Company Registration No. 19457

PZ Cussons PLC

Annual Report and Accounts

31 May 2010

pz
Cussons

Building our success

PZ Cussons Plc
Annual Report & Accounts 2010

PZ Cussons is an international consumer products group.

Our mission is to be an entrepreneurial international company, enhancing the lives of consumers in selected markets with quality, value and innovation.

We have built our success on our:

4 strategic pillars

Overview

Report of the Directors

Accounts

Highlights 2010

Revenue

£771.6m
(2009 £781 8m)

Net funds

£86.5m
(2009 £23 2m)

Operating profit before exceptional items

£101.4m
Up 11 9% (2009 £90 6m)

Profit before taxation and exceptional items

£101.8m
Up 14 6% (2009 £88 8m)

Adjusted basic earnings per share

14.89p
Up 20 2% (2009 12 39p)

Dividend per share

5.90p
Up 12 0% (2009 5 27p)

Group

- Strong trading performance delivering 11 9% increase in operating profit to £101 4 million
- Operating margins improved despite revenue flat after currency impact
- Strong cash flow from operations benefited from continued reduction of working capital and resulted in a closing net funds position of £86 5 million
- Major capital investment programme now complete with £44 3 million expenditure in the year funded from cash flow
- Total dividend increased 12 0% year on year

Africa

- Main market Nigeria politically stable ahead of elections scheduled for Spring 2011
- Operating profit increased despite negative currency impact and a short-term liquidity squeeze which affected revenue and profitability in the second quarter
- Nutrition joint venture continues to trade profitably with new UHT factory performing well
- £39 million investment programme in Nigeria completed on schedule

Asia

- Increase in profitability across Australia, Indonesia and the Middle East
- Growth achieved through the roll out of both local and group-wide innovation pipeline

Europe

- Strong growth in UK profitability delivered through an effective brand renovation programme and despite an uncertain consumer outlook
- Continued progress in Poland through a particular focus on Personal Wash
- A good start to the year in Greece although trading in the second half became more difficult due to the deteriorating economic environment

Regional overview

Africa

Our diverse geographical spread has ensured that the Group's successful track record of profitable growth continues with our strategy of 'local brands for local markets' enabling us to tailor our product offering appropriately in each territory to suit local consumer needs and economic conditions.

Africa continues to be our largest market and opportunities for growth within the region continue due to our knowledge of the markets and strength of supply chain

In the Personal and Home Care markets renovation of key brands has ensured that they remain in leading positions within their growing categories

The investment in Nigerian manufacturing capability and supply chain is complete including the upgrade of personal care production facilities the construction of a national distribution centre and the upgrade of soap manufacturing capability
The new state of the art detergent tower is currently being commissioned and this investment has laid the platform for sustainable long-term growth in Nigeria

Home Care
Rex Tempo ZIP Jet

Personal Care
Venus Robb Joy Premier

Electrical Goods
Haier-Thermocool
TEC

Food and Nutrition
Nunu
Coast
Yo!
Olympic

Revenue and Operating Profit (£m)

-o- Operating Profit before exceptional items

Asia

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

The first class distribution network in emerging markets is a key strength of the business and enables us to deliver our brands to market efficiently with a speedy response to changing consumer needs

Renovation of our key brands in these markets both during the year and in the coming months has and will ensure that these brands maintain their leading positions within the respective markets Furthermore the roll out of the group-wide innovation pipeline presents further opportunities for growth

Baby Care
Cussons Baby
Cussons First Years

Personal Care
Imperial Leather
Pure

Home Care
Radiant
Morning Fresh
Trix
Duo

Revenue and Operating Profit (£m)

-o- Operating Profit before exceptional items

Europe

Our selected markets in Europe range from personal wash and household in the UK and Poland; premium bodycare, beauty products and haircare in the UK, and food and nutrition in Greece

Product innovation is key to maintaining the leading positions within these markets During the year Charles Worthington launched the Front Row high performance styling range and the core Results range is about to be re-launched Imperial Leather has continued to add to its range of products the latest being Skin Kind shower gel whilst Carex (the UK s number one antibacterial hand wash) is currently being re-launched with a new design and formula

This product innovation from the UK Personal Wash Centre of Excellence is being shared with Poland This will see Luksja launch its own Skin Kind' range in the near future

The Food and Nutrition business in Greece is making good progress in the cheese and butter categories following the acquisitions made last year

Personal Care
Original Source Imperial Leather Carex Luksja

Food and Nutrition
Minerva
Burrino

Hair Care
Charles Worthington

Home Care
Morning Fresh E

Beauty and Bodycare
The Sanctuary

Revenue and Operating Profit (£m)

-o- Operating Profit before exceptional items

Chairman's statement

A clear focus on the strategy of selected markets, leading brands, a world class supply chain and a great team of people has enabled continued sustainable profitable growth through a challenging trading environment.

12%

The Board is pleased to recommend a 12% dividend increase

In 2010 the Group delivered a strong performance with profitable growth in all three regions of Africa Asia and Europe

Cash generation even after £44 3 million of capital investment in the year has been strong and the closing net funds position of £86 5 million leaves the Group well placed to pursue growth opportunities

The Board is therefore pleased to recommend a 12% dividend increase maintaining excellent cover at 2 5 times

It is with great pleasure that I have taken up the role from 1 July 2010 of Non-executive Chairman This follows the retirement on 30 June, of Anthony Green who has served the Group for 35 years the last 17 of which in the capacity of Chairman

Anthony s contribution to the Group over this time has been outstanding and as Chairman he has guided the business and the Board to achieve profitable growth year after year During his tenure the Group has diversified its geographical reach and expanded its brand portfolio whilst managing its balance sheet prudently which has served the Group well particularly in recent economic times Anthony has epitomised the Group s culture of an entrepreneurial spirit underpinned by family values Anthony retained the family values of the founders whilst allowing the Board to modernise these into the CANDO values which serve the Group so well as we move into the future

I would also like to pay tribute to Graham Calder who retired on 31 March 2010 after 14 years with the Group joining as Finance Director and taking up the position of Deputy Chairman in 2006 Graham s energy drive and passion helped support the Board through an exciting period of growth Our thanks and best wishes go to them both for a long and happy retirement

I am delighted that I have joined a Group with a culture of drive and innovation There is no doubt that many of the countries in which we trade face challenging economic times as they emerge from recession Attractive high quality and competitively priced products will be essential We look ahead with cautious optimism and with an entrepreneurial spirit despite an uncertain consumer outlook in a number of markets

I would like to take this opportunity to thank all the Group s staff for their continued hard work and dedication Your skill and commitment will be essential in maintaining our progress and I very much look forward to working with you in the future

Richard Harvey
Non-executive Chairman
27 July 2010

Our mission

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

Our vision

- We are a profitable, growing business, working in selected geographies, we are flexible and dynamic
- We market and distribute leading brands, across a range of categories, that offer high value to our customers and consumers
- We have simple, transparent and common processes across our company.
- We are trusted and respected everywhere we operate.
- We live our values to the full
- We work together as a multi-cultural meritocracy where individual contribution is expected, appreciated, and rewarded.

Financial review

The Directors present their report and the audited financial statements of the Group for the year ended 31 May 2010.

This year's highlights at a glance:

- Operating profit* increased by 11.9% to £101.4 million from £90.6 million
- Profit before tax and exceptional items increased by 14.6% to £101.8 million from £88.8 million
- Profit before tax after exceptional items increased by 20.6% to £101.8 million from £84.4 million
- Adjusted basic EPS* increased by 20.2% to 14.89p from 12.39p
- Proposed dividend increase for the year of 12.0% to 5.90p from 5.27p
- Net funds at 31 May 2010 of £86.5 million up from £23.2 million

* Before exceptional items

Adjusted basic EPS (pence)

+20.2%

Dividend (pence)

+12.0%

Revenue (£m)

(1.3)%

Operating profit before exceptional items (£m)

+11.9%

£86.5m

The Group's balance sheet remains healthy with a closing net funds position of £86 5 million versus a prior year close of £23 2 million

Financial performance – overview
The Group has delivered a strong performance in the year despite challenging trading conditions in some markets

Europe and Asia have performed particularly well through organic growth delivered by consistent execution of brand renovation strategies tailored for each local market

In Africa a tightening of banking controls in Nigeria led to a temporary lack of liquidity in the second quarter which affected sales, particularly of goods in the higher value electrical goods category Liquidity began to return to more normal levels in the second half of the year The Naira/US$ exchange rate has also been stable during the year following a weakening towards the end of the previous year Despite the liquidity and currency impact and with the Nutrition joint venture returning to profitability operating profits in Africa increased year on year

Overall exchange rate impact for the Group in the year resulted in a reduction in revenue and profitability of circa £18 million and £3 million respectively Revenue year on year was flat due principally to the adverse currency impact and the effect of the liquidity squeeze in Nigeria

During the year in addition to delivery of operating profit in absolute terms internal focus has also been placed on improving operating margins

Financial position – overview
The Group s balance sheet remains healthy with a closing net funds position of £86 5 million versus a prior year close of £23 2 million

This has been achieved through continued focus on reducing working capital levels across all areas of the business Having reduced levels from 26% to 16% of revenue last year a further reduction to 13% of revenue has been achieved this year

Cash generated from operations was significant at £160 8 million (2009 £145 2 million) as a result of strong profitability and the reduction in working capital levels This has therefore funded capital expenditure of £44 3 million in the final year of the Group s major capital investment programme whilst still increasing the net funds position to £86 5 million

Key performance indicators
For the Group the key performance indicators are growth in adjusted basic earnings per share as well as the delivery of growth in operating profit and profit before tax in absolute terms

In terms of performance the Group targets operating units on delivery of operating profit in absolute terms and the ongoing delivery of improvements in operating margins

In terms of cash flow the Group targets operating units on delivery of cash flows in absolute terms as well as improvements in working capital measures

The Group performance in the year has delivered improvements in all the above key performance indicators

Major projects
In Nigeria Project Unity which is the £39 million investment in manufacturing and supply chain has been completed on schedule with the final commissioning of the new detergent tower being carried out over the next few months

During the last three years this project has
- Relocated and upgraded the personal care production facility
- Constructed a world-class national distribution centre on the Ikorodu site
- Upgraded the soap manufacturing capability at Aba and
- Constructed a new state-of-the-art detergent production facility at Ikorodu

This has therefore laid the platform for sustainable long-term growth in our Personal Care and Home Care businesses as well as upgrading the distribution capability

The Group's major capital investment programme is now complete with no significant further organic capital projects currently planned

Taxation
The effective tax rate before exceptional items was 28 6% (2009 28 4%)

Dividends
The Board is recommending a final dividend of 3 97p per share (2009 4 085p) to give a total dividend of 5 90p per share (2009 5 27p) a 12% increase for the year As explained in the Interim Statement the interim/final payment ratio for the year has been rebalanced in line with normal practice

Pensions
The Group s three closed UK final salary schemes had a small deficit position at 31 May 2010 of £7 4 million (2009 £4 3 million) The Group is currently implementing a number of long-term de-risking strategies including an enhanced transfer value programme which will commence in the next financial year

Outlook
The outlook for the year remains positive with significant brand renovation programmes planned across Europe Asia and Africa With the major capital investment programmes in the UK and Nigeria now complete the Group is well placed for efficient manufacturing and distribution in these territories

Whilst the Group s innovation pipeline should provide the potential for continued profitable growth we remain conscious of the competitive trading environment and fragile consumer confidence particularly in the UK and Greece

As previously mentioned the Nigeria elections scheduled for Spring 2011 may cause some disruption to trading towards the end of the financial year

Continued focus remains on cash generation through further reductions in working capital levels and with a smaller capital expenditure programme to fund

The Group s balance sheet remains strong with a net funds position and the Group is well placed to pursue further growth opportunities

Overall performance since the year-end has been in line with management s expectations We look ahead with cautious optimism and an entrepreneurial spirit despite an uncertain consumer outlook in a number of markets

Business review

The strategy of tailoring brand offerings to suit local markets has proved particularly valuable during the recent difficult trading conditions seen in certain markets in which we operate. Brand innovation and the ability of local teams to adapt quickly to changing market conditions has ensured continued success throughout the regions.

Africa

Focus on the core categories within the Personal and Home Care markets has ensured that the region has delivered another year of profitable growth. Effective renovation of key brands and continued focus on these core categories has ensured that they have retained their leading positions during the year.

Regional highlights:

- Nigeria politically stable ahead of elections scheduled for Spring 2011
- Operating profit increased despite negative currency impact and a short-term liquidity squeeze which affected revenue and profitability in the second quarter
- Nutrition joint venture continues to trade profitably with new UHT factory performing well
- £39 million investment programme in Nigeria completed on schedule

In **Nigeria** the political environment is now stable following the death of the former President and the appointment of the Vice-President as President a few months ago Elections are currently scheduled for Spring 2011 and whilst the medium to long-term political outlook is healthy some short-term risk of disruption from the election process exists towards the end of the 2011 financial year

Economically a strengthening of banking controls in the second quarter led to a short-term liquidity squeeze with distributors mainly of higher value electrical goods unable to access previous levels of credit for working capital At a macro level the Naira/US$ exchange rate has been stable throughout the year and foreign exchange reserves should remain sustainable with the oil price at current levels The outlook for the economy remains healthy with positive GDP rates continuing

During the year the Group's holding in its listed Nigerian subsidiary was increased from 64 0% to 66 1% at a cost of £6 8m

Revenue (£m)

Operating profit (£m)

Robb
Robb is Nigeria s leading brand of medicated ointment with products for the entire family Recently it has been re-launched and three new variants were added to the Robb family Robb Junior specifically developed for children Robb Super Intense Heat and Robb Tarzan Herbal

Building our success

Africa

Selected markets

We have a long standing presence in the Nigerian Fabric Care market Traditionally this market had consisted of laundry bar products

The market has developed over the past decade and powdered formats are becoming more widely accepted and used The market for bulk powders that are split into smaller volumes by distributors in the market place has grown over the past few years and now more premium packaged formats are increasing in popularity as disposable income increases in line with growth in the Nigerian economy The new powder formats will also allow the Group to enter into other African markets

Leading brands

In Africa, we have several leading Fabric Care brands with offerings in the economy, mid and premium segments

Brands are continuously reviewed and renovated to ensure that the leading positions are maintained and include ZIP Jet Canoe Rex and Ushindi ZIP is a key strategic brand for our Nigerian Fabric Care category offering the consumer outstanding brightness and whiteness at an everyday affordable price The Canoe laundry bar has been re-launched in Nigeria as a more premium laundry bar offering In Kenya we have recently extended Ushindi from a laundry bar into the laundry powder market highlighting its mild and gentle properties

Great team of people

A great team of people is vital to ensure the continued development of the business

The Fabric Care network ensures that local teams can both contribute to and draw from the Group s knowledge and expertise in Fabric Care and will enable Nigeria to draw upon technological and innovative advances from other markets and adapt these for local use

World class supply chain

The £39 million investment in Nigeria 'Project Unity' is now complete and the benefits of this investment are now being seen

The network of 26 depots is now serviced by a new world class national distribution centre the first of its kind in Nigeria and the new detergent tower is in the process of being commissioned The new detergent tower will give increased capacity as well as manufacturing efficiencies and an increase in the quality and range of products manufactured with less impact on the environment

ZIP

ZIP is a white specialist detergent powder the first and presently only detergent with this distinctive proposition in the Nigerian market and is marketed as ZIP for perfect whites It has a unique Opti-bleach system™ that makes white clothes whiter and brighter and all this is offered to consumers at an everyday affordable price

Africa continued

Nunu
Nunu was first introduced to the market in powder and evaporated milk formats have recently been launched in ready to drink UHT formats Nunu is being positioned towards the more premium end of the milk market as the specialist children s nutritional product geared to providing optimum nutritional wellbeing to children with offerings in the dairy and non-dairy categories

Venus
Venus offers a complete range of haircare products to suit every need and style for every occasion

In Personal Care and Home Care focus on the core categories of Skin Care Hair Care Baby Care Medicaments and Fabric Care has ensured another year of profitable growth In particular effective renovation of our Personal Care brands Premier Joy Venus Robb and Cussons Baby and our Home Care brands Rex ZIP Canoe and Jet has reinforced their leading positions in these growing categories

In Electricals the HPZ joint venture with Haier suffered poor sales in the second quarter as a result of the liquidity squeeze previously mentioned Since then sales levels have recovered to pre-squeeze levels as liquidity has returned to the market Haier Thermocool continues to hold the number one market share position in both refrigerators and freezers with a premium price position being maintained The wider product range of air-conditioners and brown goods also continues to be successfully developed In Harefield the subsidiary incorporated last year to sell products in adjacent categories sales of fuel powered generators have been strong and ahead of the prior year

In Nutrition the joint venture with Glanbia returned to profitability in the year following the losses incurred last year as a result of high milk prices The new UHT factory was commissioned at the beginning of the year with encouraging first year sales of the new Tetra Pak format products sold under the Nunu Bliss and Yo! brands Further new product launches such as Bliss Ice Tea are planned

Ghana and **Kenya** have continued to perform well with profitability ahead of the same period last year

Asia

Continued focus on core brands and the utilisation of expertise from across the Group has resulted in strong revenue and profitability growth throughout the region.

Regional highlights:

- Increase in profitability across Australia, Indonesia and the Middle East
- Growth achieved through the roll out of both local and group-wide innovation pipeline

In **Australia** revenue and profitability were ahead of the prior year as a result of good execution of brand strategy in market New launches have taken place both in Dish Care (Morning Fresh) and Fabric Care (Radiant and Duo) Development of the Personal Wash category has continued through new launches under the Cussons Pure brand whilst Original Source will be launched into the market for the first time in November

In **Indonesia** further extension of the number one position in the Baby Care category has resulted in revenue and profitability ahead of last year This has been driven by new product launches across both the core Cussons Baby range and the more premium Cussons First Years range A major relaunch of the Cussons Baby range is taking place shortly to maintain the positive momentum behind the brand During the year Carex was launched into the market to capitalise on heightened awareness of hand hygiene and initial sales have been encouraging

Overall sales and profitability of the other Asian units **Thailand** and the **Middle East** were ahead of the prior year

Revenue (£m)

Operating profit (£m)

Morning Fresh – Australia
Morning Fresh is the leading brand of dishwashing liquid in Australia Constant innovation and improvement of products ensures that this market position is retained and the brand also has a successful range of dishwasher detergents

Building our success

Asia

Selected markets

Indonesia has the fourth largest population in the world with over 4 2 million babies being born annually

There is therefore a huge opportunity for the Group to further develop the existing leading position in this large and growing market We are currently exploring other opportunities to extend our offerings in this market

World class supply chain

Indonesia has a network of 24 depots spread across the geographically dispersed country

This network of depots is a key strength of the business and allows the business s wide product portfolio to be effectively and efficiently distributed across Indonesia in order that it can reach the traditional and modern markets that are supplied

Leading brands

Cussons Baby is currently the market leader in Indonesia The Cussons Baby brand is currently being re-launched in order to ensure that the brand retains and builds upon its aspirational, innovative and iconic qualities Cussons First Years, targeting children aged 1 to 4 years, is also continuing to establish itself in the market with a premium offering, which also includes a range for mothers

The launch will involve a new bottle shape which is more modern and unique than the original design with contemporary bright and attractive packaging to maximise shelf impact This relaunch will be supported by an integrated advertising campaign

Great team of people

Each of the 1,600+ members of our Indonesian team epitomise the spirit of our CANDO values

There is a strong work ethic and the team are consistently striving to improve in all aspects of their work The team have strong commercial expertise and as a result lead the Group s Baby Care network Through this their skills and experience can be leveraged to help lead other baby markets in the PZC world

Cussons Baby

Cussons Baby is the market leader in the Indonesia baby market and offers a wide range of products ranging from soaps lotions shampoos talcum powder and rubs

Europe

Strong performance in our Personal Care category during the year despite the continued competitive pressure and difficult trading conditions. This success can be attributed to the continued focus and innovation in the core brands.

Regional highlights:

- Strong growth in UK profitability delivered through an effective brand renovation programme and despite an uncertain consumer outlook
- Continued progress in Poland through a particular focus on Personal Wash
- A good start to the year in Greece although trading in the second half became more difficult due to the deteriorating economic environment

Sanctuary Skincare
The Sanctuary skincare range is used in the spa within The Sanctuary s own treatments The extensive range provides spa quality products so women can enjoy the experience and results of a spa facial at home

Performance in the **UK** has been strong as a result of excellent brand innovation across the portfolio of Imperial Leather Carex Original Source Charles Worthington and The Sanctuary This is despite the trading environment remaining difficult with high levels of promotional activity in the retailers and an uncertain consumer outlook

Imperial Leather the largest brand in the UK portfolio continues to deliver innovative products in bar soap handwash and shower gel formats The newest range recently launched Imperial Leather Skin Kind is a range of shower gels developed for sensitive skin but with a unique formula that allows fragrance to be added unlike other products in the sensitive skin category A media campaign has just started including national TV advertising

Original Source continues to perform well with a loyal consumer base supported in particular by sponsorship of high performance sports events such as Mountain Mayhem Carex continues to be the UK s leading antibacterial handwash and is currently being relaunched in an exciting new design and with a new unique formula for faster germ kill The Charles Worthington haircare brand has maintained its number two position in the competitive professional haircare category through innovative product launches such as the Front Row high performance styling range The core 'Results range is also being relaunched in attractive new packaging

The Sanctuary continues to perform well with product range extensions including new premium products and an exciting new skincare range The spa at Covent Garden has also continued to perform well despite the economic conditions with visitor numbers close to capacity During the year a high street spa in Richmond was acquired as part of the City Spa concept to extend the reach of the brand to consumers Two further units were secured in Cambridge and in Bristol and will open as Sanctuary Spas during the next few months

Revenue (£m)

Operating profit (£m)

Carex
The Carex range is the UK s leading antibacterial handwash and has been rigorously tested to ensure that they not only kill 99 9% of bacteria but are also kind to hands The range has recently been launched in other markets in the Group including Poland Indonesia and Thailand

Minerva – Horio
The brand that brings us close to the values of the Greek village and traditional Greek diet The product range has recently been extended to include new butter varieties in addition to the olive oil margarine and cheese offerings

Also in the UK a partnership with Ecolab is being developed which has initially seen Imperial Leather and Carex supplied into branded dispensers in Premier Inn and Holiday Inn hotel rooms

The Personal Wash Centre of Excellence at Agecroft has operated well during the year with Original Source production now brought in-house following the installation of a fifth manufacturing line

Finally in the UK the Group moved into its new Head Office at Manchester Business Park adjacent to Manchester Airport providing a modern and innovative environment for the future

Profitability in **Poland** is ahead of last year primarily as a result of strong sales of E (laundry powders and fabric conditioners) Luksja (bar soap and shower gel) also continues to perform well via utilisation of the Imperial Leather innovation developed in the UK with Luksja Skin Kind currently being launched into the market

In **Greece** profitability was lower than the previous year due to the deteriorating economic conditions in the second half Whilst olive oil sales were lower than the previous year good progress has been made in the newer categories of margarine, butter and cheese

Building our success

Europe

Selected markets
The Personal Wash market is the main focus of our UK operation

The market is developed competitive and has high levels of consumer promotion and this means that we have to keep constant focus on the market and its changing dynamics so that we can react speedily to these changes and keep at the forefront of the market This real local market focus and the ability of the business to proactively change and react quickly has ensured that we retain our number one position in this market

Leading brands
We aim to make our brands extraordinary by ensuring that each has a clear consumer benefit and point of difference versus the competition

Imperial Leather is our brand leader and innovative changes and renovation of the brand and its sub categories ensures that the brand remains in a leading position The recent launch of Imperial Leather SkinKind has been in response to an unsatisfied consumer group the Neutraliser market This consumer segment is growing fast and we have utilised our expertise in personal wash and fragrance to launch the first mass market allergen free fragranced range of shower gels

World class supply chain
The Group's personal wash network is led by the UK and serves to create excellence in all aspects of the Group's personal wash offering ensuring that innovation and technology can be rapidly transferred across the Group

With the Group s new R&D and fragrance facility co-located on the same site as the UK liquids factory the UK personal wash supply chain has the agility to respond quickly to consumer-led changes and to drive innovation and technological advances from concept through to commercial production

Great team of people

The personal wash network ensures that the best talent from throughout the Group (both UK and overseas) has been brought together to work on personal wash from innovation right through to end user supply

This team focus is proving extremely successful not only in the UK where the network is led but also in driving the innovation pipeline throughout the Group

SkinKind

The new SkinKind range by Imperial Leather is a set of bath products and shower gels specifically designed for those with sensitive skin They are available in three varieties – Hydrate Refresh and Restore – each with its own distinctive fragrance

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 emerging markets between its operations in different territories In addition the Group has extensive and long established experience in all key markets and the Board continually monitors those markets to ensure that any specific risks (or opportunities) may be identified and addressed as they arise
Demand risks	Demand for the Group s products may be adversely impacted by changes in consumer preferences The increasingly competitive environment and continued growth of discounters could adversely impact the rate of sales growth and profit margins	Extensive knowledge of the Group s selected markets is a core strategic pillar and the Group actively monitors the needs and aspirations of consumers on a regular and ongoing basis and is continuously developing new products to satisfy them The Group will continue to invest in selected brands and selected markets in order to drive profitable sales growth and 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 and continues to refine its raw material forecasting processes and to strengthen its procurement capabilities

Risks	Description of risks	Measures to reduce the risks
Financial risks		
Foreign currency and treasury risk	The international nature of the Group's activities gives rise to both transactional exchange rate risk (with the main exposure relating to US Dollar trade balances) and translation exposure when the results assets and liabilities of foreign subsidiaries are translated into Sterling	The Group requires its operating units to hedge their material transaction exposures on sales and purchases conducted in currencies other than their functional currencies The Group does not actively hedge its translation exposures as these are of an accounting rather than a cash nature however the international spread of the Group's operations itself reduces dependence on individual currencies The Group maintains a centralised treasury function which operates on a non-speculative basis in accordance with policies and procedures approved by the Board of Directors and reviewed during the year by the Board and the Audit Committee The aim of this function is to mitigate the effects of any adverse movements in exchange rates and interest rates on the Group's financial results
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 in place an attractive employment proposition across the Group 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 there is the risk that 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 which has during the year developed and implemented principles and policies in respect of each Should any issues arise in these areas the Group has processes in place to enable a quick response

Corporate social responsibility report

At PZ Cussons we believe in 'doing good business'. We do not believe that there need be any conflict or inconsistency between being a successful profitable organisation and, at the same time, running our operations in such a way that they have a positive impact on society. On the contrary, we believe that socially responsible conduct is value enhancing for our shareholders and all of our other stakeholders.

Our good reputation and our continued success as a business is largely dependent on how we discharge our responsibilities as a Group and as individuals to all of our stakeholders Those stakeholders include our shareholders customers suppliers employees the wider community and the environment We are committed to conducting our business with integrity and with care insofar 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 produce and sell through the way in which our products are 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 PZ Cussons recognises the potential benefits which may be derived where CSR activities are aligned to the concerns and demands of our stakeholders 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

One of the Group s core strategic principles is to develop leading brands which are suited to local needs and tastes

100%

As a member of the RSPO, PZ Cussons will make a time bound commitment to 100% Certified Sustainable Palm Oil via RSPO approved supply chain mechanisms

The introduction of everyday good quality affordable products enhances the quality of the lives of consumers particularly in developing countries and we believe that our mix of products is consistent with the principles of good CSR In particular

- the provision of soaps and cleaning products in countries such as Nigeria Kenya Ghana and Indonesia has significant benefits in terms of the hygiene and health of the local population and
- we provide a range of nutritional milk products in Africa through our Nutricima joint venture with Glanbia Plc Nutricima continues to expand its range of nutritional products helping to provide the essential daily nutritional requirement of the local population which is key to the fight against mortality rates (particularly amongst children) within the country

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 Its principal responsibilities include

- reviewing the Company s corporate strategy to ensure that CSR is and remains an integral part of the strategy and implementing it in practice so that the Group s social environmental and economic activities are aligned
- developing policies on all key areas of CSR including the environment health and safety product testing and consumer safety business conduct and ethics our employees and local community and charity
- developing and supporting a Group programme of CSR activities and focus for each financial year supported by appropriate targets and key performance indicators
- in conjunction with management and other committees of the Board identifying material environmental social and health and safety risk areas and implementing appropriate measures to mitigate any such risks
- on an ongoing basis evaluating and developing the content and integrity of any reporting to external stakeholders concerning CSR matters including this CSR report and
- developing effective two-way communication concerning CSR issues within the Group

The CSR Committee members are Simon Heale (Chairman) Richard Harvey Alex Kanellis Chris Davis Brandon Leigh and John Pantelireis Prior to his retirement from the Board on 30 June 2010 the Committee was also served by Anthony Green 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 constitution of the CSR Committee during the prior year and its activities during 2009/10 are indicative of the increased focus and commitment which the Board continues to bring to CSR across the Group Details of the most significant activities are set out in this report Irrespective of the progress which the Committee has made during the year, the Board recognises that the ways in which the Group monitors and manages the impact of its activities continue to evolve and it is committed to continuous improvement of its procedures in this respect

The CSR Committee and the Board has reviewed and endorsed this CSR report

'Doing Good Business'
During the year the CSR Committee has developed a Statement on Corporate Social Responsibility called Doing Good Business which sets out the Group s key values and principles

Recognising that doing the right thing in business can sometimes seem to involve difficult decisions the Statement is intended to provide everyone throughout the Group at all levels within the business 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

Corporate social responsibility report continued

In the UK, a move to a new third party logistics supplier reduced lorry miles associated with the movement of our products to distribution centres by 130,000

In doing so it is the belief of the Board and the CSR Committee that we will make our business stronger more sustainable and as a consequence more profitable

The Statement has been rolled out 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

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 They are

- The environment
- Health and safety
- Product testing and consumer safety
- Business conduct and ethics
- Our employees
- Local community and charity

The Statement has its foundation in our CANDO values being those core values which are embedded in our culture

Courage
Accountability
Networking
Drive
Oneness

These values can be found across the Group in every operation and every territory and provide the framework for staff and ultimately for the Group to develop and succeed The Statement draws on these values and the experiences which have made PZ Cussons the company which it is today It also sets out our intentions and aspirations for the future that as the Group develops and grows we will remain true to our core values and convictions and continue to be a company which our shareholders our customers the wider community and our employees and their families can be proud of

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

The rest of this report sets out in respect of each of the Big 6 the values and principles which are set out in the Statement and the actions which have been taken during the year This report also addresses our future aspirations including the further development of CSR reporting and includes a review of the wider CSR benefits of the Group s activities

The environment

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

In all decisions we take due account of the potential environmental impact of our operations and we take responsibility for the potential environmental impact of our actions – we recognise the obligations which business has to the environment and we share the growing concerns of our consumers and other stakeholders in this respect Across the Group we continue to minimise the consumption of energy and water as well as minimising the production of trade waste and waste to landfill through efficient practices in our offices factories and warehouses We are committed to communicating our environmental policy to our shareholders employees contractors and interested parties in order to establish an environmentally responsible attitude within our organisation

Wherever reasonably practicable, we will use raw materials from sustainable and environmentally friendly sources – in 2010 the Group applied to become a member of the Roundtable on Sustainable Palm Oil (RSPO) A number of the Group s products contain palm oil or its derivatives and the CSR Committee and the Board recognise the growing concerns over the sourcing of palm oil and the potential for damage to the environment The RSPO is a not-for-profit association which unites stakeholders from seven sectors of the palm oil industry palm oil producers palm oil processors or traders consumer goods manufacturers retailers banks and investors environmental or nature conservation NGOs (Non-Governmental Organisations) and social or developmental NGOs Its mission is to advance the production procurement and use of sustainable palm oil products through the development implementation and verification of credible global standards and the engagement of stakeholders throughout the supply chain As a member of the RSPO PZ Cussons will make a time bound commitment to 100% Certified Sustainable Palm Oil via RSPO approved supply chain mechanisms and to promote and communicate sustainable palm oil production procurement and consumption to customers suppliers sub-contractors and to wider value chains as appropriate

We are committed to reporting and reducing the Group's carbon footprint, minimisation of waste, efficient use of energy, water and other natural resources in the office, factory and warehouse environments and the prevention of pollution – all PZ Cussons manufacturing facilities have ongoing energy reduction initiatives to reduce carbon dioxide output Examples of initiatives during the year include

- the successful completion in Nigeria of Project Unity a £39 million investment in manufacturing and supply chain involving significant investment in plant and machinery specifically designed to be more energy efficient to minimise atmospheric emissions (to EU standards) and to significantly reduce other wastes We continue to generate our own power for our sites via gas generators resulting in an overall lower environmental impact than if we were to take power from the Nigerian grid Going forward we have employed

Corporate social responsibility report continued

external consultants to conduct a major energy survey of the entire Nigerian operation to identify further reductions in emissions and savings
- changes in soap processing and reduction in steam generation and electricity usage by our business in Kenya resulting in significant savings in operating costs a substantial reduction in the carbon footprint of the business and for the fourth year running recognition by the Kenya Association of Manufacturers for optimisation of energy use within its manufacturing processes
- in the UK a move to a new third party logistics supplier reducing lorry miles associated with the movement of our products to distribution centres by 130 000 over the period November 2009 to May 2010 and
- in Poland manufacturing warehousing and distribution projects which have reduced fuel consumption and greenhouse gas emissions throughout the supply chain

The carbon footprint of each operation is now routinely monitored and reported using internationally recognised protocols The Group also continues to participate in the Carbon Disclosure Project (the CDP is an independent not-for-profit organisation which holds one of the largest databases of corporate climate change information in the world and is considered the gold standard for carbon disclosure methodology and process)

We challenge our colleagues and the business to pursue innovative approaches to reducing the environmental impact from our products and processes – we believe that the identification effective control and reduction of the environmental impact of business activities are integral elements of well-managed operations and we are committed to continuous measurement and improvement of environmental performance through appropriate product design the minimisation of waste efficient use of resources the prevention of pollution and the protection of the environment Examples of initiatives during the year include
- the elimination or reduction of packaging in a number of products in the UK including Original Source Charles Worthington Foamburst and Morning Fresh and a transition to more widely recyclable packaging for Imperial Leather shower and bath products
- the reformulation of personal wash and home care products by PZ Cussons UK to significantly reduce surfactants going into waste from UK homes
- initiatives at Agecroft in the UK the Group s Personal Wash Centre of Excellence and our flagship in respect of environmentally sensitive manufacturing processes resulting in a 16% reduction in trade effluent a 22% reduction in material to landfill a 13% reduction in energy usage a 36% reduction in total waste and a 10% reduction in carbon and
- in Australia the involvement of all employees in environmental improvement projects resulting in an environmental strategy and action plan focused on reductions in trade waste the emission of clean storm water and clean air and on reductions in its use of water and energy

The Group Risk Committee a standing committee of the Board (details of which are provided at page 46) ensures that any environmental risks which the Group may face are properly identified assessed and prioritised and that appropriate arrangements are in place to manage and mitigate those risks effectively

Health and Safety

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

We are committed to developing the highest standards of occupational health & safety across all parts of our Group – health and safety is an integral part of the business and is given equal priority with all other aspects of business management The Board has endorsed and established a Group Health and Safety Policy which sets out detailed guidelines for all operations across the Group Its principles support the PZ Cussons Group World Class Manufacturing system which seeks over time to bring all operations across the Group in line with OHSAS 18001 All operations are audited against these standards any shortfall is identified and assessed and, where appropriate continuous improvement actions are agreed and implemented

It is the responsibility of all employees to maintain and improve health and safety We empower and encourage our employees to report accidents, incidents and lapses in best practice and to participate in improvement activities – we have constant dialogue with our employees across the Group in respect of health and safety matters Our Group Health and Safety Policy has established arrangements to ensure we promote the participation of our employees in developing promoting maintaining and improving health and safety so that they
- acquire the necessary skills and behaviours
- understand their responsibility to themselves and their colleagues for health and safety and
- are empowered and encouraged to report accidents incidents and lapses in best practice and to participate in improvement activities

We measure and monitor our health and safety performance and target continuous improvement – there is a strong focus within the Group on using key performance indicators and achieving external health and safety accreditation The Group employs health and safety specialists in all of our operating units and health and safety committees with cross functional and cross hierarchical representation exist at all sites Where appropriate PZ Cussons provides on-site medical facilities and health monitoring programmes for employees Training is provided to all employees to ensure compliance with PZ Cussons standards and we continue to build on our traditional programmes which focus on workplace behaviours coupled with helping employees understand any

We are committed to developing the highest standards of occupational health and safety across all parts of our Group

personal health risks During the year we have continued investment in health and safety with respect to reduction in manual handling requirements (including the installation of automatic case packers within our soap factory in Nigeria)

We conduct risk assessments to identify significant health and safety related risks which arise from all activities undertaken including periodic reviews to ensure new activities and processes are covered – at operating unit level Group Health and Safety Policy is implemented to be consistent with the business operating conditions and any specific local legal requirements Regular audits are conducted by internal and specialist external auditors at business unit and departmental level to ensure compliance with Group standards and continuous improvement In Australia in particular continuing focus on health and safety leadership education and employee engagement has resulted in significant reduction in lost time accidents

The Board regards health and safety as a fundamental business responsibility and reviews health and safety matters on a regular basis Health and safety is a standing item for review by the Group Risk Committee which ensures that any related risks are properly identified assessed and prioritised and that appropriate action is taken to manage and mitigate those risks effectively The Chief Executive Officer has ultimate responsibility on the Board for health and safety across the Group and is a member of the Group Risk Committee

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

We regularly assess products, formulations, raw materials, packaging and labelling to ensure the health and safety of our consumers, our employees and all other stakeholders – as an ethical and responsible supplier of consumer products it is imperative for the Group

Corporate social responsibility report continued

As employees, we have the courage to challenge any business practices, whether within or outside the Group, which we believe to be wrong or inconsistent with our CANDO values

that our products are safe – for use by our customers for our employees and for the environment

Product safety and risk assessments are conducted by appropriately qualified external toxicologists and when considered necessary (and with the appropriate safeguards such as ethical committee approval) human safety testing is conducted Human toxicological and safety aspects of raw materials are taken into consideration in the design process

In the design of our products by qualified and experienced chemists microbiologists and packaging experts we ensure that the materials which we use meet or exceed all applicable legal requirements (including EU and ASEAN cosmetics directives and other local regulatory requirements specified by bodies such as NAFDAC in Nigeria) We also conform to guidelines and good practice recommendations from various cosmetic industry trade associations such as the UK Cosmetics Toiletries and Perfumery Association (CTPA) In addition the Group applies internal and self-imposed restrictions on the use of certain materials above and beyond legislative requirements as an additional measure to ensure product safety The implementation of Project Lifecycle Management (PLM) software to manage product development from initial concept through product launch in the marketplace to the end of its lifecycle ensures that all legal regulatory and environmental requirements are understood and met as well as facilitating timely completion of projects and minimisation of cost

The quality and safety of our products is further ensured through the PZ Cussons Group World Class Manufacturing system which ensures conformity to international standards on Good Manufacturing Practice (eg ISO 22716) and adherence to stringent product quality controls We are also over time aiming to bring all operations across the Group in line with ISO 9001 in respect of Quality Management Systems

PZ Cussons monitors the world regulatory environment to ensure that we take appropriate action at the correct time to maintain product and process compliance We have assigned considerable resource to ensuring that we fully comply with the requirements of EU regulations such as REACH (the Registration Evaluation Authorisation and Restriction of Chemicals) which seeks to provide an improved level of protection of human

We continue to develop a performance-driven culture which supports motivated people who are passionate about our future

health and the environment through the responsible use of chemicals At all European sites we are also actively implementing the United Nations Globally Harmonised System (GHS) as enacted within the European Union as the Classification Labelling and Packaging (of Chemicals) Regulations In all other parts of the Group we continue to monitor how the GHS will be implemented in local law and we are committed to full compliance

In the highly unlikely event of a quality problem being identified externally to our supply chain we have established material traceability and Group specified product recall procedures to ensure that any issue can be promptly and safely addressed

We evaluate our suppliers to ensure that their production facilities, procedures and products are of a consistent and appropriate quality and meet our Group standards – using auditors who are trained to recognised international standards we conduct extensive audits of our third party suppliers of products and raw materials to ensure that they meet PZ Cussons strict product safety and quality requirements We also confirm that suppliers have suitable emergency procedures in place to ensure business continuity

We do not conduct any animal testing or commission others to conduct any animal testing unless required by law – the Group does not conduct any animal testing or commission others to conduct any animal testing We continue to support the development and acceptance of alternative methods which reduce or replace the use of animals in product safety evaluation and we work with our suppliers to ensure that our values on this subject are shared and where feasible that they work to similar standards

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

As employees, we have the courage to challenge any business practices, whether within or outside the Group, which we believe to be wrong or inconsistent with our CANDO values – the Group has continued to actively operate the Speak Up policy which was first implemented during 2008 Speak Up has been established to encourage employees to voice any concerns which they might have in respect of business practices throughout the Group and is designed to ensure that employees may report any such issues 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

We strongly condemn and shall have no involvement whatsoever in forced labour, child slavery or any practice which is exploitative of children or exposes them to risk of harm We will not work with third parties who are involved in any such practices – as part of our supplier audit programme we also ensure that our suppliers of finished product and raw materials adhere to our values with respect to employee labour practices In particular we ensure that no supplier is using forced or child labour

The Statement also records and reflects the value which we place on our relationships with our customers suppliers and other business partners and makes a commitment to demonstrate respect and integrity in all our dealings with them The Statement also sets out our rejection of corruption in all its forms including extortion and bribery and our commitment as a Group not to enter into any arrangement which might restrict fair competition in our relationships with customers suppliers and competitors We expect our suppliers and contractors to demonstrate similar high ethical standards and we take due account of this when establishing or continuing business relationships

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

We are committed to creating an environment in which all employees have the opportunity to reach their full potential – as an international group with a presence in a number of developing countries we focus significant resource on the employment and development of local employees both to improve our operations in those countries and to bring benefit to the wider local community In doing so we recognise that the success of our business is dependent upon the quality commitment and behaviour of our employees Accordingly, we provide clear policies and direction to our managers and strive for the highest standards in management practices delivering training and development programmes and reward arrangements which are tailored to meet the needs of our business and the local markets in which we operate

We continue to develop a performance-driven culture which supports motivated people who are passionate about our future We believe that to achieve our business objectives we should encourage our employees to embrace our CANDO values and reflect those values in everything which they do We aim to retain and develop our employees and to help them to fulfil their career potential We value diversity in our employees backgrounds talent insight education and experience and believe this contributes to our continued success by increasing innovation enriching decision making and improving communications with our stakeholders

During the year the Group continued to run graduate development schemes particularly in developing world territories to run training programmes in manufacturing environments to ensure that we meet international standards

Corporate social responsibility report continued

throughout our manufacturing processes in terms of quality environment and health and safety to offer a wide range of development opportunities to support the continuous professional and personal development of our employees and to establish appropriate incentive programmes at all levels of the business from senior management to factory staff

We do not discriminate in any aspect of employment on grounds of race, religion, colour, ethnic or national background, age, disability, political affiliation, union membership, gender, sexual orientation or marital status – the employment policies of the Group embody the principles of equal opportunity and these are fundamental to the way in which we conduct our business We operate procedures to support the Group s policy that disabled persons shall be fairly considered for appropriate employment and subsequent training and career development

We encourage and promote a healthy balance between our employees' working and personal lives and we respect the commitments which our employees have outside of the work place We respect the rights of all to rest and leisure including periodic paid holidays and the reasonable limitation of working hours – we take steps to ensure full compliance with applicable national laws and industry standards on working hours and all other employment regulations As part of our commitment to our employees we continued to expand our work/life balance programmes to encourage people to balance their work life with their personal life through flexible hours of working job sharing and opportunities to work from home

As part of the ongoing review of staff welfare and benefits the Group continues to make available to all UK employees an Employee Assistance Programme (EAP) The EAP is a 24 hour phone helpline which is available to employees should they wish to discuss any issues personal or work related in confidence with a trained professional The objective of the EAP is to assist in the identification and resolution of the various problems strains and issues which everyone faces from time to time and which can affect work performance Surveys are undertaken to measure and monitor employee satisfaction within the Group The results of these surveys are used to improve communication motivation and engagement across the business

We are committed to timely and effective two-way communication with our employees – the relaunch during the year of a Group-wide intranet (Wazobia meaning welcome in Nigerian dialects) has improved communication across the Group both up and down through the organisation This ensures that our employees across the world are better informed about ongoing initiatives and matters of importance to them and also that they are able to contribute to the development of the Group s strategy The Board is committed to continuing the development and improvement of communications across the Group in 2010/11 and beyond

Other principles set out in the Statement include the right to join (or not join) a trade union a Group-wide commitment not to employ any person below the local legal working age and not, in any circumstances below the age of 16 and the guarantee that all of the Group s businesses will pay wages which at a minimum meet all relevant local legal standards

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 Wherever we operate we ensure that our activities do not have any material adverse environmental or social impact upon local communities

We encourage, promote and support involvement by our Group businesses and employees in local community and charitable initiatives through the allocation of financial and other resources

PZ Cussons has operations in 10 countries and employs over 8 000 people worldwide We are committed to establishing and maintaining strong relationships with community groups building goodwill and a reputation as a good employer

We seek to support the local communities in which our employees live and work by making donations to and working with local charities and investing the time and skills of our employees We prioritise community and charitable initiatives which are

- relevant to the local communities in which we operate
- relevant to our products or the businesses which we carry out across the Group and
- related to the provision of fresh water sanitation health and hygiene and education

Examples of initiatives across the Group in 2010 are set out below

- throughout our long involvement in Nigeria the Group has always taken very seriously its responsibilities as one of the country s leading companies and employers and we have supported a wide range of initiatives and projects over the years to assist the country s development and to improve the quality of life of its citizens The PZ Cussons Nigeria Foundation was founded in 2007 to bring greater focus to those activities The Foundation was mandated to support projects in Nigeria in respect of transport and roads and other infrastructural improvements relating to the provision of fresh water sanitation health and education The Foundation funds and implements projects which
  - focus on people and community development in locations where the Group operates
  - promote the well being of local people
  - are sustainable and
  - produce innovative solutions which can be easily replicated throughout the country

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

Recent projects have included the introduction of solar equipment to power a number of the facilities commissioned in earlier phases including the recreational park in Illupeju The provision by the Foundation of well equipped classrooms and portable drinking water has now had a positive impact in more than 13 communities in Nigeria

During the year PZ Cussons Nigeria Plc donated approximately £125 000 to the Foundation and PZ Cussons Plc donated a further £125 000

- As a Group we are pleased to continue to work with the Seashell Trust as one of its principal partners The Seashell Trust is a registered charity which provides education and residential care for people with communication difficulties from across the UK The complex needs of their students may arise from a combination of multi-sensory impairments and PZ Cussons has worked with the Seashell Trust to devise a range of smells and fragrances for introduction into their learning programmes and to help with the development of communication skills In addition to the work which we are doing with students we are also working in partnership with the Trust to explore ways of commercialising the tools and processes which have been developed to the benefit of both parties

- PZ Cussons UK is an active member of Business in the Community an organisation which works with companies which make a commitment to social issues and responsible business practice As part of this the UK business participates in the Prince s May Day Network which is the UK s largest group of businesses committed to taking action on climate change and during the year it has increased its involvement in local educational institutions

- PZ Cussons Australia has forged strong ties with a local school catering especially for disadvantaged children with special needs Initiatives include career visits the development of interview skills mentoring and the sponsorship of state awards recognising achievements in vocational studies The Australian business also partners with a local university to provide work experience and apprenticeships

- Our Kenyan business is a participant in the Nairobi Greenline Initiative a project launched by the Kenyan Association of Manufacturers in partnership with the Kenya Wildlife Service to preserve the Nairobi National Park

Board of Directors

Executive Directors

Alex Kanellis
Group Chief Executive (age 45)
Mr Kanellis has a Phd in mechanical engineering He joined PZ Cussons in 1993 He was appointed Managing Director of the Group s business in Thailand in 1998 before becoming Managing Director of Indonesia in 2001 He was appointed to the Board in 2003 as Regional Director of Asia becoming Chief Executive in June 2006 Mr Kanellis is a member of the Nomination Group Risk and CSR Committees

Chris Davis
Commercial Director (age 48)
After working in senior Sales & Marketing roles for various Consumer Goods companies Mr Davis joined PZ Cussons from the BTR Nylex Group in 1993 and became Managing Director of the Group s business in Australia in 2001 He was appointed to the Board in 2006 as Regional Director of Africa and became Group Commercial Director in 2008 Mr Davis is a member of the Group Risk and CSR Committees

Brandon Leigh
Group Finance Director (age 39)
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
Supply Chain Director (age 56)
Mr Pantelireis was appointed an Executive Director of PZ Cussons Plc 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 60)
Mr Harvey was appointed a Non-executive Director of PZ Cussons Plc in January 2010 and took up the position of Non-executive 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 2003–2005 Since retiring from Aviva plc in 2007 Mr Harvey has spent time in Africa supporting charitable initiatives and has also worked on other projects to accelerate business development in Africa including work for the Africa Progress Panel and the World Bank He is a Non-executive Director of Jardine Lloyd Thompson Plc Mr Harvey is the Chairman of the Nomination Committee and a member of the CSR Committee

Derek Lewis (age 65)
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 and Audit Committees

Professor John Arnold (age 66)
John 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 and Chairman of Manchester Business School Incubator Limited 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 Director of the Greater Manchester Chamber Chairman of Feelgood Theatre Productions and an academic adviser 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 and Remuneration Committees

Simon Heale (age 57)
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 and Audit 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 Marex Financial interim Non-executive Chairman of Panmure Gordon & Co Ltd and a trustee of Macmillan Cancer Support

James Steel (age 50)
Mr Steel has been a Non-executive Director of PZ Cussons Plc since October 2005 Mr Steel is currently Managing Director of Corporate Finance at Arbuthnot Securities Ltd He was previously a Managing Director of European investment banking at Citigroup and a Director in the corporate finance division of Schroders which he joined in 1986 after qualifying as a chartered accountant Mr Steel is Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees

Report of the Directors

Principal activities
The principal activities of the Group are the manufacture and distribution of soaps detergents toiletries 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

Results and dividends
A summary of the Group s results for the year is set out in the Financial Review on pages 6 and 7 of the annual report

The Directors recommend a final dividend of 3 97p (2009 4 085p) per Ordinary Share to be paid on 6 October 2010 to ordinary shareholders on the register at the close of business on 20 August 2010 which together with the interim dividend of 1 93p (2009 1 185p) paid on 1 April 2010 makes a total of 5 90p for the year (2009 5 27p)

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
Simon Heale
James Steel

During the year the Board was also served by Anthony Green as Executive Chairman and Graham Calder as Deputy Chairman until their retirements on 30 June 2010 and 31 March 2010 respectively

As Non-executive Directors Professor Arnold and Messrs Harvey Lewis Heale and Steel 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 Articles of Association all Directors are subject to retirement by rotation and to re-election by shareholders at intervals of no more than three years and any Director who is appointed during the year is required to retire and seek re-election at the next Annual General Meeting The Directors retiring by rotation prior to the 2010 Annual General Meeting are Professor Arnold and Messrs Kanellis and Lewis each of whom being eligible offers himself for re-election Mr Harvey having been appointed during the year is retiring prior to the 2010 Annual General Meeting and being eligible offers himself for election

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

Report of the Directors continued

Directors' interests

The Directors interests in the share capital of the Company at 31 May 2010 together with their interests at 1 June 2009 are detailed below

	Ordinary shares	
	2010 Number	2009 Number
Beneficial		
Mr A J Green	**62,403,690**	62 403 690
Mr G A Kanellis	**262,239**	101 767
Prof J A Arnold	**13,450**	13 450
Mr C G Davis	**170,761**	157 380
Mr R J Harvey	**4,535**	–
Mr S J N Heale	**8,000**	8 000
Mr B H Leigh	**62,666**	45 999
Mr D W Lewis	**40,000**	40,000
Mr J Pantelireis	**96,676**	77 000
Mr J T J Steel	**37,500**	37 500
Total	**63,103,222**	62 884 786
Non-beneficial		
Mr A J Green	**6,926,080**	6 926 080
Total	**70,029,302**	69 810 866

Notes

1 The figures in the tables do not include 1 874 245 (2009 1 837 727) Ordinary Shares purchased by the Employee Share Option Trust (ESOT) at 31 May 2010 The ESOT is a discretionary trust under which the class of beneficiaries who may benefit comprises certain employees and former employees of the Company and its subsidiaries including members of such employees and former employees immediate families Some or all of the shares held in the ESOT may be the subject of awards to Executive Directors of the Company under the PZ Cussons Plc Deferred Annual Share Bonus Scheme the PZ Cussons Plc Executive Share Option Scheme and/or the PZ Cussons Plc Performance Share Plan details of each of which are given in the Report on Directors remuneration Accordingly those Executive Directors are included in the class of beneficiaries and are deemed to have a beneficial interest in all the shares acquired by the ESOT

2 The figures in the tables do not include options granted 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 2010 Details are shown in the table of Directors interests in shares under share incentive arrangements on page 41

There have been no changes in the interests of any of the Directors between 31 May 2010 and the date of this report save that Mr Harvey purchased on 30 June 2010 an additional 3 705 shares pursuant to a share trading plan The register recording the Directors interests will be open for inspection at the 2010 Annual General Meeting No Director had any beneficial interest during the year in shares or debentures of any subsidiary company Save for their service contracts or letters of appointment there were no contracts of significance subsisting during or at the end of the financial year with the Company or any of its subsidiaries in which a Director of the Company was materially interested

During the year the Company maintained liability insurance for its Directors and officers and pension fund trustee liability insurance for Mr Green Mr Calder 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 27 July 2010

	Number of shares	%
J B Zochonis	60 619 580	14 14
Zochonis Charitable Trust	49 835 040	11 62
M&G	42 220 859	9 84
Mrs C M Green Settlement	20 328 280	4 74
J B Zochonis Settlement	19 927 130	4 65

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

Political and charitable contributions

Charitable contributions in the United Kingdom during the year amounted to £360 000 (2009 £343 000) No political contributions were made (2009 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 Group creditor days ratio is 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 89

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

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

Enhanced business review
A review of the functional performance of the Group is provided on pages 6 to 19

Principal risks and uncertainties facing the Group
The Group s business activities financial condition and results of operations could be affected by a variety of risks or uncertainties These are summarised in the Principal Risks and Uncertainties section on pages 20 to 21

Annual General Meeting
The Company s 2010 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 13 September 2010 The resolutions which will be proposed at the 2010 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 2010 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 Act 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 2009 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 2010 Annual General Meeting No shares were purchased from 1 June 2009 to 27 July 2010 (2009 nil) (other than the acquisitions undertaken by the ESOT (see note 25))

Report of the Directors continued

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 and
- each of the Directors has taken all the steps that he ought to have taken as Director to make himself aware of any relevant audit information and to establish that the Company s Auditor is aware of that information

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

By order of the Board of Directors

Mr S P Plant
Company Secretary
27 July 2010

Report on Directors' remuneration

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 2010 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 2010 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 the Chairman and the Company Secretary and for approving the design and operation of all share-based 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 2010 The Committee s current Terms of Reference which are reviewed annually 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 and Mr Lewis 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 since his appointment as Non-executive Chairman on 1 July 2010 of Mr Harvey) 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 not provided any other material services to the Group during the year

During the year the Committee consulted Mr Green and Mr Harvey (in their respective capacities as Executive Chairman and Non-executive Chairman-designate) on issues where their experience and knowledge have been of benefit to its deliberations and each 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 attends meetings by invitation Neither Mr Green Mr Harvey nor the Chief Executive attend when the matters under consideration concern their own personal remuneration The Company Secretary acts as Secretary to the Committee and attends Committee meetings (save where his own remuneration is under consideration)

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 the Company

The principal elements of each Executive Director s remuneration package comprise
- basic salary and benefits
- pension benefits
- participation in an annual bonus scheme and
- participation in the PZ Cussons Plc Performance Share Plan (the Performance Share Plan)

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 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

Report on Directors' remuneration continued

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 current policy

Balance of fixed versus variable pay

2009/10 review of executive remuneration arrangements
As in previous years the Committee considered and reviewed the effectiveness of executive remuneration arrangements The Committee took advice from Deloitte LLP and consulted with the Company s major shareholders in developing proposals

The outcome of the review was a decision to alter the annual bonus arrangements so that subject to meeting enhanced share ownership thresholds Executive Directors may receive and retain the whole of any annual bonus in cash (for 2010/11 and beyond) rather than in a mixture of cash and deferred shares The Committee believes that this will improve the motivational effect of the annual bonus arrangements while the simultaneous enhancement of the Company s shareholding guidelines combined with the extension of the previous share investment requirement (described below) will maintain the existing alignment of Executive Directors *interests with those of shareholders and preserve an acceptable risk profile No changes were made to the target and maximum* annual and long-term incentive opportunities open to Executive Directors for 2010/11

Basic salary and benefits
Executive Directors salaries are normally reviewed annually taking account of various factors including individual performance remuneration levels in companies of similar size and complexity and pay conditions elsewhere in the Group

Executive Directors salaries were reviewed with effect from 1 June 2009 and details were included within the Report on Directors Remuneration for the year ended 31 May 2009 No further changes were made to salaries or save as set out in relation to annual bonus arrangements to any other elements of the Executive Directors remuneration packages during the year ended 31 May 2010

It is intended that in future Executive Directors salaries should be reviewed with effect from 1 September each year Details of the revised salaries in respect of the year ending 31 May 2011 (which will be effective from 1 September 2010 but on a one-time basis backdated to 1 June 2010 to reflect the change in the date of the review) 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 life time allowance 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 2010 Executive Directors (other than Mr Green the Executive Chairman and in view of his planned retirement Mr Calder) participated in the Deferred Annual Share Bonus Scheme pursuant to which they were eligible to earn an annual bonus linked to performance targets established by the Committee For the year ended 31 May 2010 Executive Directors could receive a bonus of up to 80%* of basic salary (with 60%* of salary payable at target) dependent upon the achievement of profit before taxation net working capital and operating contribution targets and payable as to 50% in cash and 50% in deferred shares based on the share price on 1 June 2009 These targets and bonus levels were established at the beginning of the year no changes were made during the year

In view of his planned retirement Mr Calder was subject to separate arrangements providing for a maximum bonus of 70% of annual basic salary calculated on a pro rata basis up to the date of his retirement and payable in cash against the achievement of similar targets to other Executive Directors

Deferred shares awarded under the Deferred Annual Share Bonus Scheme are normally received by participants following and conditional only upon three years of continuing employment from the date of the grant of the award During the deferral period and subject to continued employment individuals who have been awarded deferred shares under the scheme receive cash payments equal to the dividends which would have been payable on such shares at the same time as shareholders in the Company receive dividends Sufficient shares to satisfy such deferred 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

Bonuses awarded in respect of the achievement of targets for the year ended 31 May 2010 are included in the table on Directors remuneration on page 42

The eligibility of the Executive Directors to earn an annual bonus in respect of the year ended 31 May 2011 has been set at similar percentages of salary to those in the year ended 31 May 2010 and is dependent upon the achievement of certain profit before taxation net working capital and operating contribution margin targets for the Group As discussed above any bonus for the year ended 31 May 2011 is payable wholly in cash

* These percentages may be exceeded in exceptional cases at the discretion of the Committee but were not exceeded during the year ended 31 May 2010

Performance Share Plan
Executive Directors and certain key senior executives are also generally eligible for participation in the Company s Performance Share Plan which provides for the grant of conditional rights to receive shares subject to continued employment over a three year vesting period and the satisfaction of certain performance criteria established by the Committee

Annual awards to any participant are limited to rights over shares with a market value at the time of grant equal to 100% of basic salary* During the year ended 31 May 2010 awards were made to the Executive Directors over shares with a value equal to 100% of basic salary (save that no award was made either to Mr Green the Executive Chairman or in view of his planned retirement to Mr Calder) These awards are subject to adjusted earnings per share growth targets measured over the single three year performance period commencing on 1 June 2009 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

It is the Committee s intention to make further awards to Executive Directors on the same basis during the year ending 31 May 2011 Such awards are expected to be subject to similar performance targets measured over a three year performance period commencing on 1 June 2010

* 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 (other than the Executive Chairman) 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 during the year ended 31 May 2010 and it is not expected that any further awards will be made under this scheme any future share-based incentive awards are expected to be made instead under the Performance Share Plan

The adjusted earnings per share performance conditions have been met in respect of option awards made in 2007 and such awards are expected to vest in full on 6 August 2010 (being the third anniversary of the award date)

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

Report on Directors' remuneration continued

Limits on shares issued to satisfy share incentive plans
The Company's share incentive plans may operate over new issued Ordinary Shares treasury shares or Ordinary Shares purchased in the market In relation to all the Company s share incentive plans, the Company may not in any ten year period issue (or grant rights to issue) 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
As discussed above under 2009/10 review of executive remuneration arrangements at the same time as reverting to an annual bonus delivered wholly in cash the Committee has also

- increased the shareholding requirements in the Company s Share Ownership Guidelines which now require Executive Directors to build up holdings of shares (and deferred shares net of tax) worth 150% of salary from time to time (previously shares worth 100% of salary) and
- extended the previous share investment requirement such that until these guidelines are met Executive Directors will be required to invest 50% of their after-tax bonus from 2010/11 onwards into the Company s shares They are already required to retain 50% of any vested after-tax shares arising from the Performance Share Plan and 50% of any shares arising after tax from the exercise of options under the Executive Share Option Scheme until the share ownership threshold is met

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

Non-executive Directors
Mr Harvey was appointed a Non-executive Director with effect from 1 January 2010 and became Non-executive Chairman on 1 July 2010 Details of his annual fees are set out in the notes to the table on Directors remuneration on page 43 No changes were made to the fees payable to other Non-executive Directors during the year ended 31 May 2010

Non-executive Directors fees are generally reviewed every two years on 1 July and the last such review having been undertaken with effect from 1 July 2008 the annual fees in respect of Mr Lewis Professor Arnold Mr Steel and Mr Heale have been revised with effect from 1 July 2010 Details of the revised annual fees are set out in the notes to the table on Directors remuneration on page 43

Director's interests in shares under incentive arrangements
Details of awards at 1 June 2009 and 31 May 2010 to Executive Directors are as follows

Director	Date of award	Number of options/ awards at 1 June 2009	Granted/ allocated in year	Exercised/ vested in year	Lapsed in year	Number of options/ awards at 31 May 2010	Option exercise price (£)	Market price at date of award (£)	Earliest date of exercise	Expiry date	Vesting/ Transfer date
G A Kanellis	12 Jun 2003 (1)	214 010	–	214 010	–	–	0 747	–	–	–	–
	22 Sep 2004 (1)	99 789	–	99 789	–	–	1 104	–	–	–	–
	8 Sep 2005 (1)	184 900	–	–	–	184 900	1 298	–	8 Sep 2008	8 Sep 2015	–
	31 Aug 2006 (1)	213 210	–	–	–	213 210	1 407	–	31 Aug 2009	31 Aug 2016	–
	6 Aug 2007 (1)	197 309	–	–	–	197 309	1 6725	–	6 Aug 2010	6 Aug 2017	–
	1 Oct 2008 (2)	225 750	–	–	–	225 750	–	1 7275	–	–	30 Sep 2011
	28 Jul 2009 (2)	–	192 170	–	–	192 170	–	2 2375	–	–	27 Jul 2012
	1 Sep 2006 (3)	44 460	–	44 460	–	–	–	1 50	–	–	–
	20 Aug 2007 (3)	41 370	–	–	–	41 370	–	1 685	–	–	20 Aug 2010
	21 Aug 2008 (3)	38 480	–	–	–	38 480	–	1 725	–	–	21 Aug 2011
	14 Aug 2009 (3)	–	60 840	–	–	60 840	–	2 229	–	–	14 Aug 2012
A G Calder	12 Jun 2003 (1)	321 010	–	321 010	–	–	0 747	–	–	–	–
	22 Sep 2004 (1)	136 550	–	136 550	–	–	1 104	–	–	–	–
	8 Sep 2005 (1)	215 720	–	215 720	–	–	1 298	–	–	–	–
	31 Aug 2006 (1)	211 080	–	211 080	–	–	1 407	–	–	–	–
	1 Sep 2006 (3)	51 860	–	51 860	–	–	–	1 50	–	–	–
	20 Aug 2007 (3)	43 520	–	43 520	–	–	–	1 685	–	–	–
	21 Aug 2008 (3)	75 030	–	75 030	–	–	–	1 725	–	–	–
	14 Aug 2009 (3)	–	41 720	41 720	–	–	–	2 229	–	–	–
C G Davis	12 Jun 2003 (1)	76 900	–	76 900	–	–	0 747	–	–	–	–
	22 Sep 2004 (1)	31 170	–	31 170	–	–	1 104	–	–	–	–
	8 Sep 2005 (1)	62 900	–	62 900	–	–	1 298	–	–	–	–
	31 Aug 2006 (1)	142 140	–	71 070	–	71 070	1 407	–	31 Aug 2009	31 Aug 2016	–
	6 Aug 2007 (1)	131 539	–	–	–	131 539	1 6725	–	6 Aug 2010	6 Aug 2017	–
	1 Oct 2008 (2)	141 820	–	–	–	141 820	–	1 7275	–	–	30 Sep 2011
	28 Jul 2009 (2)	–	122 900	–	–	122 900	–	2 2375	–	–	27 Jul 2012
	1 Sep 2006 (3)	22 680	–	22 680	–	–	–	1 50	–	–	–
	20 Aug 2007 (3)	20 690	–	–	–	20 690	–	1 685	–	–	20 Aug 2010
	21 Aug 2008 (3)	19 880	–	–	–	19 880	–	1 725	–	–	21 Aug 2011
	14 Aug 2009 (3)	–	38 220	–	–	38 220	–	2 229	–	–	14 Aug 2012
B H Leigh	12 Jun 2003 (1)	57 500	–	57 500	–	–	0 747	–	–	–	–
	22 Sep 2004 (1)	23 960	–	–	–	23 960	1 104	–	22 Sep 2007	22 Sep 2014	–
	8 Sep 2005 (1)	58 740	–	–	–	58 740	1 298	–	8 Sep 2008	8 Sep 2015	–
	31 Aug 2006 (1)	127 930	–	–	–	127 930	1 407	–	31 Aug 2009	31 Aug 2016	–
	6 Aug 2007 (1)	119 581	–	–	–	119 581	1 6725	–	6 Aug 2010	6 Aug 2017	–
	1 Oc 2008 (2)	138 920	–	–	–	138 920	–	1 7275	–	–	30 Sep 2011
	28 Jul 2009 (2)	–	120 670	–	–	120 670	–	2 2375	–	–	27 Jul 2012
	1 Sep 2006 (3)	28 250	–	28 250	–	–	–	1 50	–	–	–
	20 Aug 2007 (3)	24 820	–	–	–	24 820	–	1 685	–	–	20 Aug 2010
	21 Aug 2008 (3)	23 320	–	–	–	23 320	–	1 725	–	–	21 Aug 2011
	14 Aug 2009 (3)	–	37 440	–	–	37 440	–	2 229	–	–	14 Aug 2012
J Pantelireis	8 Sep 2005 (1)	138 670	–	–	–	138 670	1 298	–	8 Sep 2008	8 Sep 2015	–
	31 Aug 2006 (1)	132 190	–	–	–	132 190	1 407	–	31 Aug 2009	31 Aug 2016	–
	6 Aug 2007 (1)	117 189	–	–	–	117 189	1 6725	–	6 Aug 2010	6 Aug 2017	–
	1 Oct 2008 (2)	127 350	–	–	–	127 350	–	1 7275	–	–	30 Sep 2011
	28 Jul 2009 (2)	–	105 020	–	–	105 020	–	2 2375	–	–	27 Jul 2012
	1 Sep 2006 (3)	33 350	–	33 350	–	–	–	1 50	–	–	–
	20 Aug 2007 (3)	25 650	–	–	–	25 650	–	1 685	–	–	20 Aug 2010
	21 Aug 2008 (3)	22 850	–	–	–	22 850	–	1 725	–	–	21 Aug 2011
	14 Aug 2009 (3)	–	34 320	–	–	34 320	–	2 229	–	–	14 Aug 2012

Notes

(1) Awarded under the PZ Cussons Executive Share Option Scheme Awards made in 2003 2004 2005 and 2006 have vested and are capable of exercise in respect of the number of shares shown in the table above The adjusted earnings per share performance conditions have been met in respect of awards made in 2007 and such awards are expected to vest in full on 6 August 2010 (being the third anniversary of the award date)

(2) Awarded under the PZ Cussons Performance Share Plan The vesting of awards is dependent upon the extent to which adjusted earnings per share growth targets are achieved over a single three year performance period No proportion of such awards may vest unless the Company s adjusted earnings per share grows on average by at least RPI + 4% per annum compounded over the performance period 25% of the award will vest where adjusted earnings per share grows on average by RPI + 4% per annum rising on a straight line pro rata basis to 100% vesting where adjusted earnings per share grows on average 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

(3) Awarded under the Deferred Annual Share Bonus Scheme following the attainment of pre-determined financial targets Awards of deferred shares in respect of the attainment of the financial targets for the year ended 31 May 2010 have been approved by the Remuneration Committee and will be granted at the earliest practicable opportunity permitted by the rules of the Scheme 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 during the year were £2 247 019 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

Report on Directors' remuneration continued

The market value of the Company s shares at 31 May 2010 was £2 892 per share The range during the year was £1 72 to £2 97

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 2010 against the TSR of a holding of shares in the FTSE 250 index over the same period based on an initial investment of £100 The FTSE 250 index has been chosen as PZ Cussons Plc is a constituent of that index

PZ Cussons Plc vs the FTSE 250 Index TSR

Remuneration during the year ended 31 May 2010

The following table shows remuneration of individual Directors for the year ended 31 May 2010

	Salary/Fees £	Bonus £	Pension Contributions[2] £	Taxable benefits £	**2010 Total[3] £**	2009 Total £
Executive Directors[4]						
A J Green	340 000	–	68 000	35 282	**443,282**	431 076
G A Kanellis	430 000	392,500	86 000	37 199	**945,699**	724 930
A G Calder[5]	143 750	85 000	28 750	16 895	**274,395**	529 491
C G Davis	275 000	251 000	55 000	21 952	**602,952**	464 490
B H Leigh	270 000	246 500	54 000	19 007	**589,507**	439 401
J Pantelireis	235 000	214 500	47 000	20 949	**517,449**	408 643
Non-executive Directors[6]						
R J Harvey[7]	104 167	–	–	–	**104,167**	–
J A Arnold	45 000	–	–	–	**45,000**	44 167
S J N Heale	40 000	–	–	–	**40,000**	39 167
D W Lewis	45 000	–	–	–	**45,000**	43 750
J T J Steel	45 000	–	–	–	**45,000**	43 750
	1 972 917	1 189 500	338 750	151 284	**3,652,451**	3 168 865

(1) Bonus awards made under the Deferred Annual Share Bonus Scheme in respect of the year ended 31 May 2010 are payable as to 50% in cash and 50% in deferred shares (based on the Company s share price at the beginning of the financial year) The amounts included in this column include both the cash and deferred shares element the value of the latter being based on the market value of the Company s shares at 31 May 2010 of £2 892 per share At the start of the period the Committee established the following bonus levels and performance targets (i) a bonus of 36% of salary accrued on achieving target adjusted profit before tax (Target PBT) (of which 3 6% of salary accrued on achieving 90% of Target PBT rising pro rata to 36% of salary for achieving 100% of Target PBT) rising to a maximum bonus of 56% of salary accrued on achieving 110% of Target PBT (ii) subject to achieving Target PBT a bonus of 15% of salary for achieving a monthly average net working capital to sales ratio target and (iii) subject again to achieving Target PBT a bonus of 9% of salary for achieving an operating contribution to sales ratio target Each Executive Director participant qualified for a total bonus (payable in cash and deferred shares) equivalent to 67 8% of salary comprising amounts of 43 8% 15 0% and 9 0% (each of salary) in respect of the PBT net working capital and operating contribution percentage targets respectively

Until his retirement from the Board on 31 March 2010 Mr Calder participated in separate arrangements based on similar financial targets under which he qualified for a total cash bonus of 59 3% of his salary

Mr Green did not participate in the Deferred Annual Share Bonus Scheme or any alternative bonus arrangement

(2) With effect from 1 June 2008 Messrs Green Kanellis Davis and Leigh became members of the Company s new defined contribution pension arrangement Contributions to the defined contribution pension arrangement paid by the Company (but not those paid by the Directors themselves) are included in the amounts shown above As Messrs Calder Pantelireis and with effect from 1 November 2009 and 31 December 2009 respectively Messrs Leigh and Green chose not to participate in the defined contribution pension arrangement they each received a salary supplement equivalent to 20% of base salary in lieu of pension provision and these amounts are also included in the column headed Pension Contributions

(3) 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 awarded under the Deferred Annual Share Bonus Scheme which have not yet vested Mr Kanellis £7 793 Mr Calder £10 054 Mr Davis £4 104 Mr Leigh £4 772 and Mr Pantelireis £4 942

(4) As reported on page 38 above the annual salaries of the Executive Directors have been reviewed and will be revised in respect of the year ending 31 May 2011 following advice from Deloitte LLP The following annual salaries will apply Mr Kanellis £451 500 Mr Davis £288 750 Mr Leigh £283 500 and Mr Pantelireis £246 750

(5) The fees payable to Mr Calder reflect his retirement from the Board part way through the year on 31 March 2010 and his retirement as an employee on 7 April 2010
(6) As reported on page 40 the annual fees of the Non executive Directors (other than Mr Harvey) were reviewed with effect from 1 July 2010 and the following annual fees apply with effect from that date Professor Arnold (£52 500) Mr Heale (£52 500) Mr Lewis (£52 500) and Mr Steel (£52 500)
(7) The fees payable to Mr Harvey reflect his appointment to the Board part way through the year on 1 January 2010 Mr Harvey receives annual fees of £250 000 subject to a requirement to reinvest 20% of such fees each year in the purchase of shares in the Company and to retain such shares during the term of his appointment

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 pension 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 pension arrangements

	Gross increase in accrued pension £ pa	Increase in accrued pension net of inflation (a) £ pa	Total accrued pension at 31 May 2010 £ pa	Value of net increase in pension over period (b) £	Value of accrued pension at 31 May 2009 £	Value of accrued pension at 31 May 2010 £	Total change in value during period (c) £
A J Green	6 125	Nil	208 250	Nil	4 296 000	4 797 000	501 000
A G Calder	19 973	9 613	224 098	236 000	4 995 000	5 509 000	514 000
G A Kanellis	25 667	12 966	275 917	166 000	2 843 000	3 529 000	686 000
C G Davis	2 417	1 415	22 153	21 000	261 000	327 000	66 000
B H Leigh	10 750	6 385	96 750	66 000	777 000	999 000	222 000
J Pantelireis	8 020	2 074	125 169	41 000	2 141 000	2 501 000	360 000

Notes
(1) Accrued pensions 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 2010
(2) Transfer values relating to benefits accrued in the Directors and Expatriate pension plans have been calculated in accordance with the method and basis determined by the Trustee of each plan on the advice of their Actuary to be consistent with current legislation and the rules of the plans Transfer values relating to unfunded pension benefits (see note 7) have been calculated using a method and basis consistent with those used for the funded plans
(3) The value of net increase (b) represents the incremental value to the Director of his increase in pension over the year calculated on the assumption that he left employment with the Company at the year end It is based on the accrued pension increase (a)
(4) The change in the transfer value (c) includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company and Directors such as gilt yield movements
(5) Mr Calder retired as an employee on 7 April 2010 The above figures are based on the change to Mr Calder s accrued benefits between 31 May 2009 and 7 April 2010 but are valued using his age at 31 May 2010 On retirement Mr Calder received an annual pension of £194 900 p a and a cash lump sum of £450 000
(6) The total accrued pensions as at 31 May 2010 and the value of accrued pensions at 31 May 2009 and 31 May 2010 shown for Mr Calder and Mr Leigh include benefits resulting from transfers into the Directors plan
(7) The Company provides unfunded unapproved pension benefits for Messrs Calder 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
(8) 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
(9) 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

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 Mr Lewis Mr Steel Professor Arnold Mr Heale and Mr Harvey will expire on 31 May 2013 30 September 2011 31 December 2012 31 December 2010 and 31 December 2012 respectively

By order of the Board of Directors

James Steel
Chairman of the Remuneration Committee
27 July 2010

Corporate governance

The Board is committed to meeting the standards of good Corporate Governance set out in the Combined Code on Corporate Governance (the Code) published by the Financial Reporting Council in June 2008 (this being the edition of the Code which presently applies to the Company) The Code is publicly available on the Financial Reporting Council s website (www frc org uk) This report together with the Report on Directors Remuneration in respect of remuneration matters describes how the Board applied the Code during the year under review

Board composition and independence
As at the date of this report the Board of Directors has nine members comprising the Non-executive Chairman the Chief Executive three other Executive Directors and four Non-executive Directors The names of the Directors together with their biographical details are set out on page 32 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

During the year the Board was also served by Mr Green as Executive Chairman and Mr Calder as Deputy Chairman until their retirements on 30 June 2010 and 31 March 2010 respectively Following the retirement of Mr Green and in accordance with the Board s previously announced succession planning Mr Harvey was appointed as Non-executive Chairman

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 which acts as legal advisor to the Company Mr Heale is presently the interim Non-executive Chairman of Panmure Gordon which acts as joint broker to the Company None of them participate 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

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 In line with the Code and the Company s Articles of Association all Directors are required to submit themselves for election at the Annual General Meeting following their appointment and thereafter by rotation 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

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

Five 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 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 The Committee comprises Mr Harvey (Committee Chairman) Mr Kanellis and the four independent Non-executive Directors Prof Arnold Mr Heale Mr Lewis and Mr Steel During the year the Committee was also served by Mr Green until his retirement on 30 June 2010 Mr Harvey was appointed to the Committee on 1 January 2010 and assumed the chairmanship of the Committee on 1 July 2010 The Company Secretary is secretary to the Committee

In considering an appointment the Nomination Committee evaluates the balance of skills knowledge and experience of the Board and prepares a description of the role and capabilities required for a particular appointment External search agencies or open advertising will be used where this is appropriate Short-listed candidates will then be invited to interview with members of the Committee and if recommended by the Committee will be invited to meet other Board members before any decision is taken relating to an appointment

During the year following the engagement of an external search agency and an appropriate interview and selection process the Committee nominated Mr Harvey for appointment to the Board initially as independent Non-executive Director and with effect from 1 July as Non-executive Chairman In making its nomination the Committee considered the experience knowledge and qualifications of Mr Harvey his fit with the business and his potential contribution to the Board and the Company

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 and Mr Lewis The Company Secretary is secretary to the Committee

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

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

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 and Mr Steel and 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 have been the Company s auditors for three years and were appointed after an independent tender process The Committee is satisfied with their effectiveness and independence

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 Activities that 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

Corporate governance continued

Attendance at meetings

The number of scheduled meetings of the Board (excluding such ad hoc meetings as were necessary during the year to address specific matters arising) and of each of the Audit Remuneration and Nomination Committees during the year ended 31 May 2010 together with a record of the attendance of the current Directors who are their respective members is detailed in the table below

	Board		Audit Committee		Remuneration Committee		Nomination Committee	
	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
Mr A J Green	5	5	n/a	n/a	n/a	n/a	3	3
Mr R J Harvey*	2	2	n/a	n/a	n/a	n/a	1	1
Mr A G Calder**	3	2	n/a	n/a	n/a	n/a	n/a	n/a
Mr G A Kanellis	5	5	n/a	n/a	n/a	n/a	3	3
Mr C G Davis	5	5	n/a	n/a	n/a	n/a	n/a	n/a
Mr B H Leigh	5	5	n/a	n/a	n/a	n/a	n/a	n/a
Mr J Pantelireis	5	5	n/a	n/a	n/a	n/a	n/a	n/a
Mr D W Lewis	5	5	4	4	5	5	3	3
Prof J A Arnold	5	5	4	4	5	5	3	3
Mr S J N Heale	5	4	4	4	5	4	3	3
Mr J T J Steel	5	5	4	4	5	5	3	3

Notes
n/a indicates that the Director is not a member of the Committee
* Mr Harvey did not attend the meetings held prior to his appointment to the Board on 1 January 2010
** Mr Calder retired from the Board on 31 March 2010

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

Group Risk Committee

The Group Risk Committee is responsible for identifying assessing and prioritising all material risks facing the Group and ensuring where possible that appropriate action is taken to manage and mitigate those risks The risk areas which the Committee reviews include general business risk including risk arising out of the external financial environment product safety risk physical asset risk including factory health and safety and environmental risks IT and infrastructure risks 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 process within the Group and encouraging and supporting two-way communications in respect of risks within the business and with external stakeholders including shareholders suppliers and customers

The Group Risk Committee comprises Professor Arnold (independent Non-executive Director and Committee Chairman) Mr Kanellis Mr Davis Mr Leigh and Mr Pantelireis The Company Secretary is secretary to the Committee The Committee has been in place throughout the year and continues in operation as at the date of this report 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

Corporate Social Responsibility (CSR) Committee

The CSR Committee is responsible for reviewing and developing the Company s corporate strategy to ensure that CSR is an integral part of the strategy and that the Group s social environmental and economic activities are aligned The CSR Committee is also responsible for the development of policies on all key areas of CSR including the environment health and safety product testing and 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 22 to 31

The CSR Committee comprises Mr Heale (independent Non-executive Director and Committee Chairman) Mr Harvey Mr Kanellis Mr Davis Mr Leigh and Mr Pantelireis The Company Secretary is secretary to the CSR Committee The Committee reports formally to the Board after each meeting During the year the Committee was also served by Mr Green until his retirement on 30 June 2010 Mr Harvey was appointed to the Committee on 1 January 2010 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

Performance evaluation

Reviews of the Board and Board committee performance are carried out annually with the assistance of external advisers where considered appropriate and the review results are discussed and any appropriate actions taken

The performance of the Non-executive Directors is evaluated by the Executive Directors The Remuneration Committee reviews Executive Directors performance with guidance from the Chief Executive (other than in respect of his own position)

The review process in 2010 concluded that all Directors continue to contribute effectively and with proper commitment devoting adequate time to carry out their duties

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

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

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

Internal control
The Board is responsible for the Group s system of internal control 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 2010 and up to the date of the Annual Report and Financial Statements that it is regularly reviewed by the Board and that it accords with the Turnbull guidance for Directors on the Combined 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 of the risk management processes in place and
- taking necessary action to remedy any significant weaknesses found as part of the review of the effectiveness of the internal control system

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

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

Share capital
Further information on the Group s share capital structure is provided in the Report of the Directors

Corporate governance continued

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

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

Compliance statement
The Directors consider that the Company complied with the provisions of section 1 of the Code with the following exceptions
- Code Provision A 3 2 The Board recognises that the Code specifies that at least half of the members of the Board (excluding the Chairman) should be independent Non-executive Directors The Company did not comply with this provision between 1 June 2009 and 31 December 2009 during which period the Board comprised the Chairman a total of five Executive Directors and four Non-executive Directors During the period from 1 January 2010 to 31 May 2010 the Company did comply with this provision as the Board comprised the Chairman a total of five Executive Directors (reducing on 31 March to four upon the retirement of Mr Calder) and five Non-executive Directors In any event however each of the Non-executive Directors is determined by the Board to be independent and their respective backgrounds clearly indicate that they are of sufficient calibre and number for their views to carry significant and sufficient weight in the Board s decisions
- Code Provision D 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 only a small number of shareholders during the year but shareholders are afforded the opportunity to meet or consult with him at their discretion in the event that they have any questions comments or concerns and he is available to speak to all shareholders at the Company s Annual General Meeting

Statement of Directors' responsibilities

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

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

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

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

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

Each of the Directors whose names and functions are listed on page 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 which it faces

By order of the Board

Mr S P Plant
Company Secretary
27 July 2010

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 2010 which comprise the Consolidated Income Statement the Consolidated Statement of Comprehensive Income the Consolidated Balance Sheet the Consolidated Statement of Changes in Equity the 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 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

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 2010 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 matters 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 and
- the information given in the Corporate Governance Statement set out on page 47 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if in our opinion
- certain disclosures of directors remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit or
- a corporate governance statement has not been prepared by the parent company

Under the Listing Rules we are required to review
- the directors statement set out on page 47 in relation to going concern and
- the part of the Corporate Governance Statement relating to the company s compliance with the nine provisions of the June 2008 Combined Code specified for our review

Other matter
We have reported separately on the parent company financial statements of PZ Cussons Plc for the year ended 31 May 2010 and on the information in the Report on 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
27 July 2010

Consolidated income statement
Year ended 31 May 2010

	Notes	Total 2010 £m	Before exceptional items (restated) £m	Exceptional items (note 3) £m	Total 2009 (restated) £m
Continuing operations					
Revenue	2	**771 6**	781 8	–	781 8
Cost of sales		**(460 1)**	(486 7)	(3 3)	(490 0)
Gross profit		**311 5**	295 1	(3 3)	291 8
Selling and distribution costs		**(123 9)**	(123 3)	–	(123 3)
Administrative expenses		**(87 8)**	(77 1)	(1 1)	(78 2)
Share of results of joint venture	12	**1 6**	(4 1)	–	(4 1)
Operating profit	2	**101 4**	90 6	(4 4)	86 2
Finance income		**2 9**	3 7	–	3 7
Finance cost		**(2 5)**	(5 5)	–	(5 5)
Net finance income/(cost)	6	**0 4**	(1 8)	–	(1 8)
Profit before taxation		**101 8**	88 8	(4 4)	84 4
Taxation	7	**(29 1)**	(25 2)	1 2	(24 0)
Profit for the year	4	**72 7**	63 6	(3 2)	60 4
Attributable to					
Equity holders of the parent	9	**63 7**	52 8	(3 2)	49 6
Non controlling interest		**9 0**	10 8	–	10 8
		72 7	63 6	(3 2)	60 4
Basic EPS (p)	9	**14 89**			11 64
Diluted EPS (p)	9	**14 72**			11 56
Adjusted basic EPS (p)	9	**14 89**			12 39
Adjusted diluted EPS (p)	9	**14 72**			12 31

The results shown above for both 2010 and 2009 relate to continuing operations

Consolidated statement of comprehensive income
Year ended 31 May 2010

	Notes	**2010 £m**	2009 £m
Profit for the year		**72 7**	60 4
Other comprehensive income			
Actuarial (losses)/gains on defined benefit pension schemes	23	**(8 3)**	19 1
Exchange differences on translation of foreign operations		**39 5**	(3 8)
Cash flow hedges – fair value (loss)/gain in year		**(2 3)**	0 6
Taxation on items taken directly to equity	7	**4 4**	(5 6)
Other comprehensive income for the year net of taxation		**33 3**	10 3
Total comprehensive income for the year		**106 0**	70 7
Attributable to			
Equity holders of the parent		**90 8**	61 1
Non controlling interests		**15 2**	9 6

Consolidated balance sheet
At 31 May 2010

	Notes	31 May 2010 £m	31 May 2009 (restated) £m
Assets			
Non-current assets			
Goodwill and other intangible assets	10	**163 0**	157 6
Property plant and equipment	11	**242 0**	200 8
Other investments	13	**0 7**	0 6
Net investment in joint venture	12	**24 9**	19 0
Receivables	15	**0 8**	1 6
Retirement benefit surplus	23	**32 0**	20 6
		463 4	400 2
Current assets			
Inventories	14	**142 1**	154 6
Trade receivables and prepayments	15	**124 6**	113 7
Investments	16	**0 3**	0 3
Cash and cash equivalents	17	**131 9**	84 2
Current taxation receivable		**4 8**	0 8
		403 7	353 6
Total assets		**867 1**	753 8
Equity			
Ordinary share capital	24	**4 3**	4 3
Capital redemption reserve		**0 7**	0 7
Hedging reserve		**(1 3)**	0 3
Currency translation reserve		**53 8**	20 4
Retained earnings		**397 3**	364 2
Equity attributable to equity holders of the Company		**454 8**	389 9
Non controlling interest		**67 3**	59 9
Total equity		**522 1**	449 8
Liabilities			
Non-current liabilities			
Borrowings	18	**30 0**	44 9
Other liabilities	20	**0 4**	1 0
Deferred taxation liabilities	21	**48 8**	47 2
Retirement benefit obligations	23	**46 7**	29 6
		125 9	122 7
Current liabilities			
Borrowings	18	**15 7**	16 4
Trade and other payables	19	**172 4**	140 8
Current taxation payable		**27 9**	20 3
Provisions	22	**3 1**	3 8
		219 1	181 3
Total liabilities		**345 0**	304 0
Net equity and liabilities		**867 1**	753 8

The financial statements were approved by the Board of Directors and authorised for issue

They were signed on its behalf by

R J Harvey **G A Kanellis**
27 July 2010

Consolidated statement of changes in equity
Year ended 31 May 2010

	Attributable to owners of the Company						
	Share capital £m	Currency translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Hedging reserve £m	Non controlling interests £m	Total £m
At 1 June 2008	4 3	23 0	0 7	320 7	–	57 2	405 9
Profit for the year	–	–	–	49 6	–	10 8	60 4
Actuarial gains on defined benefit pension schemes	–	–	–	19 1	–	–	19 1
Exchange differences on translation of foreign operations	–	(2 6)	–	–	–	(1 2)	(3 8)
Cash flow hedges – fair value gains in year	–	–	–	–	0 6	–	0 6
Cash flow hedges – tax on fair value gains	–	–	–	–	(0 3)	–	(0 3)
Deferred tax on share based payments	–	–	–	0 6	–	–	0 6
Tax on actuarial gains on defined benefit pension schemes	–	–	–	(5 9)	–	–	(5 9)
Total comprehensive income/(expense) for the year	–	(2 6)	–	63 4	0 3	9 6	70 7
Transactions with owners							
Ordinary dividends	–	–	–	(20 5)	–	–	(20 5)
Acquisition of shares for ESOT	–	–	–	(0 7)	–	–	(0 7)
Share based payments charge	–	–	–	1 3	–	–	1 3
Acquisition of non controlling interest	–	–	–	–	–	(3 7)	(3 7)
Non controlling interest dividend paid	–	–	–	–	–	(3 2)	(3 2)
At 31 May 2009	4 3	20 4	0 7	364 2	0 3	59 9	449 8
At 1 June 2009	**4 3**	**20 4**	**0 7**	**364 2**	**0 3**	**59 9**	**449 8**
Profit for the year	–	–	–	**63 7**	–	**9 0**	**72 7**
Actuarial losses on defined benefit pension schemes	–	–	–	**(8 3)**	–	–	**(8 3)**
Exchange differences on translation of foreign operations	–	**33 4**	–	–	**(0 1)**	**6 2**	**39 5**
Cash flow hedges – fair value losses in year	–	–	–	–	**(2 3)**	–	**(2 3)**
Cash flow hedges – tax on fair value losses	–	–	–	–	**0 8**	–	**0 8**
Deferred tax on share based payments	–	–	–	**1 6**	–	–	**1 6**
Tax on actuarial losses on defined benefit pension schemes	–	–	–	**2 0**	–	–	**2 0**
Total comprehensive income/(expense) for the year	–	**33 4**	–	**59 0**	**(1 6)**	**15 2**	**106 0**
Transactions with owners							
Ordinary dividends	–	–	–	**(25 7)**	–	–	**(25 7)**
Acquisition of shares for ESOT	–	–	–	**(3 0)**	–	–	**(3 0)**
Share based payments charge	–	–	–	**2 8**	–	–	**2 8**
Acquisition of non controlling interest	–	–	–	–	–	**(3 3)**	**(3 3)**
Non controlling interest dividend paid	–	–	–	–	–	**(4 5)**	**(4 5)**
At 31 May 2010	**4 3**	**53 8**	**0 7**	**397 3**	**(1 3)**	**67 3**	**522 1**

Consolidated cash flow statement
Year ended 31 May 2010

	Notes	2010 £m	2009 £m
Operating activities			
Cash generated from operations	26	**160 8**	145 2
Taxation		**(22 1)**	(16 7)
Net cash generated from operating activities		**138 7**	128 5
Cash flows from investing activities			
Investment income received		**2 9**	3 7
Purchase of property plant and equipment		**(44 3)**	(46 0)
Proceeds from sale of property plant and equipment		**0 6**	4 1
Proceeds from sale of intangible assets		**–**	4 3
Purchase of intangible assets	10	**(0 3)**	(3 6)
Acquisition of non controlling interest	29	**(6 8)**	(5 2)
Acquisition of subsidiary	29	**(0 8)**	–
Loans granted to joint venture		**(2 2)**	(0 5)
Net cash used in investing activities		**(50 9)**	(43 2)
Financing activities			
Interest paid		**(2 5)**	(5 5)
Dividends paid to non controlling interests		**(4 1)**	(2 3)
Purchase of shares for ESOT	25	**(3 0)**	(0 7)
Dividends paid to Company shareholders	8	**(25 7)**	(20 5)
Net decrease in borrowings	18	**(15 0)**	(10 5)
Net cash used in financing activities		**(50 3)**	(39 5)
Net increase in cash, cash equivalents and bank overdrafts		**37 5**	45 8
Cash, cash equivalents and bank overdrafts at the beginning of the year	17	**82 8**	38 1
Effect of foreign exchange rates		**10 9**	(1 1)
Cash, cash equivalents and bank overdrafts at the end of the year	17	**131 2**	82 8

Notes to the consolidated financial statements

General information
PZ Cussons Plc is a company incorporated in the United Kingdom under the Companies Act 2006 The address of the registered office is given on page 89

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) Further standards may be issued by the International Accounting Standards Board (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by the IFRIC

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

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

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

Standards and interpretations
The following new standards amendments to standards and interpretations have been adopted for the financial year ending 31 May 2010
- IFRS 8 Operating segments effective for annual periods beginning on or after 1 January 2009 IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131 Disclosures about segments of an enterprise and related information The new standard requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes The Group has assessed the requirements of IFRS 8 and concluded that no change in segment information is required
- IAS 1 (revised) Presentation of financial statements effective for annual periods beginning on or after 1 January 2009 The Group has applied IAS 1 (amended) from 1 June 2009
- IFRIC 14 IAS 19 – The limit on a defined benefit asset minimum funding requirements and their interaction The interpretation clarifies the limitations on recognising defined benefit pension surpluses (and the related deferred tax liabilities) in the balance sheet and may also require recognition of an additional liability for any committed future contributions The Group has applied IFRIC 14 from 1 June 2009 with no impact on the Group
- IAS 23 (amendment) Borrowing costs IAS 32 (amendment) Financial instruments presentation and consequential amendments to IAS 1 Presentation of financial statements IFRS 2 (amendment) Share-based payment transactions and IFRIC 13 Customer loyalty programmes also came into effect and were adopted by the Group for the year ending 31 May 2010 but had no impact on the Group financial statements

The following new standards amendments to standards and interpretations have been issued but are not effective for the financial year ending 31 May 2010 and have not been early adopted
- IFRS 3 (amendment) Business combinations and consequential amendments to IAS 27 Consolidated and separate financial statements IAS 28 Investments in associates and IAS 31 Interests in joint ventures is effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 This is applicable to the Group from 1 June 2010 Management is assessing the impact of the new requirements regarding acquisition accounting consolidation and joint ventures on the Group
- IFRS 9 Financial instruments classification and measurement is effective for accounting periods beginning after 1 January 2013 Management is assessing the impact of the new requirements on the Group
- IAS 39 (amendments) Eligible hedged items IFRIC 16 Hedges of net investment in a foreign operation and IFRIC 17 Distributions of non cash assets to owner are effective for annual periods beginning on or after 1 July 2009 These standards and interpretation changes are either not currently applicable to the Group or will have no material effect
- Amendment to IFRS 2 Share-based payments – Group cash-settled share-based payment transactions is effective for accounting periods beginning 1 January 2010 Management is assessing the impact of the new requirements for the Group
- IFRIC 18 Transfer of assets from customers is effective for accounting periods beginning 1 July 2009 (EU endorsed 31 October 2009) This standard is not expected to have a material impact on the Group

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

1 Accounting policies continued
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 cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i e discount on acquisition) is credited to the income statement in the period of acquisition

The total profits or losses of subsidiaries are included in the consolidated income statement and the interest of non controlling interests is stated at the non controlling interest s proportion of the fair values of the assets and liabilities recognised Subsequently losses applicable to the non controlling interest in excess of the non controlling interest s interest in the subsidiary s equity are allocated against the interests of the Group except to the extent that the non controlling interest has a binding obligation and is able to make an additional investment to cover the losses

The 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 the 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 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 curtailments 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 cost 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 plus any costs directly attributable to the business combination 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 rather than proportional consolidation 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 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 debited to goodwill

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

Notes to the consolidated financial statements continued

1 Accounting policies continued
loss recognised for goodwill is not reversed in a subsequent period On disposal of a subsidiary or a jointly controlled entity the attributable amount of goodwill is included in the determination of the profit or loss on disposal

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

Other intangible assets
An acquired brand is only recognised on the balance sheet where it is supported by a registered trademark where brand earnings are separately identifiable and the brand could be sold separately from the rest of the business Brands acquired as part of a business combination are recorded in the balance sheet at fair value at the date of acquisition Trademarks patents and purchased brands are recorded at purchase cost Brands currently held are not amortised as the Directors believe they have indefinite lives 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

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

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

1 Accounting policies continued

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 and are 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 tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date

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

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

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

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

Notes to the consolidated financial statements continued

1 Accounting policies continued

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

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

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

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

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

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

Inventories

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

Trade receivables

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

Research and development

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

Cash, cash equivalents and bank overdrafts

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

Financial instruments

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

Derivative financial instruments

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

The occasional 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 equity 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

1 Accounting policies continued

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 are as follows

Accounting for intangible assets

The Group records all intangible assets acquired as part of a business combination at fair value Intangible assets are deemed to have indefinite lives and as such are not amortised but are subject at 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 and expected long-term rates of return on assets 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

Notes to the consolidated financial statements continued

1 Accounting policies continued

Prior year adjustment

During the year ended 31 May 2010 the accounting treatment for the revenue arising from the sale of the Nutricima joint venture products through another Group subsidiary has been changed In prior periods the sales (and corresponding cost of sales) relating to Nutricima Ltd (the operating entity within the Group's nutritional foods joint venture) products distributed through PZ Cussons Nigeria Plc (a subsidiary of the Group) have been recognised as revenue (and cost of sales) in the Group s income statement Following a review of the distribution agreement conditions and the respective risks/rewards assumed by the two entities PZ Cussons Nigeria Plc is deemed to be acting as an agent rather than a principal (in accordance with IAS 18) Consequently the Group should only recognise the distribution fee income (received from Nutricima Ltd) and the related distribution costs in the consolidated income statement rather than the gross sales and cost of sales values for the product being distributed Furthermore inventory relating to Nutricima products held for sale by PZ Cussons Nigeria Plc that had previously been consolidated in the Groups balance sheet is now accounted for as inventory within the joint venture There is no impact on the historic or future profitability or net assets of the Group

The effect of this change in the year to 31 May 2009 is to reduce revenue and cost of sales by £60 1 million increase revenue and selling and distribution costs by £3 8 million reduce inventories by £3 7 million reduce amounts owed to joint ventures by £1 3 million and increase the amount owed from joint ventures by £2 4 million For both the current and the prior year periods there is no change in the net asset position of the Group A restated balance sheet as at 31 May 2008 has not been presented as the revision affecting this period is not considered material

2 Segmental analysis

The Group has implemented IFRS 8 Operating segments with effect from 1 June 2009 IFRS 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes The Group has assessed the requirements of IFRS 8 and have concluded that no change in segment information is required

The chief operating decision-maker has been identified as the Executive Board 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

The Executive Board considers the business from a geographic perspective with Africa Europe and Asia being the reporting segments

The Executive Board assesses the performance based on operating profit before any exceptional items Interest income and cost are not included in the results for each operating segment that is reviewed by the Executive Board Other information provided except as noted below to the Executive Board is measured in a manner consistent with that of the financial statements

Total segment assets exclude tax related assets These are included as in the reconciliation to the total balance sheet assets

Business segments

2010	Africa £m	Asia £m	Europe £m	Eliminations £m	Total £m
Total gross segment revenue	325 2	192 3	446 1	(192 0)	771 6
Inter segment revenue	–	(26 7)	(165 3)	192.0	–
Revenue	325 2	165 6	280 8	–	771 6
Segmental operating profit before exceptional items and share of results of joint venture	40 6	13 0	46 2	–	99 8
Share of results of joint venture	1 6	–	–	–	1 6
Segmental operating profit	42 2	13 0	46 2	–	101 4
Finance income					2 9
Finance cost					(2 5)
Profit before taxation					101 8

2009 (restated)	Africa £m	Asia £m	Europe £m	Eliminations £m	Total £m
Total gross segment revenue	358 7	173 9	500 6	(251 4)	781 8
Inter segment revenue	–	(38 9)	(212 5)	251 4	–
Revenue	358 7	135 0	288 1	–	781 8
Segmental operating profit before exceptional items and share of results of joint venture	43 6	10 2	40 9	–	94 7
Share of results of joint venture	(4 1)	–	–	–	(4 1)
Segmental operating profit before exceptional items	39 5	10 2	40 9	–	90 6
Exceptional items (note 3)	–	–	(4 4)	–	(4 4)
Segmental operating profit	39 5	10 2	36 5	–	86 2
Finance income					3 7
Finance cost					(5 5)
Profit before taxation					84 4

2 Segmental analysis continued

2010	Africa £m	Asia £m	Europe £m	Tax £m	Total £m
Segment assets before investment in joint venture	**197 6**	**159 0**	**480 8**	**4 8**	**842 2**
Long-term loans receivable from joint venture	**25 9**	**–**	**–**	**–**	**25 9**
Investment in joint venture – share of net liabilities	**(1 0)**	**–**	**–**	**–**	**(1 0)**
Segment assets	**222 5**	**159 0**	**480 8**	**4 8**	**867 1**

2009 (restated)	Africa £m	Asia £m	Europe £m	Tax £m	Total £m
Segment assets before investment in joint venture	221 0	100 8	412 2	0 8	734 8
Long-term loans receivable from joint venture	23 7	–	–	–	23 7
Investment in joint venture – share of net liabilities	(4 7)	–	–	–	(4 7)
Segment assets	240 0	100 8	412 2	0 8	753 8

3 Exceptional items

Year ended 31 May 2010
There were no exceptional items in the year ended 31 May 2010

Year ended 31 May 2009

Exceptional items included within operating profit	Exceptional item before taxation £m	Taxation £m	Exceptional item after taxation £m
Restructuring of UK operations	(4 4)	1 2	(3 2)

Restructuring of UK operations
This item relates to a significant restructuring of the UK business associated with the relocation of manufacturing from two sites to one site made up of redundancy and other associated costs

4 Profit for the year – analysis by nature

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

	2010 £m	2009 £m
Net foreign exchange (gains)/losses	**(2 8)**	4 4
Research and development costs	**3 8**	2 6
Amortisation of government grants	**(0 7)**	(0 7)
Depreciation of property plant and equipment	**18 8**	17 5
Loss on disposal of property plant and equipment	**1 2**	1 0
Raw and packaging materials and goods purchased for resale	**398 7**	462 8
Operating lease rentals	**3 7**	2 4
Employee costs (note 5)	**108 9**	98 9
Auditors remuneration (see below)	**0 8**	1 0

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

	2010 £m	2009 £m
Fees payable to the Company s auditors for the audit of the Company s annual accounts	**–**	–
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 6**	0 5
Total audit fees	**0 6**	0 5
Other services pursuant to legislation		
– Tax services	**0 2**	0 4
– Other services	**–**	0 1
Total fees	**0 8**	1 0

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 amounts above fees were paid to the Group s auditors in respect of their audit of the Group s UK retirement benefit schemes totalling £16 850 (2009 £16 700)

Notes to the consolidated financial statements continued

5 Directors and employees

Employee costs

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

	2010 Number	2009 Number
Production	**4,548**	4 635
Selling and distribution	**2,671**	2 762
Administration	**1,093**	1 199
	8,312	8 596

The costs incurred in respect of the above were as follows

	2010 £m	2009 £m
Wages and salaries	**91 8**	85 7
Social security and other costs	**8 1**	7 2
Post-employment benefits	**6 2**	4 7
Share-based payments (note 28)	**2 8**	1 3
	108 9	98 9

The post-employment benefits cost consists of

	2010 £m	2009 £m
Defined benefit schemes (note 23)	**1 1**	0 1
Defined contribution schemes (note 23)	**2 8**	2 7
Overseas minor defined benefit schemes and Nigerian gratuity scheme (note 23)	**2 3**	1 9
	6 2	4 7

Directors' remuneration

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

	2010 £m	2009 £m
Fees to Non-executive Directors	**0 3**	0 2
Wages and salaries	**1 7**	1 7
Bonus – cash bonus	**0 5**	0 4
Bonus – Deferred Annual Share Bonus	**0 4**	0 4
Benefits	**0 2**	0 1
Social security and other costs	**0 4**	0 4
Post-employment benefits	**0 3**	0 3
Share-based payments	**0 7**	0 2
Total	**4 5**	3 7

6 Net finance income/(cost)

	2010 £m	2009 £m
Current asset investment income		
Net investment gains	**0 4**	0 4
Interest receivable from associated companies	**0 1**	0 3
Interest and dividends receivable	**2 4**	1 6
Gains on financial instruments	**–**	1 4
	2 9	3 7
Interest payable on bank loans and overdrafts	**(2 5)**	(5 5)
Net finance income/(cost)	**0 4**	(1 8)

7 Taxation

	2010 £m	2009 £m
Current tax		
UK corporation tax charge for the year	**7 7**	4 5
Adjustments in respect of prior periods	**(1 5)**	(2 1)
	6 2	2 4
Overseas corporation tax charge for the year	**17 4**	18 9
Adjustments in respect of prior periods	**1 0**	0 1
	18 4	19 0
Total current tax charge	**24 6**	21 4
Deferred tax		
Temporary differences origination and reversal	**3 9**	2 3
Adjustments in respect of prior periods	**0 6**	0 3
Total deferred tax charge (note 21)	**4 5**	2 6
Total tax charge	**29 1**	24 0

UK corporation tax is calculated at 28% (2009 28%) 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 £4 4 million (2009 debit of £5 6 million) and relates to the movement in deferred tax on actuarial losses deferred tax on share option schemes and deferred tax 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

	2010 £m	2009 £m
Profit before tax	**101 8**	84 4
Tax at the UK corporation tax rate of 28% (2009 28%)	**28 5**	23 6
Tax effect of revenue/expenses that are not deductible	**0 1**	–
Effect of different tax rates of subsidiaries in overseas jurisdictions	**0 8**	1 0
Tax effect of share of results of joint ventures	**(0 4)**	1 1
Prior period adjustment	**0 1**	(1 7)
Tax charge for the year	**29 1**	24 0

A number of changes to the UK corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements

The effect of the changes to be enacted in the Finance (No 2) Act 2010 would be to reduce the deferred tax liability provided at 31 May 2010 by £1 4 million This £1 4 million decrease in the deferred tax liability would increase profit for the year by £1 2 million and increase other comprehensive income by £0 2 million This decrease in the deferred tax liability is due to the reduction in the corporation tax rate from 28% to 27% with effect from 1 April 2011

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year The overall effect of the further changes from 27% to 24% if these applied to the deferred tax balance at 31 May 2010 would be to reduce the deferred tax liability by £4 0 million (being £1 4 million recognised in 2012 £1 3 million recognised in 2013 and £1 3 million recognised in 2014)

Notes to the consolidated financial statements continued

8 Dividends

	2010 £m	2009 £m
Amounts recognised as distributions to ordinary shareholders in the year comprise		
Final dividend for the year ended 31 May 2009 of 4 085p (2008 3 625p) per ordinary share	**17 5**	15 5
Interim dividend for the year ended 31 May 2010 of 1 930p (2009 1 185p) per ordinary share	**8 2**	5 0
	25 7	20 5
Proposed final dividend for the year ended 31 May 2010 of 3 970p (2009 4 085p) per share	**17 1**	17 5

The proposed final dividends for the years ended 31 May 2009 and 31 May 2010 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 2009 and 31 May 2010 respectively

At 31 May 2010 the Employee Share Option Trust held 1 874 245 ordinary shares (2009 1 837 727 ordinary shares) The trust waived any entitlement to the dividends on these shares

9 Earnings per share

	2010	2009
Profit attributable to ordinary equity shareholders (£ million)	**63 7**	49 6
Basic earnings per share	**14 89p**	11 64p
Diluted earnings per share	**14 72p**	11 56p

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

	2010 Number 000	2009 Number 000
Basic weighted average	**427,232**	426 212
Diluted weighted average	**432,391**	429 064

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

	2010 Number 000	2009 Number 000
Basic weighted average ordinary shares in issue during the year	**427,232**	426 212
Dilutive effect of share incentive plans	**5,159**	2 852
Diluted weighted average	**432,391**	429 064

Adjusted earnings per share

	2010	2009
Basic earnings per share	**14 89p**	11 64p
Exceptional items (note 3)	**–**	0 75p
Adjusted basic earnings per share	**14 89p**	12 39p
Diluted earnings per share	**14 72p**	11 56p
Exceptional items (note 3)	**–**	0 75p
Adjusted diluted earnings per share	**14 72p**	12 31p

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

	2010 £m	2009 £m
Profit attributable to ordinary equity shareholders	**63 7**	49 6
Exceptional items (net of taxation effect) (note 3)	–	3 2
Adjusted profit after tax	**63 7**	52 8

10 Goodwill and other intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 June 2008	29 3	122 9	152 2
Acquired during the year (note 29)	1 5	3 6	5 1
Currency retranslation	–	0 3	0 3
At 31 May 2009	**30 8**	**126 8**	**157 6**
Acquired during the year (note 29)	3 9	–	3 9
Additions	–	0 3	0 3
Currency retranslation	–	1 2	1 2
At 31 May 2010	**34 7**	**128 3**	**163 0**

Other intangible assets include the Group s acquired brands Charles Worthington Original Source The Sanctuary Trix and Burrino and are deemed to have indefinite lives During the year the Group acquired additional share capital of PZ Cussons Nigeria Plc increasing its stake from 64 0% to 66 1% This generated goodwill of £3 5 million In addition the Group acquired the entire share capital of Body Experience Ltd generating goodwill of £0 4 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 The recoverable amounts of the cash-generating units (CGUs) are determined from value-in-use calculations that use amounts from approved budgets and plans over a period of five years (2009 five years) and cash flows projected forward assuming a perpetual growth rate of 3% The discount rate applied to the cash flow projections was between 7 3% to 8 4% on a pre-tax basis (2009 8 0% to 9 0%) The average per-annum growth rate applied to the initial period ranges from 5 5% to 10 0% (2009 7 7% to 10 0%) and was based on industry growth rates

Intangible assets and goodwill are allocated to the appropriate CGU identified which is directly driven by the brand of product The net book value of goodwill and intangible assets by these CGUs was as follows

	Goodwill 2010 £m	Goodwill 2009 £m	Other intangible assets 2010 £m	Other intangible assets 2009 £m
Original Source	–	–	**9 8**	9 8
Charles Worthington	**8 3**	8 3	**29 8**	29 8
The Sanctuary	**21 0**	21 0	**75 3**	75 3
Trix	–	–	**8 6**	7 4
Other	**5 4**	1 5	**4 8**	4 5
Total	**34 7**	30 8	**128 3**	126 8

There were no impairments of goodwill or intangible assets identified during the year or the prior year

Notes to the consolidated financial statements continued

11 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures fittings and vehicles £m	Assets in course of construction £m	Total £m
Cost					
At 1 June 2008	97 3	177 8	34 6	33 8	343 5
Currency retranslation	(1 1)	2 8	(0 3)	(0 8)	0 6
Additions	10 1	3 7	5 1	24 6	43 5
Disposals	(0 5)	(46 3)	(6 2)	–	(53 0)
Reclassifications	14 8	19 2	1 2	(35 2)	–
At 31 May 2009	120 6	157 2	34 4	22 4	334 6
Currency retranslation	9 0	14 0	3 0	1 9	27 9
Acquisitions	0 5	–	–	–	0 5
Additions	1 8	2 3	4 9	37 1	46 1
Disposals	–	(7 3)	(2 6)	–	(9 9)
Reclassifications	8 9	18 4	0 8	(28 1)	–
At 31 May 2010	**140 8**	**184 6**	**40 5**	**33 3**	**399 2**
Depreciation and amounts written off					
At 1 June 2008	9 3	127 9	26 3	–	163 5
Currency retranslation	(0 2)	2 0	(0 5)	–	1 3
Charge for the year	3 0	9 4	5 1	–	17 5
Disposals	(0 2)	(42 5)	(5 8)	–	(48 5)
At 31 May 2009	11 9	96 8	25 1	–	133 8
Currency retranslation	1 3	8 8	2 6	–	12 7
Charge for the year	3 2	10 6	5 0	–	18 8
Disposals	–	(5 7)	(2 4)	–	(8 1)
At 31 May 2010	**16 4**	**110 5**	**30 3**	**–**	**157 2**
Net book values					
At 31 May 2010	**124 4**	**74 1**	**10 2**	**33 3**	**242 0**
At 31 May 2009	108 7	60 4	9 3	22 4	200 8

At 31 May 2010 the Group had entered into commitments for the acquisition of property plant and equipment amounting to £4 5 million (2009 £8 6 million) At 31 May 2010 the Group had entered into capital commitments of nil (2009 £2 0 million) in relation to its interests in joint ventures and the Group s share in the capital commitments of the joint venture was nil (2009 £1 0 million)

12 Investments in joint ventures

	£m
Cost	
At 1 June 2008	(0 4)
Exchange differences on translation of overseas net assets recognised in equity	(0 2)
Share of result for the year taken to the income statement	(4 1)
At 31 May 2009	(4 7)
Exchange differences on translation of overseas net assets recognised in equity	2 1
Share of result for the year taken to the income statement	1 6
At 31 May 2010	**(1 0)**

	2010 £m	2009 £m
Aggregated amounts relating to joint ventures		
Total assets	**57 5**	52 3
Total liabilities	**(59 4)**	(61 6)
Net liabilities	**(1 9)**	(9 3)
Revenues	**53 9**	60 2
Profit/(loss)	**3 2**	(8 2)

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

12 Investments in joint ventures continued

The presentation of this on the balance sheet is as follows

Net investment in joint venture	2010 £m	2009 £m
Investment in joint venture – share of net liabilities	**(1 0)**	(4 7)
Long-term loans receivable from joint venture	**25 9**	23 7
	24 9	19 0

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

13 Other investments

Non-current asset investments 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 2010 and 31 May 2009

14 Inventories

	2010 £m	2009 (restated) £m
Raw materials and consumables	**55 7**	72 8
Work in progress	**10 9**	8 5
Finished goods and goods for resale	**75 5**	73 3
	142 1	154 6

During the year ended 31 May 2010 £3 6 million (2009 £1 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 £398 7 million (2009 £462 8 million)

15 Trade receivables and prepayments

Receivables due within one year

	2010 £m	2009 (restated) £m
Trade receivables	**111 2**	95 3
Less provision for impairment of trade receivables	**(8 5)**	(7 8)
Net trade receivables	**102 7**	87 5
Amounts owed by joint ventures	**3 5**	6 0
Other receivables	**12 2**	8 6
Prepayments and accrued income	**6 2**	6 9
Currency derivative instruments (note 18)	**–**	4 7
	124 6	113 7

Receivables due after more than one year

	2010 £m	2009 £m
Prepayments and accrued income	**0 5**	1 5
Other receivables	**0 3**	0 1
Total	**0 8**	1 6

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

	2010 £m	2009 £m
At 1 June	**(7 8)**	(5 9)
Provision for receivables impairment	**(1 5)**	(2 8)
Receivables written off during the year	**1 3**	0 3
Unused amounts reversed	**0 2**	–
Currency translation	**(0 7)**	0 6
At 31 May	**(8 5)**	(7 8)

Provisions are estimated by management based on past default experience and their assessment of the current economic environment

Notes to the consolidated financial statements continued

15 Receivables and prepayments continued
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 24 to 97 days (2009 16 to 103 days) due to the differing nature of trade receivables in the Group s geographical segments

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

	2010 £m	2009 £m
Sterling	**19 1**	17 9
US Dollar	**5 0**	4 2
Nigerian Naira	**36 1**	23 5
Euro	**18 0**	20 5
Polish Zloty	**4 0**	4 6
Indonesian Rupiah	**8 5**	6 9
Ghana Cedi	**4 4**	1 9
Other minor currencies	**7 6**	8 0
	102 7	87 5

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

	2010 £m	2009 £m
Not past due	**86 6**	67 7
Past due 0–90 days	**15 3**	18 3
Past due 90–180 days	**0 8**	1 0
Past due >180 days	**–**	0 5
	102 7	87 5

16 Current asset investments

	2010 £m	2009 £m
Unlisted	**0 3**	0 3

17 Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank and in hand	**57 3**	38 9
Short-term deposits	**74 6**	45 3
Cash and cash equivalents	**131 9**	84 2
Less bank overdrafts (included in borrowings note 18)	**(0 7)**	(1 4)
Cash, cash equivalents and bank overdrafts	**131 2**	82 8

The effective interest rate on cash and cash equivalents during the year ended 31 May 2010 was 1 6% (2009 2 7%)

18 Borrowings

	2010 £m	2009 £m
Overdrafts due within one year	**0 7**	1 4
Bank loans due within one year	**15 0**	15 0
Bank loans due after one year	**30 0**	44 9
	45 7	61 3

18 Borrowings continued
The borrowings are repayable as follows

	2010 £m	2009 £m
Within one year	**15 7**	16 4
Between one to two years	**15 0**	15 0
Between two to three years	**15 0**	15 0
Between three to four years	**–**	14 9
	45 7	61 3

Bank overdrafts are repayable on demand The weighted average rate of interest on bank overdrafts was 12 7% (2009 14 8%) 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

The split between fixed and floating rate borrowing and applicable weighted average interest rates are as follows

	2010 £m	2010 Interest rate (%)	2009 £m	2009 Interest rate (%)
Floating rate borrowing	**45 7**	**1 0**	61 3	1 6

At 31 May 2010 the Group had undrawn facilities of £101 3 million (2009 £99 5 million) available to it The Group s borrowings were denominated in the following currencies

2010

	Sterling £m	Naira £m	Euro £m	Total £m
Analysis of borrowings by currency				
Bank overdrafts	**–**	**0 1**	**0 6**	**0 7**
Bank loans	**45 0**	**–**	**–**	**45 0**
	45 0	**0 1**	**0 6**	**45 7**

2009

	Sterling £m	Naira £m	Other £m	Total £m
Analysis of borrowings by currency				
Bank overdrafts	–	1 3	0 1	1 4
Bank loans	59 9	–	–	59 9
	59 9	1 3	0 1	61 3

An interest rate swap contract was entered into to hedge the cash flow interest rate risk inherent in liabilities with a notional value of £22 5 million (2009 £30 0 million) This swap ensures an average effective fixed rate payable of 5 11% until June 2011 At 31 May 2010 the fair value of the interest rate swap was a liability of £0 9 million (2009 £1 8 million)

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

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 risks 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

Notes to the consolidated financial statements continued

18 Borrowings continued

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

The Group has 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

Sensitivity analysis

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

	2010		2009	
	Equity £m	**Income statement £m**	Equity £m	Income statement £m
Nigerian Naira	**13 8**	**2 7**	11 2	3 0
Euro	**4 7**	**0 3**	4 8	0 5
Indonesian Rupiah	**4 9**	**0 3**	3 8	0 1
Australian Dollar	**4 2**	**0 7**	4 1	0 5
Polish Zloty	**2 7**	**0 3**	3 9	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

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

Cash flow and interest rate risk

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

Fair values

Financial instruments utilised by the Group during the years ended 31 May 2010 and 31 May 2009 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

18 Borrowings continued
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 2010 and 31 May 2009 None of the financial assets and liabilities have been reclassified during the year

	2010 Carrying amount and fair value £m	2009 (restated) Carrying amount and fair value £m
Loans and receivables		
Cash and short-term deposits	**131 9**	84 2
Trade and other receivables	**118 4**	106 8
Financial liabilities		
Trade and other payables	**(172 4)**	(140 8)
Bank overdrafts	**(0 7)**	(1 4)
Bank loans	**(45 0)**	(59 9)

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

	2010 £m	2009 £m
AA	**42 4**	36 9
A	**41 7**	28 3
B	**47 8**	19 0
Total	**131 9**	84 2

Derivative financial instruments

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rates swaps – cash flow hedges	**–**	**(0 9)**	–	(1 8)
Forward foreign exchange contracts – cash flow hedges	**–**	**(0 9)**	4 7	(0 4)
Total	**–**	**(1 8)**	4 7	(2 2)

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

(a) Forward foreign exchange contracts
The net notional principal amounts of the outstanding forward foreign exchange contracts at 31 May 2010 were £14 6 million (2009 £20 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 2010 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

(b) Interest rate swaps
The notional principal amounts of the outstanding interest rate swap contracts at 31 May 2010 were £22 5 million (2009 £30 0 million)

At 31 May 2010 the fixed interest rate is 5 11% (2009 5 11%) and the main floating rate is LIBOR Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 May 2010 will be continuously released to the income statement over the period of the hedge

Notes to the consolidated financial statements continued

19 Trade and other payables

	2010 £m	2009 (restated) £m
Trade payables	**100 5**	79 0
Amounts owed to joint ventures	**1 4**	–
Other taxation and social security	**7 7**	5 3
Other payables	**16 8**	14 1
Financial derivative liabilities (note 18)	**1 8**	2 2
Accruals and deferred income	**44 2**	40 2
	172.4	140 8

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs The average credit period taken for trade purchases is 80 days (2009 59 days) The Directors consider the carrying amount of trade and other payables approximates their fair value

20 Other non-current liabilities

	2010 £m	2009 £m
Other payables	**0 3**	0 8
Accruals and deferred income	**0 1**	0 2
	0 4	1 0

21 Deferred tax

	Property plant and equipment £m	Retirement benefit obligations £m	Revaluation of property plant and equipment £m	Other timing differences £m	Business combinations £m	Share based payments £m	Total £m
At 1 June 2008	(11 2)	8 5	(15 0)	6 1	(29 3)	0 2	(40 7)
Charge to income	2 5	(0 3)	–	(5 5)	–	0 7	(2 6)
Charge to equity	–	(5 9)	–	(0 3)	–	0 6	(5 6)
Currency translation	0 2	–	1 5	–	–	–	1 7
At 31 May 2009	(8 5)	2 3	(13 5)	0 3	(29 3)	1 5	(47 2)
Charge to income	(3 4)	(0 4)	–	(1 0)	–	0 3	(4 5)
Charge to equity	–	2 0	–	0 8	–	1 6	4 4
Currency translation	(0 9)	0 1	(0 7)	–	–	–	(1 5)
At 31 May 2010	**(12 8)**	**4 0**	**(14 2)**	**0 1**	**(29 3)**	**3 4**	**(48 8)**

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

	2010 £m	2009 £m
Deferred tax assets	**11 2**	7 3
Deferred tax liabilities	**(60 0)**	(54 5)
	(48 8)	(47 2)

At the balance sheet date the Group has unused tax losses of £0 4 million (2009 £0 4 million) available for offset against future profits None of the £0 4 million (2009 £0 4 million) is expected to expire Temporary differences arising in connection with interests in associates and joint ventures are not significant

22 Provisions

	Other Provisions £m
At 1 June 2008	1 7
Currency retranslation	(0 1)
Income statement	3 3
Utilised in the year	(1 1)
At 31 May 2009	3 8
Currency retranslation	0 1
Income statement	0 3
Utilised in the year	(1 1)
At 31 May 2010	**3 1**

Other provisions at 31 May 2010 relate to UK dilapidation costs redundancy costs and warranty costs With the exception of the warranty costs that are expected to be utilised over a three year period other provisions are expected to be utilised in the next 12 months

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

	2010			2009		
	Surplus £m	**Deficit £m**	**Total £m**	Surplus £m	Deficit £m	Total £m
Expatriate plan	**32 0**	**–**	**32 0**	20 6	–	20 6
Directors plan	**–**	**(8 1)**	**(8 1)**	–	(6 1)	(6 1)
Main staff plan	**–**	**(31 3)**	**(31 3)**	–	(18 8)	(18 8)
Other overseas units	**–**	**(7 3)**	**(7 3)**	–	(4 7)	(4 7)
	32 0	**(46 7)**	**(14 7)**	20 6	(29 6)	(9 0)

The movements in the year are as follows

	Overseas retirement benefits and similar obligations £m	UK retirement benefits and similar obligations £m	Total £m
At 1 June 2008	(3 8)	(26 4)	(30 2)
Currency retranslation	0 1	–	0 1
Income statement	(1 9)	(0 1)	(2 0)
Contributions paid	–	2 7	2 7
Utilised in the year	1 3	–	1 3
Actuarial movement	(0 4)	19 5	19 1
At 31 May 2009	(4 7)	(4 3)	(9 0)
Currency retranslation	(0 8)	–	(0 8)
Income statement	(2 3)	(1 1)	(3 4)
Contributions paid	–	5 2	5 2
Utilised in the year	1 6	–	1 6
Actuarial movement	(1 1)	(7 2)	(8 3)
At 31 May 2010	**(7 3)**	**(7 4)**	**(14 7)**

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 2010 is the Indonesian post retirement benefit scheme The obligations have been measured in accordance with IAS 19 and a discount rate of 9 0% (2009 11 5%) and salary inflation rate of 8 0% (2009 8 0%) have been used The scheme is unfunded and provision for future obligations included in the above table is £3 5 million (2009 £1 5 million)

Notes to the consolidated financial statements continued

23 Retirement benefits continued
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 United Kingdom were closed to future accrual

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

The Group also operates an unfunded unapproved retirement benefit scheme The cost of the unfunded unapproved retirement benefit scheme is included in the total pension cost on a basis consistent with IAS 19 Employee benefits and the assumptions set out below In accordance with these unfunded arrangements the Group made payments during the year to former directors of £33 055 (2009 £13 997)

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

For the year to 31 May 2010 the total defined benefit pension cost arising from the three schemes amounted to £1 1 million (2009 £0 1 million)

The major financial assumptions used by the actuary were as follows

	2010	2009
Rate of increase in salaries	**4 30%**	4 50%
Rate of increase in retirement benefits in payment	**3 30%**	3 50%
Discount rate	**5 60%**	7 00%
Inflation assumption	**3 30%**	3 50%

The mortality assumptions used were as follows

	2010 years	2009 years
Longevity at age 65 for current pensioners		
– men	**22 0**	21 5
– women	**23 8**	23 2
Longevity at age 65 for future pensioners		
– men	**24 5**	23 2
– women	**26 3**	24 7

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

		2010 £m		2009 £m		2008 £m
Equities	**7 75%**	**114 5**	8 00%	96 2	7 00%	122 6
Bonds	**5 90%**	**113 8**	6 75%	86 0	5 10%	90 3
Cash and other	**0 50%**	**8 1**	0 50%	9 6	5 00%	12 0
Total fair value of scheme assets		**236 4**		191 8		224 9
Present value of scheme liabilities		**(243 8)**		(196 1)		(251 3)
Deficit in the schemes		**(7 4)**		(4 3)		(26 4)
Related deferred tax asset		**2 0**		1 2		7 4
Net retirement benefit deficit		**(5 4)**		(3 1)		(19 0)

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 £49 1 million (2009 loss £28 0 million)

23 Retirement benefits continued

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

	2010 £m	2009 £m
Expected return on scheme assets	**12 3**	14 0
Interest cost	**(13 4)**	(14 1)
Net retirement benefit expense before taxation	**(1 1)**	(0 1)

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

	2010 £m	2009 £m
Deficit at beginning of year	**(4 3)**	(26 4)
Expense recognised in the consolidated income statement	**(1 1)**	(0 1)
Contributions paid	**5 2**	2 7
Actuarial (loss)/gain	**(7 2)**	19 5
Net deficit at end of year	**(7 4)**	(4 3)
Analysed between		
Retirement benefit surplus	**32 0**	20 6
Retirement benefit obligation	**(39 4)**	(24 9)

Actuarial gains and losses are recognised directly in the statement of comprehensive income At 31 May 2010 a cumulative pre-tax loss of £24 6 million (2009 £17 4 million) was recorded directly in the statement of comprehensive income

Movements in the fair value of plan assets were as follows

	Assets 2010 £m	Assets 2009 £m
1 June	**191 8**	224 9
Expected return on assets	**12 3**	14 0
Actuarial gains/(losses)	**36 8**	(42 0)
Employer contribution	**5 2**	2 7
Benefits paid	**(9 7)**	(7 8)
31 May	**236 4**	191 8

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

	Obligations 2010 £m	Obligations 2009 £m
1 June	**(196 1)**	(251 3)
Interest cost	**(13 4)**	(14 1)
Actuarial (losses)/gains	**(44 0)**	61 5
Benefits paid	**9 7**	7 8
31 May	**(243 8)**	(196 1)
Plans that are wholly or partly funded	**(239 4)**	(193 0)
Plans that are wholly unfunded	**(4 4)**	(3 1)
	(243 8)	(196 1)

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

	2010	2009	2008	2007	2006
Difference between expected and actual return on scheme assets					
Amount (£m)	**36 8**	(42 0)	(16 9)	5 5	11 6
Percentage of scheme assets	**16%**	(22%)	(8%)	2%	5%
Experience gains and losses on scheme liabilities					
Amount (£m)	**(0 6)**	4 4	1 5	(1 6)	3 5
Percentage of scheme liabilities	**0%**	2%	1%	(1%)	2%
Total amount recognised in statement of comprehensive income					
Amount (£m)	**(7 2)**	19 5	(21 4)	(8 2)	(3 7)
Percentage of scheme liabilities	**(3%)**	10%	(9%)	(3%)	(2%)

Notes to the consolidated financial statements continued

23 Retirement benefits continued
During the year ending 31 May 2010 the Group expects to make cash contributions of £6 5 million (2009 £2 7 million) to funded defined benefit plans This includes mandatory and discretionary payments In addition a further £3 0 million (2009 £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 (2009 £2 7 million)

24 Share capital

	2010 Number 000	2010 Amount £m	2009 Number 000	2009 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 2010 the trust held 1 874 245 (2009 1 837 727) ordinary shares with a book value of £4 0 million (2009 £2 1 million) The market value of these shares as at 31 May 2010 was £5 4 million (2009 £3 1 million) During the year the ESOT purchased 2 554 964 shares of the Company (2009 419 139) 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

	2010 £m	2009 £m
Profit before tax	**101 8**	84 4
Adjustment for net finance (income)/costs	**(0 4)**	1 8
Operating profit	**101 4**	86 2
Depreciation	**18 8**	17 5
Loss on sale of tangible fixed assets	**1 2**	1 0
Difference between pension charge and cash contributions	**(4 1)**	(2 6)
Share of results from joint venture	**(1 6)**	4 1
Share-based payment charges	**2 8**	1 3
Operating cash flows before movements in working capital	**118 5**	107 5
Movements in working capital		
Inventories	**24 8**	7 0
Receivables	**(5 4)**	(2 0)
Payables	**24 0**	30 7
Provisions	**(1 1)**	2 0
Cash generated from operations	**160 8**	145 2

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

	2010 £m	2009 £m
Within one year	**1 2**	1 3
In the second to fifth years inclusive	**4 6**	4 2
Over five years	**4 9**	4 5

The Group leases a number of premises These are subject to review dates ranging from 2010 to 2023

28 Share-based payments
The Company 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 charge in the period relating to the three schemes was £2 8 million (2009 £1 3 million)

Executive Share Option Scheme
The Company 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 (2009 £0 1 million)

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 share option scheme is provided below

	Number of share options	Weighted average exercise price £
Outstanding at 1 June 2008	5 922 822	1 5
Lapsed	(646 257)	1 1
Exercised	(535 368)	0 8
Outstanding at 31 May 2009	4 741 197	1 3
Exercisable at 31 May 2009	2 532 151	1 0
Lapsed	(51 397)	1 6
Exercised	(2 085 330)	1 1
Outstanding at 31 May 2010	**2,604,470**	**1 4**
Exercisable at 31 May 2010	**1,737,312**	**1 3**

	Price/share £	Weighted average exercise price £
Range of prices		
31 May 2010	**0 7–1 7**	**1 4**
31 May 2009	0 7–1 7	1 3

	Number of share options	Weighted average contract term (years)
Weighted average contractual remaining life		
31 May 2010	**2,604,470**	**6 0**
31 May 2009	4 741 197	6 3

There were no options outstanding at 31 May 2010 or 31 May 2009 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 (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 out performance of adjusted earnings per share growth 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 28 July 2009 the Company made 1 364 820 awards under the PSP scheme (2009 1 682 826) The number of awards outstanding but not yet exercisable is 3 001 116 at 31 May 2010 The total expense included in operating profit in relation to these awards was £1 8 million (2009 £0 5 million)

Notes to the consolidated financial statements continued

28 Share-based payments continued

Deferred Annual Bonus Scheme

The Group has in force a Deferred Annual Share Bonus Scheme for main Board Executive Directors (excluding the Chairman) and certain key senior executives 50% of any bonus is paid in cash and 50% in deferred shares Deferred shares are purchased in the market and retained in an employee trust until they are issued to the Directors The shares will normally be received by the Directors following three years of continuing employment from the date of the award

The value of the deferred share element of the bonus relating to the current year is calculated using the market value at 31 May 2009 of £1 705 per share The total expense included in operating profit in relation to the Deferred Annual Bonus Scheme was £1 0 million (2009 £0 7 million)

Further details of the employee trust are given in note 25 of the consolidated financial statements

29 Acquisitions

2010

Cost of acquisitions

	£m
2 1% of share capital of PZ Cussons Nigeria Plc	**6 8**
Entire share capital of Body Experience Ltd	**0 8**
	7 6

During 2010 the Group acquired additional share capital of PZ Cussons Nigeria Plc increasing the Group s stake from 64 0% to 66 1% Details of the purchase consideration and non controlling interest acquired are as follows

	£m
Purchase consideration	
– Cash paid	**6 6**
– Direct costs relating to the acquisition	**0 2**
Total purchase consideration	**6 8**
Non controlling interest acquired	**(3 3)**
Goodwill	**3 5**

On 5 November 2009 the Group through its subsidiary The Sanctuary at Covent Garden Ltd acquired the entire share capital of Body Experience Ltd a company registered in the UK whose principal activity is the provision of spa services The consideration was £0 8 million and goodwill arising on the acquisition was £0 4 million

2009

Cost of acquisitions

	£m
2 6% of share capital of PZ Cussons Nigeria Plc	5 2
Burrino trademark	3 6
	8 8

During 2009 the Group acquired additional share capital of PZ Cussons Nigeria Plc increasing the Group s stake from 61 4% to 64 0% Details of the purchase consideration and non controlling interest acquired are as follows

	£m
Purchase consideration	
– Cash paid	5 1
– Direct costs relating to the acquisition	0 1
Total purchase consideration	5 2
Non controlling interest acquired	(3 7)
Goodwill	1 5

On 30 March 2009 Minerva SA the Group s subsidiary in Greece acquired the Burrino trademark for a consideration of £3 6 million

30 Related party transactions

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 2010 the outstanding balance receivable from Milk Ventures (UK) Ltd was £25 9 million (2009 £23 7 million)
At 31 May 2010 the Group had no outstanding balance payable to Milk Ventures (UK) Ltd (2009 nil)

30 Related party transactions continued
The Group sourced and then sold fixed assets and raw materials to Nutricima Ltd to the value of £24 4 million (2009 £41 8 million) In addition the Group received distribution fee income of £3 5 million (2009 £3 8 million) from Nutricima Ltd At 31 May 2010 the amount outstanding from Nutricima Ltd was £3 5 million (2009 £6 0 million) The amount outstanding from the Group at 31 May 2010 was £1 4 million (2009 nil)

All trading balances will be settled in cash

There were no provisions for doubtful related party receivables at 31 May 2010 (2009 nil) and no charges to the income statement in respect of doubtful related party receivables (2009 nil)

31 Subsidiaries, joint ventures and non-current asset investments
Details of the Company s principal subsidiaries at 31 May 2010 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%
Charles Worthington Hair & Beauty Ltd	Holding company	England	*100%	*100%
Seven Scent Ltd (formerly FC 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%
The Sanctuary Spa Holdings Ltd	Provision of spa services and product distribution	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	†50%	†50%
PZ Cussons Nigeria Plc	Manufacturing	Nigeria	†66%	†66%
Harefield Industrial Nigeria Ltd	Distribution	Nigeria	†100%	†100%
PZ Cussons Polska SA	Manufacturing	Poland	†99%	†99%
PZ Cussons (Thailand) Ltd	Manufacturing	Thailand	†100%	†100%

Joint venture companies	Operation	Incorporated in	Parent Company s interest
Milk Ventures (UK) Ltd	Holding company	England	†50%
Nutricima Ltd	Manufacturing	Nigeria	†50%

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	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Operating profit before exceptional items	**101 4**	90 6	76 4	66 2	60 2
Net finance income/(expense)	**0 4**	(1 8)	0 1	2 1	3 4
Profit before taxation and exceptional items	**101 8**	88 8	76 5	68 3	63 6
Exceptional items	**–**	(4 4)	–	(0 4)	(2 4)
Profit before taxation	**101 8**	84 4	76 5	67 9	61 2
Taxation	**(29 1)**	(24 0)	(21 2)	(18 5)	(18 6)
Profit for the year	**72 7**	60 4	55 3	49 4	42 6
Attributable to					
Equity holders of the parent	**63 7**	49 6	47 0	42 4	35 4
Non controlling interests	**9 0**	10 8	8 3	7 0	7 2
Net assets attributable to ordinary shareholders	**454 8**	389 9	348 7	311 8	292 0
Net funds/(debt)	**86 5**	23 2	(32 0)	60 3	51 9
Per ordinary share					
Basic earnings	**14 89p**	11 64p	11 04p	9 99p	8 33p
Adjusted basic earnings	**14 89p**	12 39p	10 78p	9 78p	8 90p
Dividend (interim and final declared post year-end)	**5 90p**	5 27p	4 70p	4 27p	3 88p
Times cover – after exceptional items	**2 5**	2 2	2 3	2 3	2 1
Times cover – before exceptional items	**2 5**	2 4	2 3	2 3	2 3
Net assets	**106 08p**	90 94p	81 33p	72 72p	68 10p

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 2010 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 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 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

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 2010
- 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 2010

Nicholas Boden
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
27 July 2010

Company balance sheet
At 31 May 2010

	Notes	2010 £m	2009 £m
Fixed assets			
Investments			
Subsidiary companies	5	**122 1**	120 4
		122 1	120 4
Current assets			
Debtors falling due within one year	6	**87 4**	114 1
Investments	7	**0 3**	0 3
Cash at bank and in hand		**0 1**	16 2
		87 8	130 6
Creditors – amounts falling due within one year	8	**(139 3)**	(167 4)
Net current liabilities		**(51 5)**	(36 8)
Total assets less current liabilities		**70 6**	83 6
Creditors – amounts falling due after one year	8	**(36 2)**	(51 1)
Net assets		**34 4**	32 5
Capital and reserves			
Equity ordinary share capital	9	**4 3**	4 3
Capital redemption reserve	10	**0 7**	0 7
Profit and loss account	10	**29 4**	27 5
Total shareholders' funds		**34 4**	32 5

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

R J Harvey **G A Kanellis**
27 July 2010

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 £27 8 million (2009 £4 0 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 (2009 £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 taxation including UK corporation taxation is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

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

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

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

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

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

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

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

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

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

Notes to the company financial statements continued

1 Accounting policies continued
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 Employee numbers and costs
The average number of persons employed by the Company during the year was

	2010 Number	2009 Number
Administration	**6**	–

The costs incurred in respect of these employees were

	2010 £m	2009 £m
Wages salaries and fees	**2 7**	–
Social security costs	**0 4**	–
Pension costs	**0 3**	–
Share-based payments	**1 1**	–
	4 5	–

The Company operates a defined contribution pension scheme The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £0 3 million (2009 nil)

There were no outstanding or prepaid contributions at either the beginning or end of the financial year

3 Directors emoluments

	2010 £m	2009 £m
Aggregate amount of Directors emoluments	**4 5**	–
Emoluments of the highest paid Director	**0 9**	–

For the year ended 31 May 2010 the highest paid Director received Company pension contributions of £86 000 (2009 nil)

4 Dividends

	2010 £m	2009 £m
Amounts recognised as distributions to ordinary shareholders in the year comprise		
Final dividend for the year ended 31 May 2009 of 4 085p (2008 3 625p) per Ordinary Share	**17 5**	15 5
Interim dividend for the year ended 31 May 2010 of 1 930p (2009 1 185p) per Ordinary Share	**8 2**	5 0
	25 7	20 5
Proposed final dividend for the year ended 31 May 2010 of 3 970p (2009 4 085p) per share	**17 1**	17 5

The proposed final dividends for the years ended 31 May 2009 and 31 May 2010 were subject to approval by shareholders at the Annual General Meeting and hence have not been included as liabilities in these financial statements at 31 May 2009 and 31 May 2010 respectively

At 31 May 2010 the Employee Share Option Trust held 1 874 245 Ordinary Shares (2009 1 837 727 Ordinary Shares) The trust waived any entitlement to the dividends on these shares

5 Investments in subsidiaries

	Shares £m	Loans £m	Total £m
Cost at 1 June 2009	122 0	3 0	125 0
Capital contribution	1 7	–	1 7
Cost at 31 May 2010	123 7	3 0	126 7
Provisions at 1 June 2009 and 31 May 2010	(4 6)	–	(4 6)
Net book value at 31 May 2010	**119 1**	**3 0**	**122 1**
Net book value at 1 June 2009	117 4	3 0	120 4

5 Investments in subsidiaries continued

Details of the Company s direct subsidiaries at 31 May 2010 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 Cussons (Holdings) Ltd	Holding company	England	100%	100%
PZ Cussons (International) Ltd	Provision of services to Group companies	England	100%	100%
Minerva SA	Manufacturing	Greece	100%	100%

6 Debtors

	2010 £m	2009 £m
Amounts owed by Group companies	**85 7**	113 9
United Kingdom corporation taxation recoverable	**1 3**	0 1
Overseas taxation recoverable	**0 1**	0 1
Deferred taxation	**0 3**	–
	87 4	114 1

7 Current asset investments

	2010 £m	2009 £m
Unlisted	**0 3**	0 3

8 Creditors

	2010 £m	2009 £m
Due within one year		
Bank loan and overdraft	**37 4**	26 8
Amounts owed to Group companies	**99 4**	137 4
United Kingdom corporation taxation payable	**2 2**	2 0
Other creditors	**–**	1 0
Accruals and deferred income	**0 2**	0 2
Other taxation and social security	**0 1**	–
	139 3	167 4

	2010 £m	2009 £m
Due after one year		
Bank loan	**30 0**	44 9
Amounts owed to Group companies	**6 2**	6 2
	36 2	51 1

At 31 May 2010 the Company had undrawn overdraft facilities of £30 0 million (2009 £30 0 million) available to it and committed facilities of £15 0 million (2009 £15 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 2010 and 31 May 2009 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 Creditors continued
An interest rate swap contract was entered into to hedge the cash flow interest rate risk inherent in liabilities with a notional value of £22 5 million (2009 £30 0 million) This swap ensures an average effective fixed rate payable of 5 11% until June 2011 At 31 May 2010 the fair value of the interest rate swap was a liability of £0 9 million (2009 £1 8 million)

9 Share capital

	2010		2009	
	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

10 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 2009	4 3	0 7	27 5	32 5
Profit for the financial year	–	–	27 8	27 8
Acquisition of shares for ESOT	–	–	(3 0)	(3 0)
Share-based payments	–	–	2 8	2 8
Dividends paid	–	–	(25 7)	(25 7)
At 31 May 2010	**4 3**	**0 7**	**29 4**	**34 4**

11 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 2010 the trust held 1 874 245 (2009 1 837 727) Ordinary Shares with a book value of £4 0 million (2009 £2 1 million) The market value of these shares as at 31 May 2010 was £5 4 million (2009 £3 1 million) During the year the ESOT purchased 2 554 964 shares of the Company (2009 419 139) The trust has waived any entitlement to dividends in respect of all the shares it holds

12 Share-based payments
The Company makes share-based payments to senior executives under two schemes These are the Performance Share Plan and the Deferred Annual Share Bonus Scheme The total charge in the period relating to the two schemes was £1 1 million (2009 nil)

Performance Share Plan
The Group 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 out performance of adjusted earnings per share growth 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 28 July 2009 the Company made 1 364 820 awards under the PSP scheme (2009 1 682 826) The number of awards outstanding but not yet exercisable is 3 001 116 at 31 May 2010 The total expense included in operating profit in relation to these awards was £0 7 million (2009 nil)

Deferred Annual Bonus Scheme
The Group has in force a Deferred Annual Share Bonus Scheme for main Board Executive Directors (excluding the Chairman) and certain key senior executives 50% of any bonus is paid in cash and 50% in deferred shares Deferred shares are purchased in the market and retained in an employee trust until they are issued to the Directors The shares will normally be received by the Directors following three years of continuing employment from the date of the award

The value of the deferred share element of the bonus relating to the current year is calculated using the market value at 31 May 2009 of £1 705 per share The total expense included in operating profit in relation to the Deferred Annual Bonus Scheme was £0 4 million (2009 nil)

Further details of the employee trust are given in note 11

13 Contingent liabilities
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 2010 was £10 million (2009 £10 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 2010 comprises this page and the information contained in the Report of the Directors on pages 6 to 36

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