in the income statement as exceptional income and £0.8 million direct to equity.

7 Taxation continued

The Finance Act 2012 was substantively enacted on 26 March 2012 and included legislation to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012. A further reduction to 23% from 1 April 2013 was substantively enacted by subsequent legislation on 2 July 2012. All deferred tax assets have been remeasured at 24% as at the balance sheet date.

Further reductions to the UK corporation tax rate were announced in the 2012 Budget on 21 March 2012 which proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and therefore are not recognised in these financial statements. The impact of the proposed changes will be to reduce deferred tax liabilities in the balance sheet by around £3.0 million.

8 Dividends

	2012 £m	2011 £m
Amounts recognised as distributions to Ordinary Shareholders in the year comprise		
Final dividend for the year ended 31 May 2011 of 4.487p (2010: 3.970p) per Ordinary Share	19.2	17.0
Interim dividend for the year ended 31 May 2012 of 2.23p (2011: 2.123p) per Ordinary Share	9.6	9.0
	28.8	26.0
Proposed final dividend for the year ended 31 May 2012 of 4.487p (2011: 4.487p) per Ordinary Share	19.2	19.2

The proposed final dividends for the years ended 31 May 2011 and 31 May 2012 were subject to approval by shareholders at the Annual General Meeting and hence have not been included as liabilities in the financial statements at 31 May 2011 and 31 May 2012 respectively.

At 31 May 2012, the Employee Share Option Trust held 334,856 Ordinary Shares (2011: 1,334,578 Ordinary Shares). The trust waived any entitlement to the dividends on these shares.

9 Earnings per share

	2012	2011
Profit attributable to Ordinary Equity Shareholders (£ million)	34.4	70.4
Basic earnings per share	8.03p	16.48p
Diluted earnings per share	7.99p	16.29p

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

	2012 Number 000	2011 Number 000
Basic weighted average	428,195	427,215
Diluted weighted average	430,629	432,048

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

	2012 Number 000	2011 Number 000
Basic weighted average Ordinary Shares in issue during the year	428,195	427,215
Dilutive effect of share incentive plans	2,434	4,833
Diluted weighted average	430,629	432,048

Adjusted earnings per share

	2012	2011
Basic earnings per share	8.03p	16.48p
Exceptional items	6.71p	(0.28)p
Adjusted basic earnings per share	14.74p	16.20p
Diluted earnings per share	7.99p	16.29p
Exceptional items	6.66p	(0.27)p
Adjusted diluted earnings per share	14.65p	16.02p

Notes to the consolidated financial statements continued

9 Earnings per share continued

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

	2012 £m	2011 £m
Profit attributable to Ordinary Equity Shareholders	34.4	70.4
Exceptional items (net of taxation effect)	28.7	(1.2)
Adjusted profit after tax	63.1	69.2

10 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 June 2010	34.7	128.3	163.0
Acquired during the year	11.1	58.4	69.5
Additions	–	0.4	0.4
Currency retranslation	–	1.0	1.0
At 31 May 2011	45.8	188.1	233.9
Acquired during the year (note 29)	–	24.6	24.6
Additions	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
Impairment loss	–	(9.7)	(9.7)
Currency retranslation	–	(0.4)	(0.4)
At 31 May 2012	45.8	202.6	248.4

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

On 24 January 2012, the Group acquired the Fudge brand, intellectual property, inventory and certain other business assets. The Fudge hair-care brand was valued at £24.6 million.

Goodwill and other intangible assets, which all have indefinite useful lives, are subject to annual impairment testing, or more frequent testing if there are indications of impairment. Intangible assets and goodwill are allocated to the appropriate cash-generating units (CGUs) based on the smallest identifiable group of assets that generates cash inflows independently in relation to the specific intangible/goodwill. In the prior year, the St Tropez, Sanctuary and Charles Worthington brands and associated goodwill were treated as individual CGUs and tested separately for impairment. Following the formation of the Beauty division and the associated transfer of the aforementioned brand-related trade and assets into the division in June 2011, the Directors consider the most appropriate level for testing the impairment of these brands and the newly acquired Fudge brand to be as one Beauty CGU. This represents a change from the prior year presentation, which has been restated accordingly. The recoverable amounts of the CGUs are determined from value-in-use calculations that use amounts from approved budgets and plans over a period of five years (2011: five years) and pre-tax cash flows projected forward assuming a perpetual growth rate of 2.3% (2011: 3.0%). The discount rate applied to the cash flow projections was 11.3% on a pre-tax basis (2011: 8.0% to 10.0%). The average per-annum growth rate applied to the initial period ranged from 5.0% to 20.0% (2011: 5.0% to 10.0%) and was based on industry growth rates. The net book value of goodwill and other intangible assets by CGUs was as follows:

	Goodwill 2012 £m	Goodwill 2011 £m	Other intangible assets 2012 £m	Other intangible assets 2011 £m
Original Source	–	–	9.8	9.8
Trix	–	–	–	9.6
Beauty division	40.4	40.4	188.2	163.6
Other	5.4	5.4	4.6	5.1
Total	45.8	45.8	202.6	188.1

The current year performance and forward projections of the Trix brand have been significantly affected by market competition and retailer rationalisation resulting in uncertainty over future expected cash flows. A decision was therefore made to fully impair the Trix brand at year-end. The loss has been charged within exceptional administrative expenses in the income statement.

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

11 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures fittings and vehicles £m	Assets in course of construction £m	Total £m
Cost					
At 1 June 2010	140.8	184.6	40.5	33.3	399.2
Currency retranslation	(8.2)	(7.1)	(1.5)	(2.1)	(18.9)
Acquisitions	–	–	0.1	–	0.1
Additions	2.3	3.5	2.4	14.0	22.2
Disposals	(0.2)	(1.7)	(3.6)	–	(5.5)
Reclassifications	11.3	16.7	11.7	(39.7)	–
At 31 May 2011	146.0	196.0	49.6	5.5	397.1
Currency retranslation	(0.6)	(1.7)	(0.9)	–	(3.2)
Additions	0.3	1.7	1.5	15.4	18.9
Disposals	(0.1)	(2.1)	(4.1)	(0.2)	(6.5)
Reclassifications	1.6	7.0	4.6	(13.2)	–
At 31 May 2012	147.2	200.9	50.7	7.5	406.3
Depreciation and amounts written off					
At 1 June 2010	16.4	110.5	30.3	–	157.2
Currency retranslation	(0.7)	(0.8)	(0.8)	–	(2.3)
Charge for the year	3.5	11.2	6.9	–	21.6
Disposals	(0.1)	(1.5)	(3.5)	–	(5.1)
At 31 May 2011	19.1	119.4	32.9	–	171.4
Currency retranslation	(0.5)	(3.4)	(0.9)	–	(4.8)
Charge for the year	9.7	5.4	7.4	–	22.5
Disposals	–	(1.7)	(3.0)	–	(4.7)
Impairment loss	–	12.4	–	–	12.4
At 31 May 2012	28.3	132.1	36.4	–	196.8
Net book values					
At 31 May 2012	118.9	68.8	14.3	7.5	209.5
At 31 May 2011	126.9	76.6	16.7	5.5	225.7

At 31 May 2012 the Group had entered into commitments for the acquisition of property plant and equipment amounting to £1.5 million (2011: £3.2 million). At 31 May 2012 the Group's share in the capital commitments of the joint ventures was £3.0 million (2011: £1.7 million).

A decision was made to impair the Australian manufacturing facilities at year end as part of the supply chain optimisation project. The loss has been charged within exceptional administrative expenses in the income statement.

Notes to the consolidated financial statements continued

12 Investments in joint ventures

	£m
Carrying value	
At 1 June 2010	(1 0)
Exchange differences on translation of overseas net assets recognised in equity	(3 5)
Share of result for the year taken to the income statement	0 4
At 31 May 2011	(4 1)
Exchange differences on translation of overseas net assets recognised in equity	1 3
Share of result for the year taken to the income statement	(0 2)
At 31 May 2012	(3 0)

	2012 £m	2011 £m
Aggregated amounts relating to joint ventures		
Total assets	100 2	67 7
Total liabilities	(106 5)	(75 9)
Net liabilities	(6 3)	(8 2)
Revenues	90 2	68 7
(Loss)/profit after taxation	(0 5)	0 8

The Group accounts for joint ventures using the equity method. A list of the investments in joint ventures including the name, country of incorporation and proportion of ownership interest is given in note 31.

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

	2012 £m	2011 £m
Investment in joint ventures – share of net liabilities	(3 0)	(4 1)
Long-term loans receivable from joint ventures	41 7	24 9
	38 7	20 8

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

13 Other investments

Non-current asset investments of £0.5 million (2011: £0.6 million) comprise a 31% investment in Norpalm Ghana Limited, a palm oil plantation in Ghana (note 31). 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 2012 and 31 May 2011.

14 Inventories

	2012 £m	2011 £m
Raw materials and consumables	67 7	58 5
Work in progress	7 5	9 6
Finished goods and goods for resale	98 4	83 6
	173 6	151 7

During the year ended 31 May 2012 £1.7 million (2011: £2.6 million) was charged to the income statement for damaged, obsolete and lost inventories. The cost of the inventories recognised as an expense and included in cost of sales amounts to £445.6 million (2011: £396.0 million).

15 Trade receivables and prepayments

Receivables due within one year

	2012 £m	2011 £m
Trade receivables	121.1	127.6
Less provision for impairment of trade receivables	(7.0)	(5.1)
Net trade receivables	114.1	122.5
Amounts owed by joint ventures	4.8	7.8
Other receivables	14.8	18.6
Prepayments and accrued income	7.3	6.5
Currency derivative instruments (note 18)	–	0.4
	141.0	155.8

Receivables due after more than one year

	2012 £m	2011 £m
Prepayments and accrued income	0.6	0.3
Other receivables	0.4	0.5
Total	1.0	0.8

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

	2012 £m	2011 £m
At 1 June	(5.1)	(8.5)
Provision for receivables impairment	(2.0)	(0.5)
Acquisition during the year	–	(0.2)
Receivables written off during the year	–	2.3
Unused amounts reversed	0.1	1.3
Currency translation	–	0.5
At 31 May	(7.0)	(5.1)

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

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

The credit period taken on sales ranges from 15 to 100 days (2011: 19 to 95 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 trade receivables are denominated in the following currencies:

	2012 £m	2011 £m
Sterling	26.6	28.0
US Dollar	6.0	5.5
Nigerian Naira	25.8	35.1
Euro	18.8	21.5
Polish Zloty	8.8	6.2
Indonesian Rupiah	10.5	9.0
Ghanaian Cedi	5.7	4.6
Australian Dollar	7.2	7.6
Other minor currencies	4.7	5.0
	114.1	122.5

Notes to the consolidated financial statements continued

15 Trade receivables and prepayments continued

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

	2012 £m	2011 £m
Not past due	94 7	104 4
Past due 0–90 days	18 6	15 7
Past due 90–180 days	0 6	1 0
Past due > 180 days	0 2	1 4
	114 1	122 5

16 Current asset investments

	2012 £m	2011 £m
Unlisted	0 3	0 3
Short-term deposits with joint ventures	6 7	10 3
	7 0	10 6

17 Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	34 2	24 0
Short-term deposits	31 7	64 7
Cash and short-term deposits	65 9	88 7
Less bank overdrafts (included in borrowings note 18)	–	(1 1)
Cash and cash equivalents	65 9	87 6

The effective interest rate on cash and cash equivalents during the year ended 31 May 2012 was 2.9% (2011 3.2%)

18 Borrowings

	2012 £m	2011 £m
Overdrafts due within one year	–	1 1
Bank loans due within one year	90 8	31 4
Bank loans due after one year	–	15 0
	90 8	47 5

The borrowings are repayable as follows

	2012 £m	2011 £m
Within one year	90 8	32 5
Between one to two years	–	15 0
	90 8	47 5

Bank overdrafts are repayable on demand. The weighted average rate of interest on bank overdrafts was 1.9% (2011 2.3%). Bank overdrafts are at floating rates of interest and hence expose the Group to cash flow interest rate risk. All covenants attached to borrowings have been complied with throughout the year.

18 Borrowings continued

All borrowings are at floating rate and the applicable weighted average interest rates are as follows

	2012 £m	2012 Interest rate (%)	2011 £m	2011 Interest rate (%)
Borrowings	90.8	1.7	47.5	1.4

The Group's borrowings were denominated in the following currencies

2012

	Sterling £m	Total £m
Analysis of borrowings by currency		
Bank loans	90.8	90.8
	90.8	90.8

2011

	Sterling £m	Total £m
Analysis of borrowings by currency		
Bank overdrafts	1.1	1.1
Bank loans	46.4	46.4
	47.5	47.5

The functional currency of the majority of Group entities is local currency. Debt raised in currencies other than Sterling is, in most cases, raised in the functional currency of the entity raising the debt.

At 31 May 2012, the Group had un-drawn facilities of £101.7 million (2011: £123.6 million) available to it. Subsequent to the year end, the Group has refinanced its committed borrowing facilities in the UK. The new facility provided by three banks is composed of a £45 million term loan and a £90 million revolving credit facility with a final termination date of 1 March 2016. The covenants are materially in line with the covenants of the previous facility.

Financial instruments and risk management

The Group's operations expose it to a variety of financial risks that include the effects of changes in foreign exchange rates, credit risk, liquidity and interest rates. The primary risk faced by the Group is exchange rate risk. The Board has reviewed and agreed policies for management of this risk and has also approved all of the classes of financial instruments that may be used by the Group. The Group's treasury function reports to the Board at least annually with reference to the application of the Group treasury policy. The policy addresses issues of liquidity, funding and investment as well as interest rate, currency and commodity risks.

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

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. It arises principally from lending, trade finance, treasury and leasing activities. 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 Group does not believe it is exposed to any material concentrations of credit risk.

Liquidity management

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

Notes to the consolidated financial statements continued

18 Borrowings continued

The Group has committed credit facilities with high-quality international banks. All of these facilities have similar or equivalent terms and conditions. The Group has negotiated facilities with its bankers that provide sufficient headroom to ensure liquidity and continuity of funding.

Market risk management

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

Foreign exchange risk

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.

Price risk

The Group is not exposed to equity securities price risk. 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.

Capital risk management

The Group's objectives when 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 optimal capital structure to reduce 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.

The Group had net (debt)/funds positions as at 31 May 2012 and 31 May 2011 respectively, as shown below:

	2012 £m	2011 £m
Cash at bank and in hand (see note 17)	34.2	24.0
Overdrafts (see note 17)	–	(1.1)
Short-term deposits (see note 17)	31.7	64.7
Cash and cash equivalents	65.9	87.6
Current asset investments	7.0	10.6
Bank loans less than one year	(90.8)	(31.4)
Bank loans greater than one year	–	(15.0)
Net (debt)/funds	(17.9)	51.8

Sensitivity analysis

A 10% weakening of the Pound Sterling against the following currencies at 31 May would have increased equity and increased/(decreased) profit/(loss) by the following amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2012		2011	
	Equity £m	Income statement £m	Equity £m	Income statement £m
Nigerian Naira	18.7	1.1	17.3	2.4
Euro	4.3	0.2	4.6	0.2
Indonesian Rupiah	3.9	0.7	4.2	0.6
Australian Dollar	2.0	(2.5)	3.5	0.7
Polish Zloty	2.2	0.3	2.5	0.2

A 10% strengthening of the Pound 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.

18 Borrowings continued

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

Fair values

Financial instruments utilised by the Group during the years ended 31 May 2012 and 31 May 2011 together with information regarding the methods and assumptions used to calculate fair values can be summarised as follows

Current and non-current investments

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

Current assets and liabilities

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

Borrowings and cash

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

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

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of the carrying values and fair values of all the Group's financial assets and financial liabilities as at 31 May 2012 and 31 May 2011. None of the financial assets and liabilities has been reclassified during the year

	2012 Carrying amount and fair value £m	2011 Carrying amount and fair value £m
Loans and receivables		
Cash and short-term deposits	65.9	88.7
Trade and other receivables	133.7	148.9
Short-term deposit with joint ventures	6.7	10.3
Financial derivative assets	–	0.4
Loans to joint ventures	41.7	24.9
Financial liabilities		
Trade and other payables	(182.6)	(206.5)
Bank overdrafts	–	(1.1)
Bank loans	(90.8)	(46.4)
Financial derivative liabilities	(0.8)	(0.6)
Amounts owed to joint ventures	(3.4)	(1.1)

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

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

	2012 £m	2011 £m
AA	26.4	46.0
A	8.6	15.1
B	30.0	27.6
C	0.9	–
Total	65.9	88.7

The short-term deposit of £6.7 million (2011: £10.3 million) is a repayable on-demand balance with Nutricima Ltd. The balance earns interest at a rate of 11% (2011: 7%)

Notes to the consolidated financial statements continued

18 Borrowings continued Derivative financial instruments

	2012		2011	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign exchange contracts – cash flow hedges	–	(0.8)	0.4	(0.6)
Total	–	(0.8)	0.4	(0.6)

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

Forward foreign exchange contracts

The net notional principal amounts of the outstanding forward foreign exchange contracts at 31 May 2012 were £39.6 million (2011: £33.3 million).

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 12 months. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 May 2012 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.

19 Trade and other payables

	2012 £m	2011 £m
Trade payables	104.0	117.8
Amounts owed to joint ventures	3.4	1.1
Other taxation and social security	5.2	11.1
Other payables	9.4	22.7
Financial derivative liabilities (note 18)	0.8	0.6
Accruals and deferred income	69.2	66.0
	192.0	219.3

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 56 days (2011: 55 days). The Directors consider the carrying amount of trade and other payables approximates their fair value.

20 Other non-current liabilities

	2012 £m	2011 £m
Other payables	0.9	1.9
Accruals and deferred income	–	0.3
	0.9	2.2

21 Deferred tax

	Property plant and equipment £m	Retirement benefit obligations £m	Revaluation of property plant and equipment £m	Tax losses and other timing differences £m	Business combinations £m	Share based payments £m	Total £m
At 1 June 2010	(12.8)	4.0	(14.2)	0.1	(29.3)	3.4	(48.8)
(Charge)/credit to income	(2.1)	(3.7)	–	(0.2)	1.0	(0.6)	(5.6)
Credit/(charge) to equity	–	0.6	–	(0.2)	–	1.2	1.6
Acquisition	–	–	–	–	(9.2)	–	(9.2)
Reclassification	–	(0.5)	–	0.5	–	–	–
Currency translation	1.5	0.2	1.5	0.1	–	–	3.3
At 31 May 2011	(13.4)	0.6	(12.7)	0.3	(37.5)	4.0	(58.7)
(Charge)/credit to income	(1.3)	(2.8)	(0.1)	10.0	2.9	(1.4)	7.3
Credit/(charge) to equity	–	2.5	–	0.3	–	(1.4)	1.4
Currency translation	(0.3)	–	(0.5)	(0.8)	–	–	(1.6)
Other	–	–	–	1.0	–	–	1.0
At 31 May 2012	(15.0)	0.3	(13.3)	10.8	(34.6)	1.2	(50.6)

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

	2012 £m	2011 £m
Deferred tax assets	10.7	10.3
Deferred tax liabilities	(61.3)	(69.0)
	(50.6)	(58.7)

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. At the balance sheet date, the Group recognised £8.1 million in respect of unused tax losses (2011: £0.4 million) available against future profits. None of the recognised losses are expected to expire. Temporary differences arising in connection with interests in associates and joint ventures are not significant.

22 Provisions

	Restructuring and warranty provisions £m
At 1 June 2010	3.1
Currency retranslation	(0.5)
Income statement	3.1
Utilised in the year	(2.0)
At 31 May 2011	3.7
Currency retranslation	(0.6)
Income statement	13.8
Utilised in the year	–
At 31 May 2012	16.9

Provisions as at 31 May 2012 relate to restructuring costs in connection with the formation of the Beauty division, other restructuring costs in relation to supply chain optimisation and warranty costs. Warranty costs account for £0.9 million (2011: £0.8 million) of the total and are expected to be utilised over a three year period. Restructuring provisions are expected to be utilised in the next 12 months.

Notes to the consolidated financial statements continued

23 Retirement benefits

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

	2012			2011		
	Surplus £m	Deficit £m	Total £m	Surplus £m	Deficit £m	Total £m
Expatriate plan	39.1	–	39.1	39.3	–	39.3
Directors plan	–	(4.3)	(4.3)	–	(8.3)	(8.3)
Main staff plan	–	(25.9)	(25.9)	–	(28.2)	(28.2)
Other overseas units	–	(6.9)	(6.9)	–	(5.4)	(5.4)
	39.1	(37.1)	2.0	39.3	(41.9)	(2.6)

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 2010	(7.3)	(7.4)	(14.7)
Currency retranslation	0.3	–	0.3
Income statement	(0.8)	6.3	5.5
Reclassification to provisions and other creditors	2.4	–	2.4
Contributions paid	–	6.7	6.7
Utilised in the year	0.5	–	0.5
Actuarial movement	(0.5)	(2.8)	(3.3)
At 31 May 2011	(5.4)	2.8	(2.6)
Currency retranslation	0.3	–	0.3
Income statement	(0.8)	1.0	0.2
Contributions paid	–	15.3	15.3
Utilised in the year	0.3	–	0.3
Actuarial movement	(1.3)	(10.2)	(11.5)
At 31 May 2012	(6.9)	8.9	2.0

Overseas retirement benefits and similar obligations

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

The most significant overseas scheme as at 31 May 2012 is the Indonesian post retirement benefit scheme. The obligations have been measured in accordance with IAS 19 and a discount rate of 6.75% (2011: 8.25%) and salary inflation rate of 8.0% (2011: 8.0%) have been used. The scheme is unfunded and provision for future obligations included in the above table is £5.5 million (2011: £3.9 million).

UK retirement benefits and similar obligations

Overview

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

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

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

23 Retirement benefits continued

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

The Group also operates an unfunded, unapproved retirement benefit scheme. The cost of the unfunded, unapproved retirement benefit scheme is included in the total pension cost on a basis consistent with IAS 19 'Employee benefits' and the assumptions set out below. In accordance with these unfunded arrangements, the Group made payments during the year to former Directors of £147,534 (2011: £141,338).

The last triennial actuarial valuations of the schemes administered in the UK were performed by independent professional actuaries at 1 June 2009 using the projected unit method of valuation.

The Group has finalised the de-risking exercise that was commenced in the prior year in relation to the enhanced transfer value exercise for deferred members of the main UK defined benefit pension scheme. The exceptional charge of £0.3 million is in respect of professional fees only. For the year to 31 May 2012, the total defined benefit pension credit arising from the three schemes amounted to £1.0 million (2011: credit of £6.3 million).

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

	2012	2011
Rate of increase in salaries	3.90%	4.35%
Rate of increase in retirement benefits in payment	2.90%	3.35%
Discount rate	4.60%	5.25%
Inflation assumption	2.90%	3.35%

The mortality assumptions used were as follows:

	2012 Years	2011 Years
Weighted average life expectancy on post-retirement mortality table used to determine benefit obligations		
– Member age 65 (current life expectancy)	22.5	22.1
– Member age 40 (life expectancy at age 65)	25.6	24.6

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

	2012 £m	2011 £m	2010 £m
Equities	6.60% 120.0	7.60% 121.0	7.75% 114.5
Bonds	2.85% 99.8	4.10% 96.9	5.90% 41.3
Property	4.90% 43.7	5.65% 38.8	5.90% 72.5
Cash and other	0.50% 9.8	0.50% 5.2	0.50% 8.1
Total fair value of scheme assets	273.3	261.9	236.4
Present value of scheme liabilities	(264.4)	(259.1)	(243.8)
Surplus/(deficit) in the schemes	8.9	2.8	(7.4)
Related deferred tax (liability)/asset	(2.1)	(0.7)	2.0
Net retirement benefit surplus/(deficit)	6.8	2.1	(5.4)

To develop the expected long-term rate of return on assets assumptions, the Group considered the level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset class in which the portfolio is invested, and the expectations for future returns of each class of asset. The expected return for each class of asset was then weighted based on the actual asset allocation to develop the expected long-term return on assets assumption for the portfolio. The actual gain on plan assets was £16.5 million (2011: £28.8 million).

Notes to the consolidated financial statements continued

23 Retirement benefits continued

The net retirement benefit income/(expense) before taxation recognised in the income statement in respect of the defined benefit schemes is summarised as follows

	2012 £m	2011 £m
Expected return on scheme assets	14.1	14.2
Interest cost	(13.1)	(13.4)
Net retirement benefit income before taxation	1.0	0.8

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

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

	2012 £m	2011 £m
Surplus/(deficit) at beginning of year	2.8	(7.4)
Income recognised in the consolidated income statement	1.0	0.8
Exceptional income recognised in the consolidated income statement	–	5.5
Contributions paid	15.3	6.7
Actuarial loss	(10.2)	(2.8)
Net surplus at end of year	8.9	2.8
Analysed between		
Retirement benefit surplus	39.1	39.3
Retirement benefit obligation	(30.2)	(36.5)

Actuarial gains and losses are recognised directly in the Consolidated statement of comprehensive income. At 31 May 2012 a cumulative pre-tax loss of £37.6 million (2011: £27.4 million) was recorded directly in the Consolidated statement of comprehensive income.

Movements in the fair value of plan assets were as follows

	Assets 2012 £m	Assets 2011 £m
1 June	261.9	236.4
Expected return on assets	14.1	14.2
Actuarial gains	2.4	14.6
Employer contribution	15.3	6.7
Benefits paid	(20.4)	(10.0)
31 May	273.3	261.9

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

	Obligations 2012 £m	Obligations 2011 £m
1 June	(259.1)	(243.8)
Interest cost	(13.1)	(13.4)
Actuarial losses	(12.6)	(17.4)
Past service credit	–	7.5
Plan settlements	–	(2.0)
Benefits paid	20.4	10.0
31 May	(264.4)	(259.1)
Plans that are wholly or partly funded	(260.3)	(254.4)
Plans that are wholly unfunded	(4.1)	(4.7)
	(264.4)	(259.1)

23 Retirement benefits continued

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

	2012	2011	2010	2009	2008
Defined benefit obligation	264.4	259.1	243.8	196.1	251.3
Plan assets	273.3	261.9	236.4	191.8	224.9
Benefit/(deficit)	8.9	2.8	(7.4)	(4.3)	(26.4)
Experience adjustments on plan assets	2.4	14.6	36.8	(42.0)	(16.9)
Experience adjustments on plan liabilities	(12.6)	(17.4)	(44.0)	61.5	(4.5)
Total actuarial gains and losses recognised in consolidated statement of changes in equity	(10.2)	(2.8)	(7.2)	19.5	(21.4)

During the year ending 31 May 2013 the Group expects to make cash contributions of £6.5 million (2012: £15.3 million) to funded defined benefit plans. A further £2.8 million (2012: £2.8 million) is expected to be contributed to defined contribution plans.

The amount recognised as an expense in the consolidated income statement in relation to defined contribution schemes is £2.8 million (2011: £3.3 million).

24 Share capital

	2012		2011	
	Number 000	Amount £m	Number 000	Amount £m
Authorised				
Ordinary Shares of 1p each	570,000	5.7	570,000	5.7
Total authorised share capital	570,000	5.7	570,000	5.7
Allotted, called up and fully paid				
Ordinary Shares of 1p each	428,725	4.3	428,725	4.3
Total called up share capital	428,725	4.3	428,725	4.3

25 Employee Share Option Trust

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

The ESOT purchases shares to fund the Deferred Annual Share Bonus Scheme, the Executive Share Option Scheme and the Performance Share Plan, details of which are provided in the Report on Directors' Remuneration. At 31 May 2012, the trust held 334,856 (2011: 1,334,578) Ordinary Shares with a book value of £1.0 million (2011: £3.9 million). The market value of these shares as at 31 May 2012 was £1.1 million (2011: £4.9 million). During the year, the ESOT purchased 854,383 shares of the Company at a cost of £2.8 million (2011: 780,650 at a cost of £2.3 million). The trust has waived any entitlement to dividends in respect of all the shares it holds.

26 Reconciliation of profit before tax to cash generated from operations

	2012 £m	2011 £m
Profit before tax	48.5	108.1
Adjustment for net finance expense/(income)	1.1	(0.8)
Operating profit	49.6	107.3
Depreciation	22.5	21.6
Impairment loss on intangible assets – exceptional	9.7	–
Impairment loss of tangible fixed assets – exceptional	12.4	–
(Profit)/loss on sale of tangible fixed assets	(0.5)	0.1
Pension scheme contributions paid	(15.3)	(6.7)
Net pension credit for the year	(0.2)	(6.0)
Share of results from joint ventures	0.2	(0.4)
Share-based payment (credit)/charges	(0.5)	2.3
Operating cash flows before movements in working capital	77.9	118.2
Movements in working capital:		
Inventories	(18.3)	(21.5)
Receivables	12.2	(36.8)
Payables	(26.1)	52.0
Provisions	11.8	1.1
Cash generated from operations	57.5	113.0

Notes to the consolidated financial statements continued

27 Operating lease commitments

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

	2012 £m	2011 £m
Within one year	2.8	4.5
In the second to fifth years inclusive	9.1	10.4
Over five years	7.5	10.1

The Group leases a number of premises. These are subject to review dates ranging from 2012 to 2023.

28 Share-based payments

The Group makes share-based payments to senior executives under three schemes. These are the Performance Share Plan, Deferred Annual Share Bonus Scheme and the Executive Share Option Scheme. The total credit in the year relating to the three schemes was £0.5 million (2011: charge £2.3 million).

Executive Share Option Scheme

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

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

Fair value is measured by use of a Black-Scholes model according to the relevant measures of performance. The model includes adjustments based on management's best estimate for the effects of exercise restrictions, behavioural considerations and expected dividend payments. The option life is derived by the models based on these assumptions and other assumptions identified below. The total expense included within operating profit in respect of the share option scheme was nil (2011: nil).

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

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

	Number of share options	Weighted average exercise price £
Outstanding at 1 June 2010	2,604,470	1.4
Exercised	(868,756)	1.4
Outstanding at 31 May 2011	1,735,714	1.4
Exercisable at 31 May 2011	1,735,714	1.4
Lapsed	(26,837)	1.1
Exercised	(234,091)	1.3
Outstanding at 31 May 2012	1,474,786	1.5
Exercisable at 31 May 2012	1,474,786	1.5

	Price/share £	Weighted average exercise price £
Range of prices		
31 May 2012	0.7-1.7	1.5
31 May 2011	0.7-1.7	1.4

	Number of share options	Weighted average contract term (years)
Weighted average contractual remaining life		
31 May 2012	1,474,786	4.0
31 May 2011	1,735,714	5.0

28 Share-based payments continued

There were no options outstanding at 31 May 2012 or 31 May 2011 that are outside of the scope of IFRS 2 Share-based payments

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 rights vest will depend upon the Group's performance over the three year period following the award date. The Group's performance is measured by reference to the growth of adjusted earnings per share over the retail price index over a single three year period. The fair value of the award is taken as the share price at the date of grant.

On 21 July 2011 the Group made 1,038,070 awards under the PSP scheme (2011: 973,908). The number of shares exercised in the year was 1,399,482 at a market value of £4,719,665 based on the market price at the date of exercise. In addition the number of lapsed share options totalled 56,572. The number of awards outstanding but not yet exercisable is 3,029,109 at 31 May 2012 (2011: 3,447,093). The total credit included in operating profit in relation to these awards was £0.5 million (2011: expense £2.3 million). The credit relates to the movement in the cumulative charge for the awards in issue based on expected vesting.

29 Acquisitions

2012

Cost of acquisitions

	£m
2% of share capital of PZ Cussons Nigeria Plc	8.6
Acquisition of Fudge hair-care brand and related inventory	26.3
	34.9

(i) Acquisition of 2% of share capital of PZ Cussons Nigeria Plc

Throughout the year to 31 May 2012 the Group has acquired additional share capital of its existing subsidiary PZ Cussons Nigeria Plc increasing the Group's stake from 66.8% to 68.8%. The consideration for these additional shares was £8.6 million resulting in the acquisition of a non-controlling interest of £3.1 million and an amount debited to the consolidated statement of changes in equity of £5.5 million.

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

The Fudge brand intellectual property, inventory and certain other business assets were acquired from Sabre Corporation (Aus) Pty Ltd and Sabre Europe (UK) Ltd in an asset deal which completed on 24 January 2012. No legal entities were acquired. The consideration paid at completion was £26.0 million and was settled in cash. A further £0.3 million was paid after completion. No further consideration is due and there are no clauses for contingent consideration at a future date. Fudge brand sales have contributed revenue of £5.0 million and operating profit of £1.0 million to the Group's result in the four months since acquisition. Details of the acquisition are as follows:

(a) Purchase consideration and provisional fair value of net assets acquired

	£m
Total purchase consideration	26.3

The provisional assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional fair value £m
Intangible assets	24.6
Inventories	2.1
Other creditors	(0.4)
Net identifiable assets acquired	26.3
Goodwill	–
Consideration paid	26.3

(b) Acquisition related costs

Acquisition related costs of £1.1 million are included in the income statement and are treated as exceptional.

(iii) Prior year acquisition of St Tropez Holdings Ltd

No fair value adjustments have been made in the current year in relation to the prior year acquisition of St Tropez Holdings Ltd. The fair values of assets and liabilities acquired, which were disclosed as provisional in the prior year financial statements, are now final.

Notes to the consolidated financial statements continued

30 Related party transactions

Milk Ventures (UK) Limited and Nutricima Ltd

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

At 31 May 2012 the outstanding long-term loan balance receivable from Milk Ventures (UK) Ltd was £23.7 million (2011: £23.7 million). The Group received interest from Milk Ventures (UK) Ltd of £0.1 million (2011: £0.1 million).

The Group sourced and then sold fixed assets, power and raw materials to Nutricima Ltd to the value of £41.2 million (2011: £52.1 million). In addition the Group received distribution fee income of £5.0 million (2011: £4.3 million) from Nutricima Ltd. At 31 May 2012 the amount outstanding from Nutricima Ltd was £4.4 million (2011: £7.7 million). The amount outstanding from the Group at 31 May 2012 was nil (2011: £1.1 million).

During the year the Group advanced a short-term deposit to Nutricima Ltd. This is repayable on demand and interest is charged at market rates. As at 31 May 2012 the outstanding balance was £6.7 million (2011: £10.3 million).

All trading balances will be settled in cash.

There were no provisions for doubtful related party receivables at 31 May 2012 (2011: nil) and no charges to the income statement in respect of doubtful related party receivables (2011: nil).

PZ Wilmar Ltd

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 Ltd.

At 31 May 2012 the outstanding long-term loan balance receivable from PZ Wilmar Ltd was £18.0 million (2011: £1.2 million).

The Group sourced and then sold certain raw materials to PZ Wilmar Ltd to the value of £0.4 million (2011: £2.6 million). At 31 May 2012 the amount outstanding from PZ Wilmar Ltd was £0.5 million (2011: £0.1 million). The amount outstanding from the Group at 31 May 2012 was £3.3 million (2011: nil).

All trading balances will be settled in cash.

There were no provisions for doubtful related party receivables at 31 May 2012 (2011: nil) and no charges to the income statement in respect of doubtful related party receivables (2011: nil).

31 Subsidiaries, joint ventures and non-current asset investments

Details of the Company's principal subsidiaries at 31 May 2012 are as follows

Company	Operation	Incorporated in	Parent Company's interest	Proportion of voting interest
PZ Cussons Australia Pty Ltd	Manufacturing	Australia	†100%	†100%
PZ Cussons Middle East and South Asia FZE	Distribution	Dubai	†100%	†100%
Seven Scent Ltd	Manufacturing	England	†100%	†100%
PZ Cussons (Holdings) Ltd	Holding Company	England	*100%	*100%
PZ Cussons (International) Ltd	Provision of services to Group companies	England	*100%	*100%
PZ Cussons (UK) Ltd	Manufacturing	England	†100%	†100%
PZ Cussons Ghana Ltd	Manufacturing	Ghana	†90%	†90%
Minerva SA	Manufacturing	Greece	*100%	*100%
PT PZ Cussons Indonesia	Manufacturing	Indonesia	†100%	†100%
PZ Cussons East Africa Ltd	Manufacturing	Kenya	†100%	†100%
HPZ Ltd ¹	Manufacturing	Nigeria	†52%	†52%
PZ Cussons Nigeria Plc	Manufacturing	Nigeria	†69%	†69%
Harefield Industrial Nigeria Ltd	Distribution	Nigeria	†100%	†100%
PZ Power Company Ltd	Power generation	Nigeria	†69%	†69%
PZ Tower Ltd	Manufacturing	Nigeria	†69%	†69%
PZ Cussons Polska SA	Manufacturing	Poland	†99%	†99%
PZ Cussons (Thailand) Ltd	Manufacturing	Thailand	†100%	†100%

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

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

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

¹ HPZ Ltd is 74.99% owned by PZ Cussons Nigeria Plc and is therefore consolidated

* Shares held by the Parent Company

† Shares held by a subsidiary

Five year financial record

Year to 31 May	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Operating profit before exceptional items	93.4	108.1	101.4	90.6	76.4
Net finance (expense)/income	(1.1)	0.8	0.4	(1.8)	0.1
Profit before taxation and exceptional items	92.3	108.9	101.8	88.8	76.5
Exceptional items	(43.8)	(0.8)	–	(4.4)	–
Profit before taxation	48.5	108.1	101.8	84.4	76.5
Taxation	(10.5)	(28.2)	(29.1)	(24.0)	(21.2)
Profit for the year	38.0	79.9	72.7	60.4	55.3
Attributable to					
Equity holders of the parent	34.4	70.4	63.7	49.6	47.0
Non-controlling interests	3.6	9.5	9.0	10.8	8.3
Net assets attributable to equity owners of the Company	458.3	474.0	454.8	389.9	348.7
Nets (debt)/funds	(17.9)	51.8	86.5	23.2	(32.0)
Per Ordinary Share					
Basic earnings	8.03p	16.48p	14.89p	11.64p	11.04p
Adjusted basic earnings	14.74p	16.20p	14.89p	12.39p	10.78p
Dividend (interim and final declared post year-end)	6.717p	6.61p	5.90p	5.27p	4.70p
Times cover – after exceptional items	1.2	2.5	2.5	2.2	2.3
Times cover – before exceptional items	2.2	2.5	2.5	2.4	2.3
Net assets	106.90p	110.56p	108.08p	90.94p	81.33p

Independent auditors' report to the members of PZ Cussons Plc

We have audited the Parent Company financial statements of PZ Cussons Plc for the year ended 31 May 2012 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 49, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 31 May 2012
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

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

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

Other matter

We have reported separately on the Group financial statements of PZ Cussons Plc for the year ended 31 May 2012.

Nicholas Boden (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
24 July 2012

Company balance sheet

At 31 May 2012

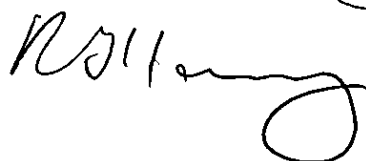
	Notes	2012 £m	2011 £m
Fixed assets			
Investments			
Subsidiary companies	4	123 4	123 4
		123 4	123 4
Current assets			
Debtors falling due within one year	5	131 2	106 2
Investments	6	0 3	0 3
		131 5	106 5
Creditors – amounts falling due within one year	7	(218 8)	(178 7)
Net current liabilities		(87 3)	(72 2)
Total assets less current liabilities		36 1	51 2
Creditors – amounts falling due after one year	7	(6 2)	(21 2)
Net assets		29 9	30 0
Capital and reserves			
Equity ordinary share capital	8	4 3	4 3
Capital redemption reserve	9	0 7	0 7
Profit and loss account	9	24 9	25 0
Total shareholders' funds		29 9	30 0

Approved by the Board of Directors and signed on its behalf by

R Harvey
24 July 2012

G A Kanellis

PZ Cussons PLC
Registered number 19457

Notes to the Company financial statements

1 Accounting policies

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

Basis of preparation

The accounts have been prepared in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice (UK GAAP) under the historical cost convention. As permitted by section 408 of the Companies Act 2006, an entity profit and loss account is not included as part of the published consolidated financial statements of PZ Cussons Plc. The profit for the financial year dealt with in the accounts of the Parent Company is £31.7 million (2011: £21.6 million).

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

Amounts paid to the Company's auditors in respect of the statutory audit were £6,000 (2011: £6,000).

Foreign currencies

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

Taxation and deferred taxation

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

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

Borrowing costs

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

Financial instruments

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

Borrowings

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

Financial liabilities and equity

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

Current asset investments

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

Own shares held by ESOT

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

Dividend distribution

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

Notes to the Company financial statements continued

1 Accounting policies continued

Investments in subsidiaries

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

Critical accounting policies and estimation uncertainties

None of the above accounting policies are considered to be critical to the financial statements of the Company. There are no significant areas of estimation uncertainty.

New accounting policies

The Company has not adopted any new United Kingdom Financial Reporting Standards in the year and there are none in issue but not yet effective that are expected to have an impact on the Company.

2 Directors' emoluments

	2012 £m	2011 £m
Aggregate amount of Directors' emoluments	2.8	4.3
Emoluments of the highest paid Director	0.6	0.7

For the year ended 31 May 2012 the highest paid Director received Company pension contributions of £95,000 (2011: £90,000).

3 Dividends

	2012 £m	2011 £m
Amounts recognised as distributions to Ordinary Shareholders in the year comprise		
Final dividend for the year ended 31 May 2011 of 4.487p (2010: 3.970p) per Ordinary Share	19.2	17.0
Interim dividend for the year ended 31 May 2012 of 2.23p (2011: 2.123p) per Ordinary Share	9.6	9.0
	28.8	26.0
Proposed final dividend for the year ended 31 May 2012 of 4.487p (2011: 4.487p) per Ordinary Share	19.2	19.2

The proposed final dividends for the years ended 31 May 2011 and 31 May 2012 were subject to approval by shareholders at the Annual General Meeting and hence have not been included as liabilities in the financial statements at 31 May 2011 and 31 May 2012 respectively.

At 31 May 2012, the Employee Share Option Trust held 334,856 Ordinary Shares (2011: 1,334,578 Ordinary Shares). The trust waived any entitlement to the dividends on these shares.

4 Investments in subsidiaries

	Shares £m	Loans £m	Total £m
Cost at 1 June 2011 and 31 May 2012	125.0	3.0	128.0
Provisions at 1 June 2011 and 31 May 2012	(4.6)	—	(4.6)
Net book value at 31 May 2012	120.4	3.0	123.4
Net book value at 1 June 2011	120.4	3.0	123.4

Details of the Company's direct subsidiaries at 31 May 2012 are as follows:

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

5 Debtors

	2012 £m	2011 £m
Amounts owed by Group companies	130.7	104.2
United Kingdom corporation taxation recoverable	-	1.4
Overseas taxation recoverable	-	0.1
Deferred taxation	0.5	0.5
	131.2	106.2

£19.7 million (2011: £34.7 million) of amounts owed by Group companies are interest bearing and are based on market rates of interest. £111.0 million (2011: £69.5 million) of amounts owed by Group companies are non-interest bearing. All of the balances are unsecured, have no fixed date of repayment and are repayable on demand.

6 Current asset investments

	2012 £m	2011 £m
Unlisted	0.3	0.3

7 Creditors

	2012 £m	2011 £m
Due within one year		
Bank loan	89.4	62.0
Amounts owed to Group companies	123.7	111.9
United Kingdom corporation taxation payable	5.6	4.5
Overseas corporation taxation payable	-	0.1
Accruals and deferred income	0.1	0.2
	218.8	178.7

	2012 £m	2011 £m
Due after one year		
Bank loan	-	15.0
Amounts owed to Group companies	6.2	6.2
	6.2	21.2

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

At 31 May 2012, the Company had undrawn overdraft facilities of £10.0 million (2011: £30.0 million) available to it and committed facilities of £45.0 million (2011: £61.0 million).

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 2012 and 31 May 2011, together with information regarding the methods and assumptions used to calculate fair values, can be summarised as follows:

Current asset investments

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

Current assets and liabilities

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

Borrowings

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

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

Notes to the Company financial statements continued

8 Share capital

	2012		2011	
	Number 000	Amount £m	Number 000	Amount £m
Authorised				
Ordinary Shares				
Ordinary Shares of 1p each	570,000	5.7	570,000	5.7
Total authorised share capital	570,000	5.7	570,000	5.7
Allotted, called up and fully paid				
Ordinary Shares				
Ordinary Shares of 1p each	428,725	4.3	428,725	4.3
Total called up share capital	428,725	4.3	428,725	4.3

9 Reserves and movements in shareholders' funds

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

10 Employee Share Option Trust

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

The ESOT purchases shares to fund the Deferred Annual Share Bonus Scheme, the Executive Share Option Scheme and the Performance Share Plan, details of which are provided in the Report on Directors' Remuneration. At 31 May 2012, the trust held 334,856 (2011: 1,334,578) Ordinary Shares with a book value of £1.2 million (2011: £3.9 million). The market value of these shares as at 31 May 2012 was £1.1 million (2011: £4.9 million). During the year, the ESOT purchased 854,383 shares of the Company at a cost of £2.8 million (2011: 780,650 at a cost of £2.3 million). The trust has waived any entitlement to dividends in respect of all the shares it holds.

11 Share-based payments

The Company makes share-based payments to senior executives under a Performance Share Plan and until 31 May 2010 a Deferred Annual Share Bonus Scheme. The total credit in the year relating to the two schemes was £0.3 million (2011: £1.3 million charge).

Performance Share Plan

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

On 21 July 2011, the Group made 1,038,070 awards under the PSP scheme (2011: 973,908). The number of shares exercised in the year was 1,399,482 at a market value of £4,719,665 based on the market price at the date of exercise. In addition, the number of lapsed share options totalled 56,572. The number of awards outstanding but not yet exercisable is 3,029,109 at 31 May 2012 (2011: 3,447,093). The total credit included in operating profit in relation to these awards was £0.3 million (2011: expense £1.3 million). The credit relates to the movement in the cumulative charge for the awards in issue based on expected vesting.

12 Contingent liabilities

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 2012 was £82.0 million (2011: £40.0 million).

In addition, the Company is party to cross guarantee arrangements relating to an overdraft facility for certain Group companies' accounts at Barclays Bank Plc. The maximum exposure at 31 May 2012 was £10.0 million (2011: £10.0 million).

Further statutory and other information

Health and safety

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

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

Employment and staff development

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

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

Community and charity

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

Auditor

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

Directors' report of PZ Cussons Plc

For the purposes of section 234 of the Companies Act 2006, the report of the Directors of PZ Cussons Plc for the year ended 31 May 2012 comprises this page and the information contained in the Report of the Directors on pages 34 to 36.

Registered office

Manchester Business Park
3500 Aviator Way
Manchester
M22 5TG

Registered number

Company registered number 19457

Registrars

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PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Company secretary

S P Plant